

Chapter 2

Economic well-being

This chapter provides a brief introduction to the concept of human well-being, with a particular emphasis on economic (or material) well-being. In doing so, it highlights the importance of considering income, consumption and wealth together as part of a conceptual framework. The chapter then goes on to explain the nature of the OECD framework for measuring human well-being, and the role of economic well-being within this framework. It concludes by setting out the broad policy, research and analytical objectives/uses of information collected in these fields.

Introduction

In recent years, there have been increasing concerns about the adequacy of traditional macro-economic statistics, such as GDP, as measures of people's current and future living conditions. Moreover, there are broader concerns about the relevance of these figures as measures of national or societal well-being. On the micro side, there are concerns about the comparability and comprehensiveness of the statistics being produced. Recognising these deficiencies, there has been widespread interest in adding to, and improving upon, existing measures of household income, consumption and wealth as part of a process of developing more comprehensive measures of human well-being.

Defining well-being

Although the concept of well-being is widely used, there is no commonly agreed definition of just what it is. Moreover, the terms well-being, quality of life, happiness and life satisfaction are often used interchangeably. Table 2.1 presents examples of the

Table 2.1. **Examples of well-being definitions**

Definition	Reference
"This is a dynamic state, in which the individual is able to develop their potential, work productively and creatively, build strong and positive relationships with others, and contribute to their community. It is enhanced when an individual is able to fulfil their personal and social goals and achieve a sense of purpose in society."	New Economics Foundation, 2008
"Well-being is a state of being with others, where human needs are met, where one can act meaningfully to pursue one's goals, and where one enjoys a satisfactory quality of life."	ESRC Research Group on Wellbeing in Developing Countries www.welldev.org.uk
"The individual's experience, or perception, of how well he or she lives is taken as the criterion of quality of life."	Naess, 1999
"Subjective well-being research is concerned with individuals' subjective experience of their own lives."	Diener, Suh, Lucas and Smith, 1999
"Subjective well-being consists of three interrelated components: life satisfaction, pleasant affect, and unpleasant affect. Affect refers to pleasant and unpleasant moods and emotions, whereas life satisfaction refers to a cognitive sense of satisfaction with life." Differently from the "traditional clinical models of mental health, subjective well-being does not simply refer to an absence of negative experiences".	Diener, Suh, Lucas and Smith, 1999
"We find that surveys of well-being utilise one or more of three definitions: 1) satisfaction with life 2) health and ability/disability, and 3) composite indexes of positive functioning."	Kahn and Juster, 2002
"Well-being has been defined by individual characteristics of an inherently positive state (happiness). It has also been defined on a continuum from positive to negative, such as how one might measure self-esteem. Well-being can also be defined in terms of one's context (standard of living), absence of well-being (depression), or in a collective manner (shared understanding)."	Pollard and Lee, 2003
"Well-being stems from the degree of fit between individuals' perceptions of their objective situations and their needs, aspirations or values."	Andrews and Withey, 1976

definitions of well-being used in the literature. These definitions can be broadly classified into three main groups:

- General or global definitions that do not detail the possible components of well-being.
- Component definitions that break down well-being into its constituent parts, dimensions or domains, or identify key characteristics considered essential to evaluate well-being.
- Focused definitions that either explicitly or implicitly refer to just one or a few components, of well-being.

Despite the absence of a single definition of well-being, OECD (2011) argues that most experts and ordinary people around the world would agree that it requires meeting various human needs, some of which are essential (e.g. being in good health), and includes the ability to pursue one's goals, to thrive and feel satisfied with their life. OECD (2011) also argues that since well-being is a complex phenomenon and many of its determinants are strongly correlated with each other, assessing well-being requires a comprehensive framework that includes a large number of components and that, ideally, allows gauging how their interrelations shape people's lives. Reflecting this multi-dimensional approach, the OECD's Better Life Initiative, presented in OECD (2011), identifies three pillars for understanding and measuring people's well-being:

