The Missing Components in the Budget Identity: The Role of Wealth Transfers

John Sabelhaus

Brookings Institution and

University of Michigan, Survey Research Center

December 2024

The analysis and conclusions set forth are those of the author and do not necessarily reflect the views of the Brookings Institution or its funders.

Maybe it would help to know
$\Delta W - G - IFT = Y - C$

John Sabelhaus

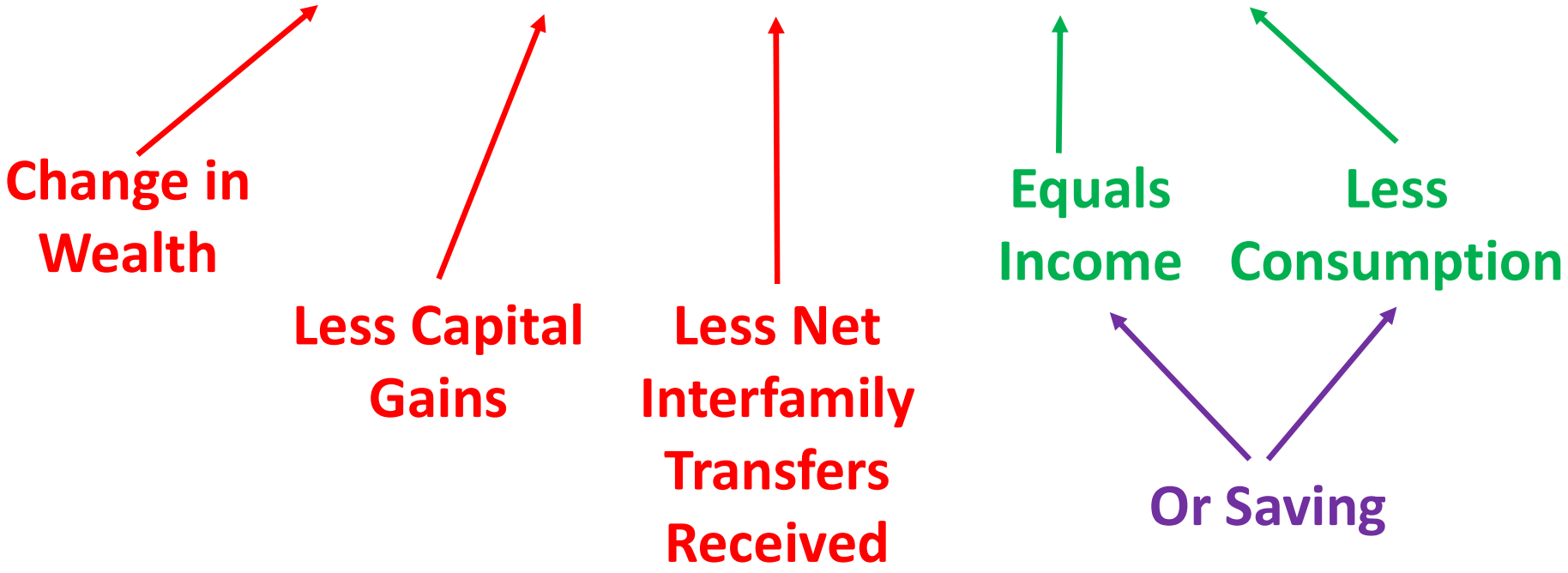
Non-Resident Senior Fellow

The Brookings Institution

This presentation was prepared for the Committee on National Statistics, Virtual Planning Meeting for a Consensus Study on an Integrated System of U.S. Household Income, Consumption, and Wealth Statistics to Inform Policy and Research, May 27-28, 2021.
The analysis and conclusions set forth are those of the author and do not necessarily reflect those of the Brookings Institution or its funders.

Micro Intertemporal Budget Constraint

$$\Delta W - G - IFT = Y - C$$



CNSTAT YCW Report

- *Box 5-1: Measuring Transfers Across and Within Generations {bottom line: data on wealth transfers very limited, we need to do better}*
- *Conclusion 2-1: Conceptual definitions of household income, consumption, and wealth are most useful when they are constructed to satisfy the budget identity, C = I – S. The components of income (I) and saving (S) should be consistent with a sources-and-uses framework for consumption (C).*

