LCS Consumption Workshop (14-15 January 2026)

Summary

The discussion highlighted that the measurement of living standards must account for substantial differences in data needs across contexts, particularly when comparing low- and high-income countries, which require different survey foci, levels of detail, and analytical priorities. From a conceptual perspective, participants recalled the ICW framework, underscoring that no single indicator can capture welfare comprehensively. It has been acknowledged that using consumption to measure welfare may work well in a national context, but may prove problematic in a cross-national setting. Moreover, the appropriate definition and use of consumption is less clear-cut and often depends on the specific research purpose.

I. Core conceptual issues discussed

Consumption vs. expenditure vs. welfare

A central theme was the distinction among:

- **Expenditure** (what households pay)
- **Consumption** (flow of goods and services actually consumed)
- **Welfare / living standards** (broader achievement and capabilities)

Participants broadly agreed that:

- Consumption is closer to welfare than income, especially at the bottom of the distribution.
- However, *pure expenditure* is an imperfect proxy for consumption for several goods because it:
    - does not include in-kind transfers
    - misrepresents the flow of services from the stock of durables owned and owned shelter
    - is sensitive to short reference periods and lumpy spending

There was no consensus on a single "correct" aggregate, but strong agreement that **multiple, transparent building blocks** are preferable to one rigid definition.

LIS has drafted a preliminary schema (attached) to make clear how the building blocks relate to each other; the purpose is to guide the users to the 'relevant' concept for their analyses.

Durables and flows of services

Durable goods were a major focus:

- Treating full purchase values as consumption distorts welfare comparisons.
- A **flow-of-services approach** is conceptually preferred, but:
    - Data limitations are severe
    - User-cost or rental-equivalence methods are unevenly available across countries

There was broad support for introducing a distinct treatment:

- Keep durables included with acquisition price in a household expenditure-based perspective
- Exclude purchase of durables from consumption aggregates
- Flag durables clearly so users can choose their preferred treatment

LIS will reflect on a more pragmatic classification of durables, the deliberate split in durables and semi-durables as in COICOP proved to be less ideal for the microdata.

Health and education

Health and education were the most debated components.

Key tensions:

- Conceptually, both clearly affect living standards
- Empirically, they are difficult to value and distribute

Points of convergence:

- Excluding health and education biases cross-country comparisons, especially between welfare states with different financing models
- Out-of-pocket spending alone could be misleading in consumption, but could be very relevant when analysing inequality of expenditure
- Social transfers in-kind (STIK) matter for both poverty and inequality analysis

Open issues:

- Whether health spending represents current consumption or investment in human capital
- How to value publicly provided services (market price vs. cost vs. price paid)
- Education poses unit-of-analysis problems (children consume, parents pay), linked to the broader discussion of appropriate equivalence scales

The dominant view was to **include health and education information modularly**, even if imperfect, rather than exclude them entirely. In fact, these expenses are needed for completeness in the budget spending's denominator, otherwise budget shares are calculated on the incomplete concept.

- LIS is leaning towards constructing a clearly defined COICOP expenditure aggregate, including the out-of-pocket expenditures for health and education. Possibly two, as one could focus on monetary expenditure (Aggregate 1A in the schema), and one includes non-monetary values (Aggregate 2A in the schema), whenever available. These measures would also include the purchase price of durables.
- When defining consumption aggregates (Aggregates 3 and 4 in the schema), LIS excludes out-of-pocket expenditures on education and health, as well as the acquisition value of durables.
- Valuation of STIK should in any case remain a separate building block, enabling the creation of extended consumption aggregate (Aggregate 4B).

Cross-country comparability

Participants emphasized that:

- Perfect conceptual consistency across countries is unrealistic
- Operational comparability is more feasible than methodological purity

Key challenges:

- Different reference periods and seasonality
- Housing market heterogeneity
- Welfare-state-driven differences that are *real*, not statistical noise

There was strong resistance to "forcing" countries into a single framework at the cost of losing meaningful national context.

