ASSET-BASED POVERTY: INSIGHTS FROM THE OECD WEALTH DISTRIBUTION DATABASE

Carlotta Balestra
OECD Statistics and Data Directorate

OCDE
DES POLITIQUES MEILLEURES
POUR UNE VIE MEILLEURE

Outline

1. Do we get the measurement right? Why considering wealth in an analysis of poverty?

2. Defining and operationalising asset-based poverty

3. Evidence from the OECD Wealth Distribution Database

4. Main conclusions & policy implications

WHY CONSIDERING WEALTH IN AN ANALYSIS OF POVERTY?

Why considering wealth? (I)

- Standard approach: poverty = **income** insufficiency
    - Lack of income/(consumption) relative to some minimally acceptable level;
    - Many measurement aspects (e.g., absolute vs. relative), but common approach (OECD, Eurostat, NSOs,…);
    - Long time series.

- Household **wealth** only enters through cash income flows it generates in current year: e.g. imputed rent, dividends,…

- However, economic well-being (people's command over resources) is a multi-dimensional concept whose components (income, wealth, and consumption) are separate but interrelated:
    - income allows people to satisfy their needs;
    - wealth makes it possible to sustain these choices over time;
    - chances in one's life depend on a person's wealth more than on their income.

Why considering wealth? (I)

- While income and wealth are correlated at the micro-level, the correlation is far from perfect

Share of households in the same quintile of both the income and wealth distributions (2014 or latest)
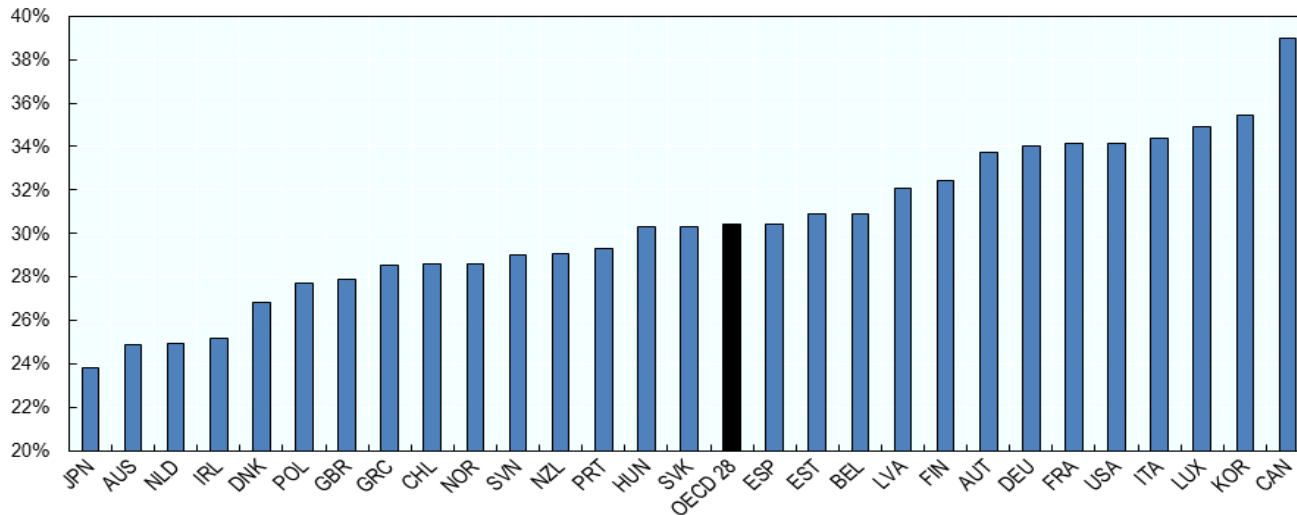
- On average less than 1 in 3 households belong to the same quintile;
- Correlation is stronger at both ends of the distributions, and lot of grey area in the middle (age patterns in wealth accumulation);
- The stronger the correlation between income and wealth, the higher the degree of "permanent" inequality in potential consumption due to either income or wealth

Why considering wealth? (II)

- Looking at different types of economic resources jointly (rather than in isolation) allows better identifying people in distressed or advantaged conditions, and better targeting of policies.

