

- Agenda item : VII**  
**: Connecting to ongoing work in the broader remits of national accounts**  
**: Household sector issues, including distributional issues of household income**

### Introduction

There are emerging issues which merit high priority on the work programme. For the time being, two current issues are considered important. First, the UN Statistical Commission has asked the ISWGNA, including the AEG, “to consider ... guidance ... on household sector issues, including distributional issues of household income, on issues of well-being as reflected in the findings of the Commission of Economic Performance and Social Progress (Stiglitz report) ...”. In the following note, a short description is given of the main developments, plans and/or ideas related to the presentation and further breakdown of household data in the system of national accounts.

### Guidance on documentation provided

Household sector issues, including distributional issues of household income

### Main issues to be discussed

- What would be the main recommendations of the AEG on the presentation of national accounts data, when focussing more prominently on households?
- What would be the main recommendations of the AEG on the compilation of satellite accounts for households, including more distributive information?
- How does the AEG look upon the initiative to have a deeper analysis of the differences in changes of GDP and household disposable income?
- What is the advice of the AEG in relation to the inclusion or exclusion of household services produced for own final use?
- Does the AEG have other suggestions for the way forward?
- How should (the recommendations on) all these initiatives be aligned internationally and how should they be communicated?



## MAIN DEVELOPMENTS, PLANS AND/OR IDEAS IN RELATION TO THE PRESENTATION AND FURTHER BREAKDOWN PF HOUSEHOLDS

### BACKGROUND

1. In February 2008, the President of the French Republic, Nicholas Sarkozy, asked, Joseph Stiglitz (President of the Commission), Amartya Sen (Advisor) and Jean Paul Fitoussi (Coordinator) to create a Commission, subsequently called “The Commission on the Measurement of Economic Performance and Social Progress” (CMEPSP). This committee published its “Report by the Commission on the Measurement of Economic Performance and Social Progress” in 2010. The first five (out of 12) recommendations of the report deal with household issues:

- Recommendation 1: When evaluating material well-being, look at income and consumption rather than production.
- Recommendation 2: Emphasize 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.

2. Also the communication from the EU commission to the EU council and the European parliament “GDP and beyond. Measuring progress in a changing world” highlights the importance of distributional information on households and putting more emphasis on indicators such as (adjusted) disposable income of households.

3. In the following paragraphs some of the plans and initiatives in respect of both reports will be further discussed. These include:

- Giving more prominence to the publication of household data;
- Distribution of income, wealth and consumption;
- Understanding the drivers of differences between changes in GDP and in household disposable income;
- Non-market activities of households.

The AEG is asked for advice on the way forward, and on what kind of initiatives could be recommended, nationally as well as internationally.

## **GIVING MORE PROMINENCE TO THE PUBLICATION OF HOUSEHOLD DATA**

4. When national accounts data come to the attention of the public, the primary focus is on GDP-growth. On the other hand, data on household (adjustment) disposable income and saving may provide a better reflection of developments in material well-being of the population at large. GDP can expand while income decreases or vice versa. Therefore, one of the recommendations of the Stiglitz-Sen-Fitoussi report is to look at “income and consumption rather than production”. The improved availability of institutional sector accounts should make it possible to give more prominence to macro-economic developments of households, not only to the changes in income and consumption, but also to the changes in the (financial) wealth of households. As often non-profit institutions serving households (NPISHs) are an indistinguishable part of the households, efforts may be needed to distinguish the two main sectors. Doing so, it is considered of primary importance to compile timely estimates of the relevant developments, close to the timeliness of the estimates for economic growth. With the development of quarterly sector accounts, much progress has been made in respect of the latter. The annex shows a good example of a recent press release by Eurostat on the developments of household real disposable income and saving rates.

5. In respect of the above, several enhancements may be needed. As stated, the NPISHs may need to be disentangled from the households, although it could be recommended to prioritize timeliness over the exact definition of the relevant sector. This is also shown by the example of the Eurostat press release which combines households and NPISHs. Another point relates to the combined analysis of income, consumption and wealth, although this may be somewhat detrimental for being able to focus on a single indicator such as real disposable income of households.

6. A final issue relates to the definition of household disposable income. First of all, especially in the case of international comparisons, household adjusted disposable income is the preferred concept, as it takes into account the internationally quite different institutional settings for the provision of services in the area of e.g. health, education, etc. Secondly, a related question concerns whether or not one wants to stick to the exact definition according to national accounts. Or should one go for a definition which is closer to the perception of households, e.g. by excluding FISIM, property income attributed to insurance policyholders, etc.

