STATISTICAL COMMISSION and
ECONOMIC COMMISSION FOR EUROPE

CES/BUR.2005/20
10 January 2005

CONFERENCE OF EUROPEAN STATISTICIANS

Second meeting of the 2004/2005 Bureau
Geneva, 10-11 February 2005

Item 1(c) In-depth review of selected statistical areas and review of the 2005 version of the Integrated Presentation of International Statistical Work Programmes

RAPPORTEUR REPORT ON STATISTICS OF HOUSEHOLD INCOME AND EXPENDITURES, OF THE WELFARE OF THE POPULATION, AND OF POVERTY, AND INCOME INEQUALITY

Note prepared by Statistics Canada

EXECUTIVE SUMMARY

1.   Enormous strides have been made in the area of household income and expenditure distribution statistics in recent years, primarily the result of increasing and intensive international collaboration. This is particularly true for developed countries, but much work is also being done in developing countries. The result is a general increase in the data quality and in the harmonization and comparability of data across countries.

2.   Much work has been aimed at concepts and definitions. An important aspect of this work is that practical considerations have been incorporated into the conceptual work. Survey operations, sample design, collection, and processing, have been considered. Analytical standards are being developed.

3.   While many difficult issues remain and others will undoubtedly emerge, the establishment of a cooperative approach has laid the basis for developing and implementing solutions.

II.   PROGRESS BEING MADE COLLECTIVELY BY ORGANIZATIONS IN A GIVEN FIELD OF STATISTICS

4.   The regular, often annual, dissemination of household income distribution statistics is becoming increasingly prevalent. This has been greatly aided by the work of various international organizations. The Canberra Group on Household Income Statistics produced a conceptual definition of income that also recognized practical limitations. The Resolution on Household Income and Expenditure Statistics adopted by the 17th International Conference of Labour Statisticians (2003) has continued this work. The Luxembourg Income Study (LIS) works in conjunction with an extensive list of countries to produce internationally comparable household income data for research purposes. Under the direction of Eurostat, the implementation of the new EU-SILC across the European Union will result in comparative statistics on income distribution and social exclusion.

5.   In addition to the work on a conceptual definition of income, international consensus has developed on other important aspects of income distribution statistics. The household is the preferred unit for the analysis of income as a measure of economic well-being. To account for households of different sizes, adult-equivalent adjusted income is derived using an equivalence scale. (While various scales are in use, no great differences exist among those that are wide-spread.) Medians are preferred to means as a measure of central tendency, and along with other quantiles, should be derived using adjusted incomes. The Gini coefficient and the income quintile or decile share ratios are commonly used

measures of income inequality. While this might be regarded as not worth stating, it is important as producers of official statistics have only recently begun to adopt these common approaches.

6.   The realm of poverty statistics has also been boosted by the emergence of international cooperative work. The Rio Group on Poverty Statistics is working towards a report on best practices regarding the measurement, interpretation and use of poverty statistics. In April 2003, the UNSD (United Nations Statistics Division) launched a project with an expected output of a publication entitled "Handbook on Poverty Statistics: Concepts, Methods and Policy Use".

7.   In December 2003, the Seventeenth International Conference of Labour Statisticians (ILCS) recommended that "to enhance international comparability, national classification systems of household expenditures should, as much as possible, be compatible with the Classification of Individual Consumption according to Purpose (COICOP), at least at the division level". COICOP-HBS 1999 is currently being revised. Eurostat has also recommended the use of COICOP in its publication "Budget Surveys in the EU: Methodology and recommendations for harmonisation – 2003". While comparable with COICOP at higher levels, countries outside Europe have developed their own classifications.

III.   ISSUES AND PROBLEMS (KEY NEW ISSUES, GAPS, PROBLEMS AND DEVELOPMENTS)

8.   The implementation of the EU-SILC will result in a common definition of income across those countries that adopt it. This definition is virtually identical to that recommended by the Canberra Group. Countries outside Europe, such as Canada, Australia and the United States, are moving towards alignment with these recommendations as well. Problematic areas are those that are difficult to measure: in-kind income, fringe benefits from employment, inter-household transfer income, direct taxes, and imputed income from owner-occupied dwellings. Although excluded from the Canberra Group income definition, several countries include realized capital gains.

9.   In contrast with the work on a standard definition of household income, there is no basic agreement on a standardized definition of poverty. On the income side, discussions are aimed more at difficulties of collection and measurement whereas the poverty debate is much more fundamental. For example, no common agreement exists on whether to measure poverty using income or consumption. Interestingly, the Rio Group and the UNSD working group are considering a variety of approaches. On the other hand, the December 2001 meeting of the European Council set an official poverty cut-off for member countries at 60% of the median adult-equivalent adjusted household income.

10.   Canada, Australia and the United States employ methodologies for measuring low-income or poverty that were developed in the 1960s and 1970s, although only in the United States is the line official. Recent public debate on the usefulness of these measures has led to an examination of the methodologies. So far, the traditional measures continue; in Canada, an alternative measure has been introduced based on the cost of a well-defined basket of goods and services.

11.   Difficulties in achieving high data quality of household expenditures data continue for certain items: non-cash expenditures and consumption; illegal and "sin" expenditures (alcohol, tobacco, gambling, prostitution). Also included are items that have a high cost but are purchased only infrequently and by a small proportion of households, such as recreational vehicles.

IV. IMPORTANT ISSUES THAT SHOULD BE BROUGHT TO THE ATTENTION OF THE BUREAU AND/OR THE CONFERENCE

12.   It is commonly agreed that the preferred analytical measure of income is adult-equivalent adjusted household income. The use of such a measure is problematic for the general release of household statistics since it is prone to being misinterpreted by lay-persons, including the media. Discussions on a realistic communications strategy may be helpful.

13.   Discussions regarding the definition of poverty have resulted in the recognition that the related but more wide-reaching concept of social exclusion is important. The European Union has endorsed a set of statistical indicators for social inclusion. To what extent should the existing international working groups expand their discussions to include the concept of social exclusion or should international cooperation to develop standard approaches be initiated distinctly?

14.   The 17th ILCS in December 2003 recommended the establishment of a City Group on household expenditure statistics, similar to the Canberra Group on income, to further research in this area and to increase the harmonization of practices across countries.

15.   While analysis of household income has moved towards a preference for the median over the mean and the use of equivalized income, no such movement has taken place on the expenditures side. As one aspect of the work, an international working group could contrast and evaluate the analysis of income and expenditure data.

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