

Better insights in household inequalities – Distributional national accounts

LCS Workshop

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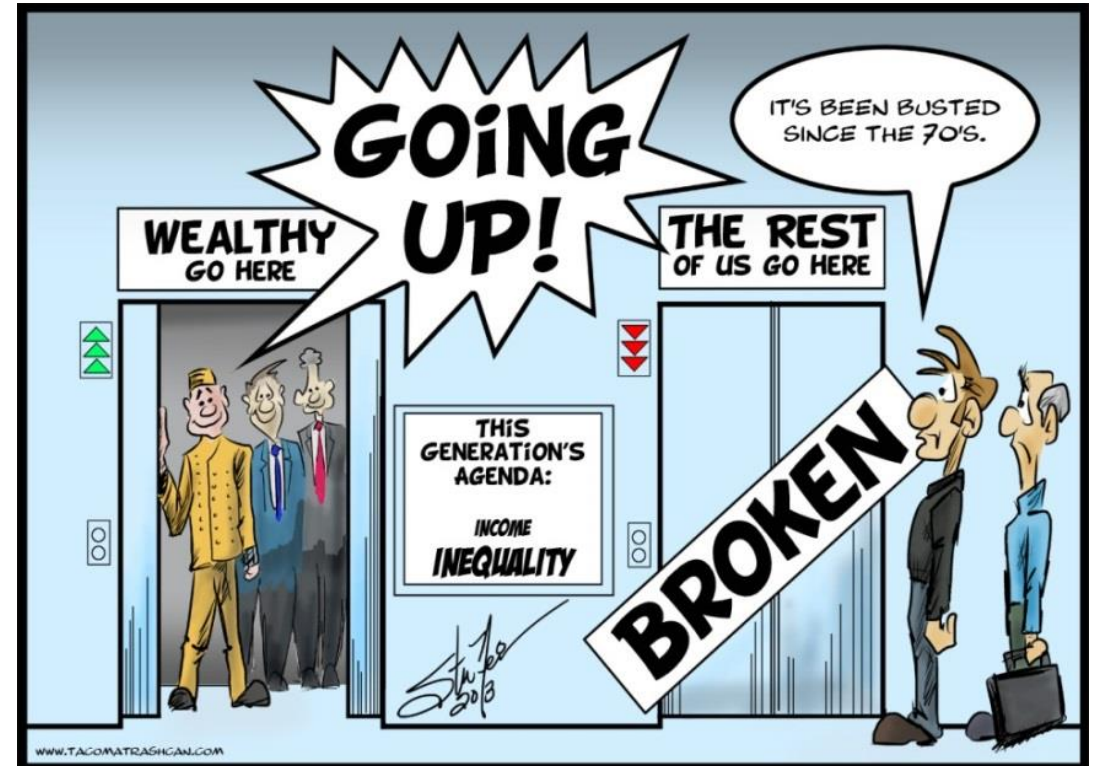


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Introduction

» Introduction

- **Clear need** for systematic, robust and comprehensive data on economic inequality
- A lot of information is already available from **micro statistics**, but increasing emphasis on importance of alignment to **macroeconomic** aggregates
 - **More comprehensive** picture of economic inequality, including elements not covered in micro statistics (e.g., social transfers in kind)
 - In line with **important macroeconomic aggregates**, such as GDP, providing users with “**drill-down**” possibilities for key macroeconomic aggregates
 - Capturing households and transactions that are typically **underrepresented** in micro data
 - A high degree of **international comparability**
- Specific ambitions expressed in the **G20 Data Gaps Initiative**: G20 economies to target regular distributional results at decile level, 18 months after the reference period, by the end of 2026
- The **2025 SNA** includes a specific section on household distributional results

» Distribution of income, consumption and saving

- More than a decade ago, the OECD and Eurostat launched an [Expert Group on Distributional National Accounts](#) (EG DNA)
- Group developed [template](#) and [guidelines](#), and a [handbook](#) was published early 2024
- Calculations performed by members of the group: AUS, AUT, BEL, BRA, CAN, CHE, CHL, CZE, DEU, DNK, ESP, FIN, FRA, GBR, IND, IRL, ISR, ITA, JPN, KOR, LUX, MEX, NLD, NZL, PRT, SVK, SVN, SWE, USA, ZAF
- Centralized approach (in R code) to compile results for countries not engaging in work, relying on LIS data (and hopefully LCS data in the near future)
- Several countries already regularly [publish](#) their results and results are included in online databases of OECD and Eurostat (see latest [working paper](#))
- The work continues, focusing on broadening the [coverage](#) and improving the [quality](#), [granularity](#) and [timeliness](#)

» Distribution of wealth

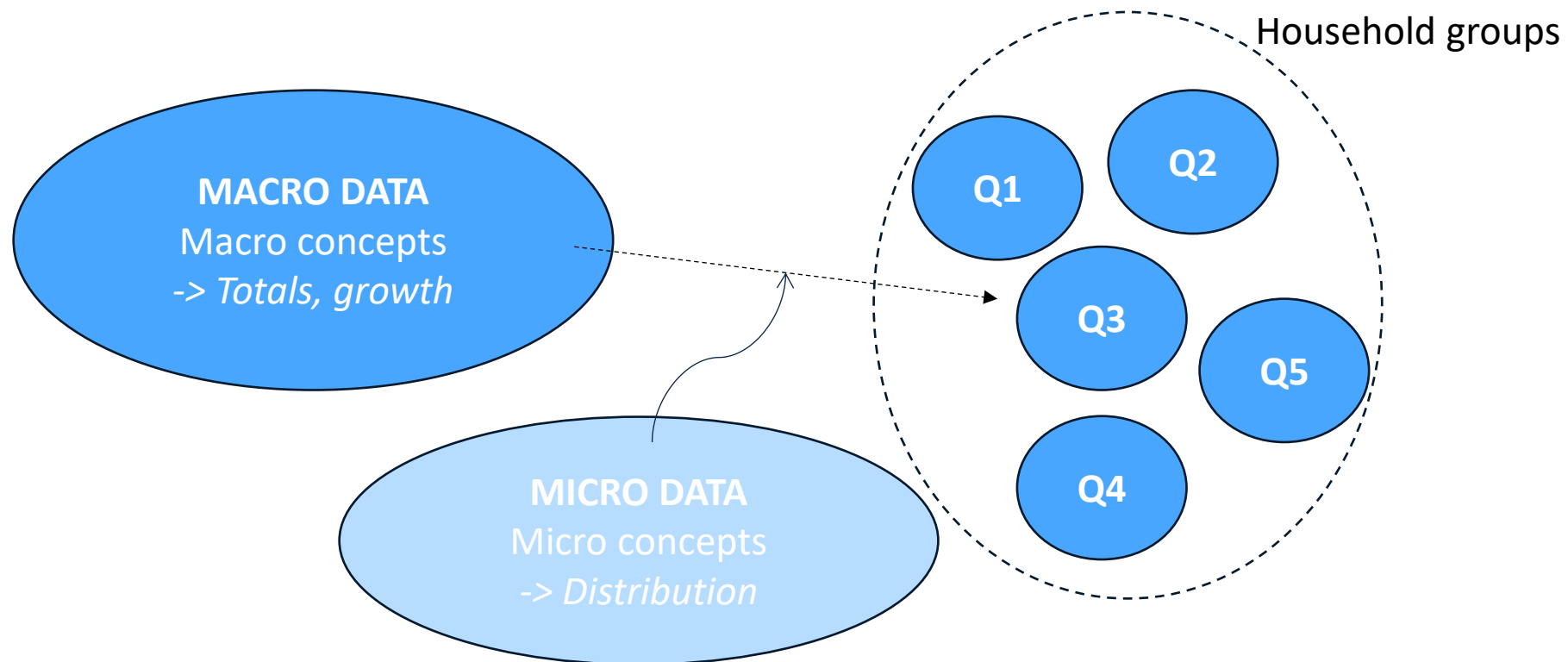
- OECD launched an [Expert Group on Distribution of Household Wealth](#) (EG DHW) in 2023
- Group is developing a [template](#) and [guidelines](#), and already engaged in a first collection round
- Calculations performed by members of the group: AUS, AUT, BEL, CAN, CHE, CHL, CRI, CZE, DEU, DNK, ESP, EST, FIN, FRA, GBR, GRC, HRV, IRL, ITA, JPN, KOR, LTU, LVA, MEX, NLD, NOR, NZL, PRT, ROU, SVK, USA, ZAF
- Work leverages off work already done by the [ECB Expert Group on Distributional Financial Accounts](#) (EG DFA) and by various countries already compiling distributional wealth results
- [Centralized approach](#) will be developed (in R) to compile results for countries not engaging in work, relying on LWS data
- First results received [early 2025](#), still limited in scope, focusing on financial wealth (excluding occupational pension entitlements) and housing wealth (see latest [working paper](#))
- Subsequently, the [scope will be expanded](#), to also include business wealth, occupational pensions and other items (e.g., social security pension entitlements, consumer durables)

