

# Executive summary

This publication presents guidance for the compilation of distributional results on household income, consumption and saving consistent with national accounts totals. It is the result of the work of the Expert Group on Disparities in a National Accounts framework (EG DNA) and provides an important addition to the suite of international statistical guidance, addressing increasing policy demands for household distributional results in line with macroeconomic totals.

Economic inequality continues to be a matter of concern for policy makers and citizens, with events such as the 2008-09 Great Financial Crisis and the COVID-19 pandemic further re-emphasising the need for more detailed information on how specific household groups are faring. Evidence-based policies targeting inequality and fostering inclusive growth need to rely on systematic, robust and comprehensive data and indicators. Distributional results on income, consumption and saving aligned to important macroeconomic aggregates such as gross domestic product (GDP), household disposable income and household consumption are crucial in this regard, providing insights into key dimensions of material well-being across household groups.

The principal relevance of distributional estimates in line with national accounts totals come from the way in which they complement existing inequality measures often available from micro statistics. First of all, they provide a more comprehensive picture of economic inequality, including elements that are often not covered in inequality statistics, such as social transfers in kind. Second, the work extends distributional information from income to consumption (and eventually wealth), providing a more comprehensive overview of inequality across multiple dimensions of well-being. Thirdly, the results provide measures of inequality consistent with macroeconomic aggregates, broadening the scope for analyses, while also capturing households and transactions that are typically underrepresented in micro data. Finally, while the estimates do require a number of statistical choices and assumptions, they have a high degree of international comparability because of the common methodology and their alignment to national accounts results.

In 2011, the OECD and Eurostat launched an Expert Group on Disparities in a National Accounts framework (EG DNA) to develop methodology for the compilation of household distributional results on income, consumption and saving in line with national accounts totals. Country experts and representatives from international organisations met several times over the past decade to develop a collection template and to discuss various conceptual and methodological issues, feeding into harmonised guidance for the compilation of the relevant results. Furthermore, expert group members engaged in various compilation rounds to derive experimental estimates in line with the methodology as developed by the group.

This Handbook is the result of the work done by the expert group over the past decade and includes information from various questionnaires, presentations and discussions conducted throughout this period. It provides an overview of the conceptual framework underlying the distributional results and it discusses various aspects in relation to the compilation and presentation of the distributional results. It aims to assist compilers in deriving high-quality distributional results and to provide users with more insights into how the results have been derived.

The starting point of the work is the household sector as defined in the system of national accounts. Within the household sector, the specific focus is on private households, thus excluding any information related to institutional households, such as people living in prison, boarding schools or nursing homes. The main reason is that institutional households often comprise large groups of individuals who are not related and who may have very different income and consumption patterns. This means that their results are not comparable to those of private households, and their inclusion would hamper distributional analyses. The recommendation is to present their results separately.

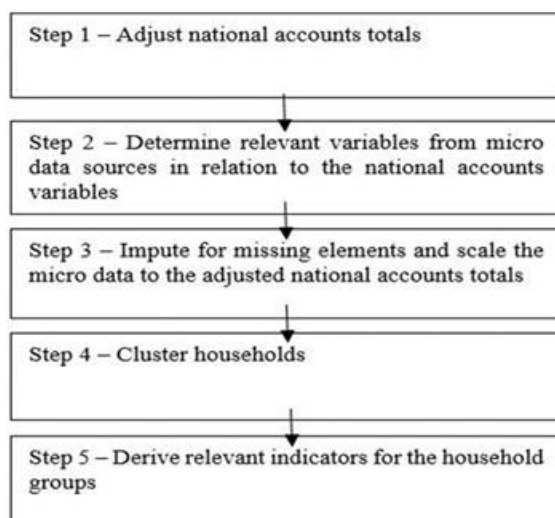
The main unit of analysis in the work is the household (and, hence, not the individual as is the case in some other studies). The main reason is that households are normally pooling some or all of their income and wealth, and consume certain types of goods and services collectively. As households may differ in size and composition, equivalence scales are used to arrive at comparable results across households, recalculating results according to the number of consumption units in each household, taking into account economies of scales of additional household members for certain consumption items.

