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**Conference of European Statisticians manuals, guidelines and frameworks**

### **Canberra Group Handbook on Household Income Statistics. Second edition**

#### **Note by the Australian Bureau of Statistics**

##### *Summary*

The document presents a short summary of the issues considered in the draft *Canberra Group Handbook on Household Income Statistics. Second edition* and the main conclusions and future directions for international work (as presented in Chapter 1 and Chapter 9 of the Handbook, ECE/CES/2011/3 Add.1).

The full text of the draft updated Handbook has been sent to all members of the Conference of European Statisticians (CES) for electronic consultation. Subject to the positive outcome of the consultation, the Handbook will be submitted to the CES 2011 plenary session for endorsement.

The Handbook was developed by the Task Force set up for this purpose in February 2009. The Task Force was chaired by Australia. The aim of the work was to update the 2001 *Canberra Group Handbook* to incorporate new developments in the area of household income measurement, including practical issues related to possible data sources and their strengths and limitations, and to establish a set of quality assurance guidelines for countries to assess the quality of their income estimates.

The Handbook is included in the CES work programme for 2011 (ECE/EX/2011/L.4).

## I. Background

1. In 2008, the Conference of European Statisticians (CES) carried out an in-depth review of statistics on income, living conditions and poverty. An outcome of that review was the formation of a small international Task Force to update the *2001 Canberra Group Handbook* to:
  - (a) Incorporate new developments in the area of household income measurement, including practical issues related to possible data sources and their strengths and limitations;
  - (b) Expand the current guidelines set out in the Canberra Handbook to take into account these new developments;
  - (c) Establish a set of quality assurance guidelines for countries to assess the quality of their income estimates.
2. The Task Force was also asked to refresh the information about country practices in this field of statistics and to provide additional guidance on best practices for quality assurance and dissemination of these statistics. Together, these updates are intended to provide a single, consolidated and up-to-date source of information on standards and guidelines for household income data producers and users.
3. In February 2011 the CES Bureau reviewed the draft handbook and requested the secretariat to send the document to all CES members for electronic consultation. Subject to the approval of the CES plenary session the updated handbook will be published in 2011.
4. The current paper provides for your information the introduction (chapter 1) and the future directions for international work (chapter 9) and a summary of the chapters. The full updated Handbook is available as document ECE/CES/2011/3/Add.1 in English only.

## II. Summary of chapters of the Handbook

### A. Chapter 1 Introduction

5. Chapter 1 sets out the intended purpose of this Handbook, as well as providing a brief history of developments in the field of household income statistics. It includes information on why income distribution is important as a measure of economic well-being and considers the broader conceptual issues underlying economic well-being measures.
6. The chapter also discusses the macroeconomic perspective and compares the different objectives and purposes of the micro and macro approaches to household income measurement.

### B. Chapter 2 The income concept

7. Chapter 2 establishes the conceptual definition of household income, as reflected in the current international standards for household income and expenditure statistics, and shows how components can be aggregated to produce different measures of income. It also outlines the relationship between income and other types of household economic resources, and how all of these could be integrated into a broader framework.

**C. Chapter 3 Income measurement**

8. This chapter examines the key measurement issues from the perspective of producing reliable and relevant household income distribution statistics. It presents the sources of household income statistics, the standard units of income measurement and the reference periods for collecting data for components of income. While not all income items are covered, practical guidance is provided on the collection or estimation of those income components which have known measurement or quality concerns. Issues of measurement at both the bottom and top of the income distribution are also discussed.

**D. Chapter 4 Data availability**

9. Chapter 4 provides information on the methodologies and income components included in household income data sets compiled for a wide variety of countries. This information has been obtained from the 2010 Survey of Country Practices. The chapter also recommends a practical definition of income to be used for the purposes of international comparisons of income distribution statistics.

**E. Chapter 5 Quality assurance guidelines**

10. This chapter provides general guidelines on best practice methods for assessing the quality of household income statistics. Best practices such as reconciliation of concepts and estimates between various income sources are also discussed.