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Aim and scope of the work

>> Aim of the work

Develop methodology to produce **distributional** results for household **income, consumption and wealth** consistent with national accounts concepts using micro data sources



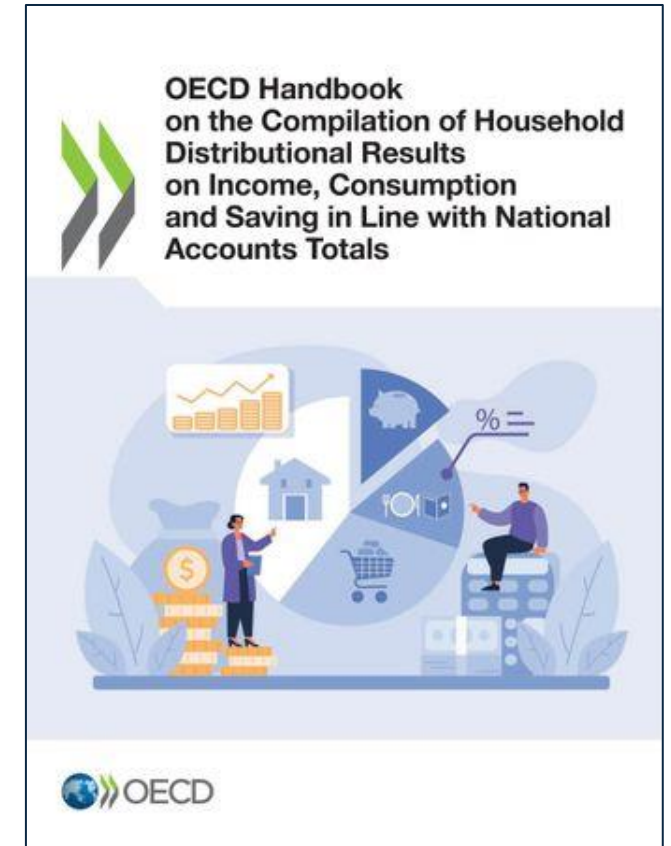
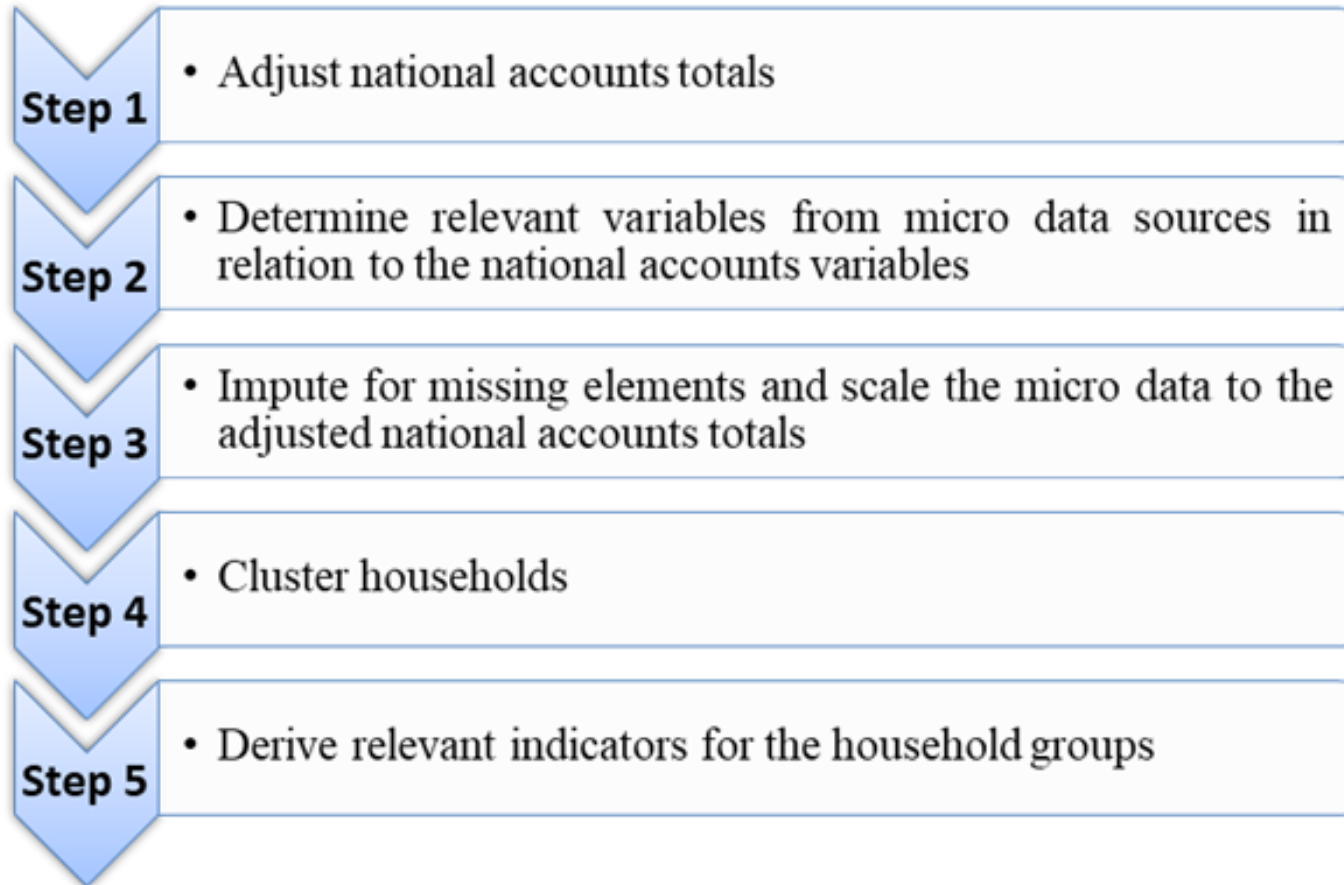
» Scope of the project

- Distributional results for various **household groupings**:
 - **Standard of living** by disposable income and net wealth group (quintile/decile/percentile)
 - Main source of income
 - Household type (size and composition of the household)
 - ...
- The unit of analysis is the **household**, with a focus on private households
- **Equivalence scales** are used to arrive at comparable results across households, although there is still ongoing discussion what scale would be most appropriate for wealth
- Also collection of **socio-demographic information** (age, gender, education level, housing status, etc.) accompanying the distributional results



