Identifying Income and Wealth Poor Households in the Euro Area

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Introduction

- Poverty and inequality analysis: cash income only, wealth neglected
  - Lack of data
  - No generally accepted method for defining poverty using wealth information
- Here:
  - HFCS data
  - Proposal different poverty definitions
  - Socio-demographic characteristics poor households
  - Portfolio composition
  - Poverty and consumption

Literature review 1 - Measuring poverty using income and wealth: approaches and issues

- No generally accepted measure of poverty based on wealth

- <u>But</u>: accumulated savings can be used to meet current needs

Brandolini et al., 2010: the asset (poverty) measure "…tries to capture whether a consumer unit could maintain a standard of living above the poverty line for a certain period if it had no income, nor any financial resources of borrowing ability other than accumulated wealth"

Literature review 1 - Measuring poverty using income and wealth: approaches and issues

Two approaches combining income and wealth:

1) Treat wealth as form of income, one single poverty line (see e.g. Weisbrod & Hanse, 1968)

2) Multidimensional concept, i.e. independent poverty assessment for each indicator (see e.g. Bourguignon & Chakravarty, 2003)

Issues:

- Define poverty line

- Unit of analysis?

- Net or gross wealth? Liquidity?

Literature review 2 - Poor households' structures, portfolios and consumption expenditures

- Understand relationship between definitions of poverty and structure & financial situation of poor households

- Most studies focus on wealthy and stock market participation

- Understand the consumption channel

Data: HFCS

- Household Finance and Consumption Survey
- First wave: 62,521 households in 15 Eurozone countries (2010)
- Includes information on assets, debts and income of households
- Net wealth = sum of all assets (real and financial) minus liabilities
- Oversampling of wealthy
- BUT: only gross incomes

Definition poor households: 5 indicators

1. **Income only**: below 60% median equivalised income

2. **Income & net wealth**: below 60% median equiv. income + annuatised net wealth (4% interest rate)

3. **Income & net liquid assets**: below 60% median equiv. income + annuatised net liquid assets

4. **Multi-dimension poverty income <u>and</u> wealth**: 1. *+* bottom net wealth decile

5. **Multi-dimension poverty income <u>or</u> wealth**: 1. *or* bottom net wealth decile

Correlation of income & wealth indicators with income only indicator

Country	Income & net wealth	Income & net liquid assets	Multidimensional (and)	Multidimensional (or)
Euro Area	0.732	0.955	0.398	0.864
DE	0.729	0.954	0.252	0.928
FI	0.726	0.951	0.174	0.951
NL	0.725	0.949	0.137	0.966
ES	0.719	0.958	0.538	0.638
GR	0.713	0.959	0.459	0.701
SK	0.756	0.958	0.692	0.299

Results

- Incidence of poverty

- Socio-demographic characteristics of poor households

- Portfolios of poor households

- Poverty and food consumption

Poverty rates according to five poverty indicators

Country	Income only	Income & net wealth	Income & net liquid assets	Multidimensional (and)	Multidimens. (or)
Euro Area	23%	14%	21%	4%	28%
DE	22%	17%	21%	5%	28%
FI	20%	12%	18%	2%	28%
NL	19%	12%	17%	1%	28%
ES	22%	7%	20%	3%	29%
GR	21%	10%	20%	4%	26%
SK	12%	4%	11%	2%	20%

Socio-demographic characteristics of poor households – Euro Area

	Income only	Income & net wealth
Reference person		
- Age	53 y	46 y
- Gender (% difference with total population)	8 ppt	8 ppt
Number of household members	2.39	2.48
Number of dependent children	0.66	0.79

Income only poor: older, smaller households
Income – net wealth: younger, more children

=> life-cycle hypothesis: older hh have accumulated more assets and have higher annuity factor due to reduced remaining life span

