

Measuring Household Financial Stability: Policy Needs



Karen Dynan

**Convening on Household Financial Stability:
Data, Metrics, and Missing Pieces**

Consumer Financial Protection Bureau

November 2, 2023

Today's talk

I will draw off my own experience in the policy world to discuss how understanding household financial stability (HHFS) is essential to informing **policies to mitigate economic fluctuations and their costs** and **other types of fiscal policy**

I will then turn to **some policy-related considerations for people working HHFS data and metrics**

Two caveats:

I will leave financial policy to the financial policy experts!

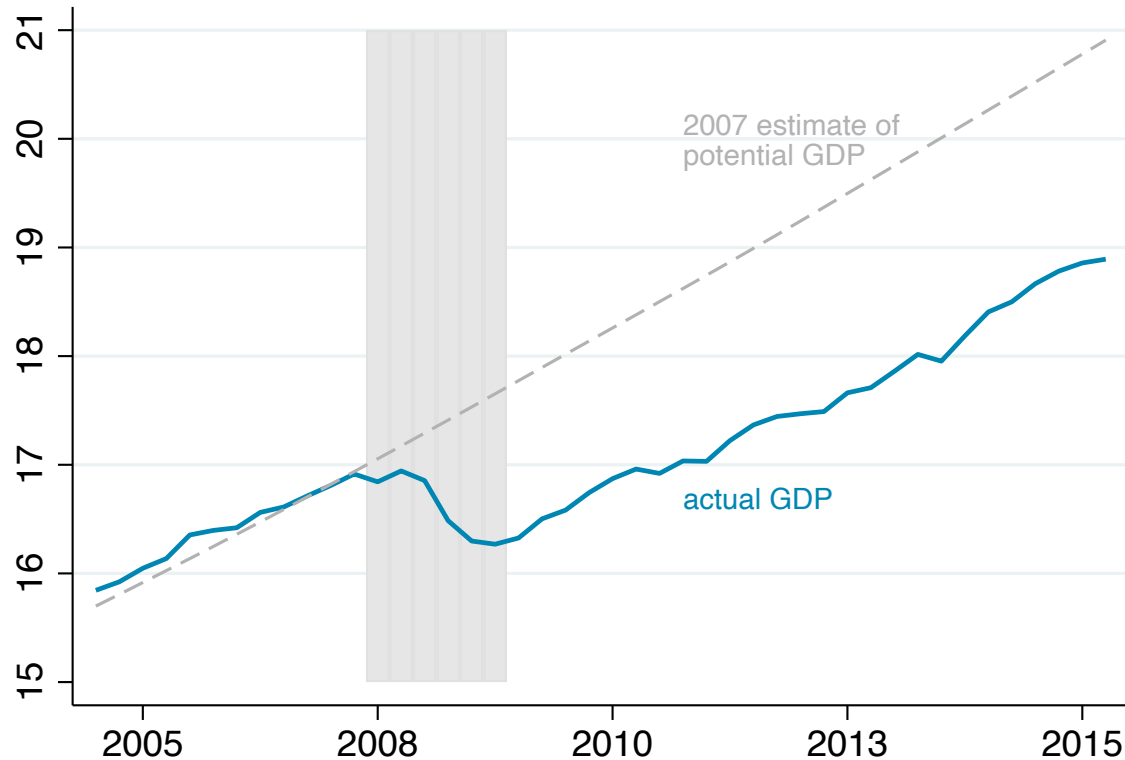
Issues around HHFS are often related as well to hardship and scarring—and I won't try to disentangle them

HHFS and economic fluctuations

A tale of two recessions (1)

The Great Recession

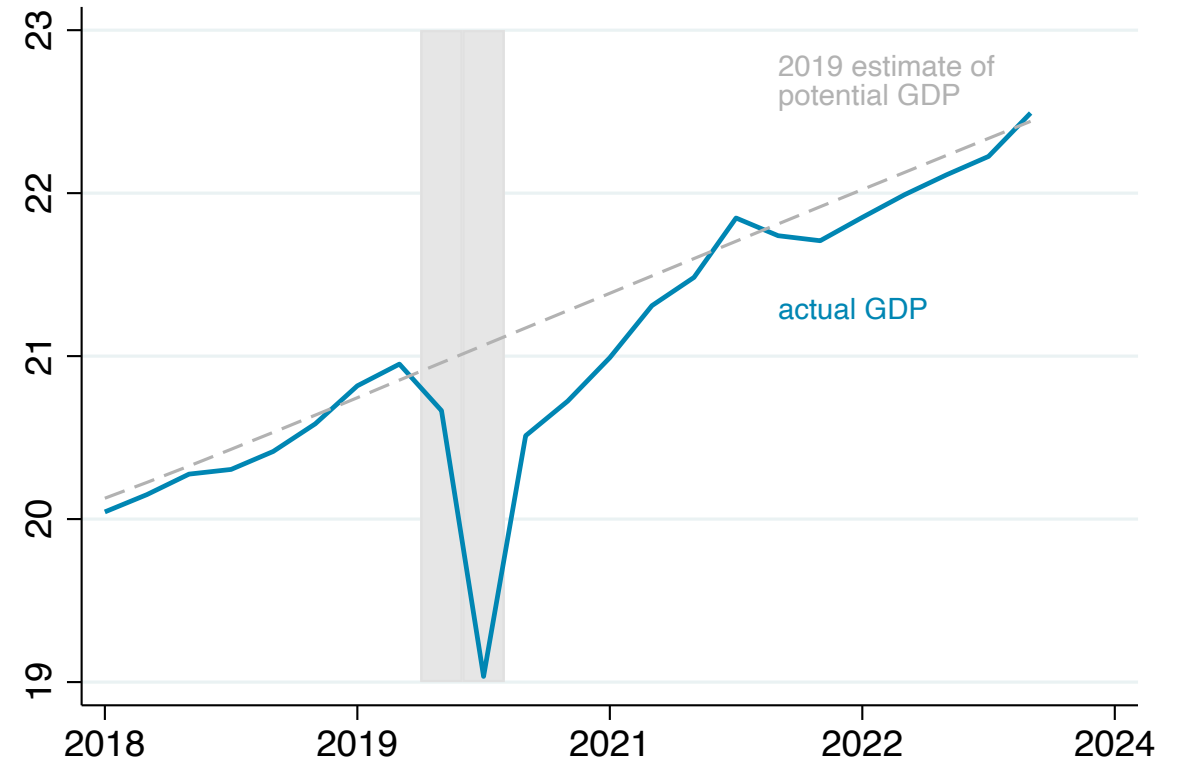
Real GDP, trillions of 2017 dollars



Data sources: Congressional Budget Office (via ALFRED) and Bureau of Economic Analysis. Potential GDP series level-adjusted to reflect revisions to GDP since 2007. Shaded area corresponds to recession.