Methodology

» Step-by-step approach

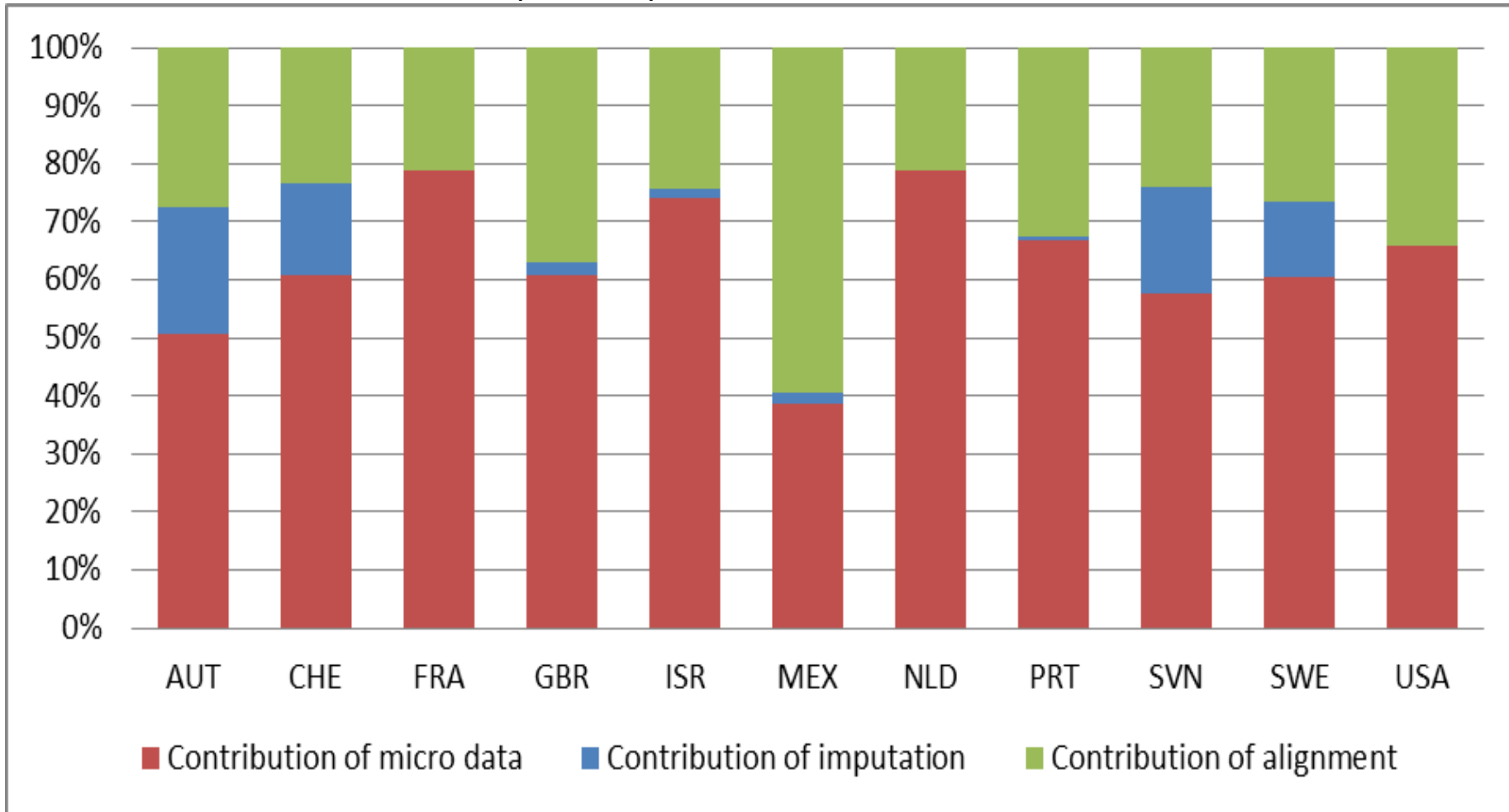


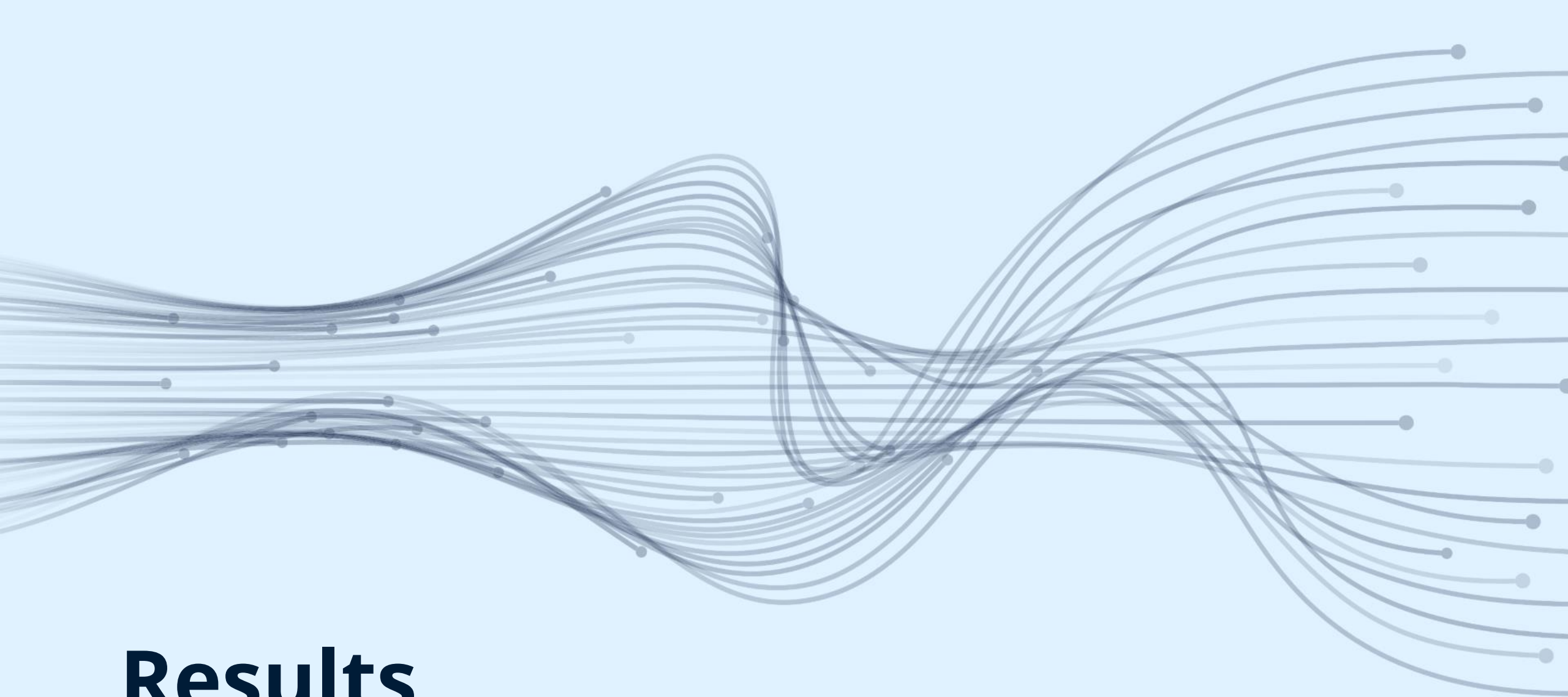
» Main challenges

- Not all items/elements may be covered in micro data sources
 - Some items are specific to the system of national account
 - Some groups of people may not be covered in micro data sources
 - Some (sub)items may not be covered by micro data sources (e.g., income from informal activities)
 - Imputations will be needed before linking the available micro data to the NA totals
- Furthermore, micro aggregates will normally deviate from the macro aggregates
 - It is important to bridge these micro-macro gaps in the best possible way

