Chapter 32:   Households (revised title and revised content)

A.   Introduction

32.1   The economy functions because people want goods and services and are prepared to work to obtain them. At the most basic level there is subsistence activity where people work to grow food to eat. Any sort of development gives opportunities to earn money by working for others and using it to buy goods and services different from those one's labour has created.

32.2   In addition society recognizes that some individuals cannot participate in the economy in this way and so makes transfers available to the young, the old and the sick, for example. Often these transfers are undertaken by government which redistributes income on behalf of the community at large. In addition, transfers may be made by non-profit institutions or by extended family members, or others, based on traditional and cultural norms. Some individuals do not spend all their income but use some to acquire wealth.

32.3   Lastly there is income arising from the ownership of wealth. At its simplest, wealth is due to the accumulation of income earned in earlier periods (possibly generations earlier). Wealth gives rise to income because others wish to make use of it and pay to do so. In the SNA such payments are called property income. Like income, wealth may be transferred from one owner to another.

32.4   The SNA gives a clear and full accounting of all income accruing to households in the period itemized by type of income. It also accounts clearly for how this income is spent on goods and services, transferred to others or used to acquire accumulate more wealth. However, while the sequence of economic accounts ensures that the accounts of all households are balanced, it does not show how this balance is achieved for subsets of households.

32.5   This chapter is about how to use information from the SNA sequence of economic accounts on the households sector in conjunction with other data sources to investigate the behaviour of households in greater detail. The focus here is on how income is used, how the patterns of income and use vary across types of households – also referred to as subsectors - and about the links between income and wealth at a detailed level. There are many different types of households that can be formed including those grouped by income decile, those undertaking unincorporated production activities and those whose members have specific characteristics (e.g. in terms of number or age of individuals).

32.6   A Such a focus on types of households is of both analytical and policy interest. It is a quite different view of economic behaviour from the predominant view of the SNA which is how income is generated. In the most structured form, accounts for the distribution of income, consumption and wealth across types of households, i.e., household distributional accounts, provide a rich and integrated dataset for the analysis of the household sector.

32.4 32.7   In addition, as introduced in Chapter 2 and elaborated in Chapters 34 and 35, there is a wide range of data about the well-being and sustainability of households that can be organized using accounting approaches that is outside the scope of the sequence of economic accounts. Relevant topics include unpaid household service work, health care activity, education and training activity and human capital. These topics are not discussed in this chapter.

32.5 32.8   The difficulty in disaggregating the households sector arises for a number of reasons that are listed here and discussed further in Section B.4.

   a.   The first is that income is earned by individuals but consumption is undertaken by households.

   b.   The second is that it is difficult to find a basis for subsectoring households such that the households in each subsector behave in a similar fashion to one another. Even if their income patterns are broadly similar, their expenditure patterns may differ according to the number and age of the members of the households. Grouping by the latter may give no similarity in the level of income.

   c.   The third reason concerns the source of data on household income and expenditure. Typically, information on corporations comes from establishment surveys and information on government comes from administrative sources. These sources are fairly comprehensive and are in large part the only source, or at least the primary source, for the data to feed into the SNA. Data for households

~~commonly~~often comes from household income and expenditure surveys ~~but these surveys~~which are based on smaller samples, may be less frequent than establishment surveys and the data from them may be difficult to reconcile with the totals for income and expenditure that emerge from the accounting constraints in the SNA. However, administrative ~~D~~data, for example those from taxation systems, may be available ~~in some countries~~ to provide higher levels of granularity ~~and~~thus supporting improved disaggregation of data by type of household.

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32.7   ~~Structure of the chapter~~

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32.9   The households sector may be viewed in a number of different ways depending on whether the interest is primarily on what sort of production households undertake, what sort of income they earn or what patterns of consumption are portrayed. Given these different perspectives, it is not easy to come up with a single definitive set of subsectors for households. The conceptual and practical reasons for the difficulties are reviewed in section B. A review of possible subsectors is given in section C. The next ~~three~~ four sections (D, E, ~~and~~ F and G) in turn look at households as producers, households as consumers and household income and . ~~The last section, section G looks at~~ household wealth and associated income flows. The last section, section H, discusses accounting for the distribution of household income, consumption and wealth.

B.   Household composition and ~~sectoring~~measurement

1.   Definition of a household.

32.10   It is useful to begin by recalling the definition of ~~a~~the household given in paragraphs [5.xxx]~~4.149 to. 4.157.~~ *A household is defined as a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food*. In general, each member of a household should have some claim upon the collective resources of the household. At least some decisions affecting consumption or other economic activities must be taken for the household as a whole.

32.11   Households often coincide with families, but members of the same household do not necessarily have to belong to the same family so long as there is some sharing of resources and consumption. Households may be of any size and take a wide variety of different forms in different societies or cultures depending on tradition, religion, education, climate, geography, history and other socio-economic factors. The definition of a household that is adopted by survey statisticians familiar with the socio-economic conditions within a given country is likely to approximate closely to the concept of a household as defined in the SNA, although survey statisticians may add more precise, or operational, criteria within a particular country.

32.12   Domestic staff who live on the same premises as their employer do not form part of their employer's household even though they may be provided with accommodation and meals as remuneration in kind. Paid domestic employees have no claim upon the collective resources of their employers' households and the accommodation and food they consume are not included with their employers' consumption. They should therefore be treated as belonging to separate households from their employers.

32.13   Persons living permanently in an institution, or who may be expected to reside in an institution for a very long, or indefinite, period of time, usually one year, are treated as belonging to a single institutional household when they have little or no autonomy of action or decision in economic matters. Some examples of persons belonging to institutional households are the following:

a.   Members of religious orders living in monasteries, convents or similar institutions;

b.   Long-term patients in hospitals, including psychiatric facilities; ~~mental hospitals;~~

c.   Prisoners serving long sentences;

d.   Elderly ~~Old~~ persons living permanently in ~~retirement~~ care homes.

32.14   On the other hand, persons who enter hospitals, clinics, convalescent homes, religious retreats, or similar institutions for short periods, who attend residential schools, colleges or universities, or who serve short prison sentences should be treated as members of the individual households to which they normally belong.

