

Chapter 1

Introduction

This chapter describes the purpose of the Framework for Statistics on the Distribution of Household Income, Consumption and Wealth, or the ICW Framework, its relationship with other international frameworks, and the way in which it was developed. It concludes with an overview of the structure and contents of the rest of the publication.

Introduction

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 guidance for measuring household income and consumption to include wealth, and provides a new focus on income, consumption and wealth as three separate but interrelated dimensions of people's economic well-being.

Purpose of the framework

The design of social and economic policies can benefit greatly from data on the distribution of different types of economic resources among households with different characteristics. These data are needed to inform on the income circumstances of different households (including the redistributive impact of the tax and transfer systems), their consumption patterns, and the distribution of household assets and liabilities.

Analysis of the distribution of each type of economic resource is typically done in isolation, with each category being considered as a separate proxy of household economic well-being. When these distributions are studied in combination, however, analysts can obtain additional insight into the economic well-being of the population, such as identifying people who may be at risk of poverty and/or economic distress. Some households with low income, for example, may report adequate levels of consumption expenditure or wealth holdings, or vice-versa. Policies and programmes can be better targeted to households in need based on information on the joint distribution of all types of economic resources. These policies hold the promise of delivering improved economic well-being to individuals and better individual and societal outcomes across a range of dimensions of social concern.

Measures based on the joint distribution of the different types of economic resources can also provide insight into factors that impact on economic performance. They are, for example, relevant to analysing the barriers and incentives that affect labour force participation, and the effects of markets, policies and regulations on aggregate economic performance. For example, the coincident measurement of household income, consumption and wealth at the micro-level can inform on how changes in the level and composition of taxation and government spending can influence the level of aggregate demand in the economy in an effort to achieve the goals of full employment and economic growth.

However, integrated analysis at the household level has significant data requirements that go beyond the measurement efforts currently undertaken in most countries. No internationally recognised statistical frameworks to underpin such work currently exist.

The ICW Framework presented in this publication has been developed by an OECD Expert Group established in 2010, operating under the aegis of the OECD Committee on Statistics (CSTAT). The framework aims to describe the concepts of household income, consumption and wealth in an integrated and comprehensive way that is relevant to the analysis of household economic well-being. In the development of the ICW Framework, consideration was given to the practicalities of collecting and presenting the required micro-data, and some of the associated issues are discussed in later chapters of the publication. Consideration was also given to the relevant frameworks and standards that already exist, as outlined later in this chapter.

The ICW Framework is intended to assist national statistical offices and other data producers to develop data sets on income, consumption and wealth at the household level that are suitable for integrated analysis, and for facilitating comparisons between countries. The guidelines presented in this document are designed to be widely applicable, with relevance to countries that are at different stages of statistical development, that have different statistical infrastructures, and that operate in different economic and social environments.

Development of the framework

Historical background

For many years, national accounts based on the international standard of the System of National Accounts (SNA) have provided the essential information about countries' overall economic performance, including that of the household sector. For the household sector, the SNA provides aggregate measures of the various dimensions (disposable income, in-kind public transfers, consumption expenditure, investment, assets and liabilities) that shape household economic well-being. However, the national accounts do not provide information on the distribution, at the micro level, of these economic resources.

The need for distributional statistics has long been recognised. Following the 14th session of the United Nations Statistical Commission in 1966, a system of distribution statistics that covered household income, consumption and the accumulation of household wealth was to be gradually developed by the United Nations Statistical Office. The work was tied in with both the System of National Accounts (SNA) and the now obsolete System of Balances of the National Economy.¹

In 1977, the United Nations Statistical Office published the *Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households* (United Nations, 1977). The aim of these Provisional Guidelines was to assist countries to collect and disseminate income distribution statistics and to support the international reporting and publication of comparable data. The need to link micro-level income distribution statistics with macro-level national accounting standards was emphasised. The Provisional Guidelines were to be revised concurrently with the revision of the 1968 SNA. The Conference of European Statisticians (CES) in particular began work to revise the Provisional Guidelines in the late 1980s and organised a number of work sessions and seminars on statistics on household income with this goal in mind. Special attention was paid to the revision of the SNA, as the revision process of the 1968 SNA had led to conceptual changes about the household sector and about the concept of income in

particular. However, due to limited resources, progress in the revision of the Provisional Guidelines was limited.

