

Measure for Measure

Systematic Patterns of Deviation between Measures of Income and Consumption in Developing Countries

Evidence from a New Dataset

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Abstract: Measurement of household income is notoriously fraught with problems. As detailed by McKay in Grosh and Glewwe (2000), income is often under-estimated in household surveys as, for example, (i) few written records exist for household businesses and self employment activities and (ii) individuals and households have incentives to under-report income earned from the informal sector. While it is difficult to establish the extent of the problem, there is some evidence of this under-reporting (McKay, 2000; Coulombe and McKay, 1995).

Part of the under-reporting is due to the intentional and inadvertent omission of income components, problems with accurate recording in periods of high inflation, (McKay, 2000), the level of numeracy in the country (Vijverberg and Mead, 2000), or simple nonresponse to income questions (Scott, Steele and Tilahun, 2005). Recent preliminary work conducted under the World Bank's Comparative Living Standards Project, and cross-country analysis carried out by the Rural Income Generating Activities project at FAO reveal how certain components of income, e.g. farm and non-farm business income, are more problematic to quantify than others. These problems are accentuated in developing countries where the share of income from the informal economy is substantial.

Irrespective of its limitations, income is still widely used alongside consumption expenditure as a measure of welfare and for the study of livelihood and income diversification strategies, particularly in developing and transition country contexts. It is therefore important to better understand the sources of error in the measurement of income using household survey data, so as to be able to improve the quality of the surveys and to inform the analysis on the direction and extent of possible biases.

The paper uses data from several recent developing country household survey datasets to look systematically at how income and consumption measures deviate based on (a) the composition of income and (b) the basic characteristics of the survey instruments used in collecting both income and consumption data. Implications for analysis and data collection are drawn.