2.   Residence

32.15   As described in Chapter 5, all members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad. While aAll households are resident in the economy that is their centre of economic interest, but also of increasing interest is the phenomenon of a person abroad, often but not necessarily a family member, who remits significant amounts to the family in the domestic economy. (The same phenomenon also exists within a country, between urban and rural areas, for example.) The aspect of people moving abroad in response to better employment prospects may be seen as another facet of globalization and one that may have a significant impact on the distribution of income across householdscan be deserves to be monitored through the household distributional accounts (section H). The recording of remittances is discussed in detail in BPM Appendix 5.

3.   Unincorporated enterprises

32.16   All households undertake final consumption and, to a greater or lesser extent, all undertake accumulation but a household does not necessarily undertake production. To the extent possible, the production activities within households are treated as being undertaken by quasi-corporations, included in one of the corporations sectors and separated from the rest of the household sector. However, as explained in paragraphs 5.xxx, a quasi-corporation can only be created when a full set of accounts, including balance sheet entries and information about withdrawals of income from the quasi-corporation, is available. Very frequently, and especially so in the case of a professional working alone, there may be complete information available on the production activities but it may not be possible to separate out other income flows, transfers and financial transactions relating to the production activity from those for the household in general. In this case as well as in ones where even the information on the production activity is incomplete, an unincorporated enterprise remains as part of the household.

32.17   Even when a quasi-corporation can be created and removed from the rest of the household accounts, the household may still include an unincorporated enterprise relating to other activity. For example, within a given household one person may be able to separate the production activity of repairing vehicles but another may not be able to separate the production activity of providing food for sale from the rest of the household's activities. Moreover, many households without any other production activities will contain unincorporated enterprises providing housing services from owner- occupied dwellings and from employing domestic staff.

32.18   Just as there may be production undertaken within the households sector, there may be people providing labour to these unincorporated enterprises. Members of the household who work in the unincorporated enterprise are called self-employed and their remuneration is termed mixed income rather than compensationremuneration of employees. Individuals who are not members of the household who are employed in an unincorporated enterprise are employees. It is possible but not always likely that the enterprise also pays for social security for these people. It is possible but even less likely that the householdenterprise may offer other social insurance benefits to their employees.

32.19   There is further discussion about labour input employment within households in chapters 1619 and 3925.

4.   Determining subsectors

32.20   As noted in the introduction, the difficulty in disaggregating the households sector arises for a number of reasons. The first is that income is earned by individuals but consumption is undertaken by households. While all households contain all individuals, it is very difficult to associate particular income recipients with particular household groups, i.e. subsectors. It is possible to have one table showing the types of income earned and the types of individuals receiving them. It is also possible to have a table of types of households and the pattern of

household consumption of each. Only in the highly stylized situation of one income earner only per household (and only one source of income) can the type of income be matched with the type of household and even then only if households are categorized according to the type of income. The problem could be compared to that of the supply and use tables but whereas it is possible to establish which industries make which products, there is no natural relationship between individuals as income recipients and the household to which they belong when households are grouped by any criterion other than main income source.

32.21   The problem of trying to link income flows from the SNA with an analytically meaningful a desirable set of household characteristics means that is one of the most difficult aspects of building a social accounting matrix. Vvery often it is necessary to revert to modelling to reconcile income related to individuals to consumption related to households.

32.22   The second problem is related to the homogeneity of households. Various criteria may be used to disaggregate the sector (discussed in section C) but whatever criterion is used, it is difficult to assert that the behaviour of the sample of households within a group is typical of the whole. This is a difficulty not normally encountered in industrial classifications and surveys. For example, if a survey covers 50 per cent of firms in a given industry it is probably reasonable to suppose that the pattern of expenditure is typical of the whole. If an enterprise doubles its turnover, the level of intermediate consumption will probably approximately double but its composition may not alter significantly. Such assumptions are very suspect in the case of household groups. This is another area where it may be necessary to use modelling to underpin analysis, difficult to use a social accounting matrix for analysis without having further recourse to modelling, this time to determine how individual households within a groups of households react to different stimuli.

32.23   The third reason concerns the sources of data on different types of households. The information for the corporations sectors generally derives from enterprise surveys. The household aggregates of income and expenditure are then known from the accounting identities in the sequence of economic accounts. While it is true that information from household surveys may sometimes reveal errors in industry data or vice versa, it is more problematical to take information from household surveys on, say, expenditure patterns of one group of households and suppose all other members of the group behave in the same way. For this reason a household income and expenditure survey is often reported as a freestanding exercise and integration with the national accounts totals is not as frequently undertaken as part of compiling the full set of nationalsequence of economic accounts. as is the case with establishment surveys. In order to explore why this may be so, it is useful to look briefly at some of the problems experienced with household surveys.

5.   Household surveys

32.24   Any attempt to disaggregate the households sector is likely to be dependent on a household income and expenditure survey. The conventions adopted by survey statisticians and those of national accountants are not always the same. A household expenditure survey for example may not include estimates of owner-occupied housing services imputed rental of owner-occupied dwellings or own account production for own final use. It may measure income after tax and measure expenditure on a cash and not on an accrual basis. Various publications have been prepared to examine such differences and make recommendations on how to reconcile survey data with national accounts requirements. Particularly relevant is the *Final Report and Recommendations of the Expert Group on Household Income Statistics* (Canberra group, 2001) and *Household Income and Expenditure* (International Labour Organization, 2003). In addition, relevant information concerning the use of micro data is available in the international guidelines for measuring the distribution of household wealth in micro statistics (OECD, 2013), and the framework for the integrated analysis of micro data on household income, consumption and wealth (OECD, 2013).

32.25   A major problem with household surveys is that it is very common for respondents to underestimate or underreport their income. This may be deliberate or may simply be a lack of understanding of what should be included, a lack of access to detailed information or simple forgetfulness.

32.26   Similarly some items of consumption are regularly underreported, most notably expenditure on alcohol and tobacco. On the other hand, consumption of some items is over-reported. For example, if a survey asks for expenditure on durables based on the recall of the respondent of what has been spent over the last two or three years, people often underestimate how long it is since purchases were made and will report more expenditure in

Commented [ED1]: Although not raised as a topic for updating in the 2025SNA, following feedback on the revised chapter, it is intended to review the text in this section (and other places in the chapter as relevant) to ensure that the content is current with respect to advances in the collection of households statistics

this period than has actually been the case. ~~This phenomenon does not only apply to very large items of expenditure; it is reported that household surveys have suggested that the purchase of toothbrushes, for example, is many times higher than in the sales reported by shops.~~

32.27   The problem of non-response is a concern in household surveys since it is quite likely that some of the households that refuse to respond have income and expenditure patterns that are different from respondents. For example people with incomes arising from illegal activities may be very reluctant to supply information and may choose not to participate in the survey. Similarly it is common for households at the very top and very bottom of the distribution to be omitted from the survey either by design or on the grounds of practicality.