In the following years, there were various developments in international standards for micro data, although the emphasis tended to be on income statistics. In 2008, the CES completed an in-depth review of statistics on income, living conditions and poverty. An outcome of the CES review was the formation of a small international task force to undertake a limited update of the *Final Report and Recommendations of the Expert Group on Household Income Statistics* (2001), commonly referred to as the *Canberra Group Handbook* (CGH). The purpose of the update was to incorporate new developments in the area of household income measurement and to expand the guidelines to take into account these new developments. The objective was to help achieve greater harmonisation of income concepts and measurement at the household level across countries. The second edition of the *Canberra Group Handbook* (UNECE, 2011) was conceptually aligned with the international standards set out in the resolution on “standards for household income statistics” adopted by the International Conference of Labour Statisticians (ICLS) in December 2003 (ILO, 2004).

Over the past few years, various studies and reports have underlined the need for further development in the integrated analysis of household income, consumption and wealth data at the level of individual households.

- The *Canberra Group Handbook* (2001) recommended further research into the “relationships between income, expenditure and wealth”. It noted that “... income is most often considered to be the best (or least bad) measure of individual welfare or utility. However, both consumption and wealth are important complementary measures of economic wellbeing” (p. 109). In 2011, the second edition of the *Canberra Group Handbook* stated that “data to enable harmonised analyses that consider the joint distributions of income, consumption and wealth require internationally agreed standards and frameworks to support practitioners and data users in the field” (p. 120).
- The Final Report (2003) of the 17th International Conference of Labour Statisticians stated: “Assistance should be provided to countries in establishing their programmes for collecting, compiling, and disseminating the statistics covered in the resolution on household income and expenditure statistics. To do this effectively and as a training tool, a technical guide could be prepared in collaboration with other interested institutions to give detailed guidance on the implementation of the guidelines in the resolution” (ILO, 2004).
- The 2008 CES in-depth review of income, living conditions and poverty statistics, mentioned above as instrumental in updating the *Canberra Group Handbook*, noted: “A wider initiative is needed to work towards an integrated framework of income, expenditures and wealth... by setting up a possible city group” (CES, 2008).²
- In 2009, the Commission on the Measurement of Economic Performance and Social Progress, established by the French Presidency, had the “aim... to identify the limits of GDP as an indicator of economic performance and social progress, including the problems with its measurement; to consider what additional information might be required for the production of more relevant indicators of social progress; to assess the feasibility of alternative measurement tools, and to discuss how to present the statistical information in an appropriate way” (Stiglitz et al., 2009, p. 7). The first five

recommendations of the Commission's Report have direct relevance to the development of measures of household income, consumption and wealth.

- ❖ *Recommendation 1:* When evaluating material well-being, look at income and consumption rather than production.
- ❖ *Recommendation 2:* Emphasise the household perspective.
- ❖ *Recommendation 3:* Consider income and consumption jointly with wealth.
- ❖ *Recommendation 4:* Give more prominence to the distribution of income, consumption and wealth.
- ❖ *Recommendation 5:* Broaden income measures to non-market activities.
- Recommendation 16 of the report to the G20 Finance Ministers and Central Bank Governors ("The Financial Crisis and Information Gaps", IMF, 2009) noted: "As the recommended improvements to data sources and categories are implemented, statistical experts (should) seek to compile distributional information (such as ranges and quartile information) alongside aggregate figures, wherever this is relevant. The Interagency Group on Economic and Financial Statistics (IAG) is encouraged to promote production and dissemination of these data in a frequent and timely manner". The G20 report encouraged the OECD to continue its efforts to link national accounts data with distributional information.

Together, all these reports underscore the need for statistics that measure economic well-being from a household/individual perspective, in addition to the broad economy/production perspective used in the System of National Accounts. While micro statistics are currently most developed for the income dimension, they need to be extended to include consumption and wealth in an integrated way, so as to allow the joint analysis of these three dimensions of economic well-being. Indeed, no international standards currently exist for the compilation of micro statistics on household wealth, although the publication of the companion report *Guidelines for Micro Statistics on Household Wealth* (OECD, 2013) represents an important milestone towards that goal. The integrated measures of economic well-being need to be comprehensive, and should ideally include the non-market economic activity of households. Finally, the micro measures would need to be related to the macro measures so that both sets of measures can be analysed together in a meaningful way.