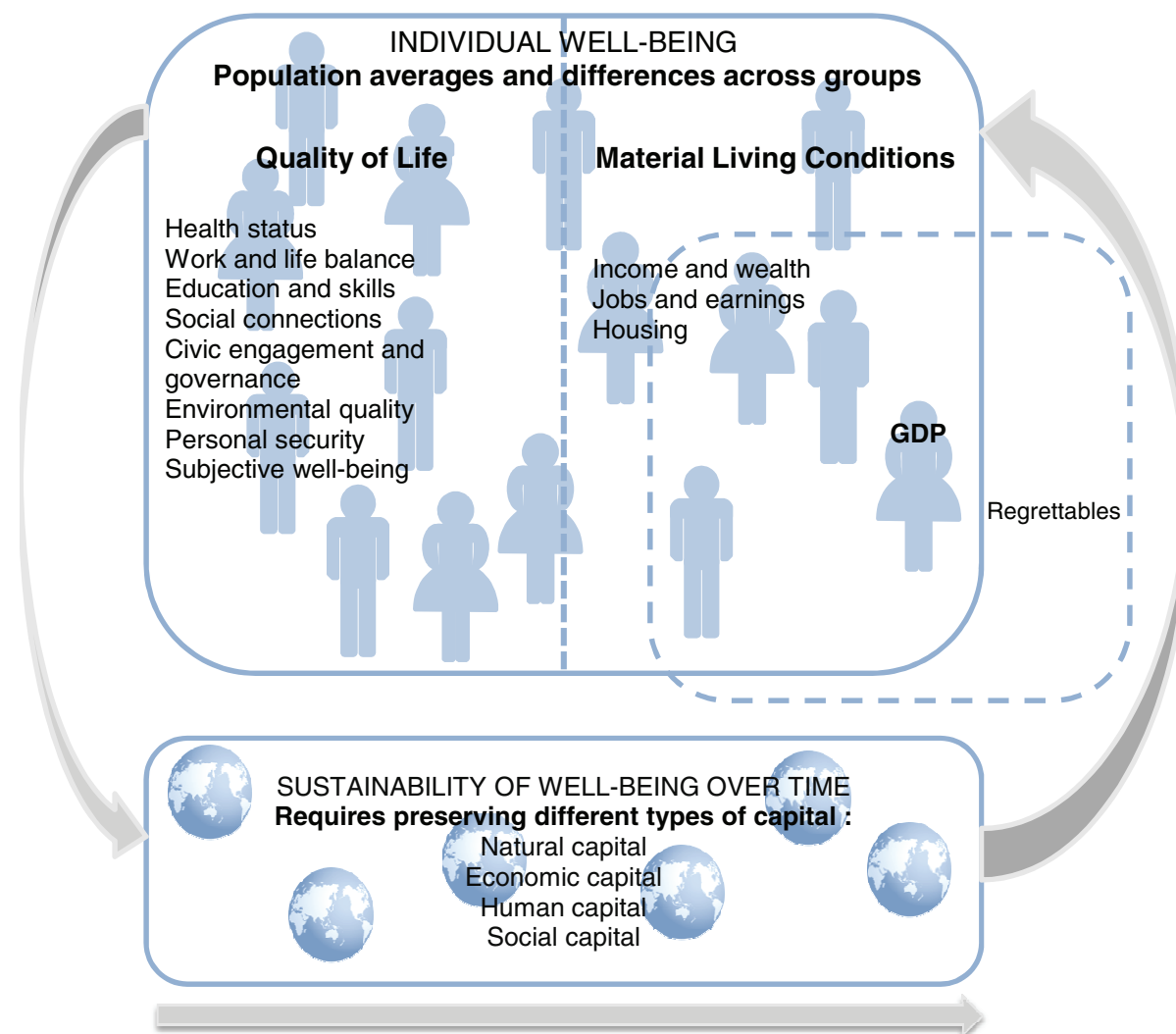
- *Material living conditions* (or economic well-being), which determine people's consumption possibilities and their command over resources.
- *Quality of life*, which is defined as the set of non-monetary attributes of individuals that shapes their opportunities and life chances, and has intrinsic value under different cultures and contexts.
- The *sustainability* of the socio-economic and natural systems where people live and work, which is important for well-being to last over time. Sustainability depends on how current human activities impact on the stocks of different types of capital (natural, economic, human and social) that underpin well-being.

The OECD's approach draws closely on that proposed by Stiglitz et al. (2009) and by previous OECD work (Hall et al., 2010). The ICW Framework presented in this report has been developed from the viewpoint that material living conditions, or economic well-being, are a critical factor for overall well-being.

The importance of material living conditions for well-being

OECD (2011) argues that income and wealth are essential components of individual well-being. Income refers to the flow of economic resources that an individual or household receives over time. It includes wages and salaries and money earned through self-employment as well as resources received from other sources such as property, pensions and social transfers. These concepts and components of household income are further elaborated in the *Canberra Group Handbook on Household Income Statistics* (UNECE, 2011). In contrast, wealth is a "stock" concept: it refers to the value of accumulated assets at a given point in time. It includes the value of property, pensions and financial assets, along with physical assets such as vehicles and household goods. In calculating a measure of net wealth, debt and other liabilities are subtracted from the value of assets.