- Recommendations by various bodies:

  - Stiglitz-Sen-Fitoussi Commission (2009) recommended to look at the joint distribution of economic resources.

  - Similar recommendations by a range of other bodies (e.g. 2011 Canberra Group Handbook; 2009 report of G20 Finance Ministers and Central Banks).

- Growing research interest at national and international level.

Long-standing OECD work-stream on inequality and multi-dimensional well-being:

- Documenting income inequality and poverty since 1990s;

- "Better Life Initiative" since 2011: going "beyond income" and "beyond the average";

- How's life? 2017: thematic chapter on multi-dimensional inequalities and deprivations in well-being;

- New OECD-Eurostat Expert Group on the joint distribution of income, consumption and wealth launched in November 2017.

© Giulia Sagramola

- First **OECD data collection on wealth distribution** in 2015;
- Wealth statistics stand today where income statistics stood 20 or 30 years ago. Big comparability issues:
  - No statistical standards;
  - Different methods of data collection (surveys vs registers);
  - Limited coverage of some assets;
  - Limits in capacity to capture high end of distribution;
  - Limited cross-country ad over time comparability.
- But things are rapidly changing: back in 2015 the OECD WDD covered 18 countries, in 2017 it covered 28.

DEFINING AND OPERATIONALISING ASSET-BASED POVERTY

Different approaches

Three approaches:

- **Financial vulnerability**: households that are in arrears;

- **Income-net worth:** combines both income and wealth into a single measure of total economic resources (i.e. a wealth-enlarged income concept). Captures insufficiency of economic resources in order to maintain a certain living standard;

- **Asset poverty:** income and assets as two distinct types of economic resources, i.e. viewing assets as a stock of material resources complementary to a flow of current income. Capture the exposure to the potential risk that insufficiency of income arises -> vulnerability more than poverty measure. Used by the OECD.

Asset-based poverty (I)

A household/individual is asset-poor whenever their wealth holdings are not sufficient to secure them a given standard of living for a certain, usually short, period of time.
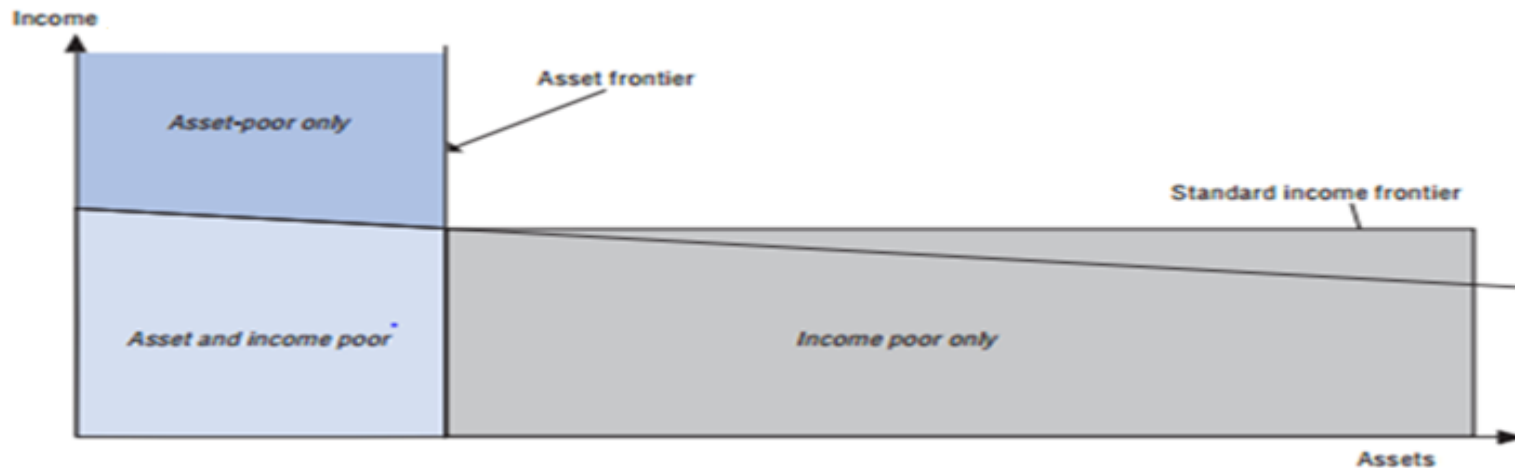
Asset poverty (III)

Several **methodological choices**:

- Which wealth concept?
- Which standard of living?
- Over which period of time?
- Unit of analysis: household vs individual?
- Equivalence scale?