**F. Chapter 6 Data analysis and dissemination**

11. Chapter 6 provides practical guidance on the analysis and dissemination of income distribution statistics. It outlines the range of analytical methods that may be applied. As the presentation used can significantly influence how the data are interpreted, best practice guidelines are also highlighted.

**G. Chapter 7 Comparing income distributions over time**

12. Chapter 7 discusses the compilation and analysis of time series on income distribution. The additional difficulty of comparing time trends across countries is also discussed. In this context, guidance is provided for: primary data producers; the compilers of secondary datasets which bring together time series estimates for multiple nations; and the researchers and analysts who use both primary and secondary sources.

**H. Chapter 8 Income dynamics**

13. Chapter 8 presents the relative advantages and disadvantages, uses and policy implications associated with longitudinal data. Some examples of longitudinal surveys are provided, as well as potential research areas for which longitudinal data are well suited.

**I. Chapter 9 Future directions for international work**

14. Chapter 9 proposes a research agenda that would support further advances in the field of household microeconomic statistics and the measurement of economic well-being.

The development of an internationally agreed framework for the compilation of statistics on all of the dimensions of household economic resources, measured at the micro level, is essential to the production and analysis of harmonised and coherent information on the economic situation of the household.

15. The development of international standards for the collection and compilation of statistics on household wealth at the micro level would also be an important contribution to the research agenda.

### **III. Introduction to the Handbook (Chapter 1)**

#### **A. Aim of these guidelines**

16. This Handbook is a guide for producers and users of household income distribution statistics. It is firstly aimed at those responsible for compiling income distribution statistics, whether primary producers who collect and analyse data from original sources, or secondary producers who take processed data (micro, meso, or summary level) and derive their own estimates and datasets. However, it is of equal importance to researchers and analysts who make use of the outputs from primary and secondary producers, in leading them to a better understanding of the underlying principles of income distribution statistics and the pitfalls in their practical use.

17. The intention is to lay down useful guidelines for understanding the complex nature of income data, set in the context of international standards and best practices. The chapters cover many topics such as the income concept and definitions, best practices for the measurement of selected income receipts, availability of income data, quality assurance guidelines, and data analysis and dissemination.

18. The aim of the Handbook is to contribute to the availability of more accurate, complete, and internationally comparable income statistics, greater transparency in their presentation, and more informed use of what are inevitably some of the most complex statistics produced by national and international organisations.

#### **B. Why is income distribution important?**

19. Economic analysts and policy makers identify three main purposes for compiling information on income distribution.

20. The first is driven by a desire to understand the pattern of income distribution and how this can be related to the way in which societies are organised.

21. The second reflects the concern of policy makers to assess the impact of both universal and targeted actions on different socio-economic groups. Examples of policy issues where data on income distribution are important include: welfare, taxation and other fiscal policies, housing, education, labour market and health.

22. The third is an interest in how different patterns of income distribution influence household well-being and people's ability to acquire the goods and services they need to satisfy their needs, for example, studies of poverty and social exclusion, and research on consumer behaviour.

23. Producers of income distribution statistics therefore have to address such questions as:

- a) How unequal is the distribution of income in a given country? How does this compare with earlier years, or with other countries?
- b) What are the characteristics and circumstances of low income households and those considered to be at risk of poverty? Which groups are in greatest need of financial support? How does this compare with earlier years, or with other countries?
- c) Are real incomes growing or declining over time? What might this mean for fiscal and monetary policies relating to the management of the economy?
- d) How do tax transfer systems affect the economic well-being of particular groups within the population?
- e) Do people have sufficient incomes in their working lives and in retirement to maintain an adequate standard of living?

24. Typically, the main focus of interest is on changes over time, with differences between countries coming a close second. Statisticians' statements about incomes may be interpreted as statements about the material living standards experienced by different sections of the population; those with the lowest incomes are often assumed to have the lowest material living standards.