32.28   Household surveys may be designed to investigate particular phenomena that are not necessarily the primary interest for national accounts. For example, they may be restricted to low income earners in urban areas. While this information is highly valuable and useful, it is not sufficient to produce aggregate figures for national accounts. Sometimes even if the coverage is more comprehensive, the sample size may not be such as to allow disaggregation along the lines desirable within the sequence of economic ~~national~~ accounts. It is important to realize that a desired pattern of subsectoring should be determined before the survey is undertaken to ensure the desired characteristics will be adequately represented in the survey sample.

~~32.28~~32.29   Advances in the alignment of micro and macro data sources for the household sector have been made, particularly in the context of developing distributional accounts for households. For this purpose the reconciliation of data items across different households subsectors is a core part of the measurement approach. Section H provides an overview of relevant issues.

C.   Subsectoring households

1.   The production perspective

~~32.29~~32.30   A first consideration is to investigate the possibility of subsectoring households according to their involvement in production. This may be done following the pattern shown in chapter 39~~25~~ to identify informal and other production activity undertaken by households.

~~32.30~~32.31   The first division is to separate institutional households and those households that do encompass an unincorporated enterprise from those that do not. Thereafter it is straightforward to identify those households whose only productive activity is connected with the owner occupation of houses or the employment of domestic staff. The households that are left may be further divided between those that employ staff to work in their unincorporated enterprises and those that do not. As described in the chapter on the informal sector, when proceeding along these lines it is sometimes desirable to identify the type of productive activity of an unincorporated enterprise, in particular identifying agricultural activity separately from other types of productive activity.

~~32.31~~32.32   Within the SNA, all household enterprises that can be treated as quasi-corporations because they have complete sets of accounts showing their ownership of assets (separately from those of the household to which they belong) and the withdrawal of income to their owners are classified in one of the corporations sectors. The number of household enterprises that can be treated as quasi- corporations, and thus removed from the households sector, varies considerably from country to country depending on the availability of accounting information and the resources available to identify such enterprises and treat them as quasi-corporations.

~~32.32~~32.33   Although it is possible to identify households that only have owner-occupied housing as their ~~unincorporated enterprise~~productive activity, in many cases ~~other unincorporated enterprises~~households will use their dwellings for a number of purposes. ~~undertake owner occupation of their houses as well.~~ While from a production point of view it is possible to separate the different types of production activities, for the institutional unit as a whole it is not possible to make this separation.

~~32.33~~32.34   In most countries, many households do not have unincorporated enterprises, so when subsectoring is done according to production undertaken by households, those without unincorporated enterprises are grouped together in a single, very large, subsector. The only common factor these households share is that they do not have an unincorporated enterprise. Thus while subsectoring households according to production is useful in some circumstances it has ~~its~~ limitations in terms of identifying the role of different types of households in the economy.

2. The consumption perspective

32.3432.35　　It is widely observed that as household income rises so the pattern of consumption changes. The proportion of expenditure devoted to food and other necessities declines as more income is available and more expenditure is devoted to more luxury goods. Thus one approach to disaggregating households according to consumption patterns is in fact to disaggregate by level of income, assuming this captures the differences in consumption patterns. Studies showing consumption patterns according to income deciles are quite common and give interesting information about how patterns of consumption change as the overall level of income increases.

32.3532.36　　The question arises of how household consumption patterns may relate to incomes of individuals. There is no obvious way to identify how recipients of income fall into one or other income deciles when thoese deciles are calculated on a household basis. Households with a high aggregate income may result from one very well-paid worker or from a number of middle income earners. Further, although the production account shows total compensation remuneration of employees and it may be possible to compare this to the total number of employees, this gives no information about the distribution of income across the labour force in the enterprise. Not all income comes from compensation remuneration of employees and the effect on total household consumption of other sources of income is equally uncertain.

32.37　　Using the level of household income as a proxy for consumption patterns has some significant problems. One possible disaggregation of households where consumption patterns might be significantly different would be according to whether the household includes children and, where it does not, whether the household is relatively young (and may be setting up home for the first time) or relatively old elderly (where expenditure on consumer durables may be lower than for other groups). However, here again there is no easy way to link the source of the income with the type of consumption of the household in which the income recipient resides.

32.3632.38　　While using the level of household income as a proxy for consumption patterns has some challenges, approaches for making suitable adjustments have been developed. At their simplest, national accounts measures often use a per capita approach or divide the income of the household by the number of household members. These simple adjustments, however, assume that there are no economies of scale from living in the same household. To reflect this effect, equivalence scales can be used to adjust household income to reflect the economies of scale achieved in consumption by households comprising more than one person. Section H provides a longer introduction to the use of equivalence scales.

3. The income perspective

32.3732.39　　An alternative more promising approach to subsectoring appears to come from considersing not the level of income and consumption but the type of income. In this approach As proposed in chapter 4, the following scheme might be considered.hHouseholds may be grouped into subsectors according to the nature of their largest source of income. For this purpose, the following types of household income need to be distinguished:

    a. Income accruing to the owners of household unincorporated enterprises with paid employees (employers' mixed income);

    b. Incomes accruing to the owners of household unincorporated enterprises without paid employees (own-account workers mixed income);

    c. Compensation Remuneration of employees;

    d. Property and transfer incomes.

32.3832.40　　Households are allocated to subsectors according to which of the four categories of income listed above is the largest for the household as a whole, even if it does not always account for more than half of total household income. When more than one income of a given category is received within the same household, for example, because more than one member of the household earns compensation remuneration of employees or because more than one property or transfer income is received, the classification should be based on the total household income within each category. The four subsectors are described as follows:

a. Employers;

   b. Own-account workers;

   c. Employees;

   d. Recipients of property and transfer incomes.

~~32.39~~32.41   The fourth subsector, households for which property and transfer incomes make up the largest source of income, constitutes a heterogeneous group and it is recommended that it should be divided into three further subsectors when possible. These subsectors are defined as follows:

   a. Recipients of property incomes;

   b. Recipients of pensions;

   c. Recipients of other transfer incomes.

