

Foreword

Much of the recent work on developing metrics to go “beyond GDP” has focused on non-monetary dimensions of people’s well-being, i.e. on their quality of life. However, there are also important limits to the available information needed to adequately measure economic well-being, understood as people’s command over resources or material living conditions. Understanding and improving people’s well-being requires improved evidence in both areas in order to better inform policy makers and citizens alike of where, when and for whom life is getting better or worse. This is particularly important at a time when the most severe and prolonged recession in our life time still imposes a large toll on the lives of many people across the world.

This report, which proposes a framework to support the joint analysis of household income consumption and wealth at the micro level – together with its companion report, which provides guidance on the measurement of the distribution of household wealth – is the result of the work of an OECD expert group, chaired by Bob McCall from the Australian Bureau of Statistics, which over the period 2011-2012, has endeavoured to improve existing metrics for measuring people’s economic well-being at the micro level, i.e. at the level of individuals and households. These two reports are part of the OECD’s Better Life Initiative – a pioneering project launched in 2011, which aims to measure well-being and progress by looking at both people’s material conditions and quality of life through eleven dimensions ranging from income and wealth, jobs and earnings, housing to health conditions, skills, social ties, work-life balance, civic engagement, personal security, environmental quality and subjective well-being.

Household income, consumption and wealth are the three constituents of household economic well-being. At the aggregate level, the System of National Accounts (SNA) provides international standards for computing total amounts of these different components of household economic resources, and for detailing the links between them. However, the SNA refers to the household sector as a whole, and does not provide information on the distribution of the different types of resources among households with different characteristics. In addition, the goal of the SNA – to provide a consistent description of the full range of relations within the economic system – implies that the measurement of the various flows and stocks pertaining to the household sector may sometimes depart from households’ own perceptions of their economic situation.

At the microeconomic level, survey and administrative-based measures of household income constitute well-established metrics for assessing the distribution of household economic well-being. International standards for measuring household income exist (i.e. the 2011 edition of the Canberra Group Handbook on Household Income Statistics), and most countries have put in place data collections in this field. But household income is only one dimension of household economic well-being. Both income and wealth determine people’s consumption possibilities, while low levels of either income or wealth may not always imply a low level of consumption. The absence of a perfect correlation between income, consumption and wealth at the household level underscores the necessity of an integrated framework of analysis.

The need for such a framework is best illustrated by the experience of several advanced economies in the period that preceded the 2008 financial crisis. While many observers, including the OECD, had drawn attention to the significant rise in income inequalities that had occurred since the mid-1990s, controversies surrounded the interpretation of these trends, i.e. whether they reflected permanent factors or rather an increased volatility of income flows, particularly at the lower end of the income scale. Some observers argued that higher inequalities in the distribution of household income were not matched by similar changes in the distribution of household consumption, interpreting this as evidence that household permanent income was not becoming more unequal. We know now that many households, including low and middle income ones, were accumulating unsustainable levels of debt, encouraged by higher house prices and easier access to credit. An integrated framework supporting the analysis of the distribution of all types of economic resources would, arguably, have allowed assessing the size of the imbalances that were accumulating, putting policy makers in a much better position to anticipate and react.

This report and the companion report on the distribution of household wealth fill an important gap in the existing statistical guidance at the international level. They benefitted from valuable inputs from the experts who actively participated in the OECD Expert Group, from comments provided by members of the OECD Committee on Statistics, and from contributions from those institutions (the national statistical offices of Australia and Switzerland, the Bank of Italy) that supported this work through their financial and in-kind contributions. I hope that these two reports will encourage more countries to undertake systematic data collections in this field, and to favour a progressive convergence in measurement approaches and classifications across countries.

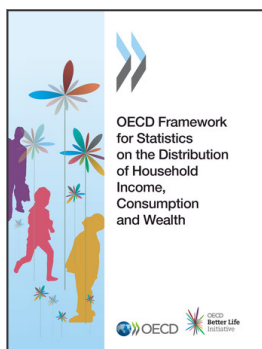
As for other areas of statistics, there is still much to be learned, and this report sets out what we currently know about good practice. As our knowledge grows, this good practice will need to be revised in the light of the experience gained. My hope is that, as in the case of statistics pertaining to other dimensions of people's well-being, the guidance provided in this report will evolve over time in the direction of a full-fledged international statistical standard.



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