

Executive summary

This publication presents an internationally agreed framework to support the joint analysis of micro-level statistics on household income, consumption and wealth. The publication aims to extend the existing international frameworks for measuring household income and consumption at the micro level to include wealth, and describes income, consumption and wealth as three separate but interrelated dimensions of people's economic well-being.

The design of social and economic policies can benefit greatly from distributional analysis of the various types of household economic resources. Historically, analysis of each type of economic resource has typically been done in isolation, with each category being considered as a separate proxy of household economic well-being. When these distributions are studied jointly, however, analysts can obtain additional insight into the economic well-being of the population, which would allow better identifying people who may be at risk of poverty and/or economic distress and better targeting policies and programmes to households in need.

Integrated analysis at the household level has significant data requirements that go beyond the measurement efforts currently undertaken in most countries. While no internationally recognised statistical frameworks to underpin such integrated analysis at the micro level currently exist, the need for development work in the area has been acknowledged in various forums, such as the report of the Commission on the Measurement of Economic Performance and Social Progress (Stiglitz et al., 2009).

In response to the growing demand for relevant statistics, the OECD Committee on Statistics established an Expert Group in 2011, with wide international representation, to develop a framework for integrated micro statistics on household income consumption and wealth, and to develop guidelines for the collection and presentation of household wealth statistics. This report presents the integrated Income, Consumption and Wealth Framework (ICW Framework) developed by the Expert Group. The Expert Group also prepared the companion report, *Guidelines for Micro Statistics on Household Wealth*.

There is considerable alignment between the concepts presented in this report and those presented in the System of National Accounts (SNA), the framework used for macro statistics. But there are also some differences. In particular, the micro framework presented here focuses exclusively on households, and it consequently views transactions from a household perspective. In contrast, the SNA has a broader perspective, and sometimes transactions are viewed in different ways by different sectors. As both frameworks are influenced by the practicalities of collecting data relevant to the concepts to be measured, the different uses of micro and macro statistics influence the way those practicalities are considered.

People consume goods and services as an integral part of living. For some, their consumption is limited to the very basics of food, clothing and shelter. Others are able to consume much more. Broadly, consumption is the use of goods and services to directly satisfy an individual's personal needs and wants. Consumption expenditure is the value of the goods and services consumed.

Considered simply, and everything else being equal, people with higher levels of consumption or consumption expenditure can be regarded as having a higher level of current economic well-being than those with lower levels of consumption. However, for a fuller understanding of their economic well-being, it is necessary to also consider those economic resources such as income and wealth that enable consumption to take place now and in the future.

In essence, income is the on-going flow of economic resources received. For example, it includes money received in return for working, as profit from business undertakings and ownership of property, as a pension, or as government benefits. It also includes non-monetary receipts, known as in-kind income, such as the goods and services provided directly by employers as a form of wages and salaries, consumption goods and services provided directly by government, and the net value of goods and services produced for barter or for one's own consumption, such as in subsistence farming.

Wealth is the total stock of economic resources that is held at a point in time. It includes, for example, cash, businesses, real estate, motor vehicles, shares, and other non-financial and financial assets. Debts and other liabilities are negative wealth, and their value is subtracted from the value of non-financial and financial assets when measuring wealth, to give what is sometimes referred to as net worth.

For given levels of consumption and wealth, and everything else being equal, people with higher income can be regarded as having a higher level of economic well-being than people with lower income. With higher income, they have greater opportunities to increase consumption now, if desired, and to save income that might be used to finance consumption in the future. Similarly, for given levels of consumption and income, and everything else being equal, people with greater wealth can be regarded as having a higher level of economic well-being than people with lesser wealth. They have greater opportunities to increase consumption now, if desired, and to use their wealth to generate income and/or finance consumption in the future.

Thus income, consumption and wealth can be seen to be three different dimensions of economic well-being, and the ICW Framework is built around an integrated view of these three dimensions. In addition to describing the central concepts of income, consumption and wealth, this publication describes their relationships and additional concepts that, together, form a self-contained and complete system of describing the economic well-being of households.