4.   Using a reference person

~~32.40~~32.42   Other methods of subsectoring usually require a reference person to be identified for each household. The reference person is not necessarily the person that other members of the household regard as the "head of the household", as the reference person should be decided on grounds of economic importance rather than age or seniority. The reference person should normally be the person with the largest income although the reference person could also be the person who makes the major decisions with regard to the consumption of the household.

~~32.41~~32.43   Once a reference person has been identified, it is possible to group households into subsectors on the basis of the reference person's characteristics. For example, subsectors may be defined according to:

   a. Occupation of the reference person;

   b. Industry, if any, in which the reference person works;

   c. Educational attainment of the reference person;

   d. Qualifications or skills possessed by the reference person.

5.   The consequences of demographic change

~~32.42~~32.44   A growing policy interest in some countries is the effect of demographic change on household well-being and the response required by government. For example, in an ageing population, there may be less demand for educational services and more for health services.

~~32.43~~32.45   Another concern is whether pension provision is sufficient to ensure that individuals have an adequate level of income in retirement without looking to government for income support. A focus on such issues might suggest subsectoring households according to whether the reference person ~~main income earner~~ is (i) in work, (ii) of working age but not in work, or (iii) in retirement. Again, categorization according to the main income earner will give different results from categorizing income as a whole.

6.   Other considerations

~~32.44~~32.46   It is possible to consider subsectoring households on quite different grounds. Examples include the number of persons in the household, the region where the household is located, ~~the qualifications or education level of the head of the household,~~ the industry where the ~~head of the household~~reference person works, whether the household owns property or other assets and so on.

D.   Households as producers

1. Households and the informal sector

32.4532.47   In all countries, there are some production activities undertaken by households. Many of these may be described as informal and, as described in chapter 3925, measuring the extent of the informal sector and how this changes as the economy develops gives particular insight into the extension of the market economy beyond formal enterprises.

32.4632.48   The difficulty of separating the productive activity of a household from the rest of the institutional unit has been discussed in a number of places in earlier chapters, particularly in chapter 45, and is referred to above in discussion about the subsectors for households. This section therefore discusses only some aspects of those productive activities that inevitably remain within the households sector.

2. Agriculture

32.49   In some countries, subsistence agriculture, or indeed the results of any agricultural production which are used entirely by those responsible for the production, is a very significant part of household consumption and by extension of GDP. In countries where much of the staple food is grown for own consumption, and it is seasonal, it is necessary to consider whether some part of the increase in the value of the crop due to storage is part of production. There are details of how this may be done in the annex to chapter 67.

32.4732.50   It should be recalled that the purchaser's price for agricultural products used for own consumption does not mean the price at the nearest local market which would include transportation costs. The market price is the price that somebody would pay for the crops where they are grown. This is frequently called the farm-gate price.

32.4832.51   In principle, all fruit and vegetables grown for their own use by households with small allotments or large gardens should be included within the production boundary, even in developed countries. In practice it is unlikely to be worth the effort of making estimates unless the amounts involved are significantly large.

3. Housing

32.4932.52   In almost all economies, a large number of households live in dwellings that they own, thus requiring estimates of owner-occupied housing services. The size of the rental market may be very small and may be confined to some areas, for example urban areas, which makes it difficult to use observed market rentals as a means of estimating the services provided by all owner-occupied dwellings. In chapter 2018, it is explained that in principle the rent on an capital asset can be calculated by applying a discount factor to the value of the asset stock of capital at the beginning of a period, so if the value of the house is known, a figure for the services provided can be estimated. However, this approach also is problematic in those circumstances where there are no data on the stock of capital or where there is uncertainty on the rate of return to be estimated. For simple rural dwellings, it may be necessary to calculate the cost of construction and estimate how long the building is usable without major renovation.

32.5032.53   All dwellings require regular maintenance. The production account for an owner-occupied housing services dwelling treats as intermediate consumption only the goods and services necessary to undertake the sort of repairs that are typically the responsibility of the landlord in the case of rented buildings. These may include payment to specialists in the building trade, for example plumbers or painters, and the cost of these specialists will include their compensation remuneration of employees. However, when work is undertaken by the owner himself only the cost of the materials is included in intermediate consumption with no estimate made for the value of the owner's time spent on repairs. In consequence, there is no compensation remuneration of employees appearing in the production account for owner-occupied housing servicesdwellings. (This may be seen to be a pragmatic convention. If labour costs were to be imputed to the owner undertaking repairs, this would be recorded as income accruing to the household but the income from the owner-occupied housing services rental on the house would be reduced by an exactly offsetting amount.)

32.5132.54   The whole of the owner-occupied housing services imputed rental less actual costs (including costs other than those relating to repairs, such as other taxes on production) incurred is treated as operating surplus of the owner. The accounts for the owner of the building show the whole of the value of the owner-occupied housing services imputed rental as output, any costs incurred as intermediate consumption and the difference as gross

operating surplus which is paid to the household in its capacity as the owner of the unincorporated enterprise. In the use of income account, the full value of the owner-occupied housing services ~~of the rental~~ is shown as part of household consumption ~~of the imputed rental of owner-occupied dwellings~~.

~~32.52~~32.55 When major repairs are undertaken, these are treated as gross fixed capital formation and recorded following the treatments in ~~C~~chapter 11. Note that gross fixed capital formation undertaken on own-account should include an estimate of the imputed value of labour input provided free ~~but the same conventions apply concerning the recording of compensation of employees~~following the treatment in 7.xxx. For more details on differentiating between regular maintenance and major repairs, see paragraphs 11.53 to 11.55.

~~32.53~~32.56 Some houses are owned by households but leased out by them. In this case the rental paid by the tenant is the value of the output of the rental service. The production account for the earning household shows intermediate consumption charged against this output to derive the operating surplus of the activity, which is treated as income to the owning household. In some cases, the whole of the intermediate consumption may be a service charge paid to a rental agency. It is conceivable that occasionally the service paid to the rental agency may exceed the rental income so that the rental activity produces a loss for the owning household. For example, if a house stands empty for a time, there may still be a fee payable to the rental agency. The earning household will often regard this as acceptable because one reason for owning a house to rent is because it is hoped a holding gain will be made on owning the house over a long period.

