

Data for an Evolving Economic and Financial System

By Karen Dynan

OVER the past several years, the U.S. economy has experienced a devastating financial crisis and the most severe recession since the Great Depression. Specific developments in credit markets and the macroeconomy are often cited as precipitating the crisis, but important longer term changes in the economic and financial system laid the groundwork for these developments. The morning session of the recent conference “Measuring Innovation and Change During Turbulent Economic Times,” jointly sponsored by the Brookings Institution and The Heritage Foundation, focused on the implications of an evolving economic and financial system for our nation’s data needs. Policymakers, staff from statistical agencies, and data users from the public and private sectors discussed changes to our data infrastructure that would enhance our ability to anticipate and respond to today’s crises and cyclical downturns, as well as to create an environment that fosters long-term economic growth.

Perspectives from policymakers

The morning featured remarks by Rebecca Blank, Undersecretary for Economic Affairs at the Commerce Department, and Alan Krueger, Assistant Secretary for Economic Policy at the Treasury Department. Blank laid out an agenda for federal statistical agencies that included improving information about innovation as well as exploring how we might capture alternative aspects of well-being such as environmental and health concerns (see “How Should We Think About Measuring Innovation and Change?” in this issue of the *SURVEY OF CURRENT BUSINESS*). Assistant Secretary Krueger focused primarily on the inadequacies of our current

measurement practices revealed by recent events, characterizing the crisis as providing a “data stress test.”

Krueger noted the decline in the relevance of some data traditionally used by policymakers because of changes in the economy and (especially) the financial sector. For example, most of our high-frequency measures of credit extension are based on outstanding bank loans. However, in a world with large securitization markets and where up to half of all loans are made by nonbank financial institutions, outstanding bank loans are a misleading gauge of the strength of credit markets.

He also emphasized how economic policymaking is hindered by the low frequency and long publication lags associated with key household finance and spending data. The most complete source of aggregate information on household financial flows, the U.S. flow of funds accounts, is published only quarterly and with a lag of more than 2 months. The problem is even worse for household-level data, which are critical to monitoring and understanding the effects of asset price fluctuations, job loss, and counter-cyclical policy measures. Comprehensive household-level data on consumer expenditures for 2009 are not likely to be available until late 2010. The Survey of Consumer Finances, the best source of information on Americans’ balance sheets, is released just once every 3 years, with a publication lag of more than a year.

Krueger was optimistic about the potential for improving data. He pointed out that some important gaps in financial data may be filled when financial reform is enacted. For example, the bill that passed the House last year called for a Financial Services Oversight Council that would issue semiannual reports describing the state of financial markets and detailing the size, scope, scale, concentration, activities, and interconnectedness of the 50 largest financial institutions in the United States. Other provisions of the bill would facilitate the collection of information on financial

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derivative products and hedge fund activities. Among other data reforms, the federal government could build “‘rapid response’ data gathering capacity that could be tailored to answer specific, one-shot questions” to address the lack of timely data for real-time policy analysis. In addition, the federal government could make private data more useful by setting standards that would certify private series as being of sufficiently high quality to be used for policy analysis.

Efforts at statistical agencies to address data needs

Three experts from statistical agencies described ongoing work to identify and fill gaps in our data infrastructure. With the recent turmoil highlighting the limitations of gross domestic product (GDP) as an indicator of overall economic well-being, Bureau of Economic Analysis (BEA) Director Steven Landefeld discussed how the agency might expand what it publishes to provide measures that capture other important information about the economy. Marshall Reinsdorf of BEA and Paul Smith of the Federal Reserve Board focused on issues related to the measurement of household saving and wealth, series that have been critical to policymakers of late, given the prominent role of household balance sheets in recent developments.

Landefeld showed ways to combine existing statistics from BEA’s accounts and related data to construct new aggregate measures that speak to the sustainability of economic growth and emerging risks to the economy. For example, “discretionary income”—personal income less tax payments, debt service payments, and spending on other basics—is indicative of the potential for distress among households. Likewise, a ratio of the value of household real estate assets to personal income is telling about the degree to which the economy is experiencing a housing bubble. Like others, Landefeld stressed the need for more complete and detailed financial data and argued that, as the nation’s “statistical consultant,” BEA is well positioned to collect aggregate financial data and to integrate it with information on the real economy.