The COVID Recession

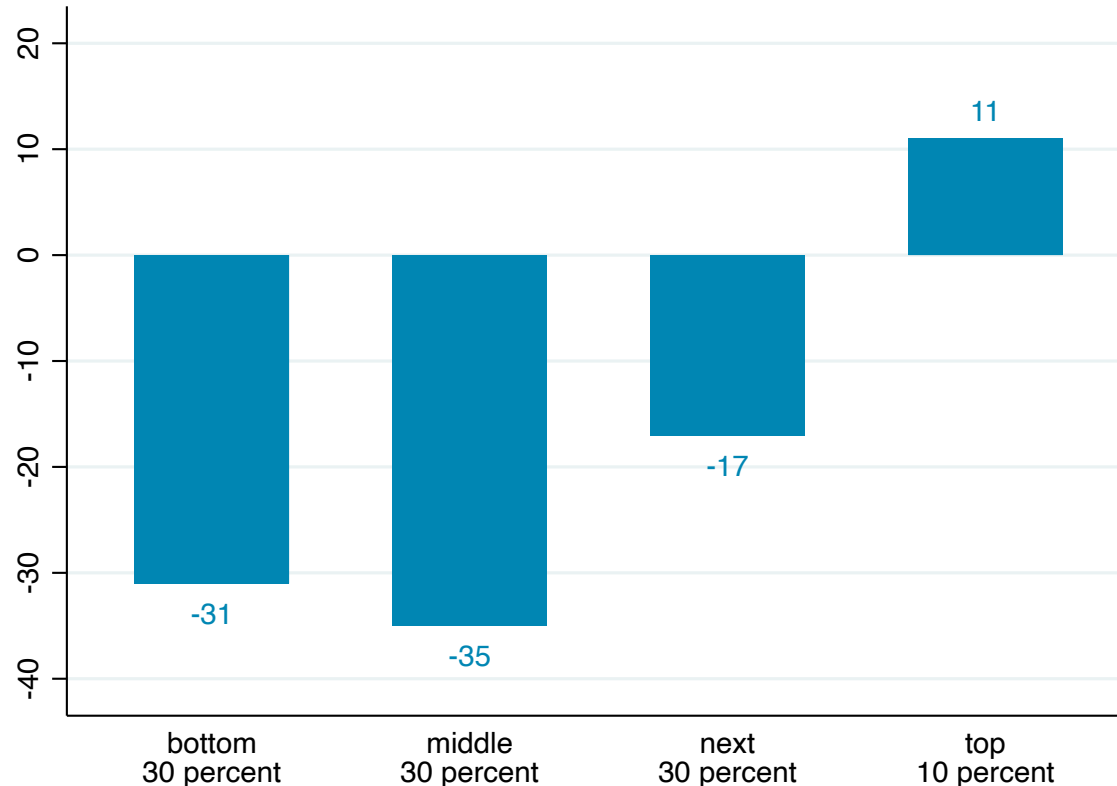
Real GDP, trillions of 2017 dollars



Data sources: Congressional Budget Office and Bureau of Economic Analysis. Potential GDP series level-adjusted to reflect revisions to GDP since 2019. Shaded area corresponds to recession.

A tale of two recessions (2)

Percent Change in Real Wealth, 2007-2016
Means for Different Income Groups



Figures show means for families with heads ages 25-64. Income based on reported usual income.
Source: Detting, Hsu, and Llanes (2018).

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Household Net Worth Surged After the Pandemic Hit

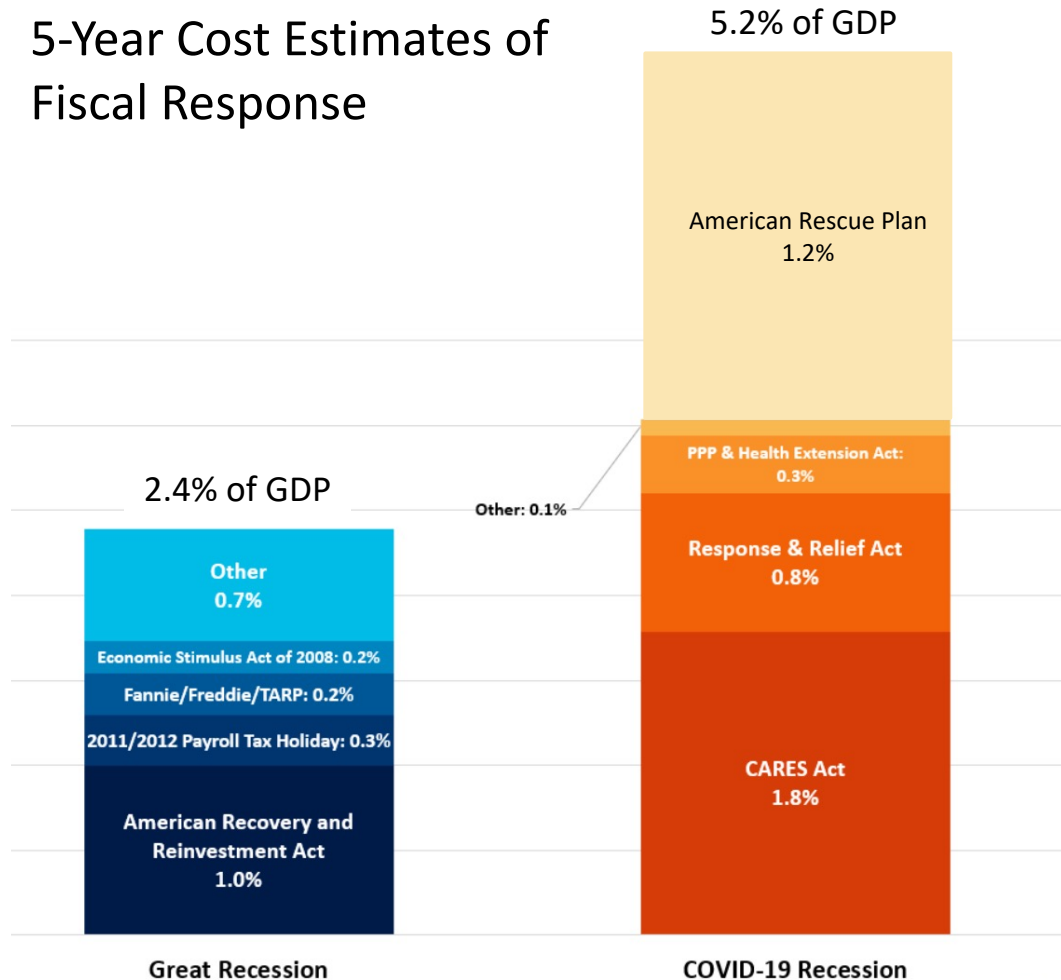
Jump in wealth included rich and poor households and could help cushion economy from high interest rates