~~32.54~~32.57 By convention, all the value added arising from leasing dwellings by households is treated as operating surplus, not mixed income.

~~32.55~~32.58 Some houses will be owned as second homes either in the same economy or abroad. The same principles apply as in the case of owner-occupied housing services ~~imputed rental of owner-occupied dwellings~~ and rental services activities that come from renting out a house. If the house is in another country, it is treated as belonging to a notional resident unit in that country. The legal owner then has a financial claim on the notional resident unit. The notional resident unit therefore appears to be a direct investment enterprise wholly owned by a non-resident. However, the only asset of the unit is the value of the property and the whole of the operating surplus from renting out the house is treated as being withdrawn from the notional unit and remitted to the owner so there are no retained earnings remaining to be treated as reinvested earnings.

~~32.56~~32.59 To the extent that the house abroad is used by nationals of the economy where the legal owner is resident, the rentals should be treated as exports of services from the foreign country and imports of services to the domestic economy. However, the operating surplus of the notional unit is remitted to the owner and appears as a property income outflow from the foreign country and inflow to the domestic economy, offsetting the flows of rental services (at least in part).

~~32.57~~32.60 When a house is financed by a mortgage, in principle implicit financial services on loans and deposits ~~FISIM charges~~ relating to interest payments on the loan should be treated as part of the intermediate consumption of the production activity associated with renting the property (either for use by the owner or by a tenant). However, it may be difficult to identify implicit financial services on loans and deposits~~FISIM~~ related only to interest on the mortgage and in some cases a loan using the property as collateral may not be used to secure the property for the purpose of having a dwelling available. In practice, if implicit financial services on loans and deposits~~FISIM~~ are ~~is~~ not treated as part of the intermediate consumption of the rental activity, the operating surplus from the rental activity, and GDP as well, will be higher than otherwise but the consumption expenditure of the household will be higher by the same amount.

4.   Domestic staff

~~32.58~~32.61 Services provided by paid domestic staff are valued at the remuneration ~~cost of the compensation~~ of employees paid to those staff ~~but~~ and including any income in kind such as free accommodation or free meals as well as any social insurance contributions that may be paid on behalf of the staff. By convention the production account for paid domestic services consists only of this ~~compensation~~ remuneration of employees. All of the products used in the performance of domestic services, such as cleaning materials and tools used, are treated as final consumption expenditure of the household.

~~32.59~~32.62 Individuals who provide paid domestic services must be members of another household. Payments to

children for performing tasks in the house are not treated as the provision of paid domestic services but simply as if the payment were a transfer within the household. On the other hand payments to a child for babysitting a neighbour's children should in principle be treated as domestic services but these may be too small and difficult to measure.

32.60 32.63   In practice, some countries may include full-time domestic employees as members of the households, in which case a transfer within the households is recorded, even though transfers within an institutional unit are not normally recorded. This in turn means there is an element of double counting for the household concerned with a payment to the domestic staff and the expenditure by those staff both being included in the household's consumption expenditure.

5.   Unpaid household service work

32.61 32.64   In chapter 34 29 there is discussion of the possibility of extending the production boundary to record all forms of unpaid household service work and volunteering thus encompassing the production of within the context of a satellite account to include all domestic services, including those that are not performed in return for payment.

E.   Households as consumers

1.   Consumption goods and services provided in kind

32.62 32.65   Chapter 10 9 describes the different concepts of consumption expenditure, actual consumption and the use of consumption goods and services. Within the SNA, only the first two are measured and the difference between them is accounted for by social transfers in kind provided by government and NPISHs to households. In principle it might be interesting to be able to distinguish social transfers in kind provided to children (for example most education), to the elderly (particularly health care) or perhaps on a regional basis. However, since there are considerable difficulties in working at this level of detail in the sequence of economic accounts, and so it is recommended probable that such extra detail is could be provided only in thematic the context of a satellite accounts as described in Chapter 34 and 38 such as the health care activity account and the education and training activity account .

32.63 32.66   In principle, transfers in kind between households should be recorded in the SNA. However, if there are no subsectors of the households sector, such transfers will not appear in the accounts when they occur between resident households. On the other hand transfers in kind between resident and non-resident households may be quite significant and should be captured through information on remittances in the balance of payments data. Practical considerations are described in International Transactions in Remittances: Guide for Compilers and Users (International Monetary Fund, 2008b).)

32.67   When there is a significant amount of consumption represented by own account sourced from own-account production, income in kind, barter or transfers in kind it would be useful to itemize the distinction between consumption expenditure by households in kind from consumption purchased in the market place.

2.   Expenditure by tourists visitors

32.68   Most data sources for household consumption from the supply side are not able to distinguish whether purchases are made by visitors from resident households or by non-resident households. Equally, the same sources will not reveal purchases made abroad by resident households. These two items are often of a sufficiently significant size that it is important that they be estimated both for the impact on the balance of payments and in order to ensure that the supply and use table can be adequately balanced. Further consideration of expenditure by tourists visitors, in particular for tourists, can be undertaken following the general principles of thematic accounting described in Chapter 38,

is discussed in chapter 29 in the context of a tourism satellite account.

3.   Consumption expenditure by type of product

32.64 32.69   Most household surveys itemize consumption according to the purposes it is intended to serve: food, housing, etc. This type of breakdown is the one used in the Classification Of Individual COnsumption by Purpose (COICOP). For inclusion in the supply and use table, and indeed for other analyses, it is useful to prepare a table showing the cross classification of consumption by purpose and by type of product. This is useful not only in terms of providing the information for the supply and use tables but also in examining the information used to compile consumer price indices, which in turn are used to deflate consumption expenditure. If the data permit, it may also be useful to look at the composition of consumption expenditure by type of household with a view to calculating consumer price indices for different groups of households, for example for the elderly or for those with young children.

F.   Household income

32.65 32.70   It is a well-established phenomenon in all countries that income is distributed unevenly and in a very skewed manner. Very many people have income significantly below the average or median income and very few people have extremely large incomes. A poverty line is sometimes quoted as half the median income but an income of twice the median does not imply great wealth; the wealthiest individuals in an economy may have incomes many times larger than the average or median income.

