Remarks On The ECB Wealth Survey Project by Christopher Carroll

Some examples of how a Survey of Consumer Finances can be useful for policymakers:

- When I worked at the Fed in the mid 1990s, there was much discussion of the startling rise in housheold debt that had occurred over the period since financial market liberalization in the early 1990s. Debt-to-income ratios had risen very sharply, prompting concern that households were digging themselves into an unsustainable hole. Critics of this viewpoint argued that aggregate assets had increased even more than aggregate debt, and since total net worth had risen and there was no reason to worry about the increase in debt. Which side in this argument had the stronger case could not be determined using aggregate data, because the key question was whether the increased debt was owed by the SAME people whose wealth had risen, or whether instead there were some households whose debt had risen and others whose wealth had risen. The Survey of Consumer Finances provided the answer: A large proportion of the increase in debt was indeed located in households who had higher values of assets as well.

- A similar question is relevant at the current juncture in the U.S.; the decline in housing prices has left many households "under water": They owe more on their house than it is now worth in the market. There is considerable concern that many of these people will simply walk away from their debts; if so, the financial system will experience another large wave of losses from this source. But the "walk away" strategy is not an attractive one if the homeowner has a large amount of other assets that can be seized if they default on their home loan. For assessing the balance of risks, there is no substitute for a wealth survey that has the household's complete balance sheet.

- A paper by Besley et. al. (presented at the conference) constructed an index of the tightness of credit market conditions in the U.K. based on a large dataset of loan terms. But their index suffers from a potentially important flaw: It may not capture the fact that financial market development has made it possible for some people to borrow who could

not borrow before. So the "spread" that Besley et. al. interpret as a measure of credit tightness (the difference between the bank rate and the average loan rate) might INCREASE when it becomes possible for people who couldn't borrow at all before to borrow at a high but risk-adjusted rate. A high "spread" therefore would reflect looser, not tighter, conditions. Exactly this pattern has been demonstrated for U.S. credit markets using the Survey of Consumer Finances; if there were a similar British survey, it would be possible to evaluate whether this measurement problem is a serious caveat for the Besley et al paper, or not.

- Quantitatively realistic models of consumption are central to monetary policy, fiscal policy, and tax policy analysis. With the increasing globalization of financial markets, such models are even becoming critical for understanding international capital flows, another subject of keen interest to policy makers. We can only make quantitatively realistic models of wealth-holders' choices by benchmarking the models to *microeconomic* wealth and consumption data, because our models only make sense as models of how *individuals* behave.

- The existence of internationally comparable surveys offers the promise of learning much more than can be learned from the SCF, because the differences in policies and institutions across the countries that will be included are much greater than the differences across geographical regions in the U.S. The surveys will provide a concrete way of measuring the impact of alternative tax, legal, and institutional arrangements that can both motivate and discipline our attempts to understand the effects of these policy choices.

Suggestions for how to proceed with the survey:

- Create a public website where people can post programs and results for comment and discussion (the HRS has something like this)

- Make sure that the data are standardized and similar in structure for different countries, as much as possible. So, for example, if there is a variable that is for total net worth, it should be called something like nwDE, nwFR, nwDK, and so on for Germany, France, Denmark, etc – make the dataset as user-friendly as possible in this sense.

- Every speaker emphasized the importance of having a panel dimension. Let me re-emphasize it, again: PANEL, PANEL, PANEL! This is the key thing that is missing from the existing sources, and is really quite critical for generating quantitatively sensible models. Plus, it gives you a chance to beat the Americans!