Income allows people to satisfy their needs and pursue many other goals that they deem important to their lives, while wealth makes it possible to sustain these choices over

Figure 2.1. **Framework for OECD's well-being indicators**

Source: OECD (2011).

time. Both income and wealth enhance individuals' freedom to choose the lives that they want to live. Moreover, increases in income have been associated with improvements in other dimensions of well-being, such as life expectancy, educational attainments, etc., although there are discussions on the strength of associations and the directions of causality. At the macroeconomic level, economic resources allow countries to invest in education, health, security, etc.

The importance of economic well-being to overall well-being has been recognised by almost all the institutions producing measures of well-being. For example:

- The Australian Bureau of Statistics includes household economic well-being as one of the dimensions of its Measures of Australia's Progress (MAP).¹
- The UK Office for National Statistics has included "personal finance", which includes household income and wealth, its distribution and stability, amongst its proposed domains of national well-being (ONS, 2011) and has published proposals for reporting on economic well-being.

- The New Economics Foundation incorporates income into its framework for National Accounts of well-being (NEF, 2011).

The relationships between economic well-being and overall well-being is not always direct, particularly when comparing well-being over time, between individuals or through market prices. These issues are explored further in the sections below.

Changes in well-being over time

Generally, in a given society at a given time, income is positively related to reported subjective well-being, so that individuals with a higher income tend to report higher subjective well-being than those with a lower income. However, Graham and Pettinato (2002) present evidence that people's aspirations change over time so that their idea of the minimum satisfactory level of income increases over time (in a growing economy); this implies that one is forever chasing a receding target. Income growth may thus generate little increase in this component of well-being (even though, at each point in the growth process, the better-off are happier than the less well-off). This is consistent with the earlier work by Easterlin (1974), who reported that average national happiness does not appear to increase over long spans of time, in spite of large increases in per capita income, i.e. the so-called "Easterlin Paradox". Much of the above research is limited, however, in terms of fully understanding household economic well-being, as it relies on GDP per capita as a proxy of the typical income of each individual. These limitations come about both because GDP growth may differ from growth in household income and also because average income is generally a poor proxy of the typical (i.e. median) income.

Comparisons of well-being across individuals

Care also has to be taken when making comparisons between the well-being of individuals, especially when measured with a single indicator such as income. Economists have tended to argue that there is no meaningful way to make comparisons of welfare between different people, as there is no metric for comparing "utilities". Thus, since the degree of satisfaction of a person's preferences cannot be observed directly, assessments of well-being need to rely on proxies. The most commonly used proxy has been an economic variable, i.e. real income. Real income constrains a household's consumption possibilities while, for nations, production of both consumer and investment goods contributes to the well-being of households' today and in the future.

Sen (1999) argues that it is not enough to look at the resources available to individuals, because their abilities to transform those resources into functionings (i.e. their "capability" to "do and be") vary from individual to individual. A common illustration is that someone who needs a wheelchair will require more financial resources to achieve the same amount of mobility as someone who does not. Naturally, people's ability to transform the functionings they actually achieve into well-being also varies considerably between individuals.

Dunn, Gilbert and Wilson (2011) argue that the way in which individuals spend their money can influence the satisfaction they receive from their spending, whilst Taylor, Jenkins and Sacker (2011) report that an individual's financial capability – i.e. the ability to control their finances, make appropriate financial decisions, understand how to manage credit and debt and identify appropriate products and services – is an important determinant of the individual's subjective well-being, regardless of how much money they have.

These considerations highlight that simple comparisons of individual income levels are limited in their ability to compare levels of well-being across people. The capability approach therefore points towards the need for a richer and multi-dimensional perspective in order to make comparisons of individual well-being. This issue of variability between individuals and households is addressed, to a certain extent, by the use of equivalisation scales when analysing income, which take into account the composition of households.

Relationship between market values and well-being

The use of aggregate measures of economic resources drawn from the National Accounts, in particular Gross Domestic Product (GDP), as a proxy for economic well-being is based on the idea that valuing quantities through market prices assures that, in equilibrium and under various assumptions, these prices are representative of the marginal contributions of the different goods consumed to the utility of households.

