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Agenda

ADVANCING INCOME, WEALTH AND POVERTY MEASUREMENT

Note prepared by Statistics Canada

I. BACKGROUND

1. In a note tabled at the February 2008 meeting of the CES Bureau, Statistics Canada proposed options for a roadmap to improve statistics on income, consumption, wealth and poverty. The note suggested the need for universal minimum standards and presented options ranging in complexity from monitoring adherence to existing standards in the Canberra and Rio Group reports to designing a well-developed household level integrated accounting structure for income, consumption and wealth, reconcilable with the System of National Accounts.

2. Discussion favored a mid-ground approach, and following that meeting, the CES polled a number of member countries and international organizations on both the need to update the Canberra guidelines and their willingness to participate if a group was set up to bring the work forward. The Canberra report's primary objective was to establish conceptual ground rules for defining and measuring household income, and while a majority of countries were in favour of an update, they did not advocate a fundamental overhaul of the guidelines, but suggested that a clarification of concepts was warranted in certain areas i.e., an expansion of income concepts to include in-kind transfers and imputed rent. However, the Canberra report also mentioned issues for the future, including the importance of expenditure and wealth as complementary measures of economic well-being report. Some countries / agencies supported the expansion of the international standards into household consumption and wealth statistics, as they see information on all dimensions as being integral to a comprehensive understanding of economic wellbeing and hardship issues.

3. Following the CES plenary session in June, Statistics Canada was asked to prepare a note on possible future direction of work in this area. The note describes Canadian practices and future directions on the measurement of income, poverty, consumption and wealth. The note also describes recent international developments. It will conclude with some recommendations for next steps.

II. CANADIAN PRACTICES

4. Statistics Canada has a substantive program of statistics on economic well being, including levels and distribution of income, wealth and spending. Within the context of this program, providing relevant statistics to support national deliberations on poverty is a

continuing priority.

5. While Canada has never adopted an official poverty measure, Statistics Canada produces a number of low-income thresholds to satisfy a range of policy and research objectives. These thresholds include:

(a) The **Low Income Cut Offs (LICOs)**, developed in the 1960s, indicate an income threshold below which a family is likely to spend significantly more of its income on food, shelter and clothing than the average. The LICO base is established as the income level at which a household typically spends 20% more of its income on food, shelter and clothing than does the population as a whole. The thresholds are calculated using consumption surveys and the last set of threshold was calculated using the 1992 expenditure survey. Annual income thresholds have been updated using the Consumer Price Index;

(b) **Low Income Measures (LIMs)**, introduced in the early 1990s, defined as half the median income, adjusted for family size using an equivalence scale;

(c) The **Market Basket Measure (MBM)** was developed in 1997 by a policy department in Canada (Human Resources Social Development Canada (HRSDC)) in consultation with a Federal-Provincial-Territorial Working Group. The MBM estimates the cost of a specific basket of goods and services for the reference year. Any household with income lower than the cost of the basket is considered in low income. Statistics Canada supports in the compilation of the MBM measure, disseminated by HRSDC. A process needs to be established to update the basket and there are still some challenges in the development of the measure.

6. Statistics Canada has produced a conceptual framework for income, expenditures and wealth as a comprehensive approach to study low-income and poverty-related issues. The framework is still under development, but there is a growing recognition that distributional wealth data are required with greater regularity for a more complete understanding of economic well-being. For example, inheritances are not included in calculating income and are not taxed in Canada. This could affect the wealth position of some individuals and families. Another issue is that of negative incomes. Analysis of negative income from tax files has shown that many more negative incomes are reported compared to survey data and that there is an increasing number of negative incomes over time. A negative income does not necessarily mean low-income and understanding the link between income and wealth is highly relevant as Statistics Canada moves towards a greater reliance on tax data for income measurement.

III. FUTURE DIRECTIONS AT STATISTICS CANADA

7. In 2006, Statistics Canada commissioned a series of research papers on low income, poverty and deprivation, and organized workshops to take stock of current measures in light of advances in the scientific literature and international practice. Two important themes arose from the exercise, reflecting the understanding that poverty is a multi-dimensional concept, and measures of it must be extended beyond an examination of basic income. The first was the importance of material deprivation indicators as a complement to income-based measures in characterizing the low income experience, to reflect the limitations of income as the only measure of well-being. The second was the increasing reliance on LIM-type measures amongst developed countries internationally.

8. Statistics Canada is pursuing a research agenda to update and expand its suite of low income measures, at the same time ensuring that different signals are reconciled into a coherent annual picture of the evolution of low-income in Canada. Future plans include the measurement of material deprivation, expanding the suite of LIM-type measures available and the production of more information on the depth of low-income.

9. Material deprivation aims to measure the experience of poverty. Its measurement can be targeted into dimensions of policy interest (e.g., food security, housing affordability or financial security), or it can be measured more broadly via a deprivation index, an approach taken in a number of OECD countries. Statistics Canada established a working group to determine material deprivation measures to be introduced, and plans to pilot questions on the new Canadian Household Panel Survey in the fall 2008.

10. In the case of LIM measures, Statistics Canada is considering adding an anchored or fixed measure, pending analysis and evaluation of alternatives. Since low-income measures at a detailed level of geography are in demand in Canada, there are plans to test LIM options using Census data. In addition, LIM does not account for regional differences in living costs; therefore research on including regional price differentials is underway. Statistics Canada is also improving data quality of low income measures through the filling of data gaps (i.e. adding subsidized housing and inter-household transfers to the income concept) and coherence testing across data sources.