No common agreement, but the following generally used:

- Wealth concept: **liquid financial wealth** (e.g., bank accounts and other financial assets) because can easily be monetised but sometimes also **net worth** (total assets minus total liabilities);
- Standards of living: **relative income poverty line**;
- Period of time: **3 or 6 months**;
- Unit of analysis: **individuals** for OECD;
- Equivalisation: **square root of household size** for OECD.

EVIDENCE FROM THE OECD WEALTH DISTRIBUTION DATABASE

Asset-based poverty measures published by the OECD (28 countries, 2010 and 2014, HFCS + national sources)…

↓ DURATION ▶	1 month	2 months	3 months	4 months	5 months	6 months
↓ GEO ▼						
Belgium	7 (e)	9.2 (e)	11.3 (e)	13.1 (e)	14.4 (e)	15 (e)
Germany (until 1990 former t	15 (e)	17.5 (e)	19.9 (e)	22.3 (e)	23.7 (e)	25.4 (e)
Greece	8.3 (e)	10.2 (e)	11 (e)	12.2 (e)	13.4 (e)	14.4 (e)
Spain	6.6 (e)	7.7 (e)	8.5 (e)	9.1 (e)	9.9 (e)	10.5 (e)
France	9.1 (e)	13.6 (e)	16.8 (e)	19.3 (e)	21.3 (e)	22.9 (e)
Italy	5.1 (e)	7 (e)	8.6 (e)	10 (e)	11.3 (e)	12.7 (e)
Cyprus	6.2 (e)	6.9 (e)	7.8 (e)	8.7 (e)	9.6 (e)	10.1 (e)
Luxembourg	7.3 (e)	9.7 (e)	11 (e)	12.3 (e)	13.7 (e)	15.2 (e)
Malta	3.4 (e)	3.5 (e)	4 (e)	4.6 (e)	5.4 (e)	5.8 (e)
Netherlands	13.5 (e)	14.4 (e)	16.5 (e)	18.4 (e)	19.7 (e)	20.9 (e)
Austria	10.9 (e)	14.3 (e)	16.4 (e)	18 (e)	20.5 (e)	23.1 (e)
Portugal	8.8 (e)	10.7 (e)	12.3 (e)	13.4 (e)	14.3 (e)	14.9 (e)
Slovenia	5.7 (e)	7.9 (e)	8.3 (e)	8.4 (e)	9.4 (e)	9.8 (e)
Slovakia	3.3 (e)	4.1 (e)	4.5 (e)	5.1 (e)	5.4 (e)	5.7 (e)
Finland	16.8 (e)	19.3 (e)	21.5 (e)	23.2 (e)	24.8 (e)	26.5 (e)

…and Eurostat (15 countries, 2010, HFCS)

Liquid asset poverty (I)

Percentage of individuals experiencing income and/or liquid asset poverty

2014 or latest available year
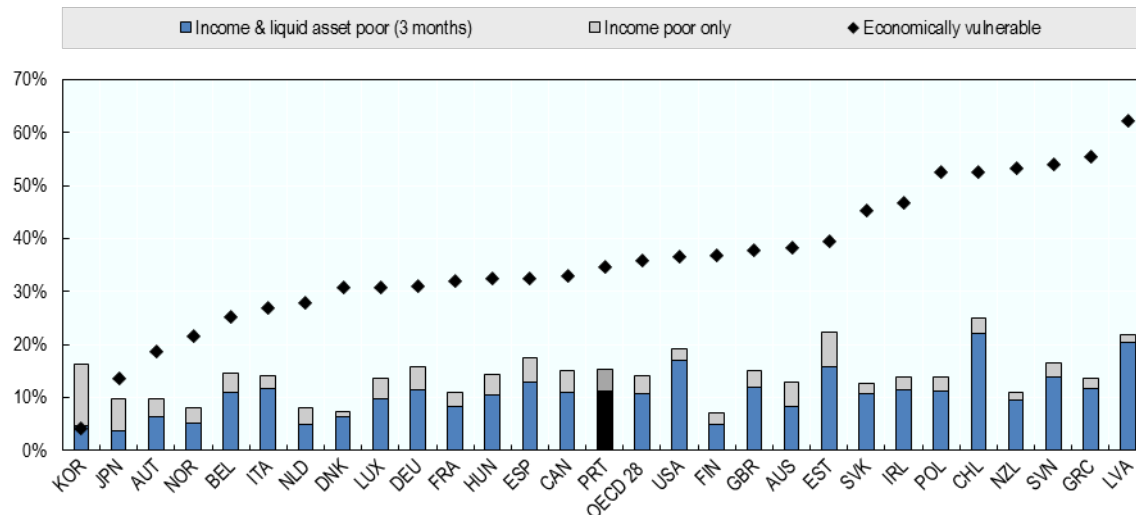
- **Considerable overlap** between income and asset poverty (~75% on avg.), though the degree of coincidence varies across countries;