## DISTRIBUTION OF INCOME, WEALTH AND CONSUMPTION

7. In order to arrive at internationally comparable information on the distribution of income, consumption and saving among household groups, the OECD-Eurostat Expert Group on Disparities in National Accounts (EGDNA) has been created in 2009. The main goal of the Expert Group is to agree on a methodology to link data on micro-data sources for income and consumption to the national accounts data as included in the institutional sector accounts on households. The initially agreed work programme will be completed by the end of 2012. Depending on the results of the pilot project being pursued and depending on agreement by national experts on how to continue this work in the future, a number of follow-up actions is proposed for the period after 2012.

8. First, if the pilot project shows that distributional indicators consistent with national accounts totals can be produced on income, consumption and saving, several countries will have to do additional work, in order to move from a feasibility study to the regular production of distributional indicators based on the full set of accounts according to the methodology as recommended in the “final” report of the EGDNA (to be released by the end of 2012). Subsequently, further research will be needed on the application of the agreed methodology to additional years, in order to make the compilation of time-consistent indicators possible.

9. Secondly, at the same time, in the first half of 2013, a pilot project could be launched on the distribution of wealth among household groups. Initially, this pilot project would be limited to a number of countries having available micro-data on household wealth. In the end, the results of this line of work, a fully integrated set of data on income, consumption and wealth for household groups, will be instrumental to both the combined analysis of income and wealth distribution, and a more detailed analysis of the interrelations between developments of income, consumption and wealth.

10. To realize the above goals, the EGDNA would have to be extended for at least one and a half year. Adequate involvement of micro and macro experts from countries belonging to the expert group will be critical for the success of the follow-up. As in the current period, the OECD and Eurostat could take charge of the coordination of the Expert Group and consider the feasibility of a simplified method to produce the relevant annual distributional indicators. In addition, the OECD and Eurostat could consider the feasibility of producing distributional estimates in-house, on the basis of a simplified methodology to be applied on the feasibility studies produced by countries by the end of 2012. Possible avenues for a continuation of this stream of work will need to be discussed by the EGDNA at its third meeting in Boston (*August 2012*).

11. In respect of the ongoing work of the EGDNA, the following breakdowns into household groups are being pursued:

- A breakdown based on the main source of income:
  - Wages and salaries;
  - Income from self-employment;
  - Property income (including net interests, dividends and actual rents)
  - Income from transfers
- A breakdown based on equivalized disposable income quintiles.
- A breakdown based on the composition of the households:
  - Single person – less than 65 - without dependent children;
  - Single person – 65 and older - without dependent children;
  - Single person with dependent children, whatever the age of the adult;
  - Two adults – both less than 65 - without dependent children;
  - Two adults – at least one 65 and older- without dependent children;

- Two adults or more with dependent children, whatever the age of the adults;
- Other household types.

12. The main issues in relation to the linking of national accounts data to the relevant micro-data sources firstly concern differences in population. Among half of the countries participating in the EGDNA only have data for the combined sector of households and NPISHs. Another difference in population relates to the exclusion of collective households (e.g. people living in a retirement home) in micro-data sources. Furthermore, apart from differences in population, quite some issues regarding the definition of income and consumption need to be tackled. Here, one should predominantly think of the imputations in the system of national accounts for which hardly any information is available in the micro sources: imputed rents for owner-occupied dwellings, social transfers in kind, property income attributed to insurance policy holders, and FISIM. A final point concerns measurement issues. In addition to the inclusion of estimates for the non-observed activities in the system of national accounts, large differences have become apparent for most of the property income items.

13. In relation to the definition of income and consumption, also here an important point of discussion, with quite diverging views, is whether or not to stick to the exact definitions according to the 2008 (or 1993) SNA. An alternative may be to use the national accounts totals as a benchmark, but doing so to relax the relevant definitions. Obvious candidates would be to abstain from allocating FISIM, and the exclusion of property income attributed to insurance policy holders. This would have two advantages. Firstly, it would bring the estimates closer to the perception of the households. Secondly, one would avoid having to breakdown the relevant imputations, for which hardly any micro-information is available. On the other hand, it would of course create another set of national accounts definitions for households.

14. In addition to the above OECD-Eurostat Expert Group, the OECD also established an Expert Group on Micro Statistics on Household Income, Consumption and Wealth (EG ICW). The work of this group will culminate in the preparation of two reports by the end of 2012: the first, providing international standards for the compilation and analysis of micro statistics on household wealth; and the second, developing a framework for measuring and analysing in an integrated way micro-level data on household income, consumption and wealth. Along with the recent expansion of the collection and availability of household wealth data, these lines of work will pave the way for a more complete analysis of the economic circumstances and outcomes of households. The work of the EG ICW is closely coordinated with the above work of the EGDNA.