Socio-demographic characteristics of poor households – Euro Area

Education level reference person
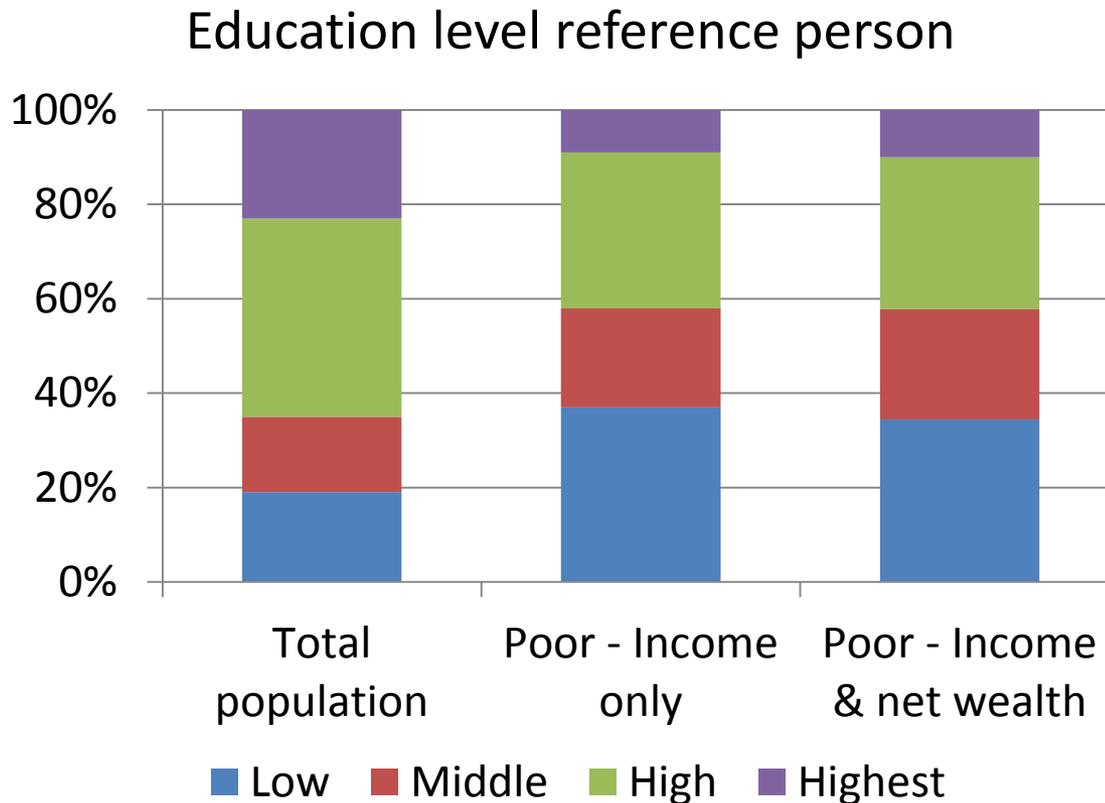
Poverty risk lower for highly educated

Portfolios of poor households – Participation rates Euro Area

	Total population	Poor - Income only	Poor - Income & net wealth
Real assets	91%	84%	74%
- Main residence	*60%*	*53%*	*30%*
- Vehicles	*60%*	*50%*	*47%*
Financial assets	97%	91%	89%
- Deposits	96%	90%	88%
- Shares	10%	2%	1%
Debt	44%	29%	33%
- Non collaterised loans	22%	17%	21%

- Participation rates lower for poor, especially real estate and shares
- More real estate participation in high ownership rate countries (ES, GR, SK)
- Difference poverty definition underscores role of property ownership in hh's wealth
- Debt: mixed evidence across countries

Poverty and food consumption

- HFCS: Only information on food consumption
  - not best measure for consumption cuts in case of income shocks

Median of food consumption for poor households

Food consumption as a percentage of gross income

Legend:
- Ind 1: Income Poverty
- Ind 2: Income/Net Wealth Poverty
- Ind 3: Income/liquid assets poverty
- Ind 4: Mutidim Poverty: Income and low wealth
- Ind 5: Multidim: Income or wealth
- All households

