

LCS workshop 14-15 January 2026

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1. Consumption concept, strengths, weaknesses, and limitations

In our paper “The inequality impact of consumption taxes: An international comparison” (<https://doi.org/10.1016/j.jpubeco.2023.104897>), co-written with Julien Blasco and Michaël Zemmour, the analysis relies on a concept of taxable household consumption, defined as total household consumption expenditure minus housing rentals for tenants, using Household Budget Survey (HBS) data harmonized through LIS. This choice reflects the fact that housing rents are generally not subject to consumption taxes; accordingly, a constant tax rate is applied to non-rent consumption.

This approach has several strengths. While it abstracts from the bundle effect by assuming that consumption patterns do not vary significantly across income groups, which may seem a bold assumption given the existence of reduced tax rates for certain goods, it explicitly addresses housing rents, which represent a substantial share of consumption—especially for low-income households—and are systematically excluded from the tax base. Removing rents from taxable consumption mechanically reduces the regressivity of consumption taxes, since rents account for a larger share of consumption among poorer households.

When consumption data are missing, consumption is imputed based on a set of widely available household characteristics: income, total housing costs (actual and imputed rents), household size, marital status of the household head, ownership status, and age of the household head. This strategy is motivated by data availability considerations: housing costs are reported in about 60% of LIS datasets, whereas total consumption is available in only around 25% of them.

Several limitations remain. In some surveys, micro-data do not allow for a clean separation between housing rents and other consumption items. In these cases, a lower effective tax rate is applied to total private consumption, reflecting the inclusion of rents in the tax base. More generally, survey-based consumption is systematically underestimated compared to National Accounts aggregates—a limitation shared with income data. In response, several scaling methods are considered to distribute the missing consumption across income groups, including a homothetic scaling assumption and alternative non-linear approaches that allocate a larger share of unreported consumption to the top of the income distribution. Finally, it is important to note that in National Accounts, imputed housing services produced by owner-occupiers are included both in consumption expenditure and household income, which complicates comparisons with survey-based measures.

2. Cross-country comparability and the role of social transfers in kind (STiK)

From the perspective of international comparisons of living standards and inequality, excluding social transfers in kind—particularly education and health—raises major conceptual and empirical issues. Consumption is a central missing dimension in cross-country comparisons, and public consumption must be included precisely because its level and structure vary substantially across countries, shaping both private consumption needs and household behavioural responses to income changes.

Beyond strategic considerations—given that inequality analysis in the DINA context increasingly integrates public consumption—there are strong analytical reasons to include STiK in consumption. Studying the structure of consumption along the income distribution, and its evolution over time, requires accounting for publicly provided goods and services. Depending on national institutions and policy choices, households with similar incomes may face very different consumption baskets, especially in health and education, making price effects and policy impacts impossible to disentangle without STiK.

Omitting STiK would severely distort comparisons between countries such as France, where healthcare is largely publicly financed, and the United States, where it is mostly private. It would also reduce the attractiveness of the LCS database for researchers, who are increasingly accustomed to having a comprehensive view of household resources. For instance, without STiK, it becomes unclear how to treat issues such as the impact of regulated versus unregulated medicine prices on healthcare consumption.

Evidence from France highlights the central role of social transfers in kind in shaping households' effective consumption and reducing inequality. According to INSEE, publicly provided services—mainly education and health—account for around 50% of the total reduction in income inequality, compared to 23% for monetary social benefits. Collective consumption expenditures (such as defence and justice) contribute a further 16%, while pensions account for about 10%. These figures underscore that a substantial share of households' living standards derives from non-market consumption. Any reduction in public provision of education or healthcare would therefore mechanically increase inequality, as households would need to rely more heavily on private expenditures, which are unevenly distributed across the income distribution.

Cross-country evidence from the System of Health Accounts (SHA), coordinated by the OECD, Eurostat, and the World Health Organization, further illustrates the importance of accounting for publicly financed consumption. Internationally comparable current health expenditure—

aggregating both private household spending and public health expenditures and adjusted for health-specific purchasing power parities—shows that the United States spends approximately 25% more per capita on health than France in the most recent data. This comparison highlights that differences in observed private consumption reflect not only household behaviour but also the institutional organization and public financing of essential services, reinforcing the need to include social transfers in kind when comparing consumption levels across countries.

3. Recommendations for the LCS framework

Consumption and income may diverge across countries for several structural reasons. First, the extent of publicly provided services directly affects households' reliance on private consumption. Second, the provision of social insurance reduces precautionary saving needs and may therefore increase consumption at a given income level. Third, cross-country differences in the cost-of-living shape consumption patterns conditional on income, influencing both the level and composition of household expenditure.

Based on the LCS variable list, aggregation plan, and definitions, **a key recommendation is therefore to allow for the recovery and integration of social transfers in kind**—particularly education and health—in order to compute households' actual final consumption. This would make it possible to compare consumption patterns in these areas across countries, while disentangling price effects, market dynamics, and the impact of public policies.

Relatedly, health insurance premiums deserve specific attention, and the option to track them explicitly would improve the analysis of health-related consumption and protection mechanisms.

Finally, greater differentiation of consumption by geographical location would be valuable. For example, French HBS data show that transport represents the largest budget item for rural households, whereas housing dominates in urban areas. Accounting for such spatial heterogeneity would significantly enhance the relevance and interpretability of consumption-based inequality analyses.