By [Sarah Chaney Cambon](#) [Follow](#)

Updated Oct. 18, 2023 3:24 pm ET

The COVID recession fiscal response was much more vigorous, amid increased recognition of the importance of HHFS

5-Year Cost Estimates of Fiscal Response



A Social Insurance Perspective on Pandemic Fiscal Policy: Implications for Unemployment Insurance and Hazard Pay

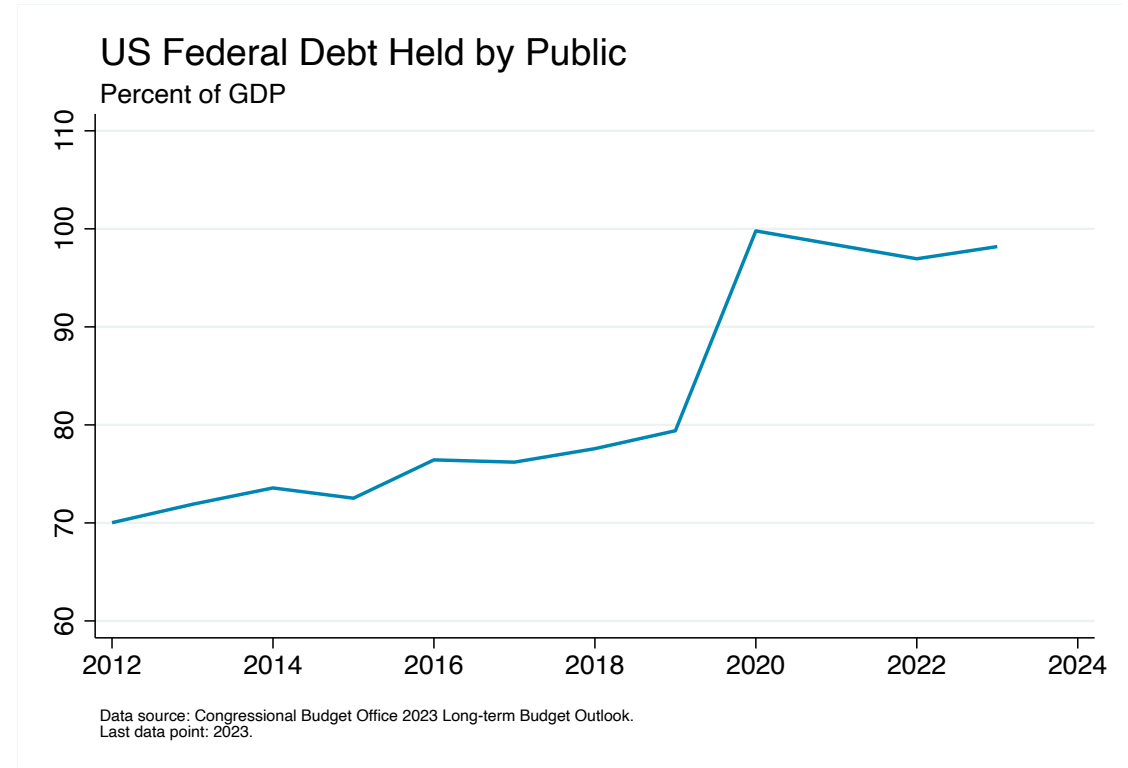
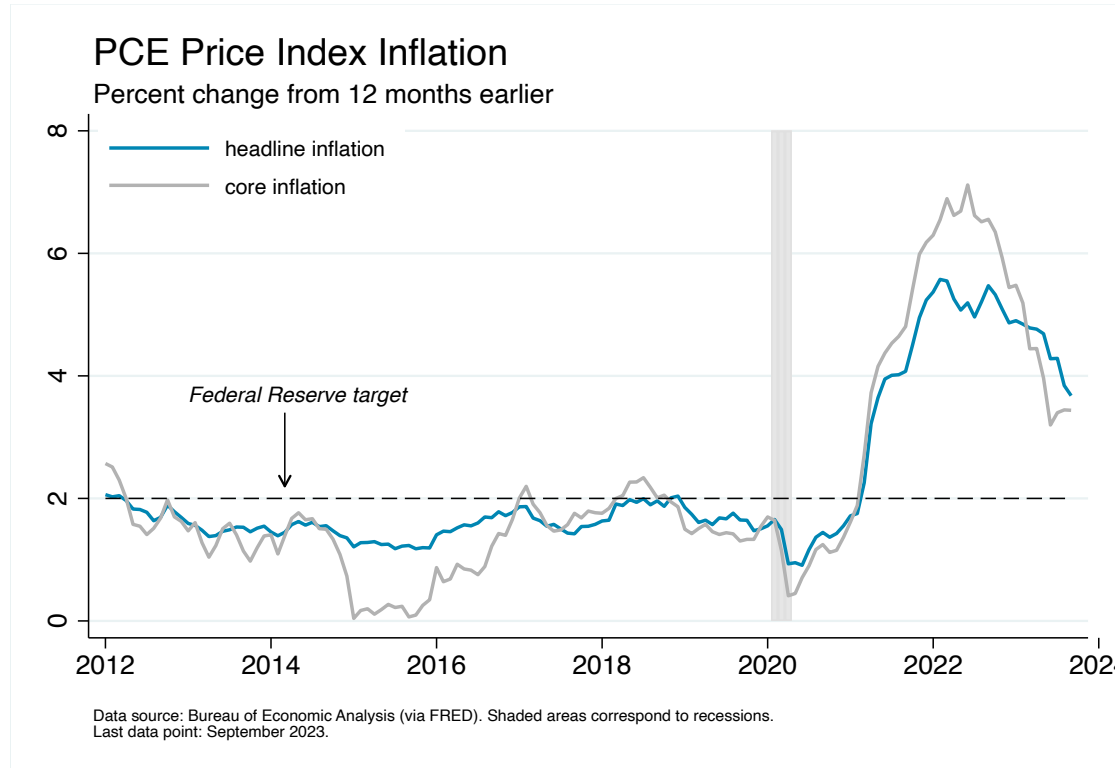
Christina D. Romer