These relationships can take many forms. First, both income and wealth can be utilised to enable consumption: if, over a period of time, income is greater than consumption, then saving adds to wealth; conversely, if income is less than consumption, dissaving subtracts from wealth. A second important relationship between wealth and income is the capacity for some forms of wealth to generate income, e.g. bank accounts usually earn interest and real estate can earn rent. Third, in addition to income, economic resources can be received in the form of capital transfers: while, in very general terms, income comprises those receipts that can be expected on a regular basis, capital transfers

are not received on a regular basis and tend to be large. All capital transfers received are added to the stock of wealth; they are assets obtained from another party where the recipient makes no payment to the provider of the asset. If payment is made, then there has been a purchase of an asset using wealth already owned, and there has been an exchange of one form of wealth for another.

Economic resources can be used or disbursed for purchasing consumption goods and services, using consumption goods and services obtained as income in kind, undertaking non-consumption expenditure such as payment of taxes or other current transfers, paying interest on consumer credit, and paying capital transfers. Overall, expenditure payments – whether consumption expenditure, current transfers paid, or payments on consumer credit – can be expected to be made on a regular basis, while capital transfers paid are payments that are made irregularly and tend to be large.

In addition to saving/dissaving, changes in the stock of wealth over a period of time reflect capital transfers received and paid, and some non-transactional flows: “other changes in the volume of wealth” such as those resulting from a natural disaster or war; holding gains and losses reflecting the impact of changing asset prices, and sometimes known as capital gains and losses; and the adjustment to pension, annuity and life insurance entitlements, which is required because ongoing payments of these entitlements are treated as income but sometimes partially constitute a run-down in savings.

This report has used the household as the primary unit for analysing micro data on income, consumption and wealth. A household is either an individual person or a group of persons who live together under the same housing arrangement and who combine to provide themselves with food and possibly other essentials of living. Households are best suited to most analysis of economic well-being because of the sharing of common economic resources between household members and because of the economies of scale achieved when dwellings and other household facilities are shared.

Because larger households can be expected to experience economies of scale from sharing, the per capita requirements of larger households are likely to be less than those of smaller households to achieve the same level of economic well-being. Equivalence scales can be used to adjust for these differences.

For some analysis, it may be appropriate to use smaller units than households, such as the family economic unit or the individual person. For data collection, however, information is best gathered at the household level for some items, especially those associated with housing, and at the level of all members of the same household for other items.

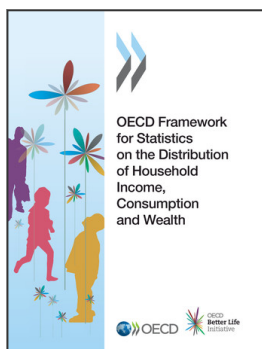
While most analysis relates to household variables, users of micro data are often more interested in analysing people according to the characteristics of their household rather than the household *per se*. Therefore it is recommended that tabulations of micro data report both the number of households with characteristics of interest and the number of people who live in those households. The latter are sometimes known as person-weighted statistics. This report recommends that summary statistics such as quantile ratios and Gini coefficients always be person-weighted.

The choice of the time period to be considered in analysing household income, consumption and wealth also has an impact on the detailed definition of the various flows and on the practicalities of collecting the required data. The preferred reference period for

implementing the integrated framework is one year, since some important types of income are received only once a year or may fluctuate substantially between seasons.

The report also discusses some of the practical issues involved in collecting integrated data on income, consumption and wealth. Considerable data are required to provide a full picture of a household's economic well-being in all three dimensions, with a significant reporting burden on respondents if the data are collected in a single survey. Therefore, this report also considers the combined use of both survey and administrative sources to obtain the relevant data, and of statistical matching as a tool to bring together data from different sources. Finally, the report describes a range of tools that can be used to present and analyse information about households' economic well-being in multiple dimensions, including the use of composite measures that combine all three dimensions into a single statistic.

The report recommends that the ICW Framework proposed in this publication be tested by countries and suggests that, in due course, the recommendations of the OECD Expert Group should be refreshed in the light of evolving practice, and developed into formal statistical standards. The report concludes by highlighting some of the limitations of the framework, and suggests a research agenda that would support further advances in the field of household micro statistics on economic well-being.



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