Discussion of The College Wealth Divide: Evidence from the Historical Survey of Consumer Finances 1949 - 2016

Jesse Bricker

Federal Reserve Board

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The analysis and conclusions set forth are those of the author and do not indicate concurrence by other members of the research staff or the Board of Governors of the Federal Reserve System.
1. Intro

2. Data discussion

3. Weighting/time series discussion

4. Education discussion
SCF data collect household balance sheet information.
- Data from 1989-2016 (or 1983-2016)
  - Enough sampling differences that 1983, 1986 set apart
- Collect assets, debts across the wealth distribution (sample design)
- Add up to Financial Accounts (mostly)

HSCF data collect household balance sheet information.
- Data from 1949-2016
- Adding $\approx 35$ years of historical survey data (1949-1977)
- Gain a lot in doing so...
Get this picture of residual “college effect”...
...instead of this one.
But the HSCF and modern SCF are conducted in different ways
  A lot of harmonization needed here to infer across the time series
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Data

- HSCF is collected from paper-and-pencil survey instrument
- Harmonized across 1949-1977 surveys (and then 1983-)
  - Definitions (what is a mortgage?)
  - Impute for missing data
  - Re-weight (two ways)
- A big job, very valuable to have long time series of household wealth
  - Can get more from this than SZ, though
Compare HSCF to Saez-Zucman (2016)

- HSCF (+ SCF) measure assets across the distribution
  - By asking about assets, debts (if ask the right people)
- “Capitalize” wealth from income taxes 1914-2014
  - Benefit: tax filing nearly universal at the top
  - Cost: ≈ 90% of the “bottom 90” wealth is hard to infer from tax form
  - Cost: highly variable, big RoR assumptions needed
Shameless plug: capitalize income to wealth highly variable

- Bricker Henriques and Hanson, 2018
  - Even where capitalized wealth should be best it is highly variable
  - Small tweak to capitalization model (heterogeneous returns on interest assets) leads to large changes in concentration estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCF assets, SCF income</td>
<td>1.5</td>
</tr>
<tr>
<td>SCF assets, admin income</td>
<td>1.0</td>
</tr>
<tr>
<td>Estate tax assets, admin income</td>
<td>1.0</td>
</tr>
<tr>
<td>Homogeneous RoR</td>
<td>1.0</td>
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</tbody>
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Wealth concentration (top 1% share) under capitalization models

- Homogeneous rate of return (RoR) on all assets
- Heterog. RoR on interest assets: estate tax
- Heterog. RoR on interest assets: SCF
- Heterog. RoR on interest assets: SCF-INSOLE
- Heterog. RoR on interest assets: 10-year Treasury
Compare HSCF to Saez-Zucman (2016)

- “Capitalized” wealth is surely part of the discussion now
  - Shortcomings may become better known
- We have a different source of household wealth for near past (SCF)
- We need an alternative long time series
  - HSCF provides this alternative
  - Measures the assets of the middle
Presentation Outline

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What are data normed to?

- Modern SCF weights raked to known (CPS) distributions...
  - age bins, region bins, homeownership-by-age bins, homeownership-by-race

- HSCF to known (Census) distributions...
  - age, education, race

Do the HSCF data capture the top?

- SCF (1983-2016) does and allows comparisons to FA aggregates
- Do HSCF? It is fine if not, but may complicate time series
SCF top respondents look like non-respondents

- The SCF 2016 oversample – get the wealthiest people to respond
- Weighting: we know that the respondents can fill-in for nonresponders
Does the HSCF get the top?

- HSCF: upweight those in the top 5 percent of both income, wealth
  - Via observed 1983 distribution (know LS and AP)
  - Find top 5 in joint distribution of income and wealth
  - Upweight – effectively add 2% extra wealthy families to sample
  - But only as effective if the respondents are representative

  - Because aggregate wealth can vary by tail coverage
  - Unknown top tail coverage can lead to biased over-time comparisons
Why does unknown top tail coverage matter?

- What would happen if used Pareto to estimate the top?
  - Vermeulen (2018) and others – provides a *consistent* top distribution
  - Can then ask: does this top get different aggregates, results?

- Or top-up along a few dimensions (educ, etc) as in Saez (2016)
Why does unknown top tail coverage matter?

Micro data and macro trends: Wealth
Presentation Outline

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College wealth gap

- Equity wealth driving college/non-college gap in 1990s
  - Seems right, fits in with authors other work on wealth and income
  - ...but can we understand more?
  - Is it job differences in retirement plan coverage?
  - Offered vs. take-up?
  - Or in directly held assets (including IRAs)?
  - Businesses?

- Medians vs. means?

- Is this due to how we measure wealth?
  - Should wealth include DC pensions (401k, IRA)? yes
  - Should wealth include DB pensions? Maybe...has a consumption value
What is wealth?

- Can change wealth estimates a great deal
  - Henriques, Jacobs, Llanes, Moore, Thompson, 2018
  - Bricker, Henriques, Krimmel, Sabelhaus, 2016
  - But upper income/educ always had more DB than lower income