DISTRIBUTIONS OF HOUSEHOLD INCOME, CONSUMPTION AND WEALTH

DRAFT GUIDANCE NOTE

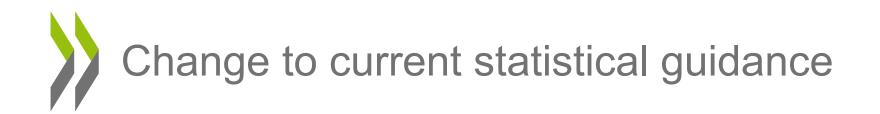
MEETING OF ADVISORY EXPERT GROUP ON NATIONAL ACCOUNTS

SESSION ON WELL-BEING AND SUSTAINABILITY

FRIDAY, OCTOBER 9, 2020



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- Proposal is to add a specific chapter on compilation of distributional results
 - 1. Highlighting **importance** of distributional information
 - 2. Discussing **scope** of the work
 - 3. Presenting **main balancing items**, explaining where they may differ from SNA
 - 4. Presenting possible **breakdowns**
 - 5. Highlight **specific issues** in compilation of distributional results









Population:

- Focus on **households**, not individuals: households share living accommodation, pool income and wealth, consume certain types of goods and services collectively
- Focus on **private** households, as institutional households behave differently and results are not comparable (results on institutional households should be presented in a separate subgroup)

Unit of observation:

• Focus on **equivalized** results, i.e. taking into account different consumption needs of households of different size and composition



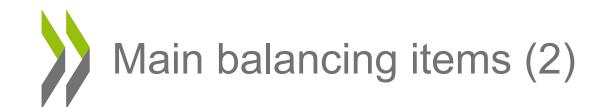
Main balancing items



- **Income:** Primary income and (adjusted) disposable income
 - <u>Proposal</u>: Different treatment of **non-life insurance benefits** and lottery winnings
 - Treatment as <u>capital transfer instead of current transfer</u> makes more sense from household perspective
 - Possibly envisage additional **broader income concepts**: including undistributed profits; (realised and unrealised) holding gains; ...
- **Consumption:** Final consumption and actual final consumption
 - <u>Proposal</u>: Different treatment of **non-life insurance premiums** and lottery tickets

Treatment as consumption instead of current transfers makes more sense from household perspective

• <u>Proposal</u>: Record **consumer durables** as separate (of which) category – they cannot be regarded as part of current consumption and may significantly affect savings 6

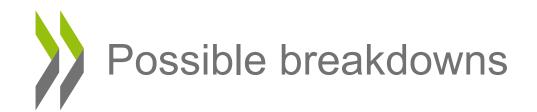


- Wealth: Net (financial) worth
 - Envisage broader wealth concept: Including social security pension entitlements
 - <u>Proposal:</u> Record **stock of consumer durables** as memorandum item





Possible breakdowns



- Standard of living on basis of **current income and/or wealth**
- Standard of living on basis of **permanent income** (i.e. removing temporary income shocks)
- Main source of income
- Household type (number and age of household members)
- Regional
- Age of reference person
- Labour market status of reference person
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Specific issues in compiling distributional results

Practical, conceptual and methodological issues

- How to allocate **imputed items**?
 - Auxiliary information may be available
 - Specific issue with **social transfers in kind on health** <u>Proposal:</u>

1) Show that government is providing **free insurance** against certain health risks: <u>insurance value approach</u> to allocate amounts

2) Show the **actual benefits** from this insurance (via capital transfers): <u>actual value approach</u>

Equivalence scales

- Taking into account consumption needs of various household members
- Applied to income, consumption and wealth
- Different policy purposes may ask for different scales
- Modified OECD scale is used in EG DNA, but not prescribed
- Compilers should be transparent on equivalence scale used



Questions for AEG



The AEG is requested:

- to provide feedback on the proposal to focus the distributional analyses on private households and to present results for institutional households separately;
- to provide its views on the **alternative balancing items** proposed for the distributional analyses;
- to share its views on the proposed breakdowns (and level of detail);
- to provide feedback on the proposal for allocating social transfers in kind related to health care to the relevant households; and
- to provide feedback on ways to further improve the guidance note.

Thank you for your attention!



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