- Many of those who are not income poor lack adequate ready assets to buffer economic shocks. **Economic vulnerability** is typically at least **three times as high as income poverty**;

- **Great cross-country variation** in both liquid asset poverty and economic vulnerability.
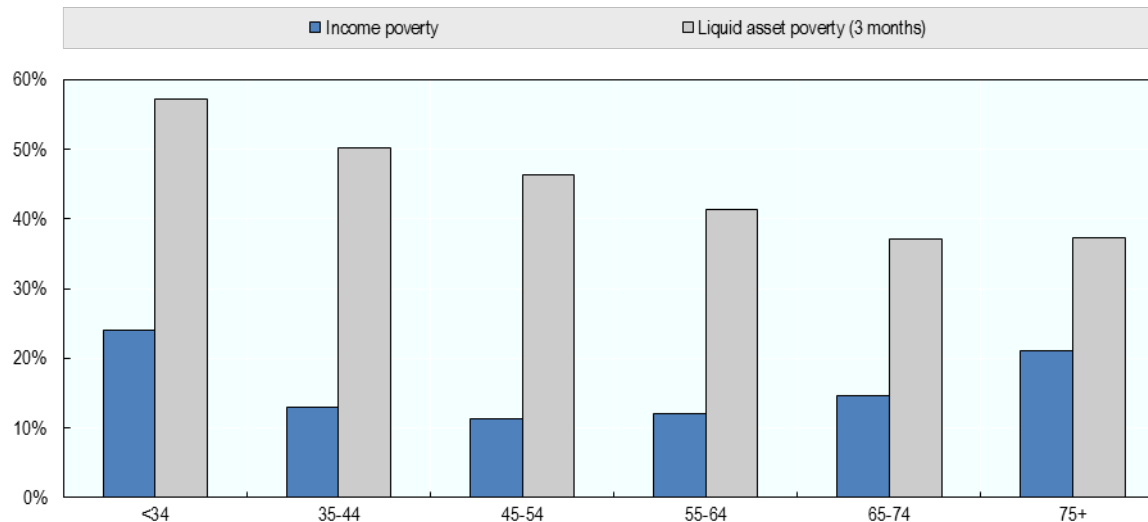
Liquid asset poverty (II)

Income and liquid asset poverty measures may follow different patterns

Income and liquid asset poverty by age of the household head
OECD average, 2014 or latest available year