Reflecting the growing demand for further progress in this field, the June 2010 meeting of the OECD Committee of Statistics (CSTAT) discussed a proposal prepared by Statistics Canada for a new activity aimed at developing an integrated framework for household income, consumption and wealth statistics at the micro level. A large number of countries supported this proposal, which was included in the Programme of Work of the OECD Statistics Directorate for the 2011-12 biennium. An Expert Group was set up in late 2010 to pursue this new work, alongside work to provide guidance on the development of micro statistics on household wealth.

OECD Expert Group on Micro Statistics on Household Income, Consumption and Wealth

The OECD Expert Group on Micro Statistics on Household Income, Consumption and Wealth brought together experts with experience in the collection and analysis of household economic resources at the micro level from a wide range of countries and from different regions of the world (Australia, Canada, Denmark, Hungary, Israel, Italy, Japan,

Korea, Mexico, the Netherlands, New Zealand, Poland, Portugal, Romania, Sweden, Switzerland, the United Kingdom and the United States). The OECD Expert Group also included representatives from the statistical office of the European Union (Eurostat), the UNECE, the European Central Bank and the Luxembourg Income Study, as well as analysts invited by the Secretariat based on their expertise in the field. Individual members and the organisations to which they were attached are listed in the *Acknowledgments* at the front of this publication.

The Group had three primary objectives:

- To develop statistical standards for those domains of household economic resources where they are currently lacking, i.e. wealth.
- To assess the consistency of standards in the various domains and present them within a coherent statistical framework (including the development of guidelines for the analysis and dissemination of these statistics).
- To consider practical challenges to the collection of information on the joint distribution of household income, consumption and wealth.

This publication is the result of the Expert Group's work on its second and third objectives. This work was closely linked to work pursued on the Group's first objective, which has resulted in the companion publication *Guidelines for Micro Statistics on Household Wealth* developed in parallel by the Group. The Expert Group operated mainly via electronic communication, supported by three face-to-face meetings. For each chapter in this publication, a lead person and two to three co-contributors were assigned. The lead person worked with the co-contributors and was responsible for managing all the outputs related to the production of a draft chapter. The OECD Secretariat assured the final editing of the report, and took the lead in incorporating comments provided by Delegates to the OECD Committee on Statistics in the finalisation of this report.

Relationship with other international standards

Harmonisation with other international standards was an important objective that guided the work of the Expert Group in developing the ICW Framework presented in this publication. Since micro statistics on household wealth are often analysed in conjunction with other micro and macro data, consistency enhances the usefulness of the statistics and facilitates the statistical integration of the different dimensions of household economic resources. The main standards that are relevant here are: i) the 2008 System of National Accounts; ii) the 2011 *Canberra Group Handbook on Household Income Statistics*; iii) the recommendations of the 17th International Conference of Labour Statisticians on household income and expenditure statistics, contained in its 2003 report; and iv) the 2006 UNECE/CES recommendations for the 2010 Censuses of Population and Housing.

The ICW Framework has been developed to maintain full consistency with the income concepts defined in the 2011 *Canberra Group Handbook* and the recommendations of the ICLS. The 2006 UNECE/CES recommendations for the 2010 Censuses of Population and Housing provided the basis for the definition of households used in this report.

There is considerable alignment between the concepts presented in the ICW Framework and those used in the SNA. But there are also some significant differences, reflecting the different focuses of the two frameworks and the different data sources that can be utilised in compiling data sets within the two frameworks. The similarities and

differences between the two frameworks are discussed in Chapter 3 and are described in more detail in Annex B of this publication.

Outline of the publication

This publication contains nine chapters and three annexes. A brief outline of the key features of each of the following chapters is presented below.

