

CONFERENCE OF EUROPEAN STATISTICIANS

For discussion

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Agenda

**NOTES ON STATISTICS ON INCOME DISTRIBUTION, POVERTY AND LIVING
CONDITIONS: RESEARCH PRIORITIES FROM AN OECD PERSPECTIVE**

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Para 1. Globalisation thesis

1. The thesis that globalisation creates and deepens existing gaps in economic resources clearly needs profound statistical evidence and constant monitoring. But this can not be an end in itself. What governments and civil society are truly concerned about is the long term effects of widening gaps on social structures i.e. political and economic arrangements. In other words, is the widening of gaps a threat to democracy, to peace and prosperity? From this reasoning already follows that the observation of gaps in the income distribution (which is itself a component of the totality of economic resources) can not be fully appropriate to recognise the ongoing transformation in its entirety.

Para 8. Temporal consistency

2. Very roughly speaking, a complex household income survey such as EU-SILC exhausts 60% of the relevant (cross-sectional) sampling frame. This may have substantial undercoverage as for e.g. the homeless or elderly population living in institutions. Of all respondents there will be about 50% who are able willing to provide ALL the detailed information required to estimate the household's income. Yet an unknown fraction of these respondents does provide data but their reliability may be questionable (e.g. the self employed). Evidently, with more than two thirds of missing or incomplete information a number of statistical assumptions are required to fill the information gap. The potential for improvements is huge and an emphasis on temporal consistency should not exclude the necessary learning process! This holds certainly for the more complex measures of income. For the objective of obtaining time series with a relatively consistent degree of under-reporting, a simplified measure -such as current monthly household income (ideally identifying main source of income employees, pensioners or self-employed) would be worthwhile to consider. Upon the relationship between such a core variable and the more complex income measures the effect of breaks in methodologies could be estimated and an interface to a wide array of social surveys be established (for example does the European Social Survey include a question in which respondents are asked to estimate their household income in categories of roughly equivalent weekly, monthly or annual amounts).

Para 9. External benchmarks

3. Coherence assessment between income distribution data and SNA aggregates is a fully legitimate and often made claim

“[...]most users of household income statistics would expect the producers to have carried out a 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, at least one should expect to see clear explanations when discrepancies are known to exist. It is undoubtedly a considerable dis-service to users when two sets of statistics both labeled ‘household income’ appear to produce quite different results and, possibly, different implications for social policy (Canberra Group 2001, p 9).

4. While current income distribution statistics such as EU-SILC have vastly improved transparency and degree of documentation it ought to be noted that SNA aggregates do not always allow for a differentiated comparison. Household income survey's are designed to capture the money amounts people find in their pockets. In SNA the closest equivalent is disposable income (B6n) received by the sector account of private households (S14). Currently data for this institutional sector is not available for all countries and if it remains impossible to distinguish the income share accruing to private households from that which is received by individuals who live e.g. in institutions. Some countries (including Austria) submit data for this sector only in combination with non-profit institutions serving private households (S15). To assess coherence it would be important to ascertain the weight of income components within that sector (imputed rent, income in kind, estimated hidden economy, net employee income, self employed income). With the current state of SNA accounts this is simply not possible. Preliminary analysis of EU-SILC has shown striking variation in coherence of the available figures between countries. (Till 2007) No superior quality can be attributed to either survey data or SNA. However, the latter have clear normative authority and it seems appropriate to demand greater effort in the harmonisation and improvement of SNA aggregates which relate to disposable income in private households.

Para 10. Non-cash components

5. Current poverty reporting somewhat suffers from being only income centred. The issue raised in this note is that public in-kind services and private benefits diminish the importance of cash income, particularly in comparative perspective and calls for improved measures of non-cash resources. Non-cash resources should be extended to include the informal sector of home production and perhaps hidden economy (and wealth holdings which are addressed in a later paragraph).