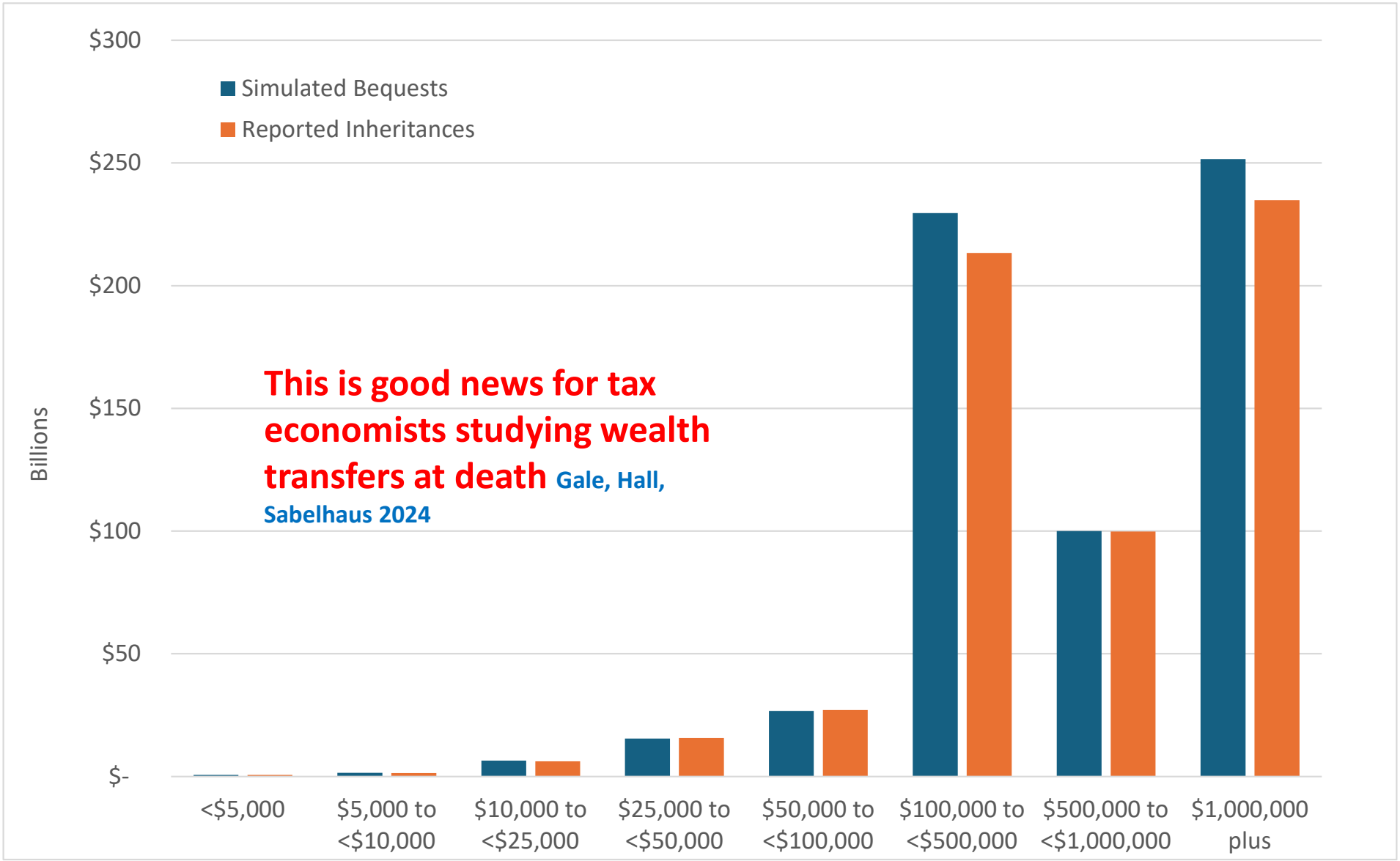
Household Wealth Transfers

- What do we know about overall magnitude and distribution of household wealth transfers in US?
- Using SCF, compare distributions of wealth transfers *made* to wealth transfers *received*
- Distinguish transfers at death (bequests made, inheritances received) from *inter vivos*