32.71   The reason that the sequence of economic accounts is important is that it gives a picture of how income is distributed and redistributed either compulsorily via taxes and benefits or voluntarily via transfers or because of ownership of financial or other assets (property income). In order to examine whether the process of distribution and redistribution of income significantly changes the overall distribution of income in the economy it is necessary to be able to show the flows between different groups of households. As noted in the introduction, it is difficult to allocate income and consumption across ~~from one particular source to one~~ household group~~s rather than another~~, distributional accounts for household income, consumption and wealth can be compiled as part of the sequence of economic accounts as described in Section H (below).

32.66 32.72   To complement the detailed information on different household groups presented in distributional accounts, a range of other ~~This is not straightforward and not a standard part of the SNA. However, it is straightforward to provide more~~ information can be provided to analysts on the type of household income~~s~~ building on the data from the other parts of ~~than the total contained in~~ the ~~standard~~ sequence of economic accounts. As far as value added is concerned, it may be possible to distinguish ~~compensation~~ remuneration of employees paid by individual industries or perhaps according to level of education or by region. Mixed income can similarly be distinguished. ~~Consumption of fixed capital~~ Depreciation should be separated between that due to owner-occupied dwellings and that relating to other assets of unincorporated enterprises.

32.67 32.73   The ~~standard~~ sequence of economic accounts contain~~s~~ information on transfers in the form of taxes paid and social insurance contributions and benefits split between pensions and other benefits. In some countries it is especially relevant to show personal remittances from abroad to demonstrate the impact on the domestic economy of those with strong ties to economies abroad. For countries with a large migrant population it may be similarly useful to identify the corresponding outflows and their destination.

32.68 32.74   Within property income it is useful to distinguish those flows that place resources at the disposal of the recipients from those where the receipts are already precommitted as saving, for example, pension entitlements, property income on life insurance and interest that derives from the increase in the value of bonds. It should be noted that it is particularly useful to identify the withdrawal of income from quasi-corporations if there are many household enterprises treated as quasi-corporations.

32.69 32.75   It may be useful to identify and show separately income in kind of all types, such as wages and salaries in kind and transfers in kind, and then derive a total excluding both these and the precommitted saving which might be called discretionary income.

G.   Household wealth and associated income flows

1.   Household balance sheets

32.70 32.76   For many households, their main assets are their land, houses and accumulated pension entitlements.

Where they exist, claims on enterprises may also be significant. Investment in financial assets outside pension funds may also be important in some countries. However, set against the assets must be the liabilities of the households, including the loans involved in mortgages and other financial liabilities and, for example, credit card or other debt.

32.71~~32.77~~ For households including an unincorporated enterprise other than owner-occupied dwellings, there may be other fixed assets recorded on the balance sheet but these tend to be small relative to housing.

2. Family trusts

32.78 Trusts are arrangements whereby an economic agent (a trustee) holds property (but not economic ownership) as its nominal owner for the good of one or more beneficiaries. Their job is to hold, manage and administer the funds in the trust on behalf of the settlor (the creator of the trust). Their fiduciary duty as a trustee requires them to act in the best interest of the beneficiaries of the trust. The duties of a trustee are laid out upon the creation of the trust, and while they may differ depending on the situation, some tasks are common. The trustee oversees the distribution of the trust's funds to the beneficiaries. While the assets remain a part of the trust, the trustee is responsible for any investments that are made, ensuring any assets included in the trust, taking care of the administration, and overseeing the payment of taxes.~~Family trusts are owned by households, though some trusts may be owned by a number of households collectively possibly including non-resident households. Trusts may be set up to protect wealth until a beneficiary comes of age or meets another criterion, they may be set up to preserve family estates and so on. The SNA recommends that trusts should be treated as quasi-corporations and included in the financial corporations sector as captive financial institutions. However the trusts must have liabilities to the beneficiaries sufficient to reduce their net worth to zero. In compiling the balance sheet for the households sector, the value of the assets corresponding to the liabilities due to resident households must be included.~~

32.72~~32.79~~ Looking more specifically at trusts set up by households, the trustee is not the economic owner of the assets. The trustee may be the legal owner of the assets, but the accumulated assets in the trust constitute a separate fund and are not part of the trustee's own assets, indicating that economic ownership is different from nominal/legal ownership. Where family trusts are important and when household wealth is the subject of interest, it may be useful to introduce a supplementary heading under other equity owned by households to show the value of trusts separately from the equity of other quasi-corporations such as partnerships. There are a range of considerations in determining the appropriate treatment of trusts, including, for example the potential for trustees and the beneficiaries to be resident in different economies. The relevant treatments are described at length in Chapter 5, 5.103-111.

3. Pension considerations

32.73~~32.80~~ There is a question about whether the rundown of wealth post retirement should be recorded as income or as dis- saving.

32.74~~32.81~~ By treating pension schemes as social insurance schemes, pension benefits are shown as current transfers, and thus income, rather than as a run-down of saving. If a pension scheme is not treated in this way, though, there is still income accruing to the pension beneficiary in the form of the property income payable on the pension entitlements. For a defined benefit scheme, this property income represents the unwinding of the discount factor on future entitlements. The decrease in the entitlements is equal to the difference between the benefits payable and this property income, similar to the position for an annuity explained at the end of part 1 of chapter 17.

32.75~~32.82~~ ~~To the extent that the value of the pension as a form of wealth is based on the net present value of future income flows, pension receipts can be partitioned into the rundown of savings and income accruing.~~ In cases where there are no pension entitlements, a household with a significant level of financial assets is still likely to receive significant property income, though the mix of property income and holding gains and losses will depend on the investment strategy of the household concerned.

32.76~~32.83~~ For a household where one or more of the members is building a pension, significant income will accrue each year but this is not accessible to the household to spend. It must be accumulated to fund future pension

entitlements and thus shows as an increase in wealth.

32.77 32.84   It is possible to construct an asset account for pension entitlements showing the ~~start of year~~ level of entitlements at the beginning of the year, increments due to contributions made ~~work~~ done in the year, increases due to the fact that retirement has become a year nearer (the unwinding of a discount factor) and other changes such as an allowance for inflation, ~~less~~ decreases due to pension payments or other changes that reduce entitlements.