Reinsdorf considered adjustments to the national income and product accounts (NIPAs) saving rate that might make it better suited to answer some questions. He pointed out including capital gains tax payments and net investment in consumer durables—two oft-discussed changes—would have little effect on the estimated evolution of saving over time. Adding capital gains and losses to estimated saving would be a possibility, as they are a key driver of personal wealth fluctuations. However, these series are very volatile, and as a

result, their incorporation would obscure information about saving out of current income.

Reinsdorf also commented on the measurement of household pension income in the NIPAs. The current approach counts employer contributions to pensions as income and, in turn, saving. However, the change in the present value of future pension payments might be a more accurate depiction of what households consider saving. Reinsdorf showed one way of making such an adjustment and found that the resulting saving rate was less volatile and 2 percentage points higher.

Smith made a related point about the measure of household pension wealth in the U.S. flow of funds accounts. The series captures the current assets of pension funds, not the present value of the future pension payments, which, as Reinsdorf noted, are likely more relevant to households’ financial security. Based on data on private pension plans from the Internal Revenue Service and on state and local pension plans from the Census Bureau, Smith concluded that incorporating data on the present value of promised pension payments would reduce the volatility of estimated household net worth and increase its current level by as much as \$3 trillion.

Panel discussion of analysts from the private and public sector

The morning concluded with some perspectives from data users in the public and private sectors. The panel included Donald Marron of Lightyear Capital, Mark Doms of the Economics and Statistics Administration at the Department of Commerce, and myself. For much of the period of recent turmoil, Doms and I both worked in the Federal Reserve System.

Doms discussed how better data could enhance our understanding of the link between financial shocks and the real economy. The recent recession has revealed a pressing need for more research about how access to financial capital affects production. For instance, when the commercial paper market nearly froze in late 2008, it was feared that many firms would have to cut back on production because of problems meeting payroll, extending credit to customers, and conducting other business that required financing. Unfortunately, the government databases on production (such as the NIPAs and the Bureau of Labor Statistics’ productivity program) have scant information on the degree to which firms rely on financial capital and where that financial capital is acquired. Doms concluded with the suggestion that existing government surveys of businesses (such as those for retail sales and manufacturing output) add questions about sources of financing.

Marron focused on how little we know about individuals' holdings of defined contribution pensions, underscoring Alan Krueger's point that changes in the financial system over time have left existing data inadequate for formulating policy. The greatly increased importance of 401(k) accounts and other types of defined contribution pensions has meant that Americans have much more control over their retirement resources but are also exposed to new important risks. For example, individuals with limited financial sophistication may contribute too little or allocate their saving in an overly risky way. And, as highlighted by the recent financial crisis, even when individuals choose reasonable allocations, they may find that asset returns fall short of expectations. Yet, as Marron argued, policymakers cannot fully address these risks, because they lack data on the scope and the exact nature of the problems.

In my own remarks, I argued that new aggregate indicators of sustainability and risk would be helpful, but echoing the views of others, we need to complement such indicators with information from microdata. Analysts would have better anticipated the recent financial crisis if information about pressures building within riskier groups had been more widely available. For example, in the mid-2000s, there was little increase in the ratio of aggregate mortgages to aggregate home prices, but mortgage-level data showed a dramatic rise in the prevalence of "piggyback" loans that allow individuals to become much more leveraged against their

homes. Although existing proprietary sources offer a considerable amount of data of this sort, they are generally expensive and sometimes difficult to obtain in other ways, raising the question of whether the government should have more involvement in disseminating this type of information.

Conclusion

The central theme of the morning session of the conference "Measuring Innovation and Change During Turbulent Economic Times" was that today's analysts and policymakers require a broader and more comprehensive data toolkit, particularly given the vast changes that have occurred in our economic and financial system over time. Participants identified a need for improved and augmented financial data. They called for more information on sources of firm financing, on newer types of financial intermediaries and markets, and on household consumption, borrowing, and wealth (including pensions). They also called for measures that reflect changes in other parts of the economy, including measures that shed more light on innovation and that more fully capture economic progress and problems outside of the financial sector. That said, the tenor of the morning was one of hope—a belief that the heightened attention to data engendered by the financial crisis, combined with ongoing work at statistical agencies and recent increases in federal funding for data, will lead to a meaningful expansion of our nation's data system.