

Expert Group on National Accounts

Household sector and unincorporated enterprises

Geneva, May 2012

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Background

- Increasing importance of information on the household sector:
 - UNSC request to ISWGNA and 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) ...
- EU commission: “*GDP and beyond. Measuring progress in a changing world*”
 - to highlight the importance of distributional information on households and putting more emphasis on indicators such as (adjusted) disposable income of households.



Stiglitz

- **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.



Expert Groups

- OECD-Eurostat Expert Group on Disparities in National Accounts (EGDNA)
- Expert Group on Micro Statistics on Household Income, Consumption and Wealth (EG ICW).



Three interesting papers

- That all move towards these goals, even if the motivation is often different.
 - **Hungary:** *Estimation of Gross Value Added Generated by Sole Proprietors – Development of Methodology*
 - **Armenia:** *Measuring the contribution of the informal sector to the total economy*
 - **Italy:** *The Household sector in Italy: an analysis for producer and consumer units*



Hungary

- A worthy initiative to improve the quality of assumptions used in generating exhaustive estimates of GVA
- Adopts an improved approach to estimating the value-added of sole proprietors by using turnover relationships seen in larger enterprises.
- Old approach took VA per labour input in larger enterprises as a proxy for VA/L in sole proprietors.
 - Which assumes similar shares of capital-labour ratios in micro and large enterprises, which biases estimates of VA in sole proprietors upwards.



Hungary

- New approach distils to taking the VA-Turnover relationship in larger enterprises as a proxy to generate VA in VAT registered sole-proprietors – which is a less severe assumption.
 - Question: Not clear what the reference to 500 and 529 relates?
- The approach also directly estimates VAT-evasion.
 - Questions: The approach used is not unfortunately very clear. It seems to start by generating estimates of the number of VAT evaders and then generate estimates of levels using a regression approach? But how were the biases implicit in the sample selected by the tax authorities corrected for?
- For non VAT registered SPs, the approach uses labour input methods. A reasonable approach but again small possibility of upward bias due to capital and need to ensure that estimates are scrutinised if significant numbers cross the VAT threshold.



Armenia

- Innovative use of various surveys to maximise information on, and quality of estimates of, informality.
- Results demonstrate the importance of activity breakdowns for policy e.g. The fall in construction activity from 50 to 27% of informal GVA between 2008 and 2009.



Armenia

- **Questions:**
- **Imputed rent:** - what share of households pay market rents in Armenia? It may be more appropriate to use a user-cost approach as market prices may not be representative. This may reflect the 'not negligible' estimates and the use of an alternative approach, but it's not clear what the 'productivity' approach is?
- **Education** – an observation. Have student numbers remained stable since 2001? The 85% ratio already looked high in 2001 but applied to increasing numbers it may need to be revised down.
- **FISIM** - Is the reference to the 'nil' contribution of FISIM to the informal economy a reference to the **output** by informal providers or **consumption**?
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Armenia

- **Questions:**
- More information needed on how **underground production** was estimated. This may help explain the significant and difficult to explain differences seen in labour productivity estimates between formal and informal and across sectors.
- Extraordinary differences in formal-informal productivity in education and health activities?
- And how do these relate to the average earnings figures? For example earnings in manufacturing and construction are about 4 times higher in unincorporated enterprises than corporate but labour productivity estimates are lower?



Italy

- Excellent and timely work, demonstrating usefulness of producer-consumer distinction of households.
- Pragmatic and clear allocation of units to corporate/household sector.
- But this may impact on international comparisons, particularly when it's not clear what other countries do.
- In this sense, interpretations of time series need to be made with care, as governments may introduce incentives to move from self-employed to limited liability status and vice-versa.
- Care taken when valuing land using a residual PIM approach.