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INSIGHT

Integrating Federal Estimates of Income, Consumption, and Wealth: Policy Issues

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In March 2024, the National Academies of Sciences, Engineering, and Medicine (NASEM) released an expert panel report on income, consumption, and wealth statistics. The report offered guidance on modernizing statistical processes to support research and evidence-based policies, as well as improving integration of economic data collected by the Commerce Department's Census Bureau and Bureau of Economic Analysis (BEA), the Labor Department's Bureau of Labor Statistics (BLS), the Internal Revenue Service (IRS), the Federal Reserve System (Fed), and other federal agencies. The NASEM report follows other academic, federal, and international reports on improving federal economic statistics.

Estimates of income, consumption, and wealth inform government efforts to maintain macroeconomic stability, calculate economic growth rates, evaluate the effectiveness of policies supporting low-income and vulnerable households, and raise revenues efficiently. Economic statistics also influence views on income and wealth inequality and the efficacy of tax and transfer programs. Those estimates support broader initiatives to base federal policies on empirical data. The Foundations for Evidence-Based Policymaking Act of 2018 (P.L. 115-435) directs federal agencies to employ best-available evidence when formulating policies. The Office of Management and Budget instructed agencies to "establish habitual and routine reliance on evidence across agency functions and demand new or better evidence when it is needed." Private firms also use those data to plan investments and marketing strategies.

Over time, gathering data through phone interviews and surveys has become harder. Newer sources, such as point-of-sale scanner data, provide immediate and granular information. Researchers are refining methods to combine transaction-level data with traditional measures to provide up-to-date macroeconomic trend data to policymakers.

National Accounts and Economic Statistics

Income and consumption estimates are components of national accounts, which provide a comprehensive statistical description of economic activity within a country. The United States and the United Kingdom implemented national accounts during the Great Depression and used them in World War II resource planning. Most countries use national accounting systems guided by international statistical standards. Gross domestic product (GDP), which measures the value of marketed goods and services produced in a country in a year, is the most prominent national accounts statistic.

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GDP has limitations. First, as a market-based measure, GDP excludes nonmarketed resources and activities, such as household work or environmental quality, which also affect individuals' well-being. Proposals to supplement GDP with broader measures of well-being that incorporate such nonmarket factors may trade gains in comprehensiveness with reductions in verifiability and precision. Second, distributional changes or economic trends affecting various subgroups are not reflected in national GDP estimates. Recent methods to create distributional national accounts allow improved estimates of changes in the distribution of income, consumption, and wealth. Those methods combine data collected by various federal agencies to build up estimates for separate income or wealth quantiles.