David H. Romer

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*While [Economic Impact Payments] did not fill an urgent economic need for most households ... **[they] did provide timely pandemic insurance to some households that were more exposed to the economic losses ...***
[Parker, Erhard, Schild and Johnson](#) (2022)

But vigorous fiscal responses can come with downsides



Lesson for the future: targeting is crucial, and households at risk of financial instability will be a key group of interest

Better data on HHFS is needed to inform current monetary policy choices

Is incipient weakness about to dominate the outlook?

 The Hill

Americans will likely run out of excess pandemic savings this quarter: study

Americans will likely deplete the rest of the excess savings they accumulated during the pandemic this quarter, according to a new study...

Aug 18, 2023

 AP News

US consumers keep spending briskly even in the face of persistent inflation and high interest rates

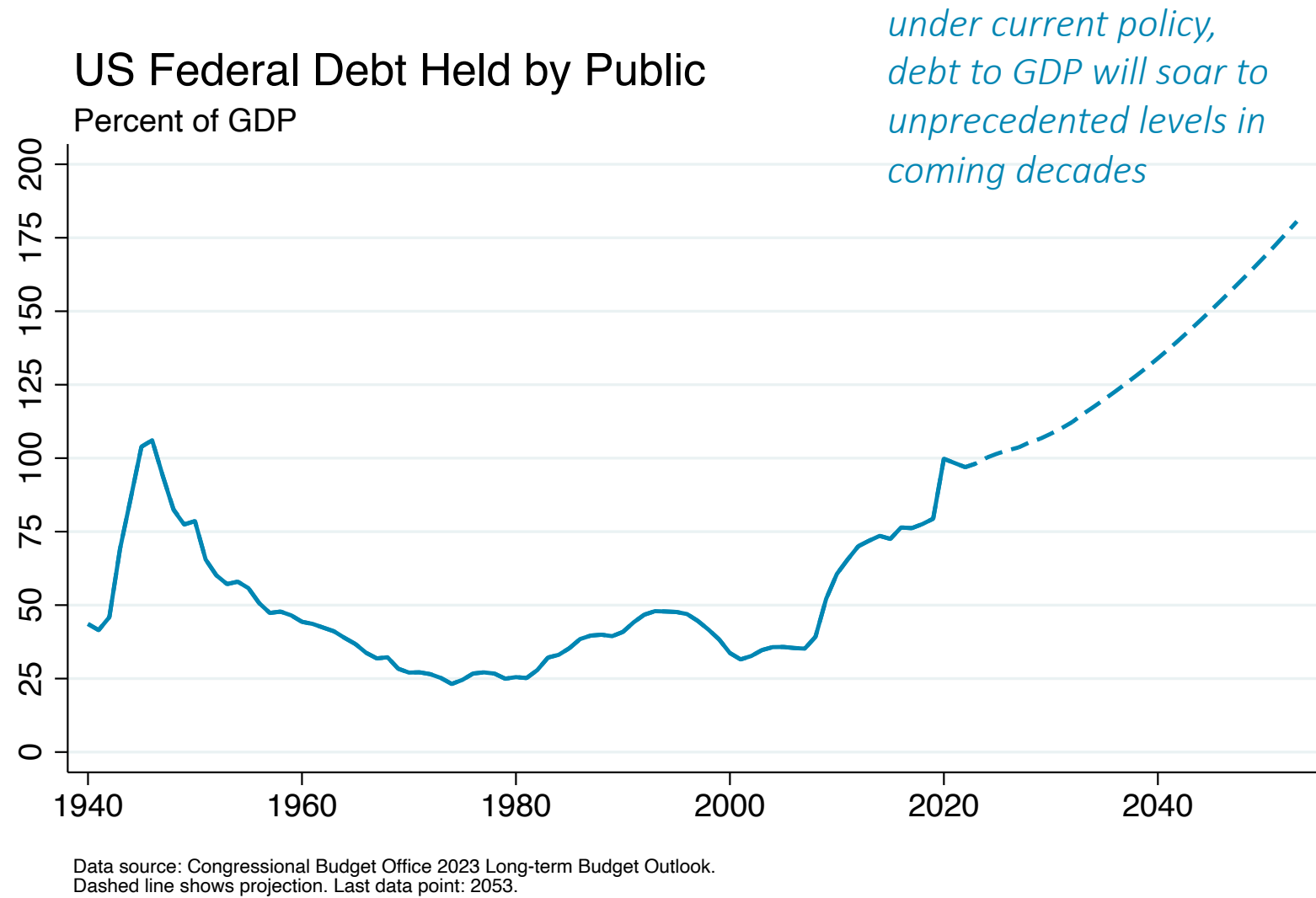
An inflation gauge that is closely monitored by the Federal Reserve showed price increases remained elevated in September amid brisk...

5 days ago

Or is the economy still overheated?