15. According to the results of a meta-survey conducted by the EG ICW, around 20 OECD countries have conducted, are running or planning to run in the near future a household wealth survey, with some of these surveys including detailed or summary income data as a secondary item. The first stage of this work would consist of a detailed review of the nature, scope and classifications system of existing national surveys, so as to define the type of tabulations that could be compiled based on existing data (this will require making decisions on the categories of assets and liabilities to include, whether to 'equivalise' the data or not, breakdowns of household groups, etc.). This work will help to refine the statistical priorities and work plans for improving the use of these statistics for the purposes of measuring well-being and progress.

16. The second stage would consist of collecting the required data and analysing results. This will not require access to the original micro-data but could be based on tabulations of semi-aggregate data provided by national experts. The publication of these cross country comparisons will be a significant step towards filling a data gap identified in the statistical agenda of *How's Life?* and may encourage countries without wealth statistics to enter this measurement space. This one-off data collection and analysis could evolve over time into a more regular data-collection of mesodata on wealth holdings, using a format similar to that used for the OECD income distribution database.

17. The third stage could be devoted to assess the feasibility of conducting an analysis of the joint distribution of income and wealth, based on cross-tabulation of wealth holdings cross-classified by income quintiles. This type of data could allow looking at augmented definitions of poverty that identify households with low economic resources (i.e. both income and asset poor), as well as computing composite measures of inequality. Such analysis will considerably broaden the assessment of households' material conditions and improve understanding of the behaviours and conditions of households.

18. Further work could also be undertaken to improve the measurement of household income at the micro level. This work has both methodological and data collection aspects:

- On the methodological side, the 2011 *Canberra Group Handbook on Household Income Statistics*, undertaken under the *aegis* of UNECE, recommended including social transfers in kind in the definition of income, while excluding them from the operational definition due to methodological difficulties. While the OECD has, in the past, produced estimates of social transfers in kind, these were based on the information available in-house and on a number of simplifying assumptions. The work of the EG ICW could potentially be extended to the compilation of guidelines on the imputation of social transfers in kind, tailored to different levels of data availability and discussing what might be done where only partial data exists.
- On the empirical side, getting more timely information on the evolution of income distribution, based on the operational definition according to the Canberra Handbook remains a critical requirement. The OECD income distribution database provides a solid benchmark for countries' performances in the field of income inequality and poverty. However, the increasing relevance of these issues requires several improvements. In addition to getting more timely estimates, efforts need to be devoted to fill in the historical timeseries for missing observations, to correct some of the identified breaks in the data, to extend country coverage to some of the major emerging countries, and to implement the recommendations made in the context of a quality review of this database conducted in 2011.

## **UNDERSTANDING THE DRIVERS OF DIFFERENCES BETWEEN CHANGES IN GDP AND IN HOUSEHOLD DISPOSABLE INCOME**

19. Several reports, among which the Stiglitz-Sen-Fitoussi report, have underscored the importance of looking at differences between countries' GDP growth and changes in households' economic well-being. To that end, work is currently being pursued by the OECD to look at the relation between GDP growth and changes in household disposable income. This line of work most probably will be extended in the future by looking at some of the drivers of these discrepancies, such as labour/capital shares in value added, the size of the government sector, the role of rents and corporate profits, the composition of gross operating surplus (e.g. between financial and non-financial enterprises).

20. The work will derive estimates of the core components that drive the difference (in both current prices and in real terms) between GDP and household disposable (and adjusted disposable) income, focussing in particular on the importance of the redistributive process between/from households to government, corporations and the rest of the world. This provides a natural extension to an analysis of the drivers of such flows and the redistributive process, and also provides an insight into their sustainability and their (estimated) relation to current value added (by creating estimates of income derived from financial assets and income derived from non-financial assets/labour).

21. A first result would consist of a more conceptual report describing the framework for doing such an analysis. This report could subsequently also be discussed at one of the following meeting of the AEG. Furthermore, much of the initial steps will centre on data compilation. Early investigations have revealed that the decomposition into core components is hampered by a lack of data availability in countries, and the on-going work will seek to remedy this. The following stage will focus on the volume terms decomposition, which will also require an examination of the drivers of the deflators/price indices used across countries. A later stage of the work will investigate the feasibility of creating links with the work of the EGDNA described above

### **HOUSEHOLD SERVICES PRODUCED FOR OWN FINAL USE<sup>1</sup>**

22. A final point in relation to households concerns the valuation and subsequent inclusion, either as a satellite account or as part of the core system, of household services produced for own final use. Estimates of production, income and consumption in the system of national accounts are generally based on the idea that households are final consumers, rather than producers, of goods and services. Goods and services produced by households for the market are included in economic aggregates, as are goods produced for own final consumption, such as agricultural products and own-account construction, but services produced by households for own final consumption, with the notable exception of dwelling services, are not included in the national accounts aggregates.