The aim of the work is to derive distributional results for income, consumption and saving. While results are available for various underlying income and consumption items, the main focus on the income side is on adjusted disposable income. This is the most comprehensive measure of income, also including social transfers in kind, mainly relating to the provision of health, education and housing services either for free or at very low prices. As this in-kind provision is a direct alternative to cash benefits to purchase these goods and services, its inclusion leads to a more comprehensive measure of economic inequality and to more comparable results across countries. On the consumption side, the main focus is on actual final consumption, covering household spending on consumption goods and services, also including the consumption of those goods and services provided via social transfers in kind. Finally, by combining information on income and consumption results can also be derived on household saving across the distribution.

Results can be broken down into various types of household groups. The main focus in the EG DNA work has been on breakdowns according to standard of living, breaking down private households according to their equivalized disposable income. However, breakdowns are also included according to main source of income and household type, and several other breakdowns can be envisaged as well, often dependent on policy needs. The work also targets socio-demographic information to provide more insights into the background of the households included in the various household groups, for example by household type and housing status, or by individual characteristics, such as gender, age, education and employment status.

The methodology for compiling distributional information in line with national accounts totals is set up in the form of a step-by-step procedure (see Figure 1). It starts with the adjustment of national accounts totals to exclude any amounts in the macro aggregates that do not relate to resident private households. The second step involves lining up the relevant components from micro data sources to the income and consumption variables from the national accounts. These micro data provide the main underlying information to distribute income and consumption across households. This step may involve multiple data sources and specific adjustments to arrive at conceptually sound matches. In the third step, imputations are made for elements that are not covered in micro data sources, and the results are aligned to the “adjusted” national accounts totals, allocating any gaps that may exist between the micro and macro aggregates. This for example concerns adjusting for possible missing rich, the underground economy and for any under- or overreporting in the micro data. In the fourth step, households are clustered into household groups, for instance on the basis of their equivalized disposable income or on the basis of socio-demographic characteristics. In the final step, relevant indicators for the distribution of income, consumption and saving are derived, such as disparity ratios that show the degree of income and consumption inequality.

Figure 1. A step-by-step approach for the estimation of distributional information



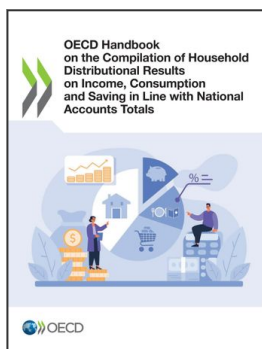
Source: The Author.

The Handbook provides detailed descriptions of the underlying concepts and the various steps as described above. It includes various examples and guidance on how to deal with specific conceptual and practical issues in the compilation of the relevant results, assisting countries in arriving at high-quality estimates.

At the end of 2020, experimental distributional results in line with national accounts totals were included in the public databases of the OECD and Eurostat for a first time and several countries are already publishing their results on a regular basis. The expectation is that more countries will follow in the coming years, also in view of the new G20 Data Gaps Initiative (DGI-3) that includes two specific recommendations for G20 economies (and participating countries) to regularly publish distributional results in line with national accounts aggregates by the end of 2026. The Handbook will be an important tool to assist countries in setting up their compilation systems and guiding them how to deal with specific issues.

Whereas a lot of progress has been made over the past decade, much still remains to be done. This, among others, concerns improving the quality, timeliness and granularity of the data, as well as broadening the range of countries for which data become available, as also evidenced in the recommendations of the new DGI. For this reason, the work of the EG DNA will continue, further improving distributional results in line with national accounts totals in the area of income, consumption and saving. This work will feed into future updates of this Handbook.

Furthermore, in addition to income, consumption and saving, work has also started in the area of wealth. In this regard, the ECB Expert Group on Distributional Financial Accounts (EG DFA) started to develop methodology to compile distributional wealth estimates for the euro area and EU economies in 2016, and experimental results are planned for publication by early 2024. In addition, several countries have already started to regularly compile and disseminate distributional wealth estimates in line with national accounts totals. In view of the DGI-3 recommendations, the OECD launched a new international expert group early 2023, i.e. the Expert Group on Distribution of Household Wealth (EG DHW), that is going to develop internationally harmonised guidance to compile distributional wealth results in line with national accounts totals, leveraging off the work done by the ECB expert group and by various member states. The overall goal is to arrive at consistent distributional results across income, consumption, saving and wealth, providing users with a comprehensive overview of economic inequality across countries. The expectation is that this will also lead to a handbook in the coming years.



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