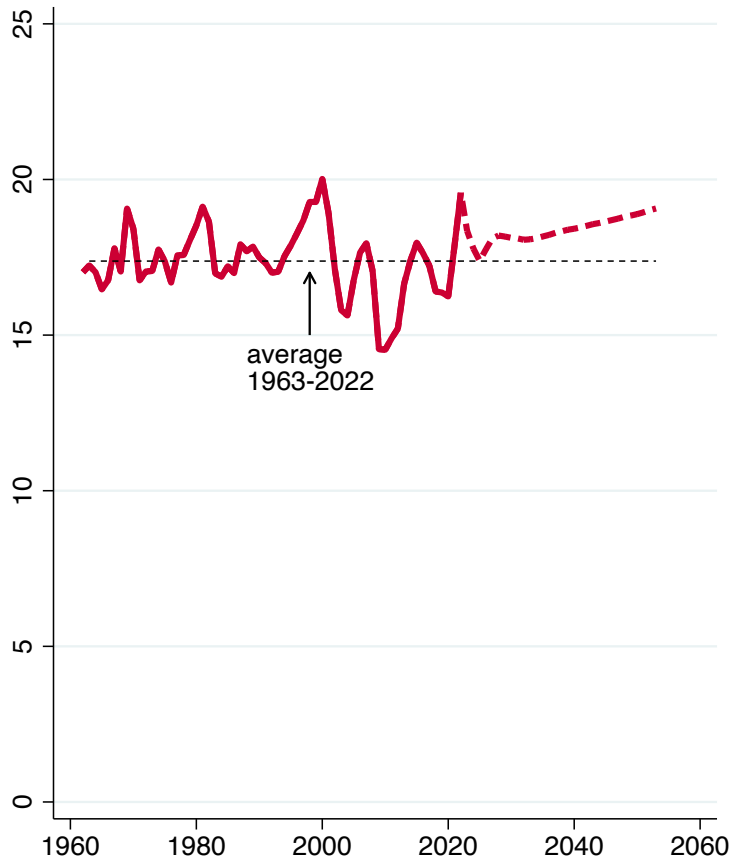
HHFS and other fiscal policy choices

Over the longer-run we will *need* to make significant changes to fiscal policy



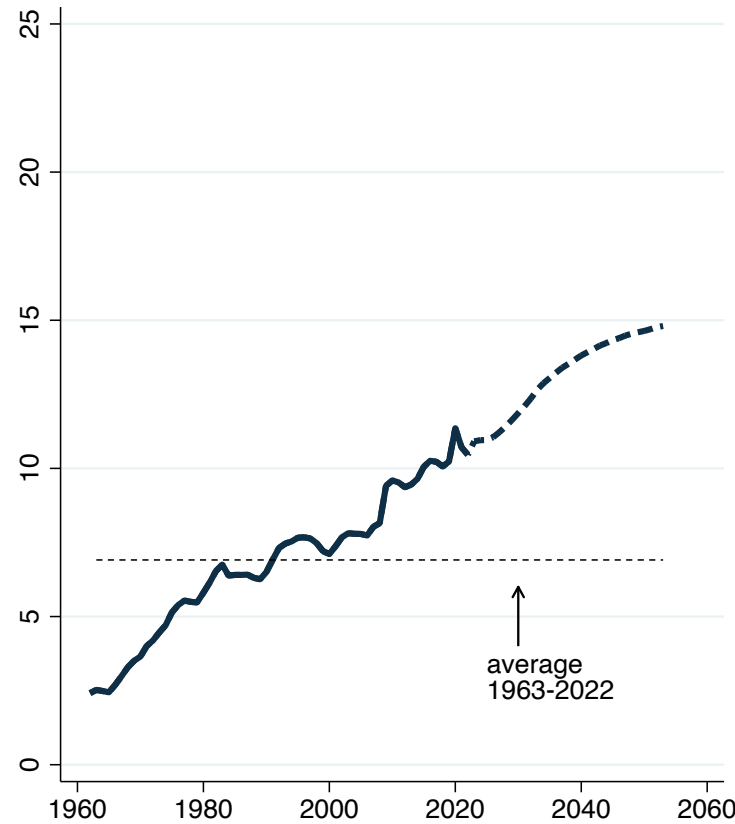
There are no easy answers to the question of how to adjust taxes and spending to put debt on a sustainable path

Tax Revenues
Percent of GDP



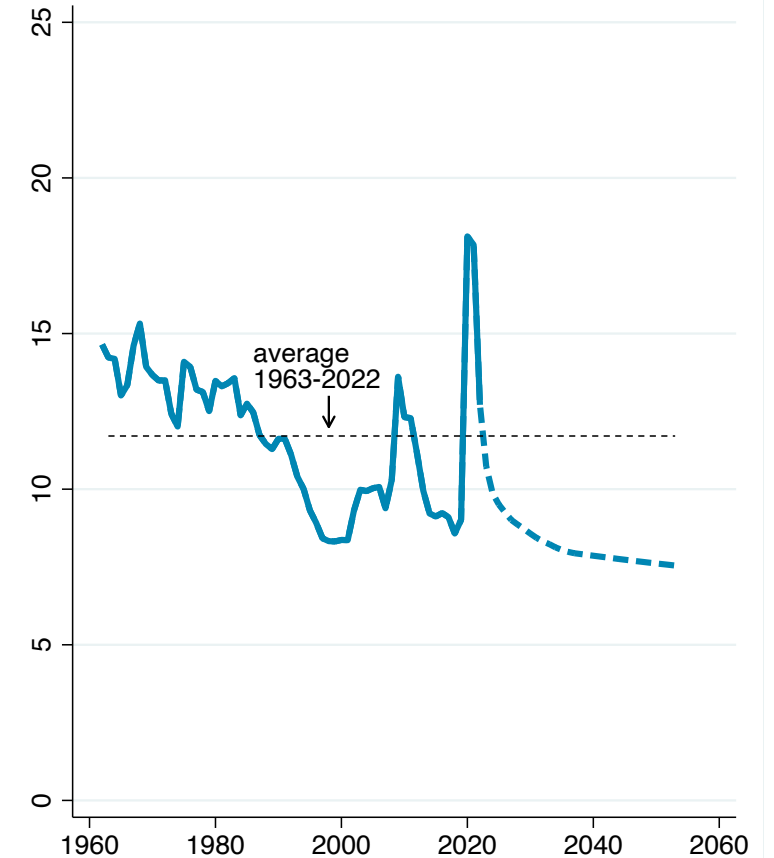
Data source: Congressional Budget Office 2023 Long-term Budget Outlook.
Dashed line shows projection. Last data point: 2053.