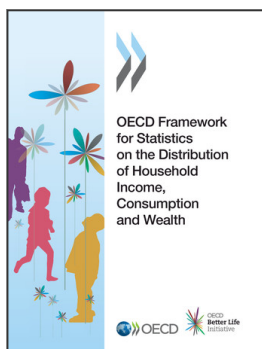
- Chapter 2 (“Economic well-being”) provides a brief description of the concept of human well-being, with a particular emphasis on economic or material well-being. In doing so, the chapter highlights the importance of considering income, consumption and wealth together as part of a broader conceptual framework. The chapter concludes by setting out the broad policy, research and analytical uses of the micro-level information collected in these fields.
- Chapter 3 (“Integrated framework”) outlines the main concepts used to describe and measure economic well-being at the micro-level, i.e. at the level of individuals and groups of individuals. It shows how the concepts of income, consumption and wealth relate to each other, and presents them in a self-contained and comprehensive framework. The chapter then describes other concepts that are relevant to the measurement of economic well-being, such as statistical units, reference periods and equivalence scales. Finally, the chapter discusses the relationship between the ICW Framework and other standards, presenting areas where this framework differs from the SNA, and highlighting some of the limitations of the proposed framework.
- Chapter 4 (“Household income”) draws on the 2011 *Canberra Group Handbook* to describe the main uses of micro data on household income, and provides details about the component elements of household income that feature in the ICW Framework. The chapter also discusses sources of income data, and key statistical and measurement issues to be considered when collecting, compiling and disseminating micro data on household income.
- Chapter 5 (“Household consumption”) focuses on consumption as the basis for meeting household economic needs. The chapter presents concepts and definitions associated with consumption, the different ways to use the information, and methods of collection, analysis and dissemination of micro data on consumption.
- Chapter 6 (“Household wealth”) summarises much of the content of the companion OECD report *Guidelines for Micro Statistics on Household Wealth* that was developed in parallel to the ICW Framework. The chapter describes the main uses of household wealth micro-data, the main concepts and definitions relevant to measuring the stock and changes in household wealth, sources of wealth data, and key statistical and measurement issues to be considered when collecting, compiling and disseminating wealth data.
- Chapter 7 (“Integrated statistics”) provides practical guidelines on how to collect household income, consumption and wealth statistics at the micro-level in an integrated way. The chapter discusses the collection of data through household surveys and from administrative records, and the creation of integrated data sets through the use of data-matching techniques to combine data sets from different sources.
- Chapter 8 (“Analytical framework”) covers three important topics relevant to the analysis of income, consumption and wealth statistics. First, it discusses the use of equivalence scales as a means to improve comparisons between households of different size and

composition, extending the applicability of equivalence scales from income statistics to cover consumption and wealth micro-data. Second, the chapter describes different ways of undertaking the multi-dimensional analysis of income, consumption and wealth at the micro-level, including the use of composite measures that combine all three dimensions into a single statistic. The chapter also presents a case study of how income and expenditure micro-data have been used in Denmark to examine the redistributive impact of government benefits and taxes.

- Chapter 9 (“Next Steps”) recommends the use of the ICW Framework by countries and suggests that, in due course, the recommendations of the OECD Expert Group should be refreshed in the light of evolving practice, leading to the establishment of international statistical standards. It also recommends that a City Group, or similar working group, be established to develop detailed guidelines on the collection of consumption data. The chapter concludes by highlighting some of the limitations of the ICW Framework, and suggests a research agenda that would support further advances in the field of household micro statistics on economic well-being.
- Annex A (“Detailed statistical framework and relationships between elements”) lists in more detail all the elements of household income, consumption and wealth that are included in Chapter 3 and shows the relationships between them.
- Annex B (“Comparison of micro and macro frameworks”) provides a detailed comparison between all the elements of the ICW Framework and the SNA 2008.
- Annex C (“An explanation of social assistance, pension schemes, insurance schemes, and similar concepts”) provides a detailed discussion of these various concepts, which have similarities but also differences, and the different ways in which they are treated in the ICW Framework.

Notes

1. The System of Balances of the National Economy, 1971, originated in the former Soviet Union and was used in countries with centrally planned economies.
2. City Groups are informal gatherings of representatives from national statistical agencies established to address selected problems in statistical methods. Some of these groups have become formally known as “city groups”. Examples of city groups in the field of social statistics include the Canberra Group on Household Income Statistics, the Rio Group on Poverty Statistics, the Siena Group on Social Statistics and the Delhi Group on Informal Sector Statistics.



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