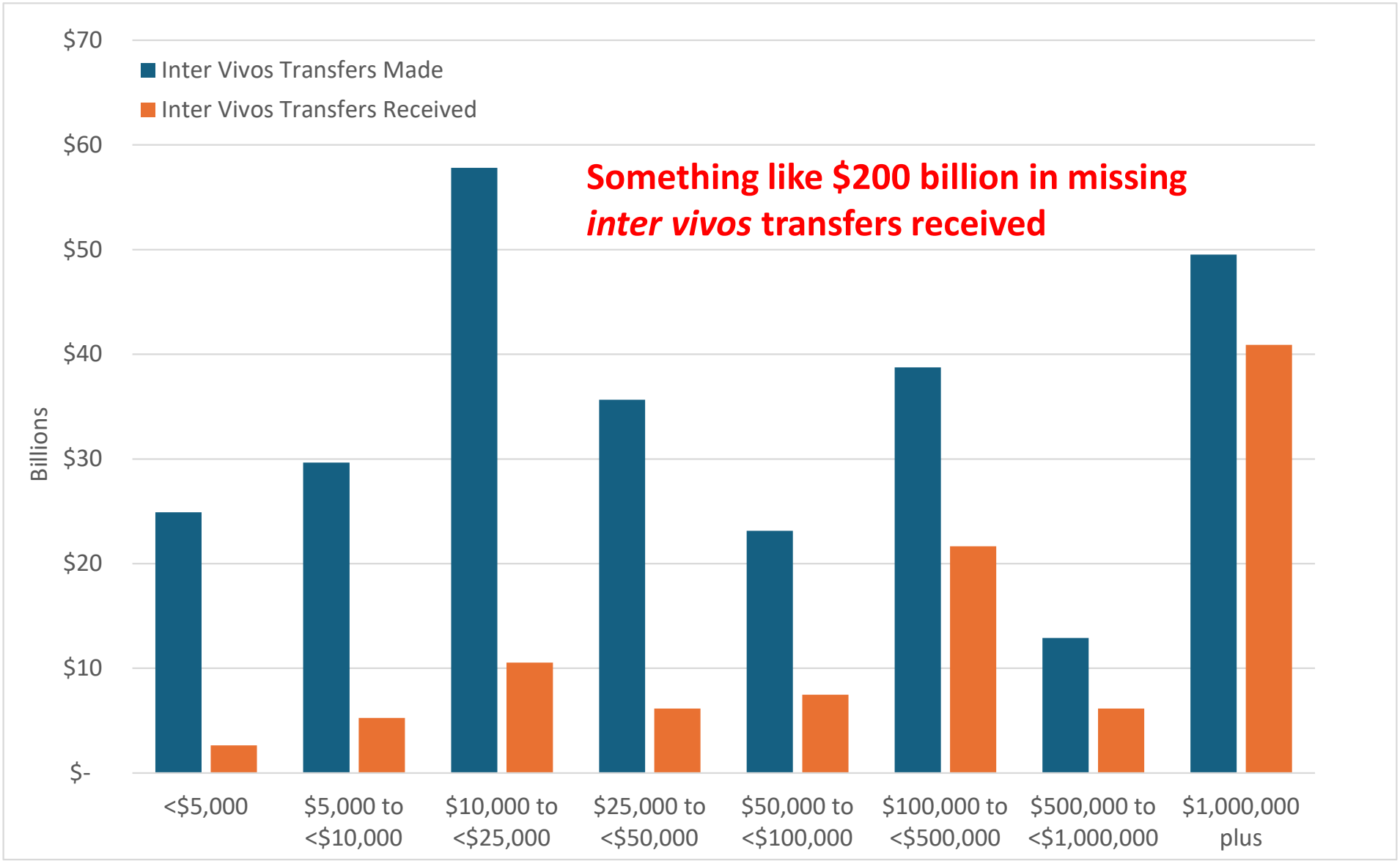
	Transfers At Death	Inter Vivos Transfers
Transfers Received	Inheritance module Supplement using real asset "sources" and cash inheritance under "other income" in income module	Inheritance module Supplement using other forms of support and gifts under "other income" in income module
Transfers Made	No direct measure (no posthumous interviews) Simulate estates using survey wealth holdings, differential mortality, fixed death costs, and split across estimated number of heirs	Stand-alone question on regular support paid and substantial gifts made

	Transfers At Death	Inter Vivos Transfers
Transfers Received	Inheritance module Supplement using real asset "sources" and cash inheritance under "other income" in income module	Inheritance module Supplement using other forms of support and gifts under "other income" in income module
Transfers Made	No direct measure (no posthumous interviews) Simulate estates using survey wealth holdings, differential mortality, fixed death costs, and split across estimated number of heirs	Stand-alone question on regular support paid and substantial gifts made