Because economic activity is measured through market prices that, in a competitive market, equal the valuation of the marginal consumer (and are lower than the valuation of all non-marginal consumers), the benefit from consumption experienced by non-marginal consumers (the difference between their valuations and the prices they pay, known as consumer surplus) goes unaccounted for. Diamonds are counted as more valuable than water, for example, yet one could question whether diamonds contribute more to society's well-being, given that consumers of diamonds may have a higher valuation of water, which goes undetected as they pay only market prices. Further, the distortions caused by the presence of externalities (such as the cost to public health services from smoking, which result in the value of consuming a pack of cigarettes being lower to society than it is to the individual) and the existence of imperfectly competitive markets (such as the market for water) mean that market prices do not fully reflect marginal valuations. As a consequence, the amount paid for goods and services does not properly represent the utility or satisfaction, i.e. the actual well-being, obtained from those goods and services.

Development of economic indicators as proxies for well-being

The measurement and analysis of economic resources available to the population has a long-standing tradition, which has resulted in consistent, harmonised and regularly updated measures of economic resources. Within this tradition, two main approaches for measuring household income have emerged (UN, 2011):

- The macro approach, which has its roots in national accounts and in particular the accounting-based standards laid out in the System of National Accounts (SNA).
- The micro approach, which has its roots in microeconomics and particularly in the study of poverty and its effect on different socio-economic groups within society.

From the start, economists and statisticians have been aware of the limitations of using aggregate income measures as proxies for well-being. Marshall and Pigou were explicit that “economic welfare” is only one component of overall welfare, or well-being. Simon Kuznets, one of the pioneers of the System of National Accounts, in his first report to the US Congress in 1934, noted that “the welfare of a nation can, therefore, scarcely be inferred from a measure of national income...” (Kuznets, 1934). Similarly, the System of National Accounts explicitly recognises the limitations of GDP as a measure of well-being: “Movements of GDP cannot be expected to be good indicators of changes in total welfare

unless all the other factors influencing welfare happen to remain constant, which history shows is never the case” (UN, 2011, paragraph 1.69).

Policy makers have never focused single-mindedly on GDP growth as the single metric for measuring well-being. They try to enhance the overall well-being of citizens by taking into account a range of factors that reach beyond the total value of the goods and services produced by a country in a given year, to include distributional concerns and environmental quality. Further, economists and statisticians continue to explore ways to improve measures of well-being, including measures of economic well-being.

Many of the measures referred to by Stiglitz et al. (2009), which were discussed in Chapter 1, are already published by statistical institutions as part of their National Accounts. Thus, one of the main challenges is to raise the prominence of these measures. Another challenge is to ensure consistency in definitions and methodologies, e.g. through greater harmonisation of the definition of the household sector and the treatment of quasi-corporations.

Stiglitz et al. (2009) also argued that the availability, timeliness and comparability of micro data on household economic conditions need to be improved. This applies in particular to micro data on household wealth, an area where no international standards currently exist and where few countries undertake regular compilations.² Steps also need to be taken to develop instruments that would help to understand the relationship between income and other dimensions of people’s material conditions, e.g. joint surveys on household income, consumption and wealth or the use of statistical-matching or data-linking techniques to combine different sources. In response to these demands, OECD (2011) identified the development of an integrated framework for measuring household income, consumption expenditures and wealth at the micro-level as one of the priorities for its future work.

The measurement of economic well-being: The importance of micro data

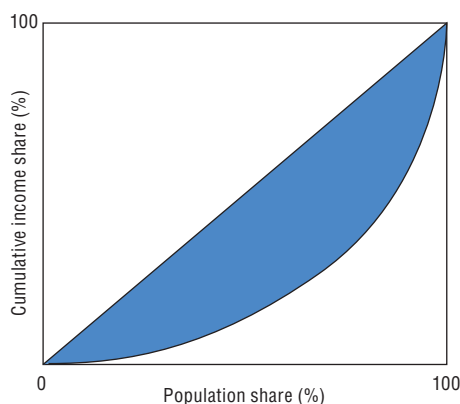
SNA data, or macro data, are sectoral aggregates compiled from many sources and presented within a broad framework that allows mapping the relations between different accounts and institutional sectors of the economy. Generally, SNA data provide only aggregated information for the household sector as a whole. As only aggregate information is needed for this purpose, greater use can be made of partial data sources, imputation or estimation. SNA data also have the advantage of being fully consistent. However, it is typically not possible to use these data to look at the distribution of household economic resources within a country.