Para 11. Non-cash data needs

6. If measurement of income remains desirable, it would be useful to establish benchmarks of empirical cash income needs which would be indicative of the relevance money income actually has in a given historic moment and place. For example, it would be possible to establish the content of basic baskets of goods for model families in a number of focus groups. This method has been successfully applied in the UK and Ireland and could likewise be useful to empirically reveal a minimum acceptable standard of living in the Member States of the European Union. A different exercise would be to price such an elementary basket of goods whereby gross differences are likely to be observed e.g. depending on the extent of public non-income services. Ultimately this procedure would provide a straightforward benchmark for the income amount needed against which an actual income distribution can be evaluated. Apparently this is a more straightforward and less costly alternative to the attempt

of measuring the worth of non-cash resources. Once a cost for decent living standard is established it would be of further interest to establish the level of the living wage, given the availability of non-cash resources and resource transfers. Such a living wage would be an important benchmark to evaluate wage distributions for which data is more readily available than for household incomes.

Para 13. Extreme incomes

7. The globalisation thesis seems to postulate the emergence of income “super stars”, i.e. extremely rare income positions which concentrate significant shares of the total income and wealth even within the top 1% or 0.01%. Up to which degree of concentration population sampling is still a statistically adequate method to capture the true dispersion (and aggregate) may not be fully understood. For example, in practice Bill Gates would not appear in an income survey and if he did, he’ll certainly have to be excluded from the analysis (or ‘top-recorded’). The sensitivity towards population outliers is an important subject of statistical theory and simulation deserving increased attention. It may be necessary therefore to augment sample data with a full census of income records for say the top 1000 earners in a population. At the same time, targeted low income samples are essential to understand living conditions and driving factors for the most disadvantaged parts of the population. The crucial question is how findings from general purpose surveys and targeted information can be integrated. To this end, it might be useful to organise extended data collections separately and achieve a integration synthetically by assigning weights to subpopulations. Ultimately the effort (and cost involved) to collect information on the general population could be reduced by such a strategy.

Para 14. Direct measures of (material) deprivation

8. Measuring living conditions directly could highlight the multidimensional character of disadvantage and the need for policy intervention beyond income transfers. But in a comparative perspective this comes at a price. EU Member States are discussing harmonised indicators for deprivation for more than a decade without having reached clear consensus so far since needs appear to be variable with cultures and climates. Given present experience, indicators of material deprivation are likely to take more auxiliary character in determining the share of the low income population which is manifestly hindered in certain consumption opportunities. Thus it will reflect mainly the financial dimension (alternatively see also 11). Disparities in non-monetary aspects relating to health, education, work, housing, social and cultural participation are however crucial aspects of the globalization process and its effects on society and should not be neglected.

General remark on the World Bank paper

9. The degree of monetization of economies varies. The use of universal income (or consumption) metrics assumes that goods are purchased on markets. The market penetration can not be assumed total and this is perhaps least so in the developing world. Domestic production and assistance schemes may intervene in the relationship of money and goods. If poverty rates stabilize over some 25 years as suggested by Chen & Ravallion then this finding may just disguise the fact that living expenses increased, i.e. more money is needed to fulfil the same needs when goods that formerly were available freely now need to be bought (or even imported at terms of trade which will not always be that of a free and fair market). The

precise usage of purchasing power parities has paramount relevance. This sensitivity would possibly be revealed if the poverty line would be set relative to the average consumption level in a country as is done for example in the European Union. Fact is that the world bank's mainly used income standard is neither based on a specifiable basket of goods (only implicitly as an average price of existing national baskets) nor that it would be explicitly relative (only insofar as several variants of "absolute" poverty lines are in use for countries of different levels of prosperity). The distinction of urban and rural areas may be an important first step towards a more empirical approach. In any case, to obtain a more comprehensive, and less market dependent picture of poverty in the developing world much wider issues need to be considered (e.g. nutrition, mortality, literacy).

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