» Impact of imputations and alignment

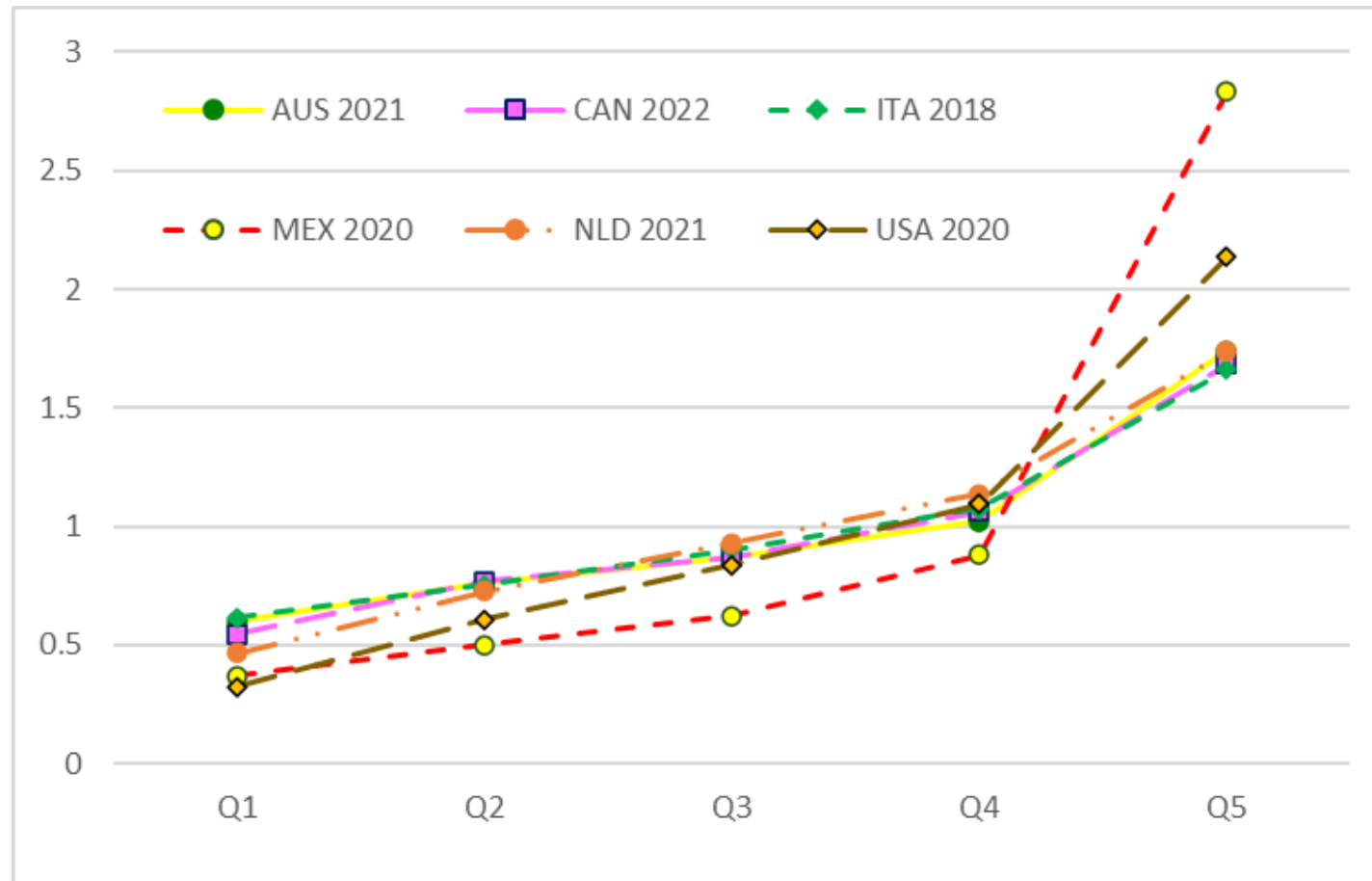
Contributions to actual consumption expenditure