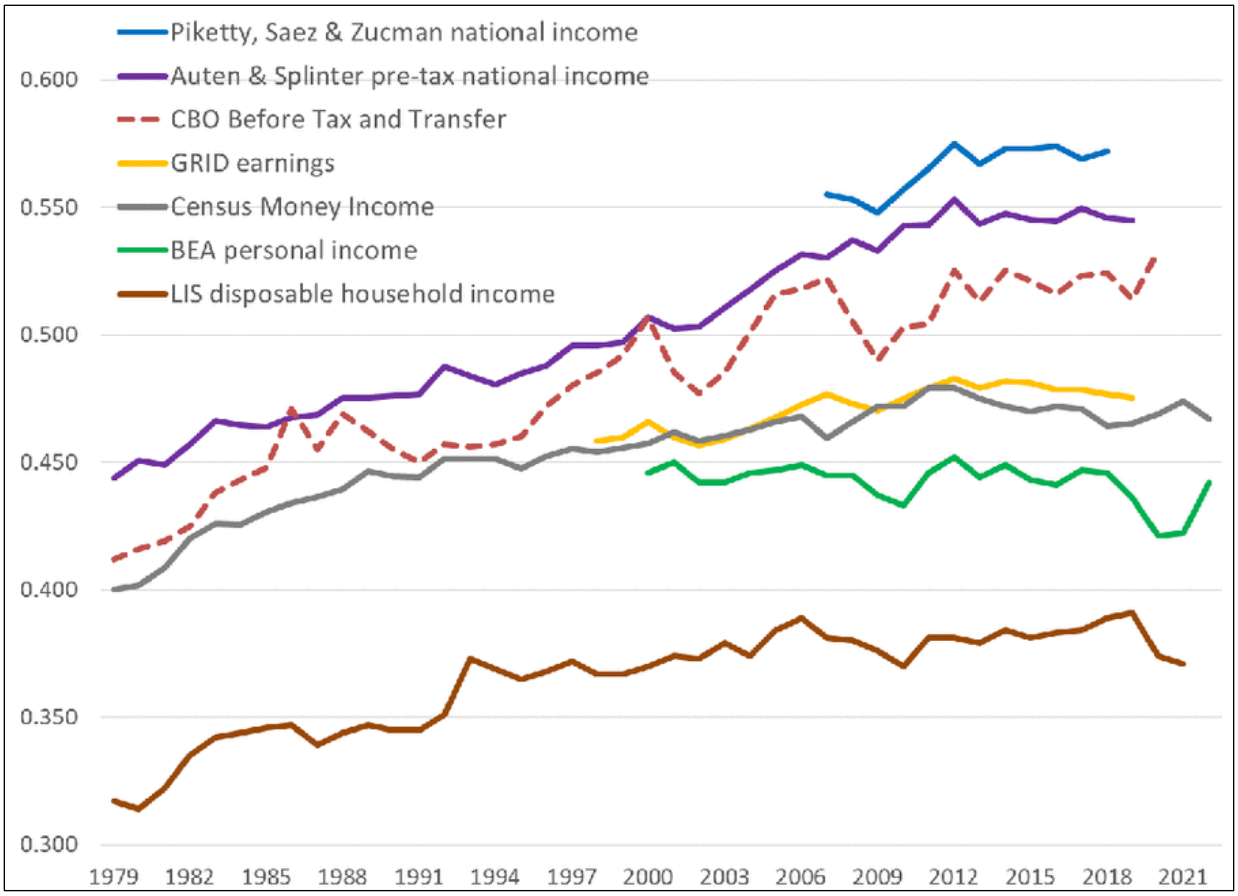
The accounting relationships that (1) consumption plus savings equals income; and (2) the cumulative sum of saving and borrowing is wealth allow researchers to cross-check data sources. Combining data sets, however, requires researchers to make many assumptions to reconcile differing data concepts and definitions. For instance, taxpayers submit data to the IRS, subject to audit, to determine taxable income, which excludes some income types such as unrealized capital gains. The Census Bureau relies on survey responses regarding wages, salaries, and other income sources.

While the IRS focuses on tax units, other federal agencies focus on other demographic categories such as households, families, or individuals. The IRS collects limited demographic data, which hinders analysis of the effects of tax policies. Agencies gather data needed for their operations, which involve different measurement concepts, collection methods, and privacy requirements. Different sources, therefore, may provide divergent answers, for instance, about income distribution trends (**Figure 1**).

Diverging Estimates of Income Inequality Highlight Economic Data Issues

These challenges can lead different researchers to disparate conclusions on important public concerns, such as income and wealth inequality and how taxes affect those distributions, even when using much the same data sources. The gap between pre- and post-tax distribution reflects the effects of tax and transfer programs. Economists Thomas Piketty, Emmanuel Saez, and Gabriel Zucman estimated that the share of total pre-tax income the top 1% of tax units received increased from 11.0% in 1982 to 19.1% in 2019 (**Figure 2**). Economists Gerald Auten and David Splinter estimated that the top 1% share of pre-tax income rose more modestly from 9.1% to 13.8% over the same time period. How nontaxed income and the value and costs of public expenditures are imputed account for some of those differences.

Figure 1. U.S. Inequality Trends: Various Income Measures, 1979-2022



Source: NASEM report, p. 1-8; Auten and Splinter (2024), BEA, CBO, U.S. Census Bureau, Global Repository of Income Dynamics, Luxembourg Income Study (LIS), World Inequality Database, and Piketty, Saez, and Zucman (2018).