25. Interest in income distribution may be justified either per se as a way to see how national product is distributed across the population, or indirectly as the best proxy for the distribution of economic well-being. While the national accounts provide essential information for macro economists about the overall performance of the whole economy, and aggregate outcomes for households, they do not inform our understanding of the distribution of these resources over time, across regions or between subgroups of the population. In addition the per capita measure in the national accounts does not take account of the way in which household needs vary on the basis of household composition and age. Understanding the distributional dimensions of economic well-being requires measurement of concepts at the household unit level.

26. However, income is not the only way in which the concept of economic well-being can be characterised, and it is therefore useful first to consider the broader conceptual issues underlying its nature.

## C. Economic well-being

27. A household's economic well-being can be expressed in terms of its access to goods and services. The more that a household can consume, the higher its level of economic well-being. While other theoretical approaches have underlined the importance of other aspects of people's lives as determinants of human well-being (reaching beyond the commodities that are available to them), this report focuses on the narrower concept of economic well-being.

28. Consumption is therefore an indicator of economic well-being. However, a household may be able to choose not to consume the maximum amount it could in any given period but to save at least some of the resources it has available. By saving, households can accumulate wealth through the purchase of assets which will generate income at a later date and serve as a 'nest-egg' for spending at a later time when income levels may be lower, or needs higher. As well as possibly earning a return for the household, ownership of wealth also affects their broader economic power and is another aspect of economic well-being. For example, households that own their own home outright generally have lower housing costs and may therefore have lower income requirements to satisfy their standard of living.

29. Thus to capture fully the extent of a household's economic well-being it is desirable to look at a number of different aspects of their economic situation, including not only their income, but also their levels of wealth, changes in the value of that wealth and levels of consumption.

30. The remainder of this section provides an overview of the relationship between economic well-being and income, consumption expenditure, change in the value of net worth, and the value of the stock of net worth.

## **1. Income and consumption expenditure**

31. In broad terms, income refers to receipts, whether monetary or in kind, that are received at annual or more frequent intervals and are available for current consumption. Windfall gains and other such irregular and typically one-time receipts are generally considered to be capital transfers and excluded from income because it is unlikely that they will be spent immediately on receipt.

32. For most people, household income is the most important determinant of economic well-being. Household income provides a measure of the resources available to the household for consumption and saving. However income is not the only economic resource available to households.

33. On the disbursements side of household accounts, consumption expenditure represents the day-to-day purchases that may be financed not only by household income but also by savings from previous periods or by incurring debt. For some households, such as retired households, the running down of capital for consumption may represent a deliberate attempt on their part to even out consumption over a lifetime. Other groups in the population, such as farmers, may also average out their consumption over a number of years, while their incomes may show quite wide fluctuations over the same period. In such cases, consumption expenditure may represent a better estimate of the household's sustainable standard of living.

34. There are difficulties in collecting data on both income and consumption expenditure in household surveys. Income is a sensitive issue for many respondents and non-response or misreporting of some income components may be significant. On the other hand, data on consumption expenditure are often onerous and costly to collect. In fact, the choice between the income or the consumption expenditure approach to measuring economic well-being is often made for the analyst by the fact that, at least in developed countries, income data may be more frequently available than data on consumption expenditure.

## **2. Change in value of net worth**

35. Whether data on income or on consumption expenditure are used for measuring economic well-being, the data should ideally be accompanied by some assessment of the change in the value of the household's net worth during the accounting period. An increase in the level of net worth may result from saving (the difference between income and consumption), from the receipt of capital transfers, or from other changes in the value of assets, including capital or holding gains. Such a household is likely to be better off in the long-term than a household with a similar level of consumption that has financed its consumption by dissaving, that is, running down assets or incurring a liability. Whether the dissaving has been involuntary, or has been planned by saving in earlier periods, is important in this context.