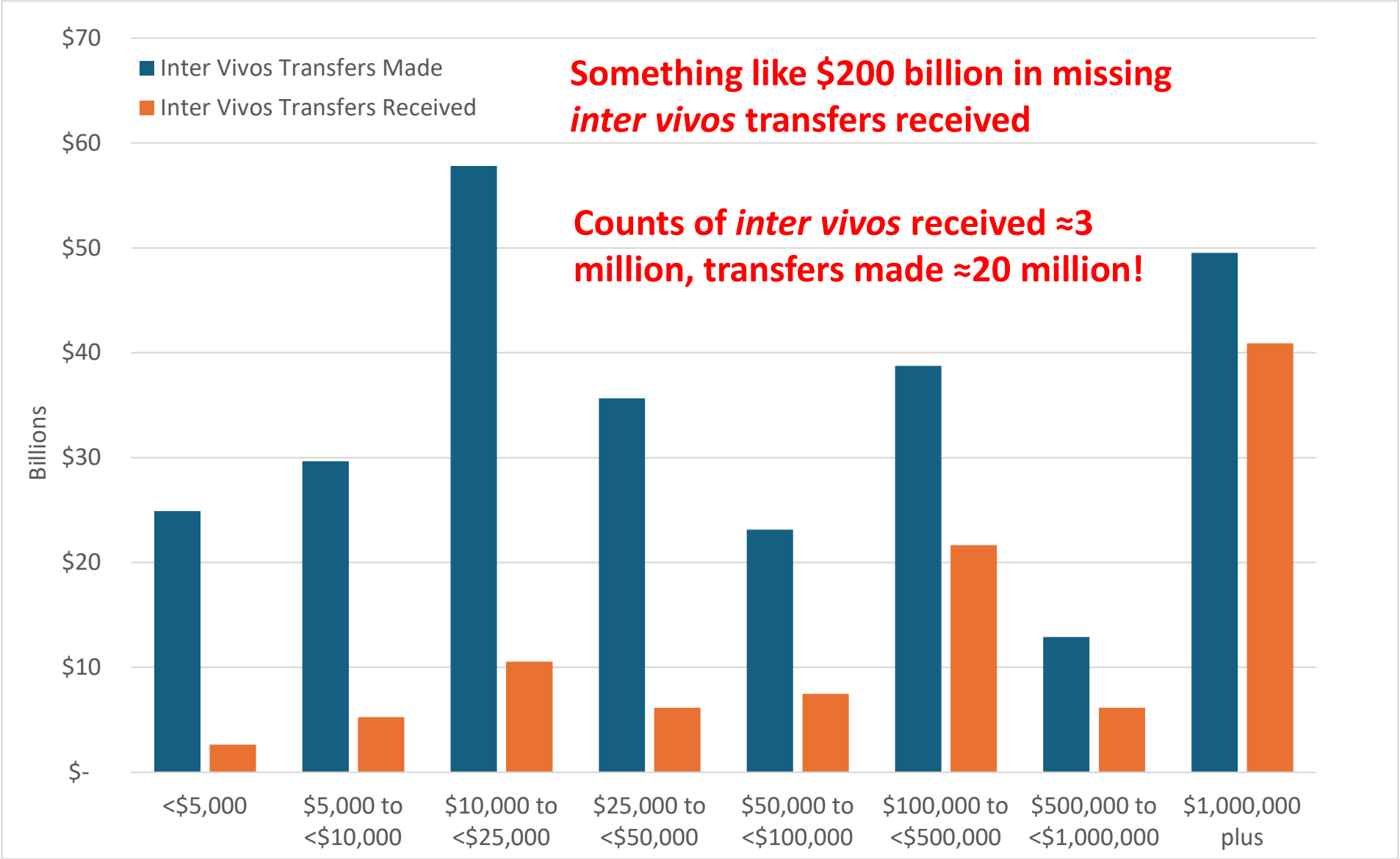
Size distribution of inheritances ≈ bequests…



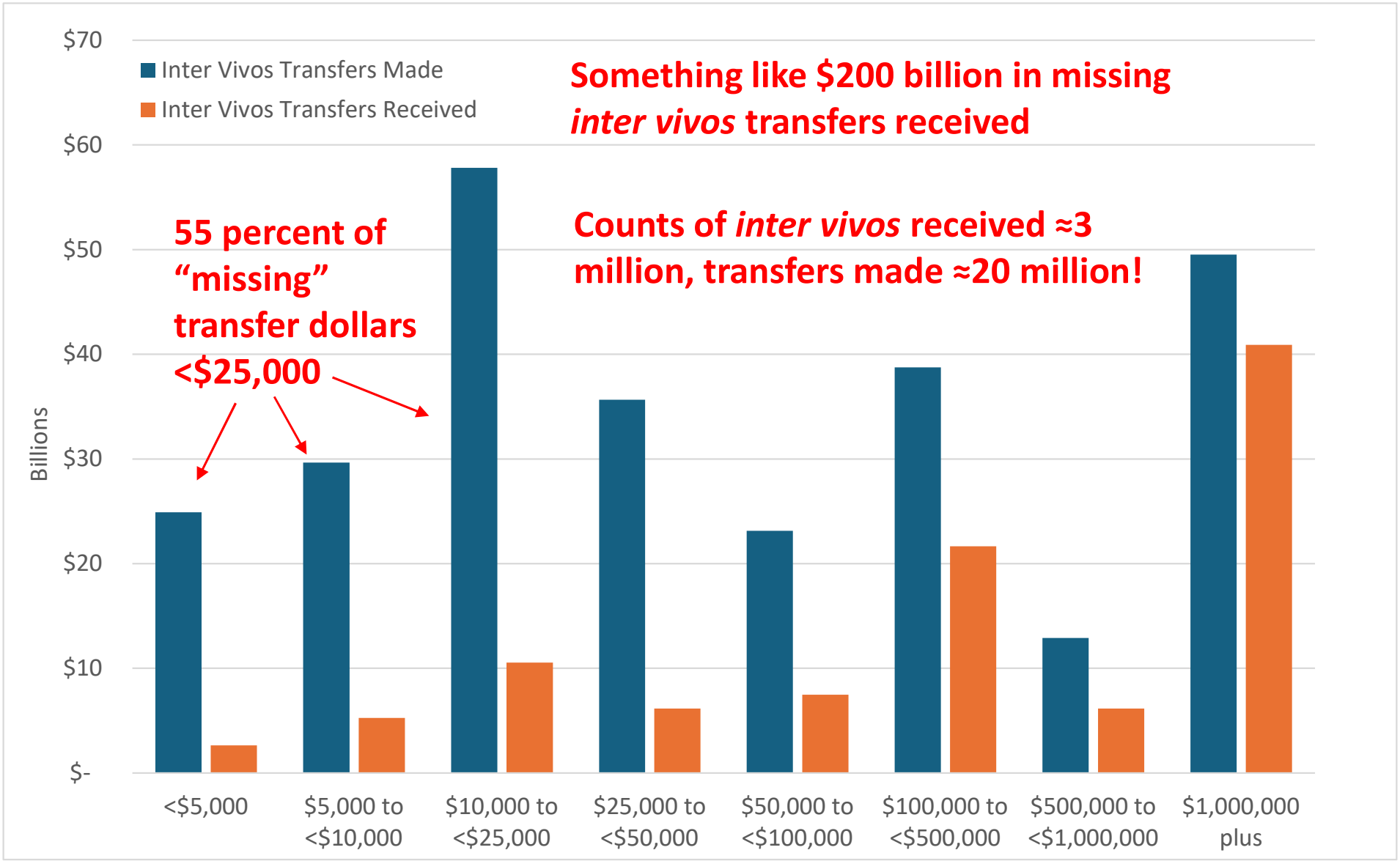
…but missing *inter vivos* transfers received