4.   Consumer durables

32.85   Within the SNA, consumer durables are not treated as a form of wealth but as a form of expenditure. However, there may be considerable interest in having a memorandum item in the balance sheets to show the worth of consumer durables. As noted in Section H (below) this memorandum item would also be relevant in the compilation of distributional accounts for households. The acquisition of durables may well be cyclical and there is interest in compiling ~~a satellite~~ accounts that would replace the purchase of consumer durables as current expenditure by figures for the flow of services provided from the same items treated as fixed capital. The dual use of consumer durables as part of consumption activity of households and as inputs to production activity by unincorporated enterprises should be accounted for by partitioning the use of the durables. The measurement of ~~is~~ consumer durables is discussed further in chapter 11. ~~29~~.

5.   The distribution of wealth

32.78 32.86   Increasing interest is being shown in conducting surveys of household wealth along lines similar to surveys of household income and expenditure. Again the interest is to look at a disaggregation of the households sector to discover the composition of household wealth and its relation to household income.

32.79 32.87   In general the distribution of wealth is even more strongly skewed than income. A family where the main earners are in mid career may have a comfortable level of income and occupy their own house but still have a considerable mortgage and may not yet have built up significant pension reserves. These topics are considered further in Section H (below).

H.   Distributional accounts for household income, consumption and wealth

1.   Introduction

32.88   Aggregates and average growth rates for the accounting entries for each institutional sector only provide a partial story of the operation of the economy, in particular they may conceal large discrepancies between different types of households. Recognizing this challenge, the SNA sequence of economic accounts includes distributional accounts for the households sector that take into account the joint relationships between income, consumption and wealth. In turn this supports the computation of multivariate indicators (such as consumption-to-income, debt-to-income or wealth-to-income ratios) for the various breakdowns of the households sector. The description of distributional accounts for households in this Section complements the wider discussion of the use of accounting approaches to support the measurement of the material well-being of households introduced in Chapter 2 and discussed more fully in Chapter 34.

32.89   A motivation for the compilation of household distributional accounts is that while distributional information is often available from micro statistics, these results may not always be consistent across the primary components of material well-being (including income, consumption and wealth). In this regard, household surveys or administrative data covering all these aspects are rarely available. Further, these data may not always be consistent over time and their aggregated trends may often diverge from aggregate national accounts data. Section B.5 discusses these issues in more detail.

32.90   The compilation of household distributional accounts entails breaking down accounting entries for the aggregate household sector into more granular subsectors consisting of specific groups of households. This should be done for the sequence of economic accounts representing different types of economic activity occurring within a period of time, including balance sheets. This will lead to a consistent and comprehensive description of different groups

of households across the various accounts.

32.91   Thus, deriving household distributional information within the structure of the sequence of economic accounts enables the derivation of distributional results that are consistent across the various economic accounts and institutional sectors, coherent with macroeconomic aggregates and comparable over time and across countries. This information will be of considerable relevance for macroeconomic analyses and the monitoring of material well-being, providing new insight in how specific household groups are faring and assessing how macroeconomic trends and policies may affect specific household groups.

2.   Establishing the focus of measurement

32.92   As noted in Section B the household sector in the SNA includes both private and institutional households. The latter concern persons living permanently in an institution, or who may be expected to reside in an institution for a very long, or indefinite, period of time, with little or no autonomy of decision in economic matters. These types of households may comprise large groups of individuals with very different socio-demographic backgrounds, who are not related, and who may have very different income and consumption patterns. As a consequence, they behave differently and the data about their income, consumption and wealth is not readily comparable with those of private households. For that reason, it is recommended that institutional households are treated separately from private households in the compilation of household distributional accounts, i.e., that results for institutional households should be analysed and presented as a separate category. The focus of the description in this section is on distributional accounts for private resident households.

32.93   Approaches to incorporating institutional households to provide a complete scope for the sector may be considered, for example, treating the population living in the institutions as multiple, often single person, households. However, compilers and users need to be aware that this may not do justice to the specific circumstances these individuals live in. Furthermore, treating them as a single household comprising many individuals may lead to heterogeneous results and may distort distributional analyses.

32.94   Although the household constitutes the unit of observation in compiling distributional accounts, household units differ in size and composition, and as a consequence they will have different consumption needs. By way of example, the consumption opportunities from an income of 3,000 monetary units per month for a single person household are not comparable to those from an income of 3,000 monetary units for a household consisting of two adults and three children living at home. Therefore, to arrive at comparable results across households and support meaningful analysis of data on income, consumption and wealth at the household level, it is recommended to focus on 'equivalized' results, using equivalence scales that take into account differences in the size and composition of households. This involves recalculating initial estimates according to the number of consumption units in each household and then assigning a value to each household type in proportion to its needs reflecting its size and composition. Considerations in establishing equivalence scales are discussed below.

32.95   While approaches for estimating and applying equivalence scales for income and consumption are well developed, for wealth, there is less consensus on the appropriate equivalence scale. However, for consistency across domains, it is recommended to use the same equivalence scales to adjust wealth as those used to adjust income and consumption, when presenting results on income, consumption and wealth in conjunction. This recognizes that wealth may often be used to support current consumption. However, since wealth is a stock and not a flow measure, for specific purposes, it may be relevant to show results on the distribution of wealth on the basis of alternative equivalence scales.

32.96   A complete sequence of distributional accounts for households encompasses a large number of accounting entries. It is therefore relevant to focus attention on the derivation of the following main balancing items for the purposes of distributional analysis:

   • For analyzing the distribution of household income, the relevant balancing items are 'earned income', 'disposable income' and 'disposable income adjusted for social transfers in kind'.

   • For analyzing the distribution of household consumption, the relevant entries are 'final consumption expenditure' and 'actual final consumption'.

   • For analyzing the distribution of household wealth, the relevant balancing items are 'net worth' and 'net financial worth'.

32.97   In addition, it is recognised that there are a range of alternative income concepts that may be of relevance for certain types of analysis. These are discussed in Chapter 34, Section B.2. Further, countries are encouraged to show estimates of consumer durables by household type as a separate category particularly as they may significantly affect savings results and provide insights into the distribution of household wealth. For wealth, a broader wealth concept could be envisaged that includes social security pension entitlements. These possible extensions are not discussed further in this section.

32.98   The groupings that should be used in selecting households to be the focus of the distribution accounts are those that:

- provide most insight in differences in consumption, income, and wealth patterns between groups;

- are of most interest for economic analysis and government policy purposes;

- enable users to easily identify themselves with one of the groups; and

- meet specific user demands.