In contrast, micro data sets can be used to analyse not only the levels (aggregates), but also the distributions of income, consumption and wealth across the population, for various subgroups, and over time. The data can provide important insights into the economic well-being of the typical person; for example, while average household income and wealth have increased substantially in many countries during the last two decades, not all households in these countries have gained from this, reflecting widening inequalities. For this reason, both the OECD (2011) and Stiglitz et al. (2009) argued that when assessing well-being, it is better to emphasise the perspective of households and individuals, rather than the aggregate conditions of the economy, since there may be a discrepancy between the economy-wide economic situation and the material well-being of households.

Both of these reports also emphasised the need to look at the distribution of economic well-being across individuals. This is especially important when there are disparities in achievements across population groups and when these are correlated across dimensions (e.g. when the likelihood of earning a low income is correlated with low educational achievement, poor health status, poor housing, etc.). Several authors have reported that the relative position of an individual in society also affects their subjective well-being, with those higher up in the income distribution generally reporting higher well-being even after controlling for their absolute income (Alesina et al., 2004; Luttmer, 2005; Ferrer-i-Carbonell, 2005; and Clark, 2003).

The collection of micro-data in this area allows producing supplementary statistics such as Lorenz curves and Gini coefficients. A Lorenz curve for income is created by ranking households (or individuals) from the poorest to the richest, and plotting the cumulative share of household income and the cumulative share of the number of households, as proportions of the total household income and the total number of households, respectively. The cumulative share of households gives a 45 degree line. When the cumulative share of income also gives a 45 degree line, this represents a situation where income is equally divided amongst all households. Higher income inequality is represented by an increase in the area between the cumulative share of household income curve and the cumulative share of households curve. Figure 2.2 provides an example of a Lorenz Curve.

Figure 2.2. **Example of Lorenz curve for income**



The Gini coefficient is a summary measure of income (or wealth) dispersion in the population that is derived from the Lorenz curve. Typically, Gini coefficients are scaled from 0 to 100 per cent, with a value of 0 indicating perfect equality and a value of 100 indicating that one household or individual has all the income. This measure is easy to understand, and has a number of appealing properties, such as summarising in a single number the income differences between each pair of people, rather than measuring distances relative to an arbitrary reference point such as the mean. This measure does nevertheless have shortcomings (e.g. it can exhibit inconsistencies between national and sub-national measures; and it cannot be interpreted for variables with negative values, such as net wealth); for a discussion of the properties of the Gini index, see Sen and Foster (1998).

Measures of low income, particularly when accompanied by low wealth, are also important, as low-income people typically experience deprivations in several domains, not

just material ones. Indicators of low income usually look at its prevalence (i.e. headcount measures of the share of the population falling below a given income threshold) and intensity (i.e. gap measures of the average income shortfall of the poor expressed as a percentage of the income threshold). The thresholds used in these measures can be either relative or absolute. An example of a relative threshold is that used for Eurostat's at-risk-of-poverty indicator, which defines individuals as being at risk of poverty if their equivalised household disposable income is below 60% of the national median. In contrast, the US Census Bureau uses absolute thresholds, updated annually for inflation, for its headline poverty statistics. In addition to such cross-sectional indicators of low income, longitudinal micro data are also used by numerous organisations to identify the extent of persistent economic hardship, along with the characteristics of people who move out of persistent poverty versus those who stay.

These approaches differ from the approach of several authors, e.g. Atkinson (1970), who have attempted to incorporate distributional considerations by adjusting measures of national income to reflect distribution. Arrow (1951) showed that, under a plausible set of assumptions, social orderings of various states cannot be based exclusively on individuals' preferences, and that distributional judgments are needed to choose between alternative philosophies of social justice. In other words, while summary statistics can be compiled to reflect differences in income distributions, a value judgment is required to choose one distribution as being preferable to another.

Further work is needed to establish the consequences of changes in the distribution of economic well-being, and whether the typical person living in a country characterised by a relatively more equal distribution of economic well-being is necessarily better-off in terms of economic well-being than those living in countries with more unequal distributions, particularly in the developed world. It is also not clear whether shifts in the distribution of economic well-being will benefit or hurt overall well-being. Moreover, one cannot simply shift distribution in a mechanistic way, i.e. leaving the rest of the society constant. Often, making the distribution flatter will have consequences for incentives, which is one of the reasons why the overall result is so difficult to assess. However, issues of distribution always enter political debate, which makes it important to measure distributional impacts transparently.

