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INCOME, CONSUMPTION OR SOMETHING ELSE?
SELECTING A WELFARE INDICATOR FOR DISTRIBUTIONAL STUDIES

Abstract

Empirical distributional studies usually rely on cross-sectional disposable income or consumption expenditure data. Due to short interview periods and extensive use of recall questions these variables exhibit artificially high variation, while due to life-cycle factors they do not exhibit a particularly high degree of correlation. Hence, they might not be considered as reliable indicators of the long-run welfare of the population members. The paper presents a simple methodology for extracting information about a more stable long-run welfare indicator from existing variables under assumptions that cannot be considered as particularly restrictive. An application is provided using the data of a Greek Household Budget Survey. The new indicator is more equally distributed than disposable income or consumption expenditure and is found to be more closely correlated with a number of non-monetary welfare indicators than the other two monetary welfare indicators.