### **3. Value of stock of net worth**

36. The value of the stock of net worth owned by a household is the value of accumulated assets less liabilities. As well as possibly earning a return for the household in the form of income, those households with substantial levels of net worth may use their assets as collateral to obtain credit for consumption or investment, or more flexibly choose the timing for different types of consumption and investment. For these reasons it is important to ascertain, if possible, the value of the household's net worth to give a complete picture of the household's command over economic resources or economic well-being.

37. At a practical level, the collection of micro data on the assets and liabilities of households is also not without its own difficulties. Such information may be as sensitive to the respondent as that on income and, because transactions are relatively infrequent, recall and valuation issues may pose difficulties. There are also difficulties in using data on stocks of wealth and on transactions or flows in a combined measure of economic well-being.

38. One option is to annuitise the net worth held by the household and add this (notional) annuity to the flow of income and other receipts. However, annuitisation of net worth requires that a number of value judgements and assumptions be made in relation to, for example, the period over which the net worth should be annuitised (life of the householder or spouse) and the rates of return to be used. However, there are also simpler, but less sophisticated, methods available to use distributional information for income and wealth together.

39. Ideally, analysis of economic well-being would benefit greatly from the availability of fully articulated survey data covering all aspects: income, expenditure, saving, and the value of wealth held. This would enable observation of the size and nature of economic resources available to households, and how they were disposed of. Where it is not possible to collect survey data in all dimensions, it might be possible to match records or information from different sources to allow inferences on the joint distribution of various types of economic resources of households.

40. Section 2.5 sets out a conceptual framework in which income, consumption and accumulation of wealth can be related to each other. Future directions for further work in this area are discussed in Chapter 9.

## **D. Household income as a microeconomic and a macroeconomic concept**

41. Household income measurement has two main traditions:

a) The macro approach, having its roots in national accounts and in particular the accounting based standards laid out in the System of National Accounts (SNA).

b) The micro approach, having its roots in microeconomics and particularly the study of poverty and its effect on different socio-economic groups within society.

42. SNA data are sectoral aggregates compiled from many sources and presented within the broader national accounting framework. The data show how the household sector relates to the corporate and government sectors and to the rest of the world. Generally they do not provide distributional information nor information about particular population subgroups. As only aggregate information is needed for this purpose, greater use can be made of partial data sources and imputation or estimation.

43. Micro datasets have long been used to analyse not only levels (aggregates), but also the distributions of income, consumption and wealth across the population, for various population subgroups, and over time.

44. Conceptually, macro and micro statistics on household income have much in common. However, there are significant differences in the objectives and purposes of the two datasets, in their coverage and the data sources used to compile them, and because of practical data reporting or estimation issues for individual households. This has led to the tendency to develop different terminologies and conventions.

45. Many of the conceptual difficulties encountered in drawing together the guidelines on household income distribution statistics are the same or similar to those faced in developing related guidelines such as the SNA and it is sensible to adopt a consistent treatment across frameworks whenever possible. It should be noted, however, that there are some important conceptual differences between the two data sources, with some imputations in the SNA required for ensuring complete accounts for households, the corporate and government sectors and the rest of the world.

46. One approach outlined in the SNA is a social accounting matrix (SAM), which typically focuses on the role of people within the economy. A SAM will invariably disaggregate the household sector in order to analyse the interrelationships between structural features of an economy and the distribution of income and consumption expenditure among different socio-economic groups. In most SAMs it is therefore necessary to reconcile the macro aggregate of household income with the micro income statistics on which the disaggregation is based. However, although the intention of the SNA was in fact to include a disaggregation of household income by socio-economic group as a standard part of national accounts output, in practice there are few if any countries who do so on a regular basis. The Netherlands is one example of a country that produces SAMs on a regular basis.