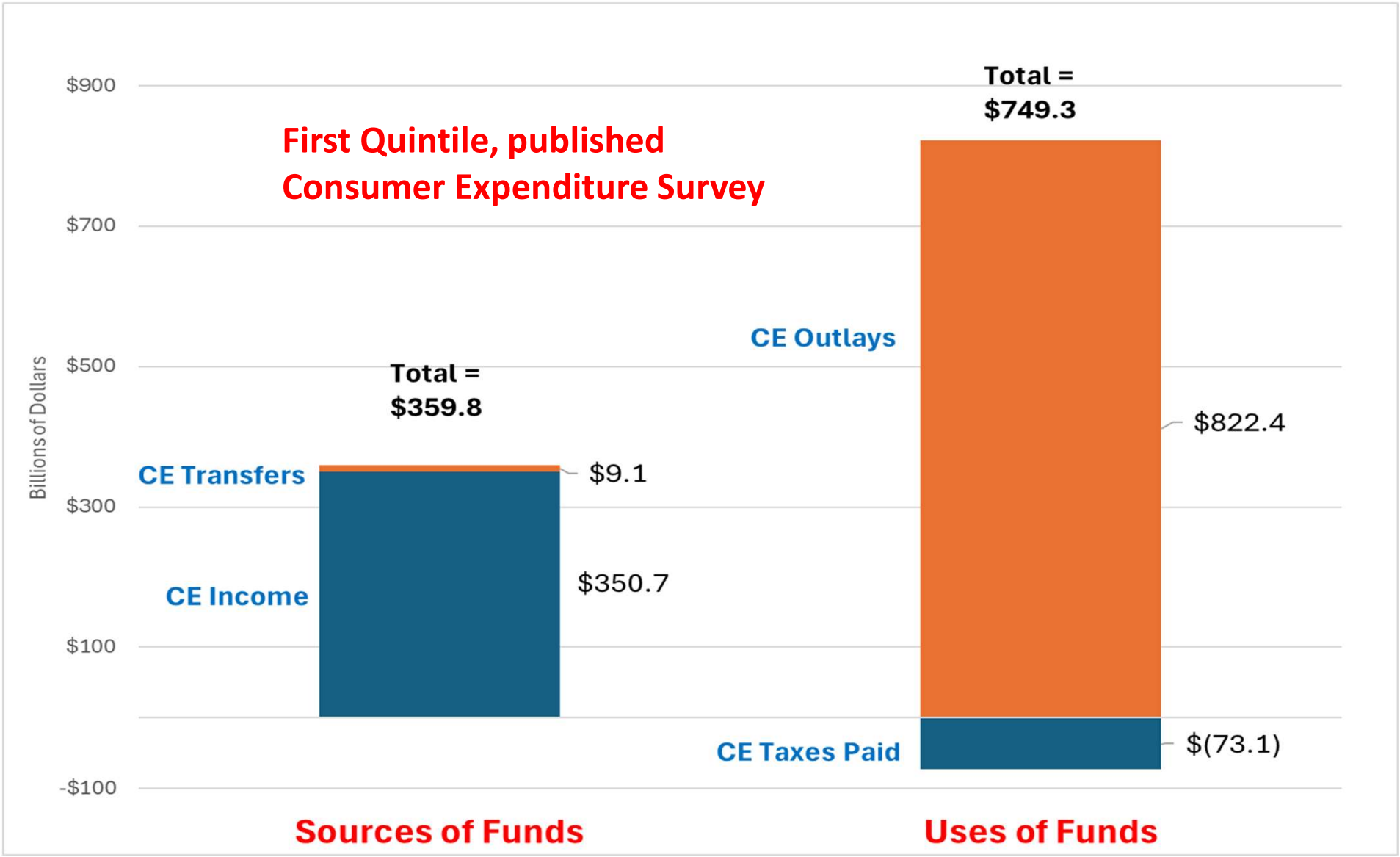
…but missing *inter vivos* transfers received