23. There is little contention that many of the services produced by households for their own use, such as cleaning services, preparation of meals, child-care, etc. contribute to material well-being and, moreover, that they share the characteristics of the same activities conducted in the market, which are included in the production boundary of the SNA. But they have always been excluded from the SNA production boundary on the general grounds that the transactions could not “be brought directly or indirectly into relation with the measuring-rod of money”, (Pigou, 1932) and, in particular, because of the perception that the imputations needed to estimate the size of these activities were relatively arbitrary; therefore reducing the accuracy, credibility, and usefulness of the accounts for analyzing, projecting, and informing policies.

24. Typically, some contention has arisen however in the context of social welfare economics, such as the measurement of material well-being, where the arguments for inclusion in the production boundary are clear, but there has also been concern that the exclusion of such activities from economic aggregates, such as GDP, distorted international comparisons of economic activity; particularly comparisons between developed and developing economies, reflecting the higher proportion of household services, and substitutes such as restaurant services, produced outside of households in developed economies. Indeed, one of the main reasons that imputations for owner-occupied dwelling services are included in GDP is because of the significant distortions that arise in international comparisons when only market rental transactions are recorded in the accounts. In principle, the same argument can be applied when considering the exclusion of other household services produced for own final use.

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<sup>1</sup> This text has been largely derived from the OECD Statistics Working Paper “Incorporating Estimates of Household Production of Non-Market Services into International Comparisons of Material Well-being” (Nadim Ahmad and Seung-Hee Koh, 2011) which also contains estimates for several OECD-countries.

25. Perhaps the fundamental difference between the two types of services however is the ‘measuring-rod’. With owner-occupied dwellings it is relatively easy to argue that a dwelling, whether owned or rented, provides the same level of service to its household, and, so, the appropriate ‘measuring-rod’ for owner-occupied dwellings is the equivalent price for market rentals. With other production of services for own final use by households however, the appropriate ‘measuring-rod’ is less clear. For example, what is the appropriate measuring-rod for valuing the labour used in preparing a meal at home by a qualified chef as opposed to the same meal prepared by a qualified accountant? Should it be the price that one would pay for somebody else to prepare the same meal (the replacement cost) or the opportunity cost of the individual making the meal?

26. The difficulty for the SNA is that legitimate arguments can be made in favour of both options, and, moreover, that different types of activities may be considered within and out of scope; leading to widely different estimates of household services produced for own final use, and thus GDP, over time and across countries. A recent study for the United States by Landefeld, Fraumeni and Vojtech (2008), for example, showed that extending the production boundary to include household production of services for own final use, not already included in GDP, would increase US GDP by 19% using the replacement cost approach (using housekeeper’s hourly wages), and 62% using the opportunity cost (using average hourly wages) approach. Interestingly however, average annual real growth over the period, 1985-2004, differed by only 0.1% percentage point between the two approaches.

27. The broad consensus remains that the core accounts should continue to exclude these activities from the GDP production boundary. However, notwithstanding the inherent measurement difficulties (namely the choice of estimates for labour costs), recent improvements in the statistical infrastructure of many countries (e.g. more detailed data on wages, improved data on household services produced for own final use, and time-use surveys) have led many countries to produce household production satellite accounts (for example Australia, Canada, Finland, Germany, Hungary, Mexico, Nepal, Switzerland, and the United Kingdom) that complement the traditional estimates of economic activity, and that are able to provide a more comprehensive assessment of the material well-being of households. These efforts have recently been given further momentum notably by the recommendations of the Stiglitz-Sen-Fitoussi report.

28. In this context it is important to note that policies designed to improve material well-being based on estimates of household income or consumption that lie within the SNA production boundary (and thus exclude household services produced for own final use) may be compromised in two, almost contradictory, ways. For example, estimates of levels of overall actual consumption of goods and services will be underestimated but, at the same time, if more of these services are produced and purchased from the market over-time, estimates of growth in the actual consumption of goods and services will increase. So, on the one hand, levels of material well-being are likely to be underestimated but, on the other, growth is likely to be overestimated. Put more starkly, within the SNA accounting framework, if an individual returned to the work force and paid all of their take-home salary to a domestic servant/nanny to produce the services they were no longer able or willing to do, their consumption of goods and services would increase, and, so too, apparently, would their material well-being.

29. It is equally important to note however that the inclusion of household services produced for own final use in estimates of household consumption or income is not a simple panacea in the context of measuring overall, as opposed to material, well-being, as the estimates cannot accommodate for aspects such as ‘choice’. Individuals in one country for example may remain at home to raise their children because of a lack of child-care facilities or they may have to return to work through necessity. All other things equal, estimates of household consumption that included household services produced for own final use would be the same in both cases but interpretations of comparisons of overall well-being are more complex.