32.99   Based on these criteria, the primary recommendation for the grouping of households is on the basis of deciles of equivalized household disposable income. This involves looking at the relative income available to a household, ranking households accordingly and allocating them into decile groups. Of course, a decile breakdown may still conceal large inequalities within these groups and hence further breakdowns into more granular groups may be considered. This may be particularly relevant for the top income and wealth groups. Thus, accounts for the top 5%, 1% and even 0.1% of income earners may be compiled.

32.100   Other household groupings that may be considered include those based on levels of permanent income, main source of income the age of the reference person and the composition of households. Section C and Chapter 34 provide additional discussion on the subsectoring of households and the range of characteristics of households and household members that can be considered in distributional accounting and analysis.

32.101   The compilation of household distributional accounts will generally be undertaken at discrete points in time providing a static view of distributions. A dynamic approach to the analysis of household distributions, i.e., comparing changes in distributions over time, will also be of relevance. Maintaining a standard conceptual structure and associated definitions for the distributional accounts provides a good basis for this analysis of change recognizing that there is a range of challenges in dynamic structural analysis that will need to be considered.

3.   Compiling distributional accounts for households

32.102   This section describes the basic approach for compiling distributional accounts in line with aggregate accounting entries in the sequence of economic accounts on the basis of underlying micro data sources. The application of the approach requires engagement and close collaboration with the experts in the relevant micro statistics. More detailed compilation guidance is available in the *Handbook of Distributional National Accounts* (OECD, 2023). Relevant information concerning the use of micro data is available in the international guidelines for measuring the distribution of household wealth in micro statistics (OECD, 2013), and the framework for the integrated analysis of micro data on household income, consumption and wealth (OECD, 2013).

32.103   There are five main steps in compiling distributional accounts for households:

1. Adjust national accounts aggregates to focus on private resident households

2. Select relevant micro data for the purposes of disaggregating macro accounting entries for each household subsector/group

3. Impute for missing elements and align micro-macro results

4. Cluster households according to household subsectors/groups

5. Derive relevant distributional and analytical indicators – e.g. ratio to the average, ratio of the highest to lowest shares, coefficient of variation to the average, share by household group, debt to income ratios, savings ratios by household group.

32.104   In undertaking these steps, the following accounting issues are noted, recognizing that there are a range of data

confrontation and compilation issues that must also be considered as detailed in the compilation guidance referred to above.

32.105   While the aggregate results for the household sector are a solid starting point for the compilation of distributional accounts, these aggregates may conceal information on inter-households flows and stocks. Although these stocks and flows may not be relevant from a macroeconomic perspective, they may be very relevant in deriving distributional results. Thus, even if for the household sector as a whole, these flows and stocks may cancel out, this need not be the case at the level of household groups. Some household groups may turn out to be net contributors/debtors, while other household groups may turn out to be net receivers/creditors. For that reason, it is important in the compilation process to explicitly acknowledge inter-household flows and stocks and if they are not already covered in the aggregates of the household sector, compilers should derive separate estimates. Particular stocks and flows of relevance include current transfers (e.g., remittances), capital transfers (e.g., bequests, inheritances), second-hand trade, and loans (including the related interest flows).

32.106   Some accounting entries are specific to the national accounts and do not have a corresponding item in micro data sources. Such accounting entries will require imputations to allow for a complete allocation to the relevant household in compiling distributional results. Particular entries of relevance include employers' imputed social contributions, investment income disbursements (e.g., for life and non-life insurance), implicit financial services on loans and deposits, estimates for the non-observed economy and social transfers in kind. On the financial side, it may also concern currency and pension entitlements.

32.107   In addition to specific challenges in the compilation of distributional accounts for income, consumption and wealth separately, there is also a general challenge of ensuring coherence across the sequence of economic accounts, in particular between the financial accounts and non-financial accounts. At an aggregate level there is commonly a large statistical discrepancy that will also need to be considered for the various household groups.

32.108   Different household groups may face different price levels. Further, households in specific regions may for example face higher prices than in other regions. If these issues are of relevance, correction may be made using regional prices thus supporting fairer comparisons of income levels across households living in different regions. More generally, household groups may experience price changes differently, depending on the composition of their consumption basket. For that reason, it would be appropriate to have relevant price indices for each household group that may be used to analyse changes in real adjusted disposable income per household group.

32.109   In the derivation of equivalence scales, a value is assigned to each household type in proportion to its needs, often depending on their age, but possibly also taking into account other socio-demographic characteristics, such as sex or gender, level of income, labour force status and home ownership. The value may also depend on the specific delineation of the income or consumption measure that is analysed. For example, if the analysis includes social transfers in kind, this may require a somewhat different assignment of number of consumption units to the individual household members than when these transfers are excluded.

32.110   Furthermore, the value of the consumption unit may depend on the composition of consumption expenditure of various households. Thus, equivalence scales that are appropriate for lower income households may be less appropriate for higher income households due to different consumption patterns. For that reason, equivalence scales may differ across countries, as well as within a country for households with different socio-demographic characteristics.

32.111   As it is virtually impossible to derive equivalence scales that take into account all the relevant underlying factors, distributional studies often apply a simplified scale. Although this may have some caveats, it ensures consistency and transparency towards users, and also facilitates the assessment of the impact of the equivalence scale on the results. There are three commonly used equivalence scales in international comparisons:

- the square root of household size that, as it states, derives the number of consumption units by taking the square root of number of persons in the household;

- the OECD scale that assigns a value of 1 to the first household member, of 0.7 to each additional adult (14+) and of 0.5 to each child (up to 13); and

- the modified OECD scale that assigns a value of 1 to the household head, of 0.5 to each additional adult member (14+) and of 0.3 to each child (up to 13).

32.8032.112   These equivalence scales are often used in the analysis of the distribution of both income and

consumption. With respect to wealth, the use of equivalence scales depends on the purpose of the analysis. The use of equivalence scales should be avoided when analysing the characteristics of individual components of wealth and distribution of net wealth. To control for different household structures, complementary analysis can be done on per capita basis. However, for the joint analysis of income, consumption and wealth, it is practical to use the same equivalence scales to adjust wealth as those used to adjust income and consumption. As mentioned above, in this case, wealth is treated as a source of future income streams that can be used to finance current consumption and contribute to current material well-being in the household (see also Section 7.3.6. of the OECD Guidelines on Micro Statistics on Household Wealth (OECD (2013)).