47. Most users of household income statistics would expect the producers to have undertaken reconciliation between the macro aggregate of household income and the micro income statistics suitably grossed up to population totals. Even if this is not possible, the data producer should provide clear explanations when differences are known to exist. It is undoubtedly a considerable disservice to users when two sets of statistics both labelled 'household income' appear to produce quite different results and possibly, different implications for social and economic policy. Such reconciliation, with any discrepancies clearly explained, is best practice for NSOs. Appendix 2 of this Handbook aims to provide practical guidance on how such reconciliations might be approached in a practical sense.

48. There are other reasons to maximise comparability between income distribution statistics and household income in the national accounts. First, there is a greater likelihood that any datasets collected can be used for multiple purposes, for example, the use of the micro data in compilation or benchmarking of national accounts estimates. Second, statistics compiled under the different frameworks can be compared as part of a mutual checking process, and users can be confident that the different sets of statistics can be brought together for analytical purposes.

49. Although these guidelines have been primarily produced for the needs of micro analysts, they also draw attention to areas of difference between the recommendations and those of the SNA and how the two may be reconciled. The intention is to aid understanding amongst micro analysts of the concerns and conventions of macro analysts, thus improving understanding between the two.

## **IV. Future directions for international work (Chapter 9)**

### **A. Introduction**

50. The central concepts of household economic well-being are those dealing with income, wealth and consumption. These concepts are concerned with describing the total economic value of the resources received, owned, or used up by people.

51. While a lot of coordinated international work has been undertaken in respect of micro household income statistics, far less work has been undertaken in respect of wealth and consumption statistics. This chapter proposes a research agenda that would support further advances in the field of household microeconomic statistics.

### **B. Better informing analyses of economic well-being**

52. Traditionally, analyses of economic well-being have focussed on a single dimension of household economic resources. In many developed countries, such studies have generally used income data, reflecting the relative frequency with which data on income is available, and also that, for many households, income is their most important economic resource for meeting everyday living expenses.

53. However, income only provides a partial view of economic well-being. Income, a flow measure, can be quite volatile for people making transitions between jobs, changing their hours of work, moving into or out of study, increasing or reducing time spent caring for children, or taking extended breaks from work. Some households with low income, for example, may report adequate levels of consumption expenditure or wealth.

54. Wealth, a stock measure, is more stable over time, reflecting accumulated savings and investments over time, which can be drawn on in times of need. People with reserves of wealth can also utilise these to generate income and to support a higher standard of living. While some wealth is held in assets that are not easily converted into money, its existence may allow people to borrow money to finance expenditures e.g. house extensions, motor vehicle purchases.

55. The importance of considering income and wealth together when assessing economic well-being has been given new impetus by several recommendations in the 'Report by the Commission on the Measurement of Economic Performance and Social Progress' (the 'Stiglitz-Sen-Fitoussi Commission' report, 2009), particularly recommendation 4: *Give more prominence to the distribution of income, consumption and wealth*. The report explains the recommendation in the following terms:

56. Average income, consumption and wealth are meaningful statistics, but they do not tell the whole story about living standards. For example, a rise in average income could be unequally shared across groups, leaving some households relatively worse-off than others. Thus, average measures of income, consumption and wealth should be accompanied by indicators that reflect their distribution. Median consumption (income, wealth) provides a better measure of what is happening to the "typical" individual or household than average consumption (income or wealth). But for many purposes, it is also important to know what is happening at the bottom of the income/wealth distribution (captured in poverty statistics), or at the top. Ideally, such information should not come in isolation but be linked, i.e. one would like information about how well-off households are with regard to different dimensions of material living standards: income, consumption and wealth. After all, a low-income household with above-average wealth is not necessarily worse-off than a medium-income household with no wealth.

57. The recommendation arises from the well-known limitations both of using only macroeconomic aggregates in the analysis of household economic behaviours, and of micro economic analysis using single dimensions of household economic resources (such as income). The primary source of this type of information is household surveys.

58. The Stiglitz-Sen-Fitoussi Commission report also recommends that comparisons of material living standards over time or across countries should account for how people spend their time on various activities such as paid and unpaid work, commuting and leisure. Time use data can be used to complement the picture provided by data on the distribution of income, consumption and wealth.