Households and individuals

While income is usually received by individuals, it is often pooled within households. In particular, parents share their income with their dependent children. Moreover, when people share a dwelling, they enjoy economies of scale in the provision of housing services, which is usually the largest single cost of living incurred by households. Thus, when looking at economic well-being it is generally more appropriate to do so at a household level. In order to allow for households with different compositions to be analysed in a sensible way, household incomes are normally adjusted through the use of an equivalence scale. This reflects the common-sense notion that, in order to enjoy a comparable standard of living, a household of, for example, three adults will need a higher level of income than a household of one person. Equivalisation is discussed in more detail in Chapter 4 (United Nations, 2011).

Non-market production of household services enhances material well-being

Final consumption, as defined and measured in the national accounts, focuses on marketable goods and services bought by households. While there is widespread

agreement that many non-marketable services (such as own-produced meals, child care, etc.) contribute to people's material well-being, most of these services fall outside the production boundary of the national accounts and do not enter into the standard measurement of living standards – the only exceptions being dwelling services that benefit home-owners. Ahmad and Koh (2011) have produced experimental measures of the monetary value of the own-account production of services by households for several OECD countries. Their estimates of the non-market consumption of household services highlight two main results. First, the value of own-account services of households is significant but varies across countries according to the method used to value the time that households devote to produce these services. Second, including own-account services produced by households in measures of consumption per capita does not fundamentally change the position of countries in international comparisons, although countries with lower per capita income and lower “marketisation” in the production of household services tend to catch up relative to others. Much more work is needed to consolidate the methodology and produce these estimates on a more systematic basis, as suggested in Eurostat (2003), Landefeld et al. (2009) and ONS (2011).

Accounting for changes in the quality of goods and services

Stiglitz et al. (2009) noted that another challenge for compilers of national accounts is capturing changes in the quality of the goods and services produced. Products that are complex, multi-dimensional and subject to rapid change account for an increasing share of economic output. This is obvious for goods like cars, computers and washing machines but is even truer for services, such as medical services, educational services, information and communication technologies, research activities and financial services. In some countries and sectors, increasing output is more a matter of increases in the quality of the goods and services produced and consumed rather than of increases in their quantity. Capturing this change in quality is a challenge, yet is vital to measuring real income and real consumption in an appropriate way. Under-estimating quality improvements is equivalent to over-estimating the rate of inflation, and therefore to under-estimating real income. The opposite is true when quality improvements are overstated.

The multi-dimensional nature of household economic well-being

Traditionally, analyses of economic well-being have focussed on a single dimension of household economic resources. In many developed countries, such studies have generally used income data, reflecting the relative frequency with which data on income are available and also that for many households income is the most important economic resource for meeting everyday living expenses.

However, the notion of household economic well-being is multi-dimensional, and is better understood by looking simultaneously at household income, consumption expenditure and wealth. While there are definitional and scope issues with respect to the measurement of each of these items (e.g. inclusion of non-market income sources in measures of household income; accounting for quality changes in measures of household expenditures; inclusion of human capital or pension wealth in measures of household wealth), it is important to look at them comprehensively, so as to assess the coherence of the various measures and to make sure that all critical elements are taken into account.

The importance of looking at consumption

It is the consumption of goods and services along with other inputs such as time that ultimately satisfies a household's needs and wants. Because of this, consumption is a more important determinant of economic well-being than income alone. Indeed, Brewer and O'Dea (2012) and others (see Noll, 2007 for a review) argue that it is preferable to consider the distribution of consumption rather than income on both theoretical and pragmatic grounds.

On a theoretical ground, households can smooth consumption by, for example, adjusting savings or drawing on wealth and borrowing. Incomes may also be more volatile, a finding that led to Friedman's "permanent income hypothesis", which suggests that decisions made by consumers are based on long-term income expectations rather than their current income. Therefore, because consumption expenditures fluctuate less than incomes, they can be considered a better proxy of living standards. This view is supported in a number of studies, e.g. Cutler and Katz (1992) and Jorgenson and Slesnick (1987), which find stronger relationships between consumption and subjective well-being than between income and subjective well-being.

Beyond these conceptual arguments, there is also the practical consideration that evidence from a range of countries suggests a general tendency for income to be under-reported by households with low levels of resources, whilst the reporting of expenditure by this group is relatively accurate (e.g. Meyer and Sullivan, 2011; Brewer and O'Dea, 2012). This income under-reporting partially explains the general finding that survey respondents reporting the lowest incomes typically do not have the lowest expenditure or material living conditions, although consumption smoothing may also play a role.

It should, however, be recognised that, as collecting data on expenditure, from which consumption is derived, involves the use of diary studies, there are also measurement issues associated with consumption. Evidence suggests that, in contrast to income, the under-reporting of expenditure is greatest amongst households with high levels of resources (Meyer and Sullivan, 2011; Brewer and O'Dea, 2012). This is compounded by further evidence suggesting that unit non-response in expenditure surveys may be higher for households at the upper end of the distribution (Sabelhaus et al., 2011).

