Thematic session 1b
Population ageing, economic growth, wealth and well-being

What can the Luxembourg Income Study and the new Luxembourg Wealth Study contribute to Sustainable Aging Indicators?

Markus Jäntti
What can the Luxembourg Income Study and the new Luxembourg Wealth Study contribute to Sustainable Aging Indicators?

Markus Jäntti
Åbo Akademi University
Luxembourg Income Study
UNU WIDER

Policy brief prepared for “Sustainable Ageing Societies: Indicators for Effective Policy Making” in Madrid 14-16 April 2004

1 Introduction

The Luxembourg Income Study (henceforth LIS) is a project, now in its 3rd decade, that collects micro-data on income, labour market and demographic data for 29 high- and middle-income countries, covering roughly the period starting in the early 1970s up to 2000. The new Luxembourg Wealth Study (henceforth LWS), which is currently only starting, will hopefully include comparable micro-data on household wealth for about 10 countries, covering at best the late 1980s to the present.

LIS (and LWS) data sets are based on national income distribution and similar surveys, which vary by purpose (income distribution, household budget survey, current population survey and so on), sample design, household definition and income definitions. The LIS strategy has been to make the income information comparable at a very detailed level, a task accomplished by having LIS staff data professionals work together with country specialists to create the “lissyfied” income variables. LIS has further, where possible, attempted standardise the definition of the income sharing unit (and where not, document the differences), create standardised labour market and demographic data, and document other aspects of the survey that are relevant to their use for analytic purposes.

The LIS experiences with data have been used extensively in creating a new set of international recommendations for measuring household income (Export Group on Household Income Statistics (The Canberra Group), 2001). The earlier UN provisional guidelines (United Nations, 1977) appear to have been adopted by few countries (Finland is the only example I know of) and were in any case in need of an update. LIS fully participated in the creation of the new standards and these should in my view be used for comparative income statistics.

It follows that LIS and eventually LWS can be used to calculate Sustainable Aging Indicators in the income and wealth area, as income and wealth comparisons are exactly what LIS and LWS have been created for. My detailed suggestions on which indicators should be used are given in Section 2.
Comparisons of economic well-being across countries must address a range of issues concerning the comparability of the measures that have been or are to be used. (This assumes, of course, that satisfactory indicators of well-being are available in principle that could be empirically operationalised in any country.) I argue in Section 3, for some of the issues involved, there is no single correct choice, in the sense that several alternatives can be equally supported by arguments. Moreover, often very innocuous-seeming choices can have a substantial impact on the inferences drawn.

It follows that, to the extent the object is to construct indicators that are similarly defined across countries and whose “robustness” (in a sense to be outlined below) is of social and political interest, country-specific indicators that are by-products of national reports are not an option. This is where internationally comparable projects such as LIS and the new LWS come in. I discuss problems and how to solve them.

2 Indicators: the contribution of LIS and LWS

In view of the remarks above, LIS and, in the future, LWS can be used to estimate indicators that are based on income, its components, wealth and its components.

Time series   Long time series can be constructed for income and its components broken down by characteristics of the household reference person (“head”), in particular by age group and by birth cohort (grouped by 5 or 10 year intervals), possibly also by gender. Shorter time series can be constructed for individuals (using person level characteristics on age, cohort and gender but combining these with household income) using the later waves of LIS.

Person or household level   Economic well-being is experienced by persons, not by households. The household is an important part of the environment in which the person experiences well-being and household members can be expected to share a substantial part of their resources. Where possible, the person should be unit of analysis but the resources should be aggregated within households. This is particularly the case in the breakdowns by age/cohort and gender, where reliance on characteristics of the household head alone may be misleading.

Any comparison that involves persons living in different types of households must confront the issue of equivalence scales. I discuss this issue below in Section 3.

Cohort or age groups   Given that public pension systems have matured fairly recently in many developed countries, it may be useful to examine indicators for the population broken down not only by age groups (say -20, 20-34, 35-54, 54-64, 65-74, 75-) but also by birth cohort. While the difference is a trivial matter, the two approaches may focus policy on cohort-specific rather than age-specific aspects.

Income package   It is important to monitor the composition of the indicator of living standards, as a suitably chosen measure of the composition can guide public policy. For instance, it is wise to monitor the extent to which household rely on pensions and other transfers or on earnings for their living standards, both before and after the usual age for retiring. Similarly, a suitably chosen breakdown of total household (net) wealth can reveal e.g. the extent to which households have assets that can, if need be, easily be transformed into cash. Since both income and wealth packages can vary substantially
across the income distribution, public policy needs as its guide the income packages to be estimated at different income levels, for instance at the quintile or quartile level.