59. Together, this information could inform policies and programmes that better target households in need. These policies hold the promise of delivering improved economic well-being to individuals, stronger economy-wide progress, and better individual and societal outcomes across a range of areas of social concern.

60. However, 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.

61. The next section proposes a research agenda that would support further advances in the field of household microeconomic statistics, including:

- a) Development of statistical standards for household wealth
- b) Development of a statistical framework that describes the relationships between household income, consumption and wealth
- c) Assessment of practical issues with the collection and analysis of income, expenditure and wealth data in an integrated manner.

### C. Household income, consumption and wealth framework

62. The System of National Accounts (SNA) provides the main statistical framework for the analysis of household income, consumption and wealth data at the macro level. The SNA represents an agreed way of expressing, in statistical terms, most elements of a country's economy and provides an international standard which is widely accepted and that can be practically applied at the macro level.

63. There is no such international framework for micro level household economic resource statistics, although there has been a lot of work undertaken in single dimensions (e.g. ILO, 2004). There have also been some significant broader contributions, such as the 1977 UN *Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households*, and the 1998 report, *Statistics on the Distribution of Income, Consumption and Accumulation of Households* (Franz et al., 1998).

64. There is strong international support for the development of an international framework for micro level household income, consumption and wealth statistics. This support was most recently reflected in the Stiglitz-Sen-Fitoussi Commission Report (2009) and also by the OECD decision to include the development of such a framework on its Forward Work Program for 2011 and 2012.

65. The development of an internationally agreed framework for the compilation of statistics on all of the dimensions of household economic resources, measured at the micro level, and with the needs of the micro statistician at the forefront, is essential to the production and analysis of harmonised and coherent information on the economic situation of the household.

66. This work would complement and expand the extensive work already undertaken with respect to the measurement of household income, including the international standards for household income statistics, as adopted by the 17<sup>th</sup> ICLS, and this Handbook which provides a practical guide for their collection, analysis and dissemination. The presence of a broader framework will help inform analysis of economic well-being even where information is only available in a single dimension such as income.

67. An important contribution to the research agenda would be the development of international standards for the collection and compilation of statistics on household wealth at the micro level. In recent years there has been increased collection of wealth data by national statistical offices. The *Luxembourg Wealth Study* provides a common classification for national data on household assets and liabilities. Through an initiative undertaken by the European Central Bank with the *Euro-System Survey on Household Finance and Consumption*, new data based on definitions shared by all participating countries will be collected.

68. This expanded statistical activity reflects the importance of wealth in the analysis of household economic well-being and in understanding how households with different characteristics may respond to macroeconomic policy and to swings in the business cycle.

69. The research agenda should also identify elements that are currently missing and that are critical to assessing economic well-being. For instance, consumption expenditure is a critical dimension for household economic well-being. However, international standards for micro statistics on household expenditure are not designed specifically for analyses of household economic well-being<sup>1</sup>.

70. Finally, within the broader framework, the individual dimensions of household economic resources need to be collected in a consistent and coherent manner to support the analyses required e.g. measures that account for the joint distributions of income and wealth together, whether the data is collected concurrently or not.

71. Some countries have been collecting information on household income, expenditure and wealth in an integrated manner through a single household survey for several years. Other countries and international organisations have experience in the matching of micro records from different surveys, which allow inferences to be drawn on the joint distribution of different dimensions of economic resources.

72. There is significant interest in both approaches. A review of these experiences, including a practical assessment of the feasibility of the approaches available, and identification of best practices in this field, would advance this research agenda considerably.

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<sup>1</sup> International standards for micro statistics on household expenditure are contained within the ICLS resolution adopted in 2003. However, these standards are mainly driven by the goal of deriving weights for the compilation of consumer price indexes, and are not designed specifically for analyses of household economic well-being. International guidance is hence also required to allow the collection and compilation of comparable consumption expenditure data that can be used in welfare analysis.

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