Surveys collecting household expenditure data have become increasingly common in recent years. However, they are often undertaken less frequently than income surveys because of the resources required to collect accurate data. Despite this, some countries have had annual expenditure surveys in place for many years (e.g. the US Consumer Expenditure Survey since 1980, the UK Family Expenditure Survey (now the Living Costs & Food survey) since 1957, which provide a wealth of historic data on patterns of consumption).

Although estimates of household consumption used in economic analysis are produced from expenditure data, consumption also includes inter-household in-kind transfers of gifts and services and social transfers in kind. However, these aspects of consumption are generally missing from the data, due to the challenges involved in its collection. The distinction between consumption and expenditure and the issues around data collection are explored more fully in Chapter 5.

The importance of looking at wealth

Income provides only a partial view of the economic resources available to support consumption. Income, a flow measure, can be quite volatile for people making transitions

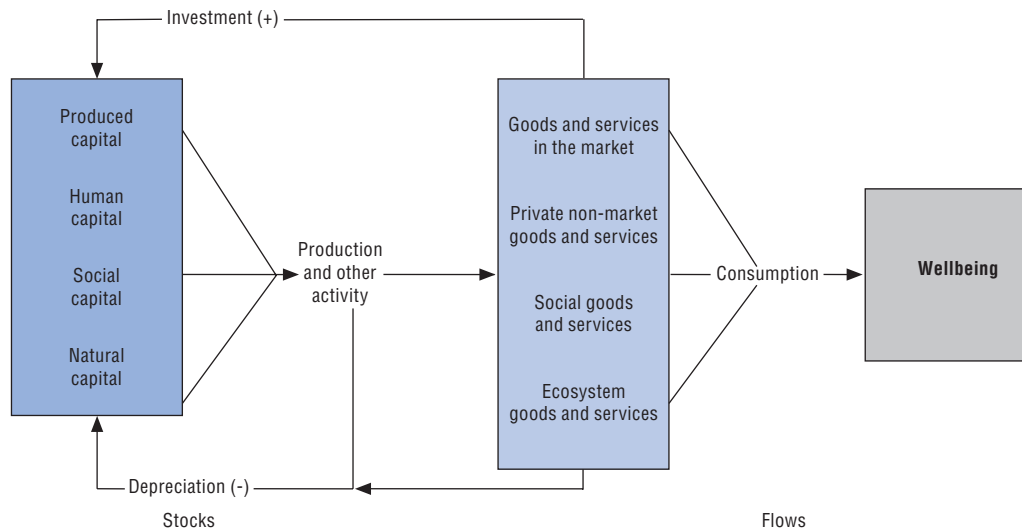
between jobs, changing their hours of work, moving into or out of study, increasing or reducing the time spent caring for children, or taking extended breaks from work. Wealth, a stock measure, is more stable over time, reflecting accumulated saving and investments. However, the value of wealth can drop dramatically in the event of crashes in the stock exchange or the real estate markets. Households can use wealth to consume more than income, or they may consume less than their income, and thus save. Wealth allows individuals to smooth consumption over time and to protect them from unexpected changes to income. Households that are “asset rich and income poor” can be expected to have a higher material standard of living than would be indicated by their income alone.

Households with reserves of wealth can also utilise these to generate income and to support a higher standard of living. While some wealth is held in assets that are not easily converted into money, its existence may allow people to borrow to finance expenditures, e.g. for house extensions, motor vehicle purchases, and so on.

Headey and Wooden (2004) and Graham and Pettinato (2002) report positive relationships between wealth and measures of subjective well-being. These studies suggest a well-being benefit from the presence of assets or from the ability to save, which may reflect lower expenditure needs and consequently the ability of income to meet needs. Brown, Taylor and Wheatley Price (2005), Borooah (2005) and Cummins et al. (2004) found a negative relationship between measures of indebtedness and measures of subjective well-being. However, it is difficult to determine a clear relationship between debt and subjective well-being. Large debts may indicate a very good credit rating, and can be used to finance investments rather than consumption. Secured debts, such as a mortgage, or debts for investments, have not been found to impact negatively on life satisfaction (Brown, Taylor and Wheatley Price, 2005; Cummins et al. (2004).