**Relative or “absolute” income** Any monetary indicator of living standards that examine several countries across time must make some choice as to how to compare indicators within countries across time. While many argue that it is the relative position of various groups in their societies that matters, and should be followed across time, influential voices call for comparisons of the evolution of real income (or real wealth) of the different groups, arguing that relative incomes are uninteresting for comparisons of well-being. The same kind of arguments can be put forth for comparisons across countries, where both relative comparisons and real income comparisons have their merits.

A set of indicators of sustainable ageing should probably do wisely to not choose sides in such a debate but facilitate both. With no loss of generality, therefore, incomes should be measured in Purchasing Power Parity-adjusted international dollars (to name one common metric). The issue of adjusting domestic prices to a suitable metric also needs to be resolved. Most likely the use of GDP deflators, while by no means self-evidently best, yields the most comparable adjustments that can be made. Working with such real income levels allows for both relative and “absolute” comparisons of living standards.

**Poverty, affluence or the whole distribution** While public policy is legitimately most concerned with the incidence of low income and low wealth, all individuals matter for evaluation purposes. Concern for the very poor, moderately poor and near poor easily generates a large number of indicators which partly overlap. I suggest that living standards be measured by both poverty (and affluence) rates and by average real living standards within quintile or quartile groups. (The choice of a small number of quantiles for the grouping is driven in part by issues of sample size, which is in turn driven by the need to disaggregate the population into age or cohort and gender groups.)

**Indicators of income and wealth for discussion** Based on the discussion above, I suggest for discussion the following indicators based on LIS and LWS data:

1. the real level of living measured by average within income quintile group among different age groups / cohorts
2. inequality, poverty and affluence rates among age groups / cohorts
3. the income packages of the various age groups /cohorts by income (earnings, capital income, public pensions, private pensions, other transfers, taxes as share of disposable income by quintile group)
4. real level of household wealth measured by by average wealth within wealth quintile group among age groups / cohort
5. the inequality of wealth, incidence of low wealth and high wealth among age groups / cohorts
6. the composition of household wealth by age group / cohort
7. a set of population-level estimates of income distribution and poverty statistics that have been standardised for the age and gender composition of the population
3 Promises and pitfalls in income- and wealth-based comparisons

Equivalence scales The choice of equivalence scale is very important in any comparison of income and wealth across countries. It is indeed not clear if wealth comparisons should be made in terms of equivalent wealth, although I would advocate their use. It is especially important in comparing living standards across age groups, since household structure will vary across groups and across groups across time in ways which may reverse many results when the equivalence scale is changed.

This is an important issue, since there is no reason to believe any single equivalence scale to be superior to all others. Leaving aside the difficult questions of whether different scales should be used in different countries and if scales should vary across income levels, there is little reasons to choose, say, the modified OECD scale over the traditional OECD scale. In the absence of an “optimal” scale, the only option is to choose a few and examine the robustness of the results to variations in those parameters.

Differences across survey methods and designs The data sets currently in LIS stem from a wide variety of survey designs with income and other information gathered from a variety of sources, including interviews, postal surveys and administrative records. While this heterogeneity may be a source of differences across countries, there is no better alternative. Moreover, there is some evidence which suggests that such differences may not be very important. For instance, Rendtel et al. (2004) documents research using interview and register incomes for the same persons which suggests that income distribution statistics for the two sources are very similar.

Significant efforts have gone into making European data in the form of the European Community Household Panel (ECHP) comparable across countries. Despite a similar (rather than identical) survey instrument, many of the same problems (different sampling designs and data collection methods to mention two) plague also the ECHP, the most highly standardised set of data I know of. The only remedy for this is to make the documentation of these differences as accessible as possible.

Researcher access The difficulties in making such choices favour the use of data for the indicators that allow for easy access to the micro-data by researchers, as no set of indicators can cover all possible combinations of reasonable choices for the various definition and method choices.

Such researcher access can reasonably consist of both access to the data (which LIS provides) and access to the computer programs used to generate the output (which LIS also provides for the summary statistics that are available on its web site; see below for references).

4 Concluding remarks

I have argued for a number of fairly standard indicators of real and relative income and wealth status across countries, broken down by age or cohort group and gender. It is surely possible to imagine other indicators as well as other uses for LIS and LWS: The point with indicators is however not necessarily to generate a maximal number of indicators, but such which suit the issues at hand.

Further information
• the LIS website (also info on LWS) http://www.lisproject.org

• the Canberra group report (Export Group on Household Income Statistics (The Canberra Group), 2001)

• Indicators for Social Inclusion (Atkinson et al., 2002) and the discussion in the Italian journal in which Jäntti (2002) appears

• see also work on child poverty for Unicef, reported in Bradbury et al. (2001), Bradbury and Jäntti (1999), and UNICEF (2000)

References


Organising Committee:

Hosted by  Organised by  in collaboration with  Under the auspices of

[logos and names of institutions]