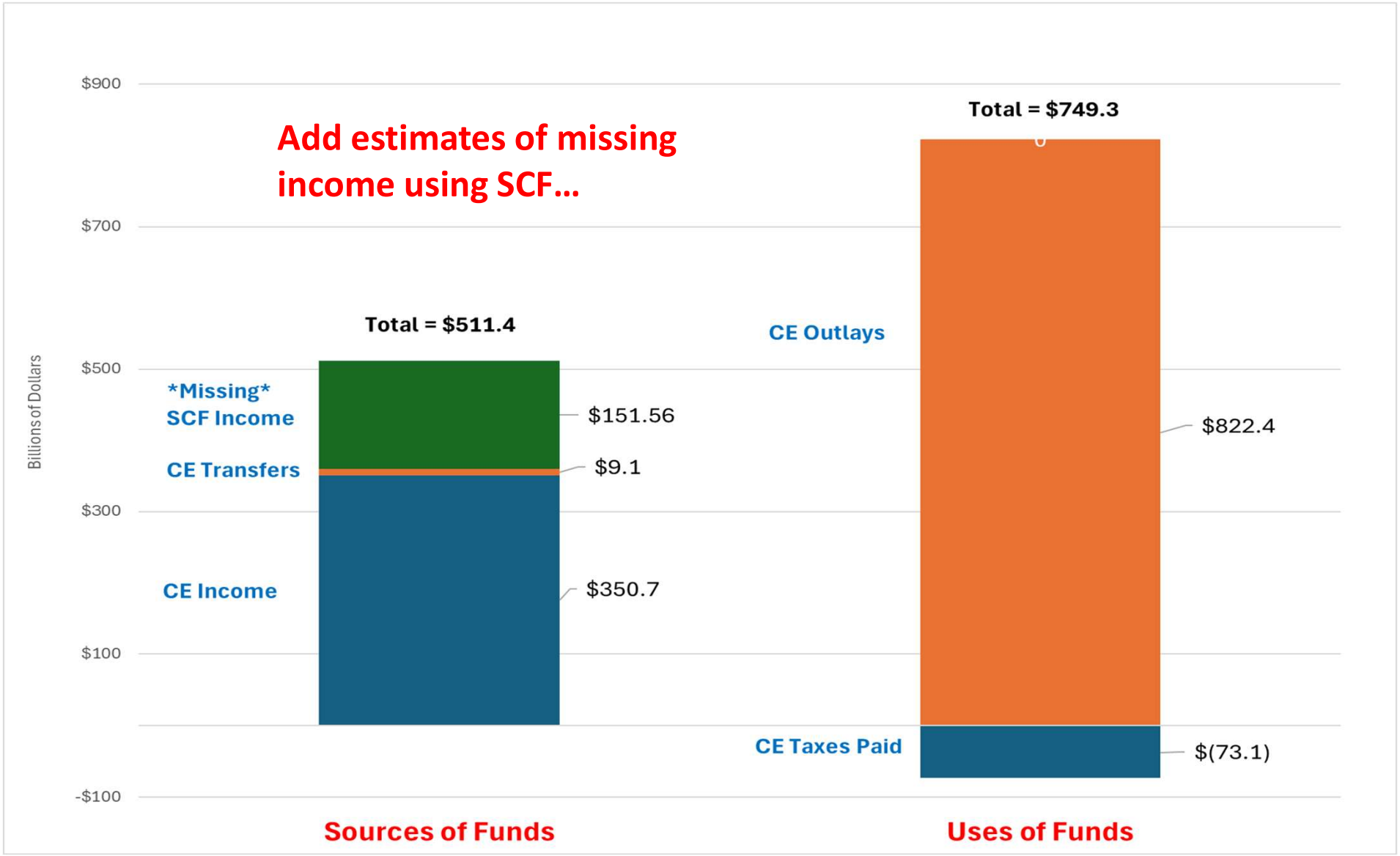
…but missing *inter vivos* transfers received