Countries (y-axis): EA, AT, BE, CY, DE, ES, FR, GR, IT, LU, MT, NL, PT, SI, SK
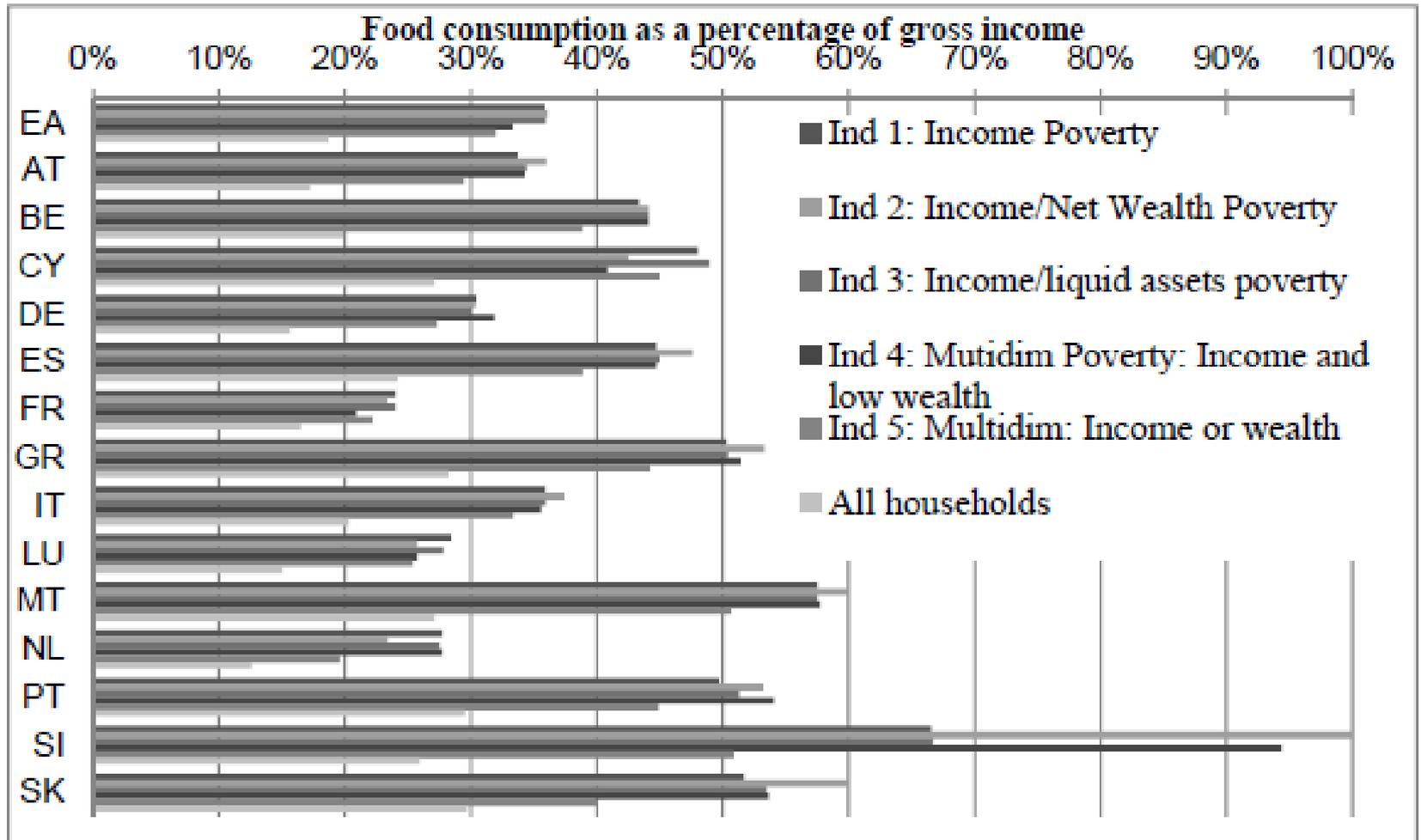
Poverty and food consumption

- Only information on food consumption
  - not best measure for consumption cuts in case of income shocks

- Poor spend less than 50% of gross income on food (except in GR, MT, PT, SI, SK)

- EURO-average: around 1/3

- Poverty definition does not matter much

=> Poverty and consumption are linked

Conclusion

- Incorporating wealth impacts on poverty outcomes; definition of wealth matters

- Poverty rates relatively homogenous across countries

- Expected socio-demographic and portfolio pattern of poor households

- Valuable insights for European and national policy makers

Discussion I:Different definitions of poverty

- Search for new definitions of poverty, including wealth

- Explore more into depth reasons why outcomes do (not) differ

- Motivation of using bottom decile for multidimensional measures? What is 'low wealth' (% of median net wealth; zero net wealth?)?

Discussion II: Link poverty - consumption

- Stronger integration in narrative of the paper
- Stronger framing in literature, e.g. choice income / consumption as focal variable
- Is use of food consumption only relevant enough for the story?

Discussion III: HFCS gross incomes

- Using gross income for poverty measurement is problematic, especially in international comparative context

Poverty rates in EU-SILC 2011

Country	Net income	Gross incomes
Netherlands	11%	18%
Denmark	13%	17%
Sweden	14%	16%
France	14%	17%
Belgium	15%	23%
Ireland	15%	19%
Portugal	18%	19%
Poland	19%	19%
Spain	22%	23%

Note: poverty line set at 60% of median equivalent net resp. gross income

Discussion III: HFCS gross incomes

- Using gross income for poverty measurement is problematic, especially in international comparative context

- Why not estimate net incomes, either through microsimulation model calculations or regressions?

THANK YOU !