Poverty vs. inequality perspectives

The workshop repeatedly highlighted that:

- Consumption performs very well for **poverty analysis**, especially at the bottom.
- It is more problematic for **top-end inequality**, due to underrepresentation of the households in the upper end of the income/wealth distribution. The ranking of regions or households in terms of inequality can differ depending upon whether these rankings are based on income or consumption.

This reinforced the idea that LCS should not privilege a single analytical use case.

The proposed schema for expenditure and welfare-oriented analyses will provide clarity regarding how suitable the analyses are in context of the research questions asked.

Prices, temporal and spatial deflation

Several technical but important points emerged:

- Temporal adjustment is a high priority for LCS's expertise
- Spatial price differences (especially housing) are less readily available (spatial depends on research analyses)
- Whether to deflate spatially depends on mobility and interpretation (prices as costs vs. amenities)

There was agreement that:

- Providing deflators and metadata is a key next step, effectively assisting the users

LIS had already explored the internationally available temporal price indices (Eurostat, World Bank). Also, spatial indicators need to be analysed for their actual linking potential to the nationally available microdata.

Data quality and survey design

Recurring concerns included:

- Under-representation of households in the final survey samples of those in the top of income and wealth distributions which could have implications for consumption and expenditure distributions
- Unit nonresponse (an entire sampled unit fails to participate in a survey or cannot be reached, resulting in complete data absence)
- Item nonresponse (a respondent participates but skips specific questions)
- Lumpy expenditures
- Reference period mismatches embedded in survey design.

Participants stressed the importance of:

- Documentation
- Survey design variables (clusters, strata)
- Transparency about limits of harmonisation

This point has been well received by the LIS team. Transparency has been always a major element for the LIS Databases and will be approached very seriously for the LCS as well.

II. Emerging consensus

Across panels and days, several shared positions became clear:

1. **No single "best" consumption aggregate**
   → LCS should provide components and let users construct aggregates.
2. **Modularity is key**
   → Core consumption + optional extensions (health, education, durables, housing).
3. **STIK cannot be ignored**
   → Even imperfect inclusion is better than systematic exclusion.
4. **Comparability should be operational, not doctrinal**
   → Respect national practices while documenting differences.
5. **Consumption is purpose-dependent**
   → Poverty, inequality, welfare, emissions, and distributional analysis require different lenses.

III. Ways ahead for LCS (actionable directions)

1. Provide "LEGO blocks," not a single measure

- Publish a baseline consumption expenditure aggregate
- Provide clearly flagged add-ons:
  - Imputed rent
  - Durable flows
  - Health (distinguishing out-of-pocket, insurance, in-kind)
  - Education (distinguishing out-of-pocket and in-kind)

2. Strengthen metadata and documentation

- Explicit notes on:
  - Reference periods
  - Treatment of durables
  - Valuation methods
  - Survey design limitations

This was repeatedly seen as more valuable than over-harmonisation.

3. Invest selectively where returns are highest

High-priority investments for LIS concern mostly three areas:

- Imputed rents
- Spatial and temporal deflators
- Seasonality diagnostics

Lower priority:

- Valuing the flow of services from durables/ health/education flows
- Clarification of the feasibility of calculating net insurance flows (premiums paid minus insurance-covered expenditure) in a cross-country context

4. Embrace plurality of use cases

Design LCS so it supports:

- Poverty measurement, and analysis
- Inequality analysis
- Welfare and welfare state comparisons
- Environmental studies (e.g., energy poverty, carbon emissions)
- Fiscal and price-related analyses (e.g., inflation inequality, impact of indirect taxation)
- Analyses on the joint distribution of income, consumption, and wealth
- Economic shocks/crises and consumption (expenditure) profiles

Avoid locking the database into a single normative concept.

5. Be explicit about trade-offs

Rather than hiding imperfections:

- Document what is included
- What is excluded
- And why