Social Security and Major
Health Care Spending
Percent of GDP



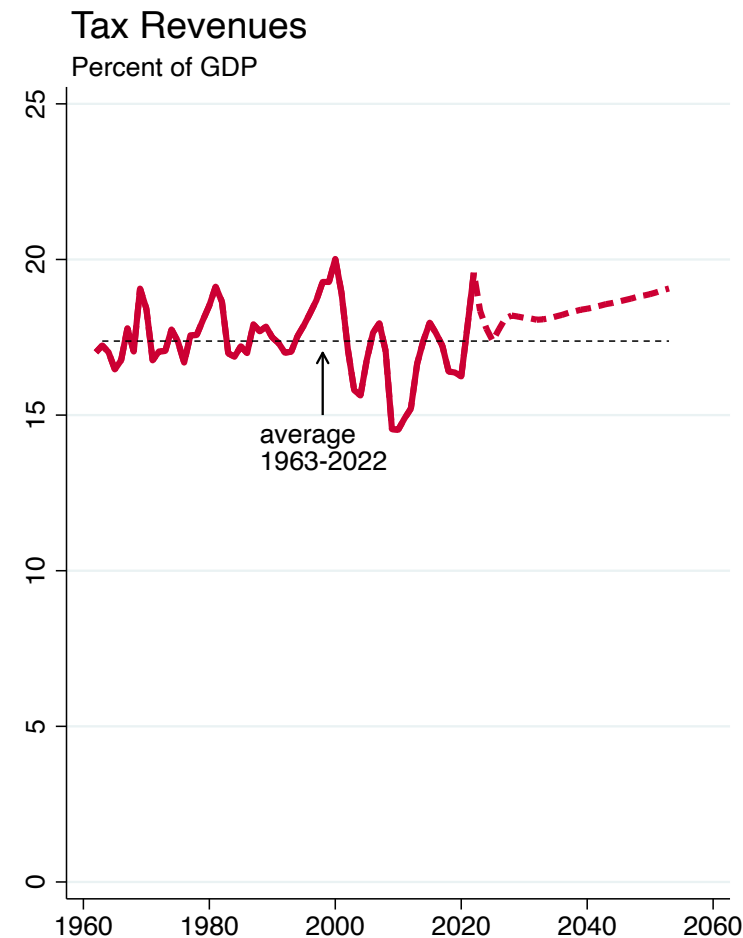
Data source: Congressional Budget Office 2023 Long-term Budget Outlook.
Dashed line shows projection. Last data point: 2053.

Other Noninterest Spending
Percent of GDP

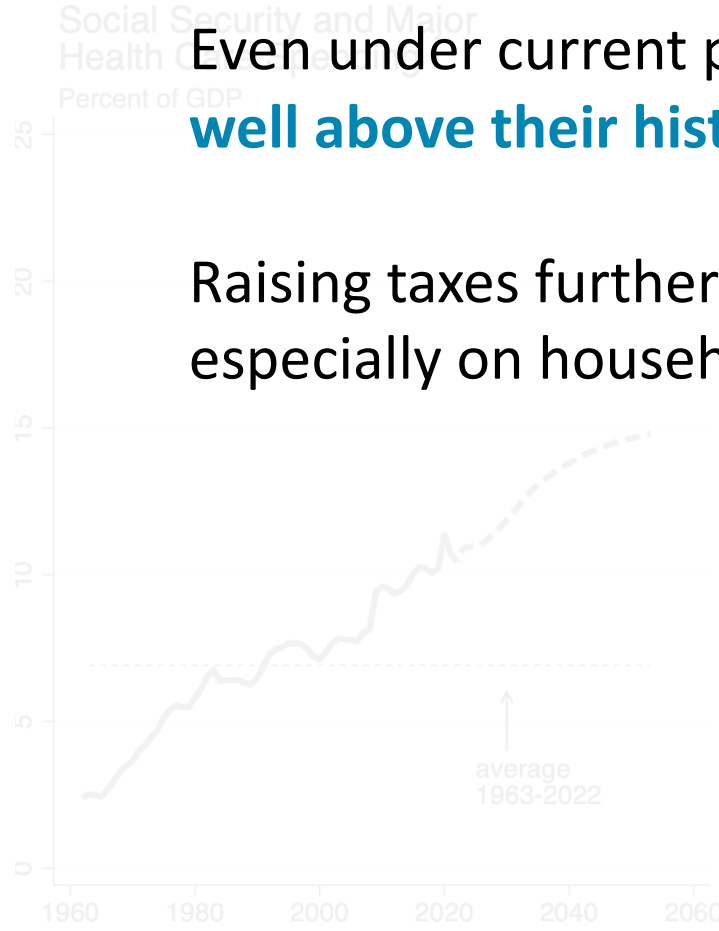


Data source: Congressional Budget Office 2023 Long-term Budget Outlook.
Dashed line shows projection. Last data point: 2053.

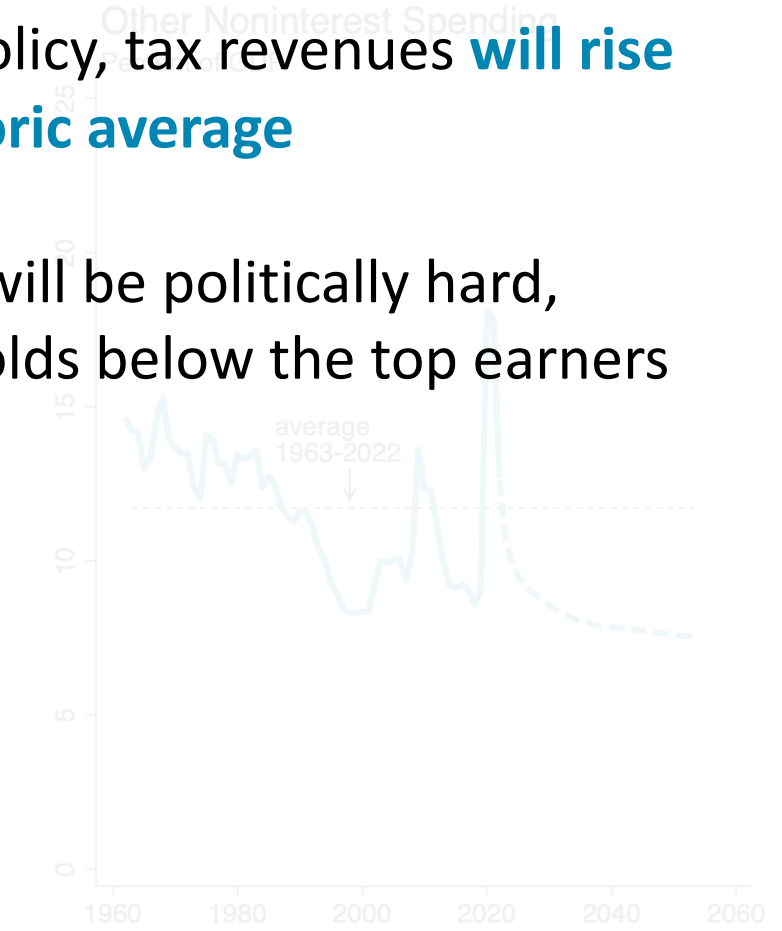
There are no easy answers to the question of how to adjust spending and taxes to put debt on a sustainable path