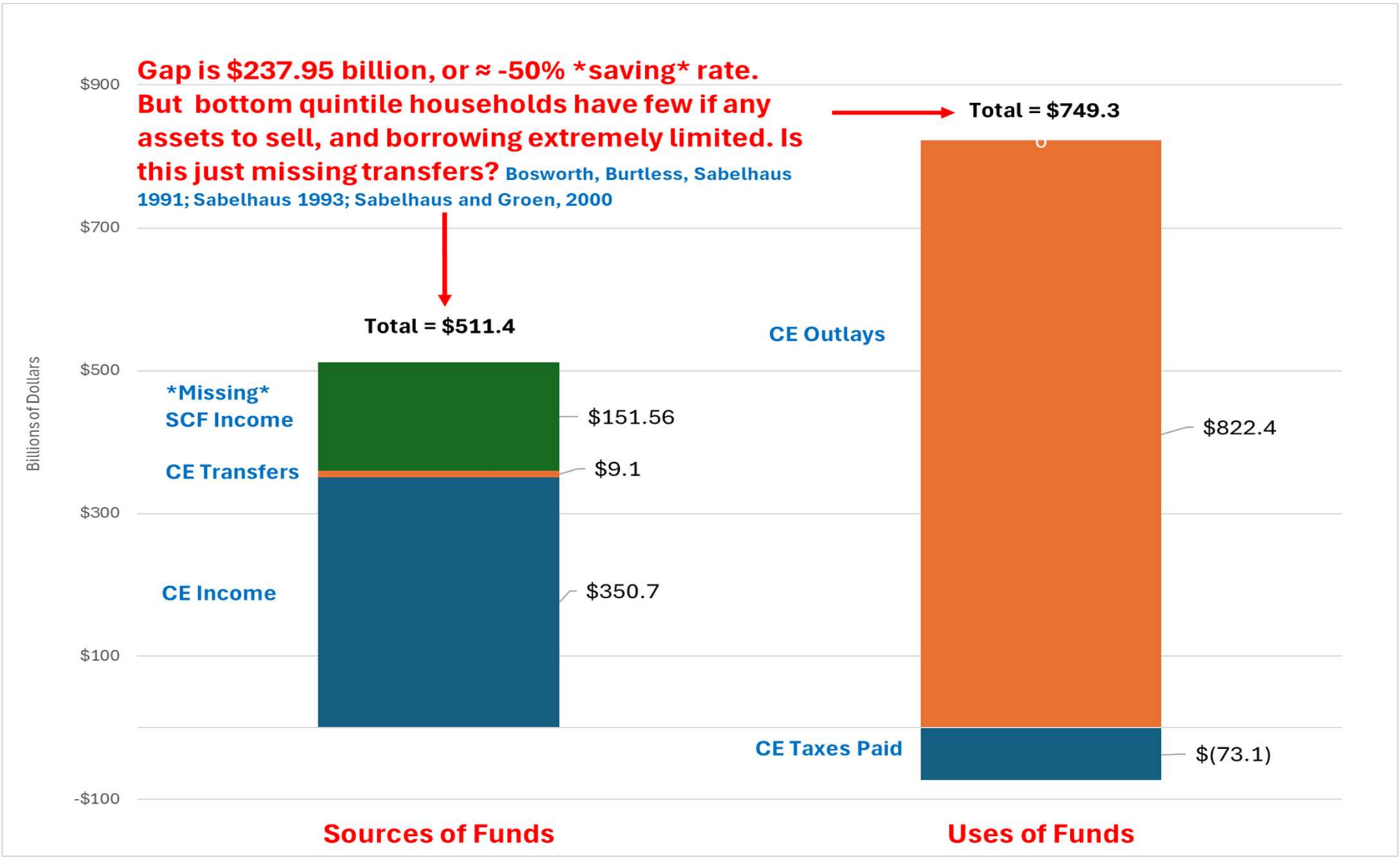
Implications for Sources and Uses?



Implications for Sources and Uses?