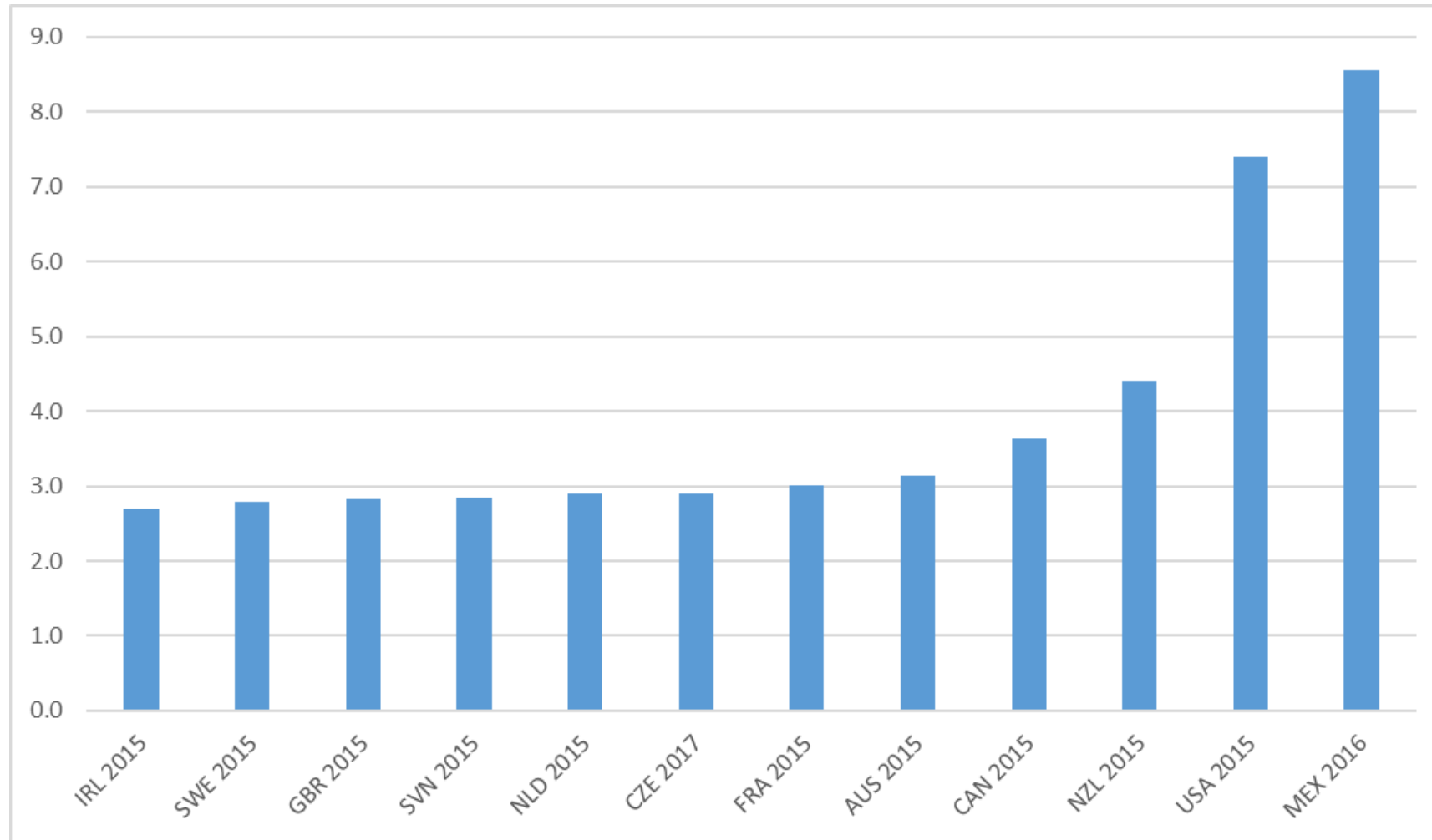


Results

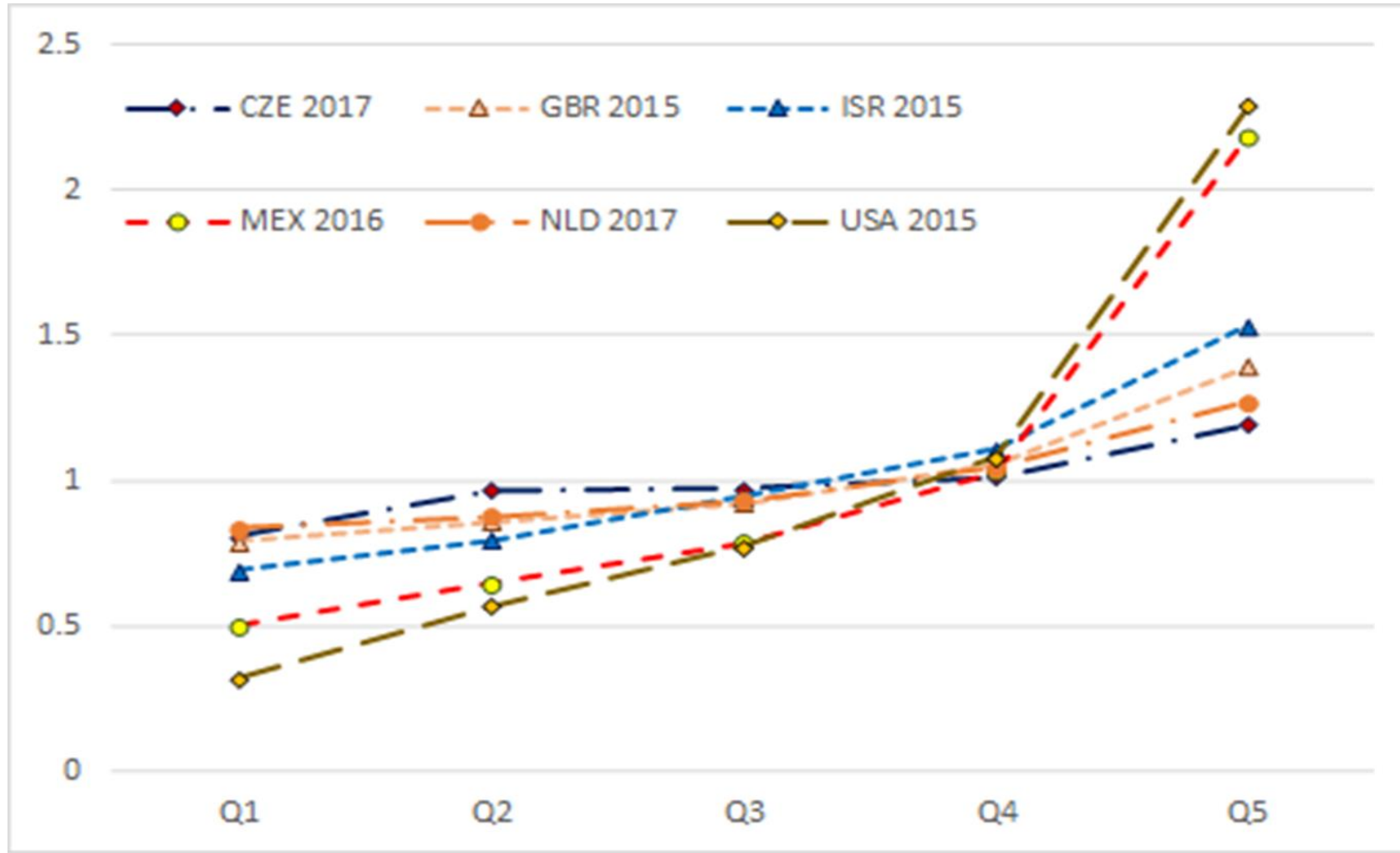
Ratio to average - Adjusted disposable income



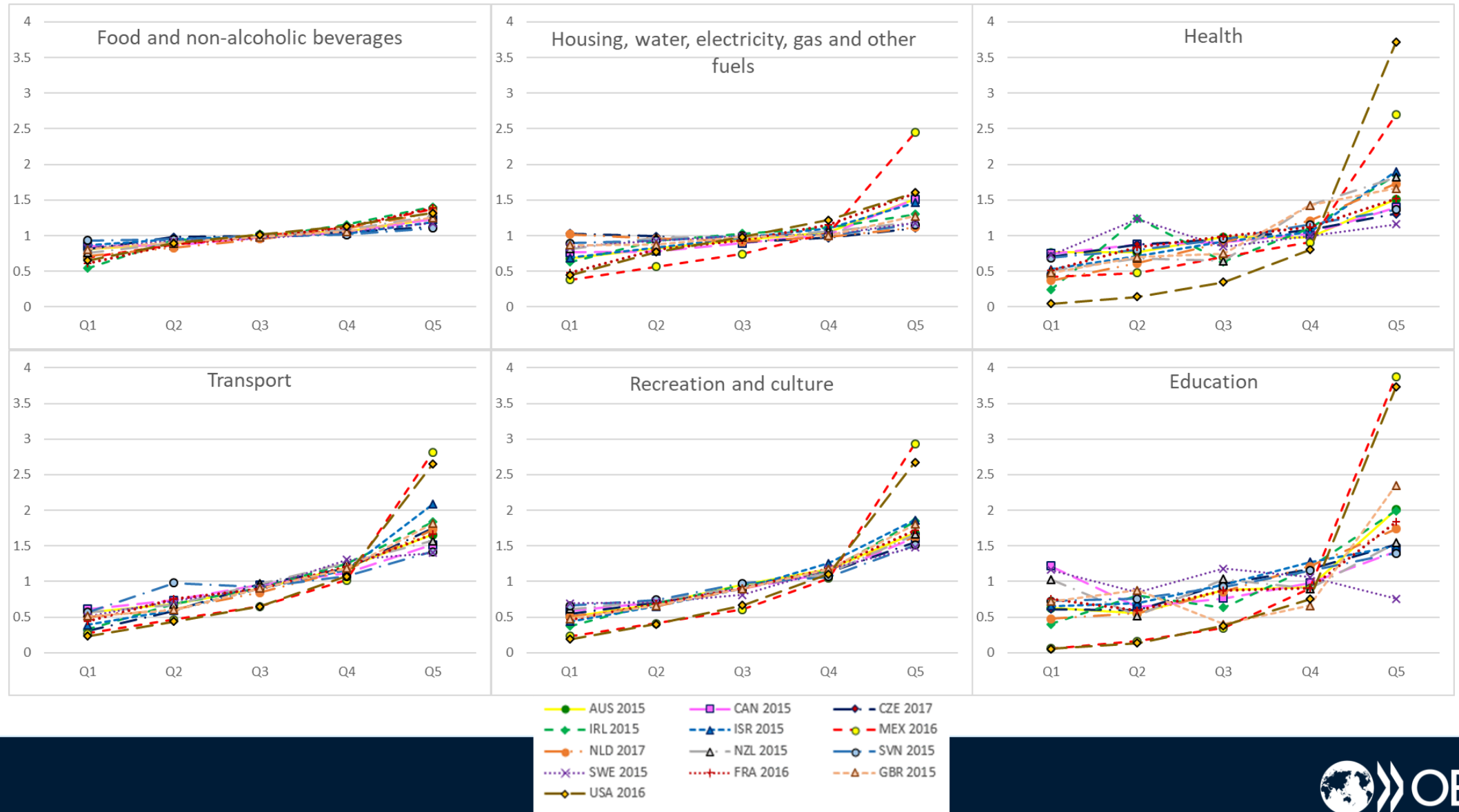
Ratio highest to lowest (Q5/Q1) Adjusted disposable income