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Dashed line shows projection. Last data point: 2053.



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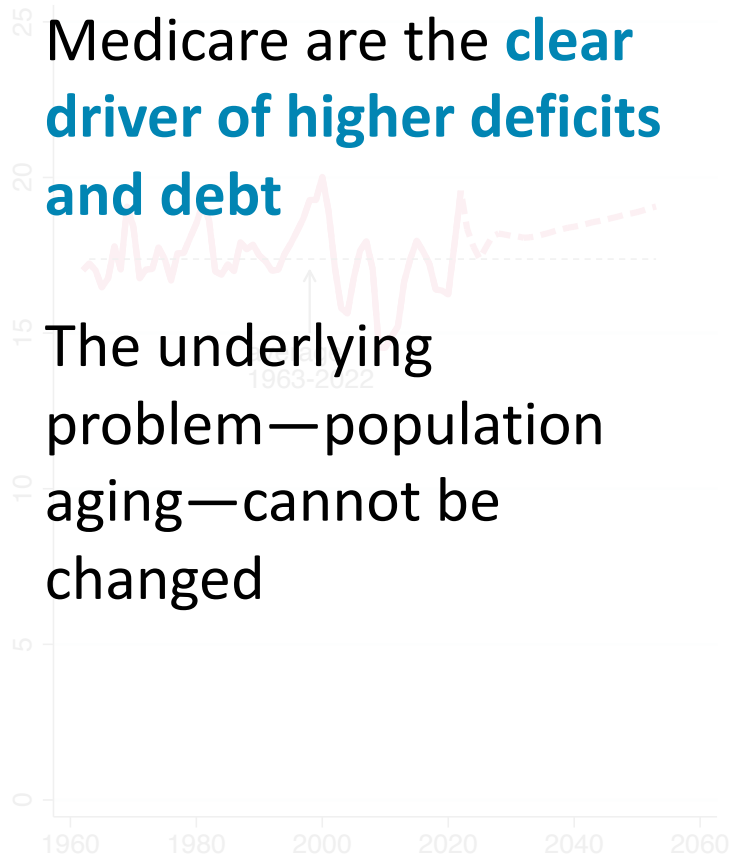
Even under current policy, tax revenues **will rise well above their historic average**

Raising taxes further will be politically hard, especially on households below the top earners

There are no easy answers to the question of how to adjust spending and taxes to put debt on a sustainable path

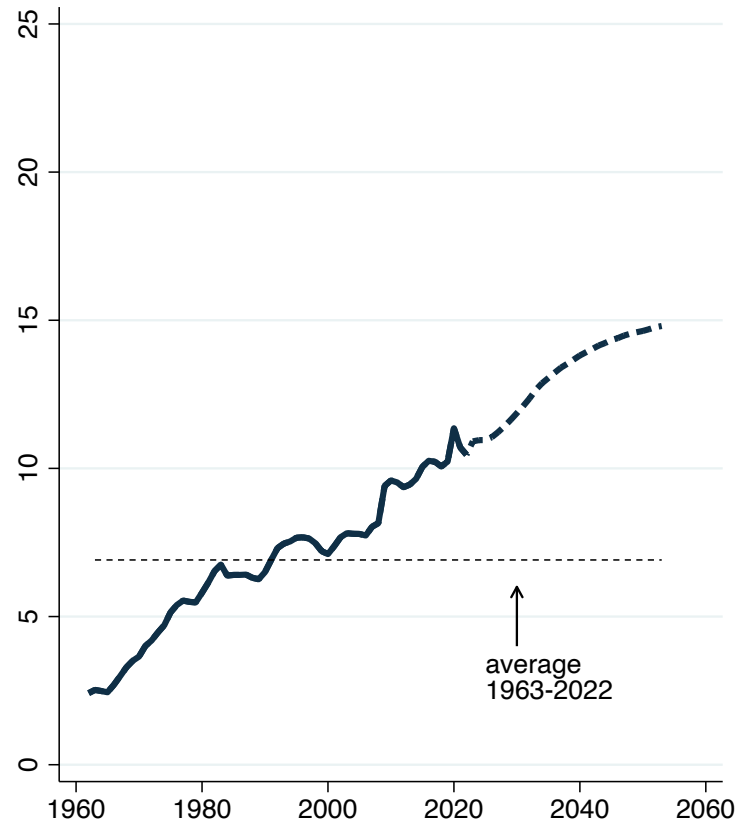
Social Security and Medicare are the **clear driver of higher deficits and debt**

The underlying problem—population aging—cannot be changed



Data source: Congressional Budget Office 2023 Long-term Budget Outlook.
Dashed line shows projection. Last data point: 2022.

Social Security and Major Health Care Spending
Percent of GDP



Data source: Congressional Budget Office 2023 Long-term Budget Outlook.
Dashed line shows projection. Last data point: 2022.