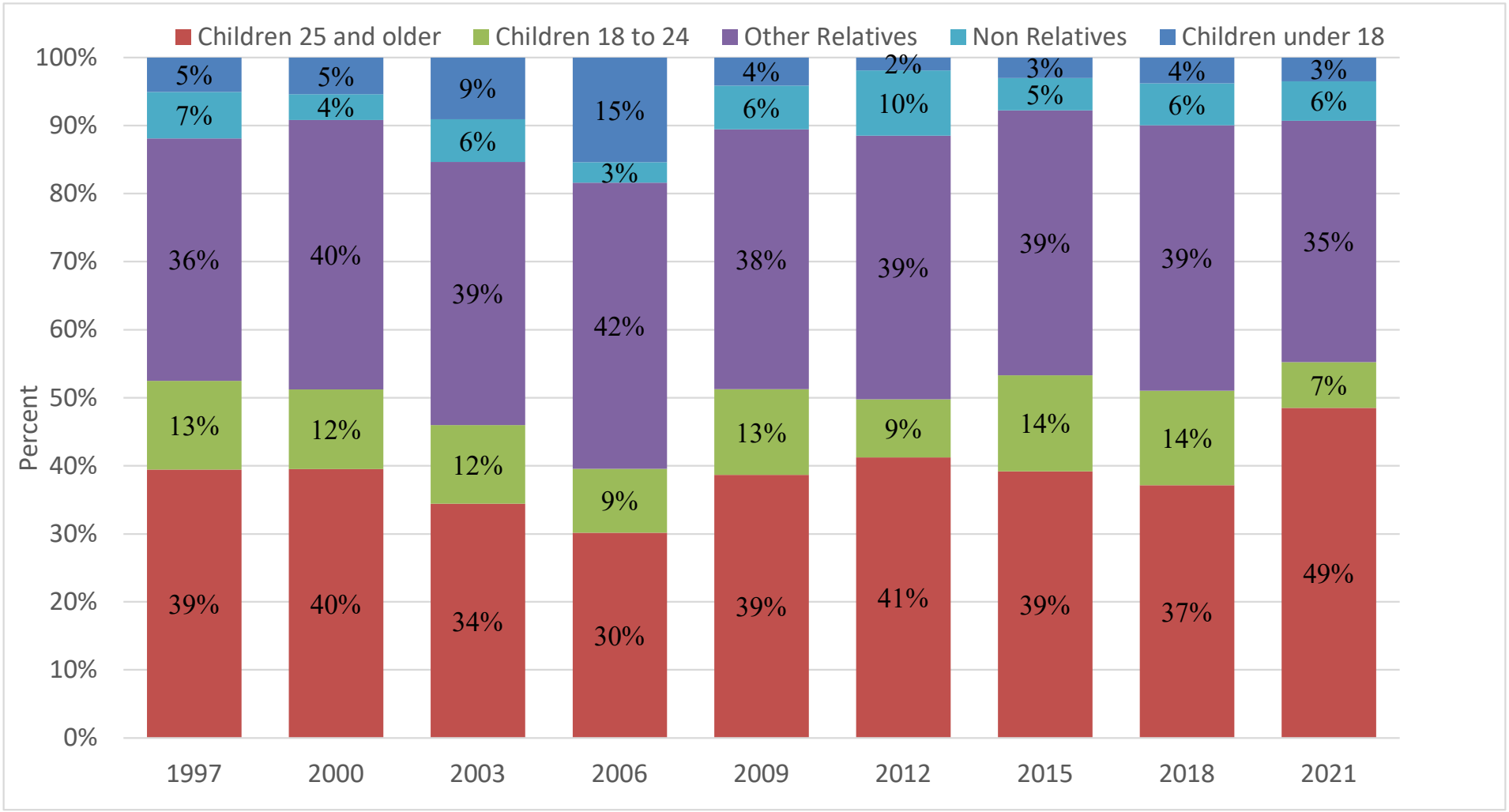
Implications for Sources and Uses?



Next steps on wealth transfers

- Long run solution is improving questions on *inter vivos* wealth transfers received (2025 SCF !!!)
- Inheritance plus *inter vivos* transfers made ($850 billion in 2021) probably a solid lower bound (but further reconciling inheritances and bequests, adding Forbes 400 logical next steps)
- Micro reconciliation: Impute missing *inter vivos* based on characteristics of recipients; 10 million or more transfers <$25k from parents to children

We know to whom missing *inter vivos* going…



Sources and Uses of Funds in Panel Data

- Budget identity should hold in panel data sets, so just solve for $C = Y - \Delta W - G - IFT$
- Directly applied to Norwegian, Swedish population data—they have wealth taxes
- Synthetic panel yields similar results across groups (Feiveson and Sabelhaus, 2018)
- On-going effort to use SIPP (Jonathan Fisher)
- Rounding or reported wealth/income, and estimating capital gains very problematic

Sources and Uses in SCF Cross Sections

- SCF has income, end of period wealth, transfers, many outlays, estimate taxes using TAXSIM…
- Next: Use survey year changes in balance sheet components to complete sources/uses identities
- Sources include proceeds from loan originations (observed) and asset sales (not observed)
- Uses include new asset purchases (observed) and loan payoffs (not observed)
- Can we fill in missing puzzle pieces, solve for C?

Thanks!

jsabelhaus@brookings.edu

www.johnsabelhaus.com