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Analysing the Joint Distribution of Income, Consumption and Wealth in the UK Over Time

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There is considerable recognition that the analysis of household economic well-being can be enhanced significantly by studying the three dimensions of income, consumption & wealth together. This is particularly apparent when taking a life cycle approach to the study of well-being. For example, to support obtaining qualifications or starting a family, younger people may be more likely to have consumption that exceeds their income, facilitated by the accumulation of debt and balanced against the expectation of higher incomes in later life. Later in people's working life, many people may aim to consume less than their incomes where possible in order to allow the acquisition of property and pension wealth. In retirement, where incomes are typically lower, that acquired wealth can then be used to support consumption as necessary. The importance of such data has recently been highlighted in the report of Stiglitz, Fitoussi & Durand (2018), who recommended that "the quality and comparability of existing metrics of economic inequality ... should be improved, including by ... developing measures of the joint distribution of household income, consumption & wealth".

Despite the value of such data, it is very rare for one single survey data source to provide high quality information on all three dimensions, due to the response burden this would place on individuals and households, which in turn may affect survey response rates and ultimately the reliability of the data. For this reason, alternative approaches, such as the use of statistical matching and modelling, generally need to be applied in order to produce synthetic datasets to allow the required analysis. This paper builds on earlier work by Webber & Tonkin (2013) and others by exploring techniques to bring together data on expenditure and income from the UK's Living Costs and Food Survey with data from the Wealth and Assets Survey, which provides detailed information on household assets, debt and income. The paper will present, for the first time for Great Britain, a time series of the joint distribution of income, consumption and wealth covering a period from 2006 to 2018.

Using this data, the paper proposes a range of indicators and analyses based on these joint distributions which can be used to better inform policy to reduce poverty and support inclusive growth in the UK and internationally. The analysis will include an examination of the extent to which people who might be considered at risk of poverty based on their income alone, are able to support higher standards of living based on their consumption or wealth, and how this varies across the life cycle. It will also look at how such data can be used to more accurately identify those who are most economically vulnerable, building on recent work by the OECD (e.g. Balestra & Tonkin, 2018). Finally, the paper will aim to provide a comparison with data produced by Fisher et al. (2016) in order to contrast how 'inequality in 3D' has evolved in recent years across Great Britain and the United States.

References:

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