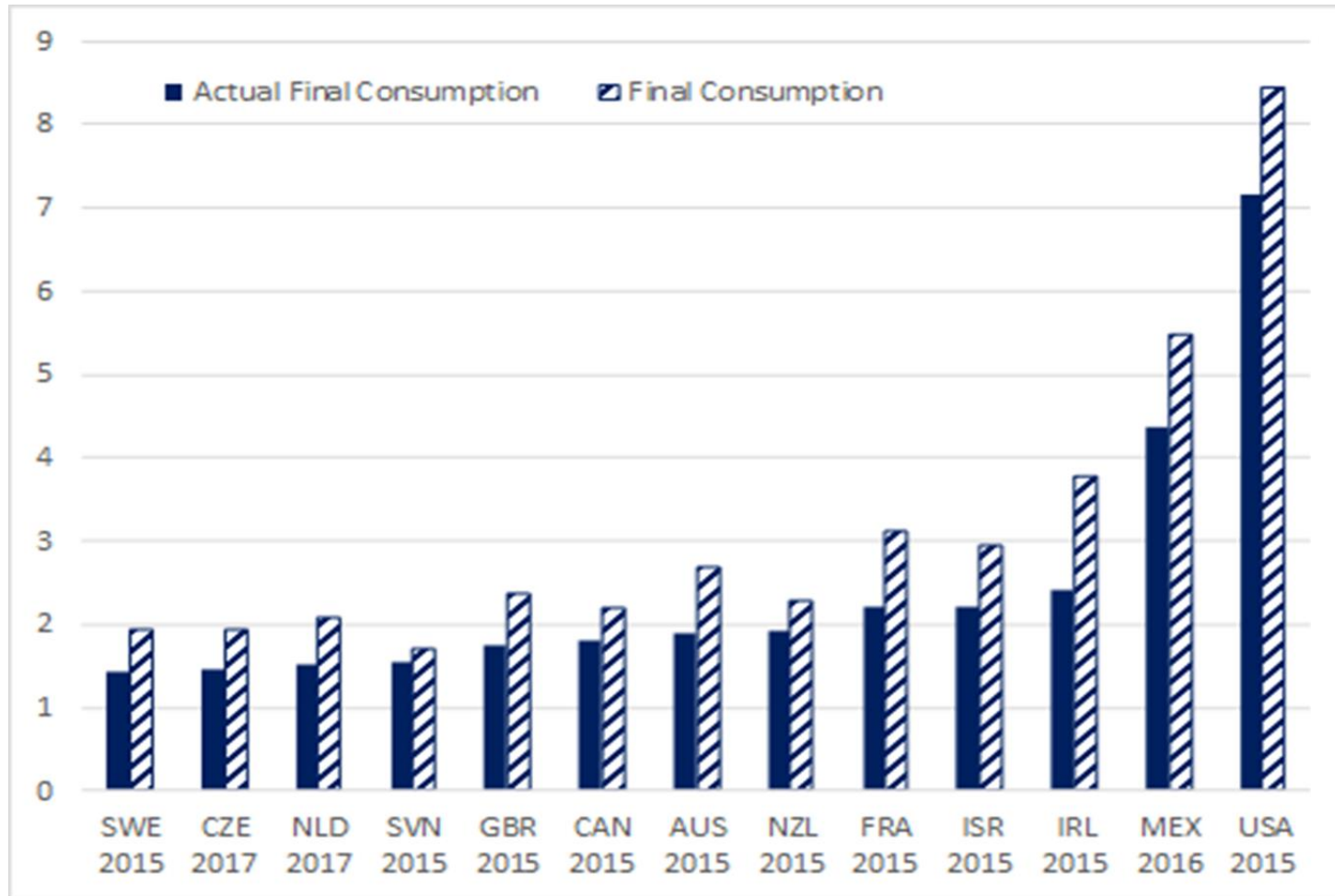
» Ratio to average – Actual consumption



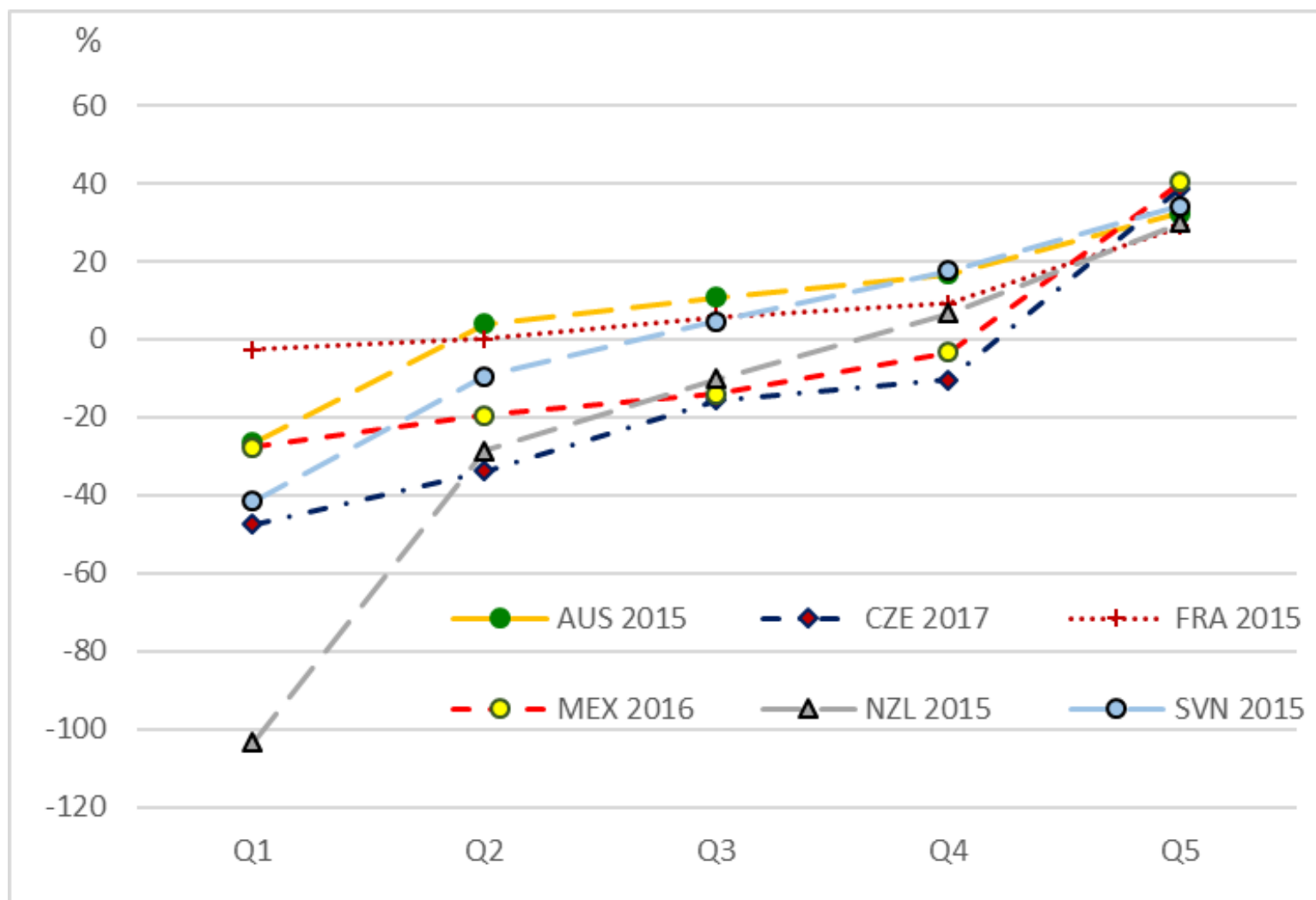
Ratio to average – Consumption items

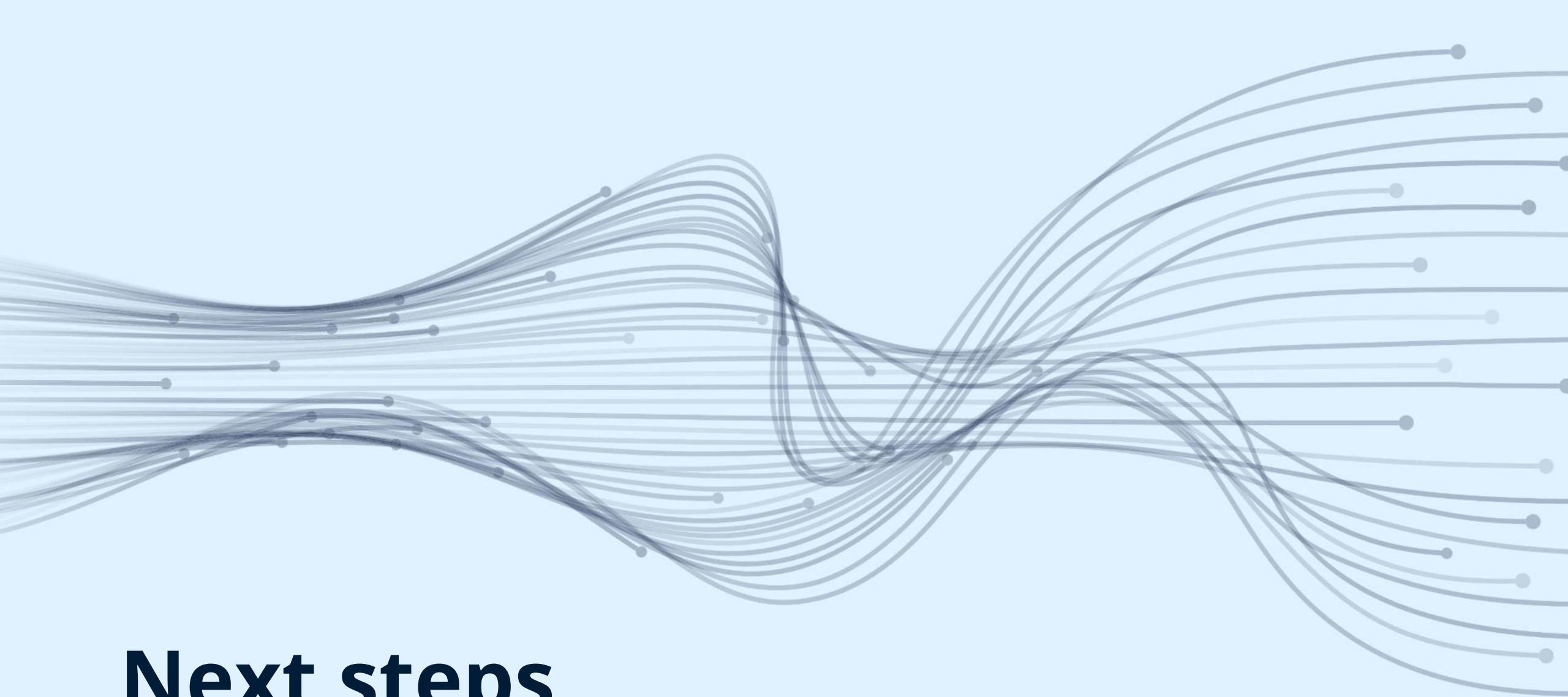


Ratio highest to lowest (Q5/Q1) Actual and final consumption



» Saving ratio





Next steps

» Next steps

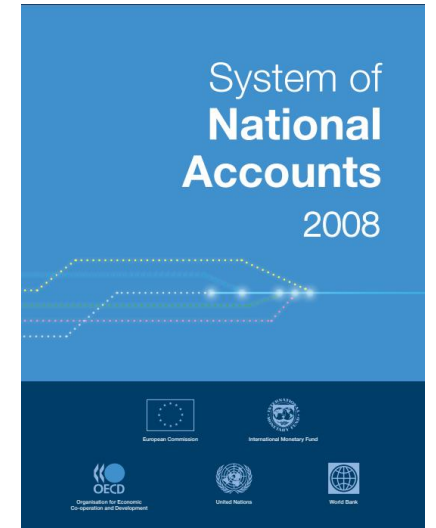
- Broaden the range of countries, by [assisting new countries](#) in developing first estimates and by developing a [centralized approach](#)
- Explore possibilities to [increase granularity, timeliness and frequency](#), and to [expand the wealth concept](#)
- Further [improve methodology](#), particularly in areas of micro-macro gaps and imputations
- Update EG DNA Handbook and prepare first version of [EG DHW Handbook](#)
- Prepare [2026 data collection](#) round, focusing on regular compilation at decile level
- Explore possibilities to develop [joint distributions](#) of income, consumption and wealth

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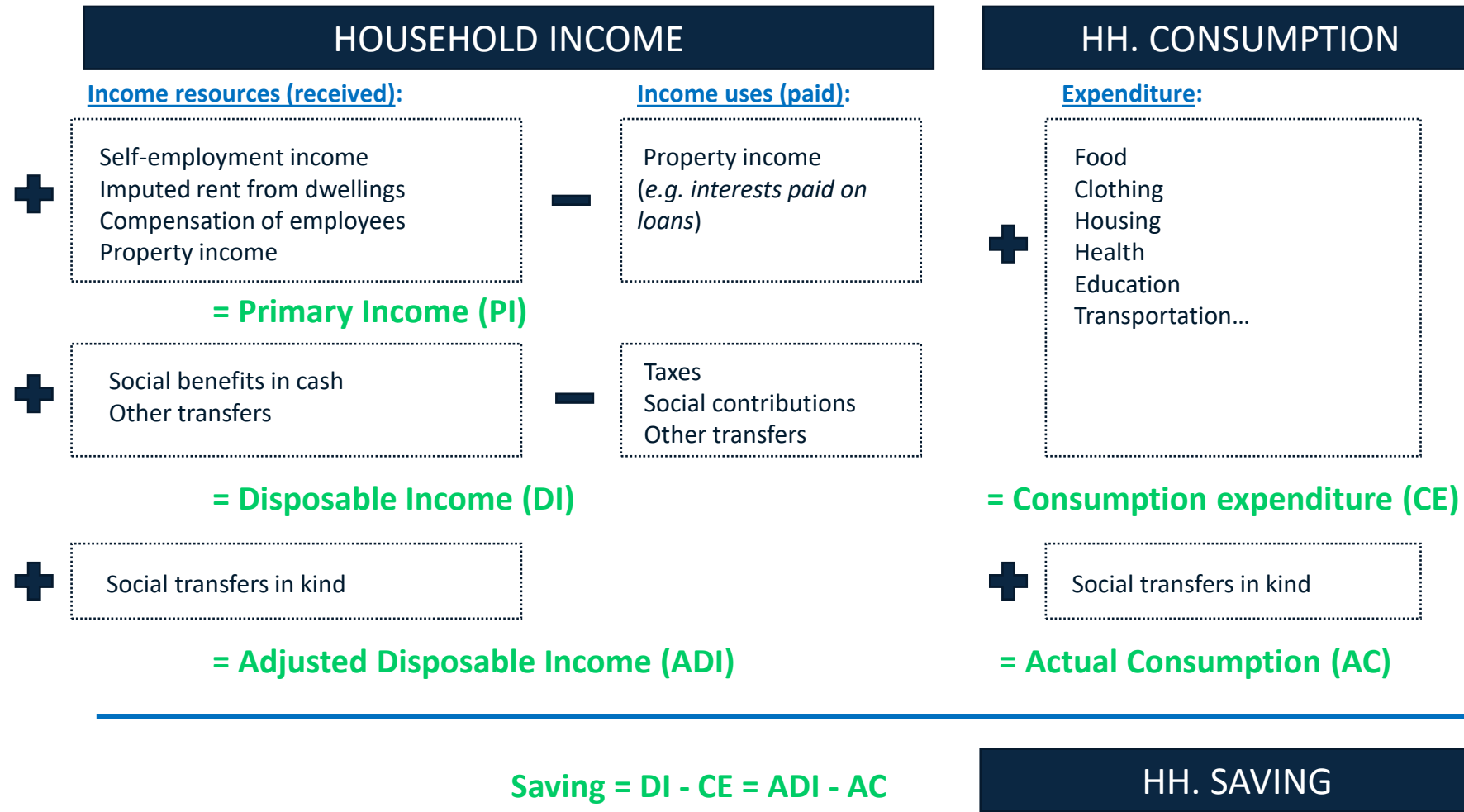
Reflections on LCS paper

» 1. Consumption concept in SNA

- The **consumption concept** in DNA is based on the System of National Accounts
- National Accounts provide a **complete** and **consistent** overview of economic activity in a country
- Data are compiled according to an **internationally agreed set of recommendations**: The System of National Accounts (SNA)
- This leads to a **high degree of comparability** over time and across countries
- All economic activity is reflected in a **consistent framework** where *uses equal resources* and the *balance of financial transactions equals that of non-financial transactions*



Income and consumption concepts in DNA



» 1. Consumption concept in SNA/DNA

Household final consumption expenditure

