

# The vulnerability to poverty: the role of household wealth

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## Abstract

It is widely accepted that the standard indicators of household economic well-being based on money income ignore certain crucial determinants of families.welfare. Indeed, the contribution of household wealth to household well-being is only partially considered by means of the direct income provided by asset holdings. However, the contribution of wealth to household economic well being clearly goes beyond this contribution. In particular, assets are central to the economic security of households, as they are the main instrument households have to insure themselves against risk. Thus, net worth is a possible source of liquidity in times of economic hardship since assets can be converted in cash or can be used as collateral in order to cover immediate consumption needs. This same methodology is also applied in poverty analysis. Thus, the measurement of poverty and the identification of the poor are in general based solely on income and the wealth held by households does not matter in determining the poverty status. The main aim of this paper is to assess accurately the vulnerability of households to poverty. For this goal we want to incorporate the economic security contribution of wealth into the measurement of poverty. We are conscious that the incorporation of this contribution of wealth is only relevant for a short term measure of poverty, since assets can only ameliorate deprivation temporarily. However, we argue that it is important to combine the traditional income poverty definition with asset ownership since it allows to determine the capacity of income-poor households to overcome deprivation during the poverty spell.

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