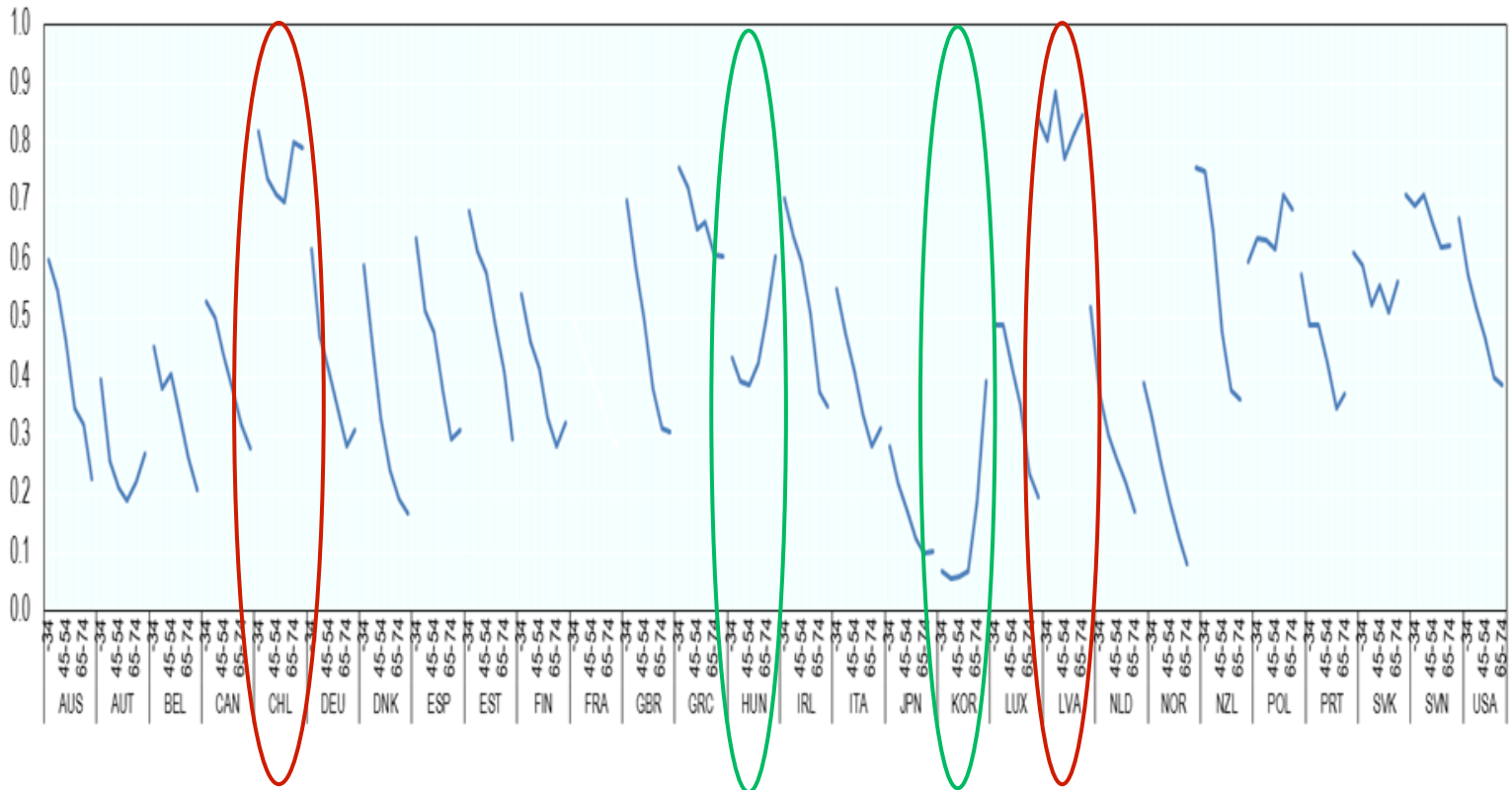

U-shaped age pattern in income poverty; decreasing pattern in liquid asset poverty.