- Household final consumption expenditure consists of expenditure incurred by resident households on consumption goods or services. [...] It includes the estimated value of barter transactions, goods and services received in kind, and goods and services produced and consumed by the same household (2008 SNA, para. 9.56).
- A consumption good or service is defined as a good or service that is used [...] by households, NPISH or government units for the direct satisfaction of individual needs (or wants) or for the collective needs of members of the community (2008 SNA, para. 9.2).
- Household final consumption expenditure excludes expenditure on fixed assets in the form of dwellings or on valuables:
 - When dwellings are occupied by their owners, the imputed value of the housing services enters into both the output and final consumption expenditure of the owners.
 - Although the owners of valuables may derive satisfaction from possessing them, they are not used up in the way that consumption goods, including consumer durables, are used up over time. (2008 SNA, para. 9.57)

1. Consumption concept in SNA/DNA

Household final consumption expenditure

- Household final consumption expenditure is typically [broken down by COICOP](#) categories
- COICOP refers to the [Classification of Individual Consumption by Purpose](#)
- The latest version concerns COICOP 2018 which distinguishes the following categories:

COICOP 2018			
CP01	Food and non-alcoholic beverages	CP08	Information and communication
CP02	Alcoholic beverages, tobacco and narcotics	CP09	Recreation, sport and culture
CP03	Clothing and footwear	CP10	Education
CP04	Housing, water, electricity, gas and other fuels	CP11	Restaurants and accommodation services
CP05	Furnishings, households' equipment and routine household maintenance	CP12	Insurance and financial services
CP06	Health	CP13	Personal care, social protection and miscellaneous goods and services
CP07	Transport		