11. In the past, wealth surveys have been undertaken on an ad hoc basis and financing for regular data collection has not been secured. In order to address this important information gap, Statistics Canada hopes to include a wealth module on its annual household budget survey, the Survey of Household Spending. We expect this will be enabled by a survey redesign currently in course, to streamline content and adopt a new collection model. Funding for the wealth module on the Survey of Household Spending is not yet in place, however.

IV. INTERNATIONAL PERSPECTIVE

12. Income, wealth and expenditures surveys are not always collected within one statistical organization. Australia, like Canada, collects these three elements in their statistical office. In many countries, wealth surveys are undertaken in the central banks. These different contexts could lead to different strategies for an integrated analysis of economic well-being.

13. In Europe, the EU-SILC, the European Survey of Income and Living Conditions is the primary source for the Laeken indicators, a suite of roughly 20 indicators on poverty and social exclusion and more generally for monitoring social progress within the EU countries. While many indicators are based on relative income measures, they also include labour-related indicators (e.g., the number of children in jobless households). The development of the EU-SILC, has facilitated work to expand income concepts in European data sources (to include imputed rent and social benefits in kind, for example) as well as addressing practical measurement issues raised in the Canberra report.

14. The United States has focused recent efforts on expanding income definitions to include imputed rent and a monetary value for transfers in kind via the food stamp program.

15. In addition to pursuing a similar expansion of income concepts, Australia has put a greater emphasis on wealth measurement and periodically collects income, wealth and expenditure on the same survey vehicle. Australia is developing a new conceptual framework for assessing economic hardship (low consumption possibilities), illustrated using measures combining both income and wealth data, for release early in 2009. It also plans to develop a comprehensive household income, expenditure and wealth framework over the next two years.

16. Information on income, wealth and expenditure is collected simultaneously (or on a cyclical basis) in a number of international longitudinal surveys, including the German Socio-Economic Panel (GSOEP), the British Household Panel Study (BHPS), the Panel Survey of Income Dynamics (PSID) in the US, and the Household Income and Labour Dynamics survey (HILDA) in Australia. The Bank of Italy's Survey of Household Income and Wealth, which has a rotating panel section, also collects information on income, wealth and expenditure, although the latter only in a very simplified form. Statistics Canada is considering a similar approach for the new Canadian Household Panel Survey, financed for a pilot study.

17. The Luxembourg Wealth Study (LWS) initiative, pioneered under the Luxembourg Income Study program, undertook extensive efforts for an *ex post* harmonization of international wealth surveys to create a preliminary database for cross-national analysis of wealth distribution, concentration and portfolio composition. The database is now available for public use but this endeavour is limited by different coverage and measurement practices for wealth components across national surveys. The adoption of a "lowest common denominator" net worth concept leads to exclude large pieces of the wealth portfolio in a number of cases, and is less than ideal.

18. The Eurosystem – the central banking system of the euro area, comprising the European Central Bank and the national central banks of those EU Member States that have adopted the euro – plans to undertake a cross national wealth survey of the euro-area countries. Considerable effort has been devoted in defining a harmonised questionnaire and in identifying common statistical procedures.

19. A logical next step would be to produce a manual of guidelines and recommendations for wealth measurement, akin to the Canberra report for income, to encourage more standardized collection going forward. That was one of the original tasks of the LWS project that has brought together documentation on national practices for a number of countries. The cross-national collection effort by the Eurosystem will further serve to inform the development of such guidelines. Two points are worth emphasising. First, a large international coverage, at least of rich countries, is important in the definition of the classificatory grid in consideration of the great differences across nations in the availability and definition of financial instruments. Second, the link with aggregate accounts is somewhat more complicated for wealth than for income, given the lack in many countries of the aggregate balance sheet of the household sector.

20. While the International Labour Organization has undertaken important work to establish standards for income and expenditure surveys for a broader set of countries, there is still a great deal of diversity in measurement in this area, and its harmonization would be more challenging to realize. Some work has been undertaken to reconcile household budget surveys with the national accounts (e.g. in the United States, Germany) and initiatives of this sort should be encouraged.

V. RECOMMENDATIONS FOR NEXT STEPS

21. In the light of the previous considerations, it seems appropriate to establish a city group on the measurement of economic well-being which, broadly speaking, focuses on augmented notions of income as well as on other monetary and non-monetary indicators of well-being.

22. If such a city group is established, we propose for consideration the following:

(a) To reflect recent advancements in income measurement in specific areas, such as imputed rent, in-kind benefits and capital gains and losses. (Own consumption is also an issue worth further analysis, especially if guidelines are meant to be applicable in middle-income countries.)

(b) To expand the concept of economic well-being by including new guidelines for wealth measurement to the current income concepts;

(c) In the longer term, consumption/expenditures should also be added;

(d) To develop an integrated framework which links income and expenditure (savings) to wealth.

23. Membership should include representation from a small group of interested statistical offices, but given that income and wealth surveys are often conducted in different organizational settings, it should also engage participation from the producers of wealth data (frequently central banks), from the Luxembourg Income Study and from the research community involved in international panel surveys.

24. Preliminary steps to harmonize expenditure surveys should be encouraged, in particular micro-macro reconciliations.

25. International work in the area of material deprivation should be monitored to identify emerging standards and best practices.

26. If the formation of a City Group is supported, what should be the next steps:

(a) Which international agency should sponsor the work (assuming one is needed)?

(b) Identifying agencies to collaborate on drafting its terms of reference, scoping of activities and priority areas for attention by the group (for wider consultation)?

(c) Identifying a host agency/possible timing for the first meeting of the group?

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