Information about HHFS **will be critical to protect older households** from instability as policy is changed to:

- shore up the finances of Social Security and Medicare
- facilitate private retirement saving
- reduce risk associated with long-term care

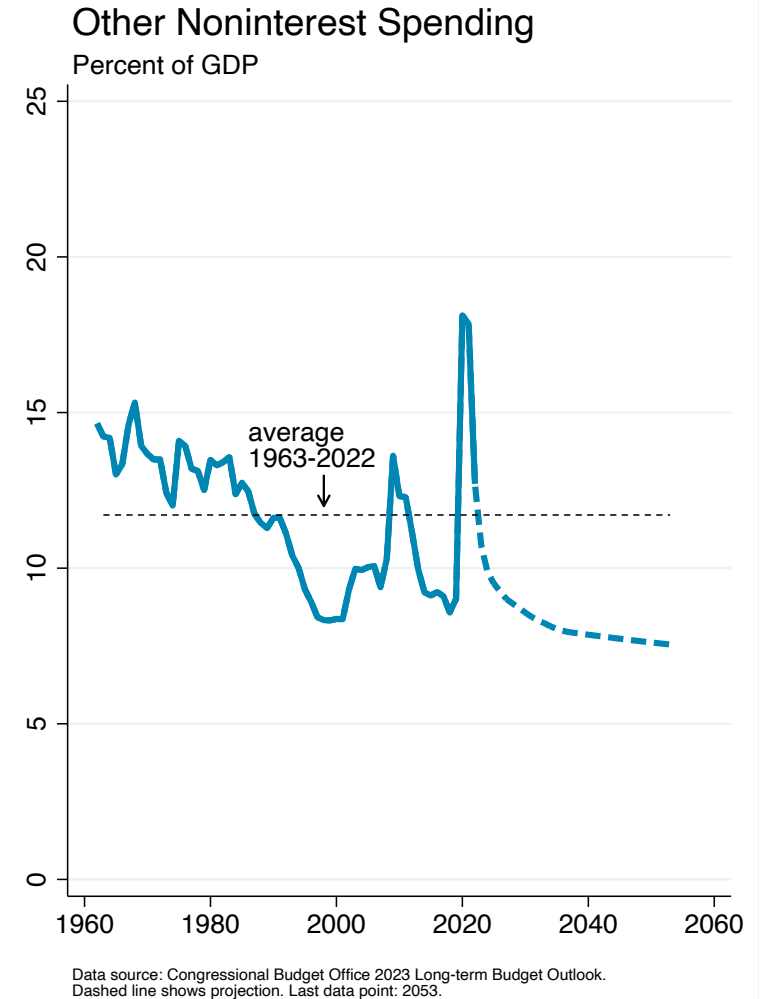
Data source: Congressional Budget Office 2023 Long-term Budget Outlook.
Dashed line shows projection. Last data point: 2022.

There are no easy answers to the question of how to adjust spending and taxes to put debt on a sustainable path

Other spending—which includes crucial items like national defense, infrastructure, support for poor kids and other investments in people—will **sink to its lowest level in decades under current policy**

The good news: rigorous academic research is documenting the importance of investments in people, particularly those who are poor and subject to financial instability

But given budget constraints: **targeting and good design is going to be more important than ever**



Some policy-related considerations for people working on HHFS data and metrics

Some considerations for HHFS data and metrics

1. For tracking the economy and real-time policymaking, **timely HHFS indicators** are needed

Many such indicators are based on administrative records, so attention will need to be given to conceptual mismatches, sample coverage, seasonal patterns, and so on

2. Having covariates—**additional information about households**—in data sources is useful in many policy contexts (e.g., for targeting purposes)

Surveys tend to be richer than administrative records, underscoring the need to explore more opportunities for linking

Imputations and synthetic data can also be useful, but we need more attention to when these methods produce reliable information

Some considerations for HHFS data and metrics

3. Broader **access** is needed

It's great that financial regulators and other-well-resourced institutions have new data sources, but all analysts working on policy would benefit from access

[Going further] public access would foster a broader and more robust conversation—good for policy, good for public trust

Making individual records available may be infeasible but what about more sub-aggregates, e.g., for different points of the distribution?

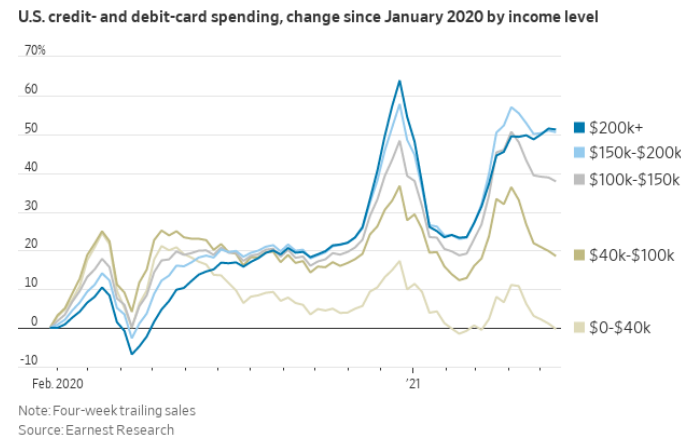
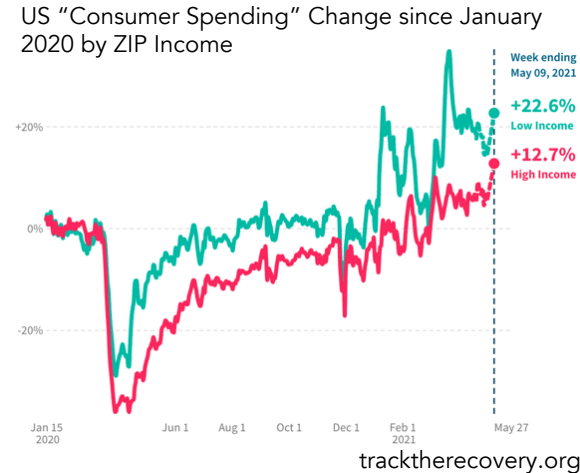
4. Projects aimed at the income/wealth distribution can yield information about HHFS, but they need to give **attention to the lower end**, not just the top end

At the lower end: need more granularity, need to address the underreporting of benefits, need to deal with the greater complexity of income and family structure

We also need to think about how we can ensure that “letting a thousand flowers bloom” with private big-data efforts is a policy dream not a policy nightmare

When the March 2021 COVID fiscal response was crafted, were low-income households on relatively firm or shaky ground?

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One concerning possibility is that more big data will complicate policy decisions by adding **more “noise” about what is going on in the economy**

Especially if people with different priors and political leanings start cherry-picking the data that support their positions

Thank you for listening and thank you for the hard work on this important topic