» 1. Consumption concept in SNA/DNA

Household actual final consumption

- **Household actual final consumption** consists of the consumption goods and services [acquired](#) by individual households (2008 SNA para. 9.81).
- It is equal to household final consumption expenditure plus the value of the expenditures incurred by government units and NPISHs on individual consumption goods or services provided to households as [social transfers in kind](#) (such as health care, education, social housing).
- **Time of recording in both concepts:** Expenditures are recorded when the payables are created, i.e., when the purchaser incurs a liability to the seller (2008 SNA para. 9.72)
- **Specific challenge:** Although not explicitly mentioned in the SNA, for the distributional work we have to derive estimates for [second-hand trade](#) and [in-kind transfers](#) between households (e.g., parents paying tuition fee for their out-living children)

» 1. Strengths and weaknesses

Strengths:

- Internationally harmonized concepts
- **Comprehensive measures** that capture important elements often missing from other concepts, e.g., social transfers in kind, imputed rent, insurance services, banking services
- **Full consistency** across income, consumption and wealth
- Full alignment with other macroeconomic statistical concepts

Weaknesses:

- Include items that may not be regarded as consumption by users, e.g., FISIM, consumer durables
- Exclude items that may be regarded as consumption by users, e.g., insurance premiums, valuables

Limitations/challenging items:

- Treatment of **health care**: Consumption item or investment?
- Treatment of (consumption financed by) **insurance benefits**: Capital transfer (and expense) instead of current transfer (and consumption)
- Treatment of **consumer durables**: Consumption item or investment?

» 2. Cross-country comparability

- **Crucial** as input for cross-country comparisons
- This is the **main goal of aligning to national accounts** totals
- Conceptual comparability versus practical comparability:
 - The DNA work ensures conceptual comparability, but still faces **challenges** to arrive at comparable results in practice, given institutional differences and differences in data situations across countries
 - **Guidance** aims to provide countries with common solutions to deal with common issues
 - Practical comparability issues will also be important for LCS; Meta-data will be a minimum requirement
- The inclusion of **social transfers in kind** is important, i.e., it makes a huge difference if you have to pay for these services out-of-pocket or whether they are provided for free
- Also, inclusion of **imputed rent** is essential to have a fair comparison across households, showing that all household consume housing services, but that home-owners have an income benefit as they can provide these services to themselves

» 3. Reflection on LCS note

- My first generic comment is that it would be important to [distinguish between the database and the core indicator\(s\)](#)
- In that regard, the database is expected to serve [many policy users and researchers](#)
- As they will have [different policy needs and research questions](#), it is expected that they may be interested in different consumption items and/or consumption aggregates
- It will be important that the database provides the relevant inputs ([‘lego blocks’](#)) via which the various users can ‘build’ their own measures
- In addition, it may be useful to [define two or three core measures](#) that are recommended for specific policy purposes
- A measure to analyse and compare [current well-being](#) may be an important aggregate
- However, [alternative aggregates](#) may be considered, e.g., that serve longitudinal analyses of consumption and saving behaviour (e.g., including extraordinary expenses) or that analyse the impact of increasing in-kind benefits on out-of-pocket consumption (e.g., including all STiKs)

» 3. Reflection on LCS note

Looking at the questions in the document, I agree that:

- **Household** should be the reference unit
- Focus should be on **private households**, but still useful to provide data (and guidance) on consumption by people living in institutional households
- Expenditure amounts should be expressed in the form of **annualized** results and recorded in **nominal values**
- The **acquisition approach** should be followed to value most consumption expenditures (although I noticed that section II.2.c-sub 1 seems to (conceptually) advocate actual consumption or use of the good or service?)
- **Intertemporal and interarea indices** should be further explored to reflect differences in price levels and trends
- Flow of **housing** (or shelter) services, **home-grown food** (and other self-produced goods), **minor maintenance and repair** of dwellings should be included
- **Subsidies and rations** should be accounted for in the consumption aggregate (i.e., valuing expenses at purchase price)
- Consumption of **financial services** should be estimated
- **Extraordinary expenses** should be included in separate category. Whether or not to include them in the consumption aggregate depends on specific purpose of this aggregate

» 3. Reflection on LCS note

Inclusion/exclusion of [consumer durables/unpaid domestic services](#):

- In the SNA, [unpaid service work](#) (such as cooking, cleaning, shopping, care taking, etc.) [is excluded for pragmatic reasons](#), i.e., it is too difficult to arrive at comparable results. For that reason, consumer durables are treated as ongoing consumption as they do not give rise to services feeding into production of services
- [The 2025 SNA recommends the development of an extended account on unpaid household services](#) in which consumer durables will be treated as capital inputs into unpaid household services, which implies that expenses on consumer durables will be treated as investments
- In this regard, I would be in favour of inclusion of data on [consumer durables as a separate item](#) in the LCS database, leaving the option for researchers to include it as part of consumption or to treat it as investment. It may also be considered to estimate production and consumption of unpaid household services in future
- Thus, looking at [issue 8](#): I agree that consumption flows from durables are excluded from the main consumption aggregate, but to consider alternative concepts that do include these.
- Looking at [issue 9](#): I agree that consumption from unpaid domestic services is not estimated for now, but it may be something to consider for the future.

» 3. Reflection on LCS note

Treatment of [insurance](#):

- In the SNA, insurance is regarded as a form of [income redistribution](#), i.e., insurance schemes enable that income is redistributed to those affected by certain events
- The role of insurance companies is to enable this redistribution in [exchange for a fee](#)
- Insurance premiums (net of fee) reduce disposable income whereas benefits increase disposable income
- Only the fee is recorded as (household) consumption expenditure
- If the full premium would be recorded as consumption, how would the benefits be recorded?
- My main concern is that whereas the redistribution of income approach may work from a macroeconomic perspective, it may make less sense from a micro perspective. In that regard, for the EG DNA work, we have been exploring the possibility to treat (at least) insurance benefits as [capital transfers](#)
- This would also do more justice to the fact that a lot of [insurance benefits will be irregular and large](#), used to cover major losses/damages, for which the recovery expenses will often be regarded as [investment](#)
- Please note that the recording of [lotteries and gambling](#) follows a similar approach
- Thus, looking at [issue 13](#), I would not be in favour of including the total insurance premium in the consumption aggregate, although I understand the practical difficulties in separating out the insurance fee

» 3. Reflection on LCS note

Treatment of [health care](#):

- In the SNA, health care expenses are regarded as [consumption expenditure](#)
- This may make sense for a lot of smaller expenses (i.e., can be regarded as ‘regular maintenance’) but it may not hold for [large, one-off expenses](#) for specific treatments (‘major repairs’).
- It could be considered to see the latter as [investments in human capital](#) instead of regular consumption
- The main challenge for SNA is that human capital is [not \(yet\) regarded as economic asset](#) in main sequence of accounts
- The 2025 SNA recommends the development of an [experimental account on human capital](#) in which it could be considered to treat (large) health care expenses as investment
- In this regard, I would like to see the inclusion of [data on health care as a separate item in the LCS database](#) (potentially distinguishing regular treatments from large, one-off treatments), leaving the option for researchers to include it as part of consumption or to treat the latter as investment
- Please note that with regard to [social transfers in kind](#) on health care, we have been debating whether households benefit from the health care or from insurance against health issues
- Thus, looking at [issue 15](#), I would be in favour of including the costs of health insurance services, but to exclude the health expenses themselves. However, it would still be useful to have their amounts included in the database

» 3. Reflection on LCS note

Treatment of [education](#):

- In the SNA, [out-of-pocket expenses](#) are included as final consumption expenditure whereas [in-kind provision](#) is part of actual consumption (regarded as social transfers in kind).
- I understand the issue that education expenses may be regarded as [investment](#) in human capital instead of consumption expenditure.
- As said, the 2025 SNA recommends the development of an [experimental account on human capital](#) in which education expenses would be regarded as investment
- However, I don't fully understand the rationale in the paper for [only including one of the two](#)
- I understand there may be differences in value, but this can be reflected in the [market value](#) of both elements which would normally lead to comparable estimates
- I also feel that it is important to provide users with insights to what extent households have been benefiting from in-kind (education) benefits (even when they are not on a par with out-of-pocket)
- Thus, looking at [issue 16](#), I would be in favour of including both out-of-pocket expenses on education goods and services as well as in-kind consumption of education

Thank you for your attention!





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