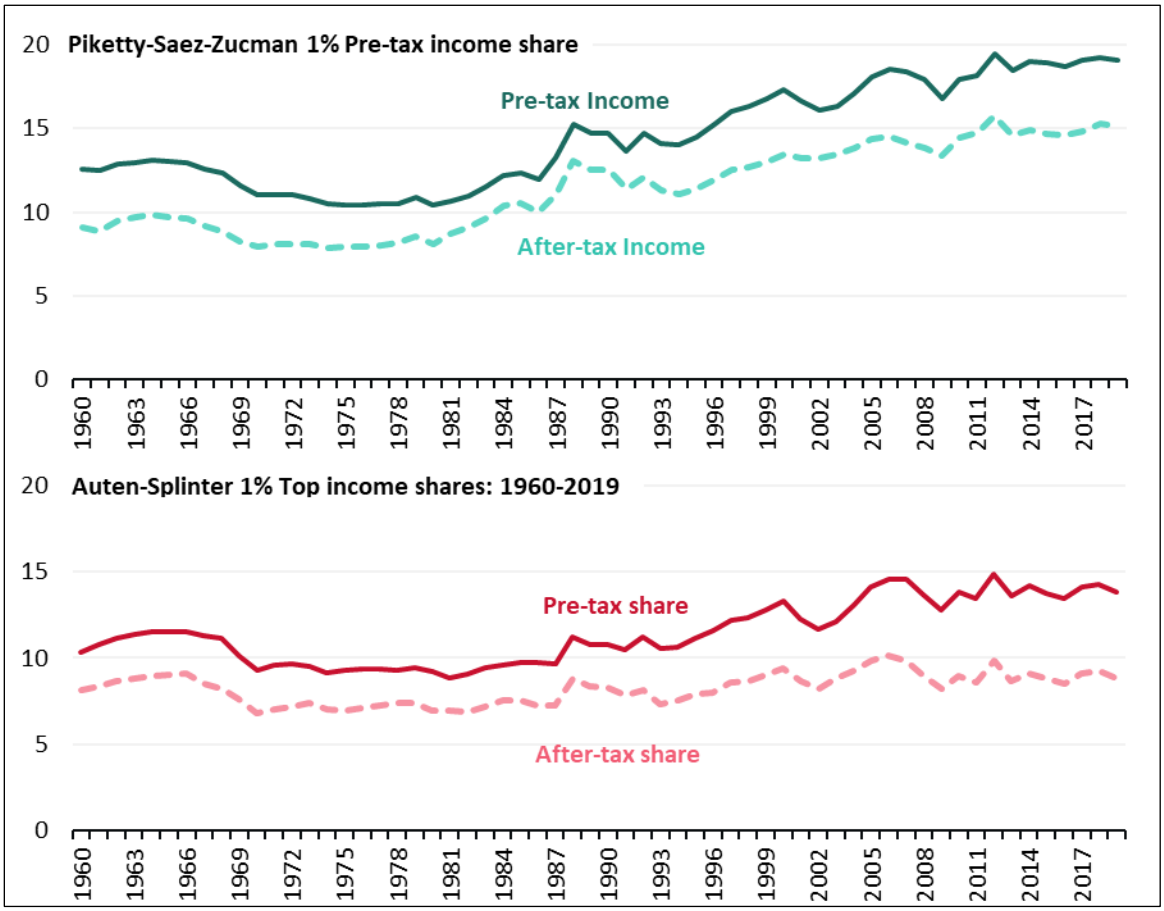
Note: The Gini index measures the divergence of a distribution of income or consumption from an equal distribution.

National Academy's Expert Panel Recommendations

The NASEM panel's report recommends several ways to narrow inconsistencies among economic measurements and to close data coverage gaps by tying components of an integrated economic data system to the budget identity that income equals consumption plus savings. Measures less tied to that framework, such as those related to retirement, health finance, housing, and transfer payments, however, remain essential for many purposes.

The panel lauds federal statistical agencies' efforts to improve economic estimates and finds that data definitions largely align with international standards. The panel urges those agencies to publish annual distributional estimates of personal income and consumption expenditures, and to report on household income, consumption, expenditure, and wealth trends every three years. The panel also recommends providing greater geographic and demographic detail. The panel, like many economists, calls for expanding access to administrative data, while minimizing privacy risks.

Figure 2. Estimates of Top 1% Total Income Shares, 1960-2019



Source: Gerald Auten and David Splinter, "Income Inequality in the United States: Using Tax Data to Measure Long-Term Trends," *Journal of Political Economy*, forthcoming, data appendix, tab T-B9. Also see Thomas Blanchet, Emmanuel Saez, and Gabriel Zucman, "Who Benefits from Income and Wealth Growth in the United States?" Realtime Inequality.

Issues for Congress

Congress has always sought economic data to inform its deliberations, but at times has raised concerns about privacy, compliance costs, and budgetary priorities.

Improved data can enhance effectiveness of public and private activities, although better data may require additional resources. Altering restrictions on administrative data matching could illuminate how federal programs and taxation affect citizens.

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