

An integrated database to measure households' economic wellbeing

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Abstract

Poverty indicators purely based on income statistics do not reflect the full picture of households' economic vulnerability. Consumption and wealth are two additional key dimensions that determine the economic opportunities of people or material inequalities. To this end, it is important to ensure the availability of harmonised statistics at EU level that cover the distributional aspects of household income, consumption and wealth (ICW).

With the objective of producing a joint distribution of disposable income and consumption expenditure data, we have merged EU Statistics on Income and Living Conditions (EU-SILC) with Household Budget Survey (HBS) data using statistical matching techniques. We have also experimented with matching the SILC-HBS fused data with data from the Household Finance and Consumption Survey (HFCS). This provides a dataset containing micro-level information on the three ICW dimensions: "total disposable income, total consumption expenditure and total assets (or net wealth)" for data available countries.

The integrated ICW database enables us to study the interaction between these three economic dimensions at household level by building a number of indicators for European Union countries. These indicators can help answer questions such as: How many resources do households at the bottom of the distribution hold? Which part of the population is vulnerable in more than one dimension? Which characteristics do vulnerable households expose?

We thus look at the share of households that belong to the bottom/top quintile of the distribution simultaneously for income, consumption and wealth and at the share of resources that are at these households' disposal. Further, we extend the "at risk of poverty" concept, commonly defined as persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers), and add "at risk of consumption poverty" and "at risk of liquid financial assets poverty" indicators, defined as persons with equivalised expenditures (liquid financial assets) below 60 % of the median equivalised expenditures (liquid financial assets). We can then estimate the share of households that fall under a two-fold risk of poverty.

This differs from the 'households at risk of asset-based vulnerability' which is defined as those households whose total assets do not enable its members to stay above the AROP threshold (60 % of median equivalised income) for longer than a given period of time. However, both of the indicators based on household wealth assume that households tend to accumulate wealth as a precaution and use their assets as a buffer for smoothing out variations in income over time.

We also use our integrated ICW database to compute saving rates and the aggregate propensity to consume of different household groups. And we experiment with estimating the impact that direct and indirect taxes have on low and high income households.

Highlighting characteristics hidden in a unidimensional data set, these indicators based on the ICW joint distribution provide a better picture of the economic wellbeing across the population and gain increasing interest by policy makers.