Stiglitz et al. (2009) argued that a broader definition of wealth, including natural capital and human capital, could provide a better understanding of material well-being.³ Several institutions have incorporated these concepts in their conceptual frameworks. The UK’s Social Impacts Taskforce (Harper and Price, 2011) also emphasises the capital approach in its framework for measuring well-being (Figure 2.3). These frameworks highlight that,

Figure 2.3. **The impacts of capital stocks for the sustainability of well-being**



Source: Harper and Price (2011).

without sufficient investment in capital stocks, future well-being could be reduced, for example if the stock of machinery is depreciated without investment in repair and replacement, current well-being may increase but at the expense of future well-being.

Uses of income, consumption and wealth micro data

The *Canberra Group Handbook* (UNECE, 2011) identified three main purposes for compiling information on the distribution of economic well-being:

- First, a desire to understand the distribution of material well-being within society, and how this is related to the way in which societies are organised.
- Second, the concern of policy makers to assess the impact of both universal and targeted actions on different socio-economic groups. Examples of policy issues where micro data on material well-being are important include welfare programmes, taxation and other fiscal policies, housing, education, labour market and health.
- Third, an interest in the distribution of material well-being and people's ability to acquire goods and services to satisfy their needs, e.g. studies of poverty and social exclusion, and research on consumer behaviour.

There are a number of important questions raised by United Nations (2011) and others that producers of statistics need to address:

- How unequal is the distribution of material well-being in a given country? How does this compare with earlier years, or with other countries?
- What are the characteristics and circumstances of households with low material well-being or of considered to be at risk of poverty? Which groups are in greatest need of financial support? How does this compare with earlier years, or with other countries?
- What are the characteristics of people who experience persistent economic hardship? How do the characteristics of people who move out of poverty compare with those of people who remain poor?
- Is the average or typical level of material well-being growing or declining over time? What might this mean for macro-economic policies?
- How do tax transfer systems affect the economic well-being of particular groups within the population?
- What is the impact of major life events on people's economic resources?
- Do people have sufficient resources in their working lives and in retirement to maintain an adequate standard of living?

Typically, the main focus of interest is on changes over time, with differences between countries coming a close second. While the national accounts provide essential information about the overall performance for an economy, and aggregate outcomes for households, it is micro statistics on household income, consumption and wealth that inform our understanding of the distribution of these resources over time, across regions or between sub-groups of the population.

Conclusions

This chapter has introduced economic well-being as an essential part of human well-being, and discussed some of the issues concerning the use of measures of economic well-being as indicators of overall well-being. In particular, the chapter has highlighted the

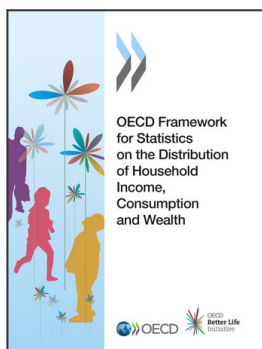
importance of micro data on income, consumption and wealth in order to examine the distribution of economic resources between individuals and households. It has also stressed the need for a multi-dimensional approach that considers these three dimensions together, in order to gain a more complete understanding of household economic well-being.

International organisations such as the OECD and Eurostat (the statistical office of the European community) are increasingly working together to develop wider measures of progress, well-being and sustainable development, allowing meaningful comparisons between countries. Examples of this include the “one-off” well-being module to be added to the EU Survey of Incomes and Living Conditions (EU-SILC) in 2013, the work of the European Net-SILC2 programme to combine income and material deprivation data from EU-SILC with expenditure data from Household Budget Surveys, and the development of indicators for monitoring changes in well-being over time.⁴ The challenge is to get the right balance between meeting international needs and meeting the need for better statistics on national progress within a country.

The ICW Framework presented in this report has been developed with the aim of assisting in the development of comprehensive and consistent micro-data and statistics in these areas. The ICW Framework is fully consistent with other agreed standards and guidance on individual domains, such as UNECE (2011). It aims to bring these together into a single reference document to support research and analysis in both single and multiple dimensions. The ICW Framework is also designed to complement the SNA, which provides the main statistical framework for the analysis of household income, consumption and wealth data at the macro level.

Notes

1. www.abs.gov.au/AUSSTATS/abs@.nsf/mf/1370.0.
2. One current example of international co-ordination in the area of data collection on wealth is the Household Finance and Consumption Survey (HFCS), which is currently undertaken by the 17 euro-area countries and co-ordinated by the European Central Bank.
3. Several countries are developing measures of human capital. The OECD has established a consortium to improve measures of human capital. Liu (2011) summarises this work.
4. See www.essnet-portal.eu/net-silc2.



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