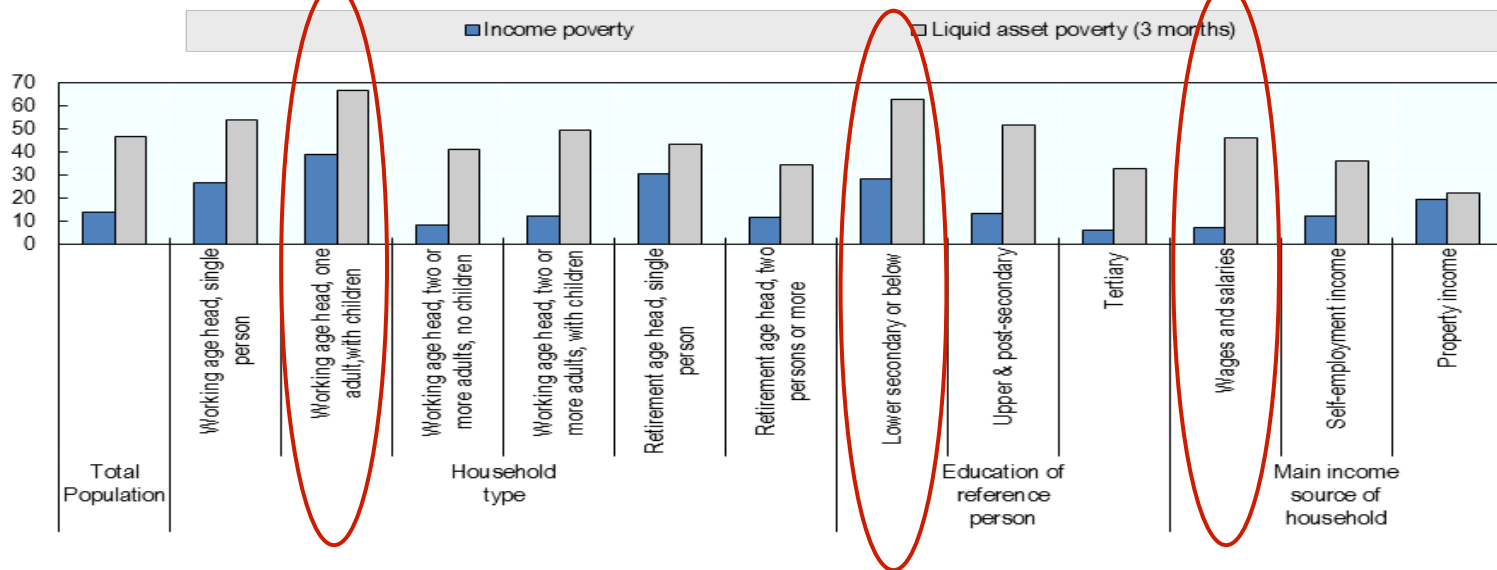# A few exceptions to the general rule…

Liquid asset poverty (III)

Income and liquid asset poverty by population group

OECD average, 2014 or latest available year

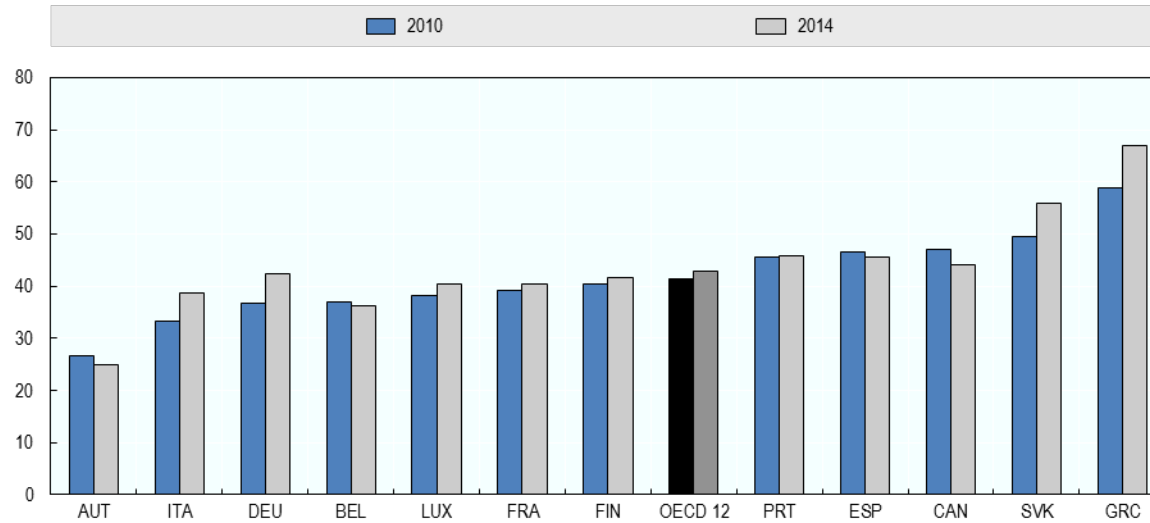General patterns. Liquid asset poverty is highest for households headed by:

- Single parents;
- Poorly educated people;
- Employees;

Liquid asset poverty (IV)

Changes in liquid asset poverty rates, 2010-2014

Between 2010 and 2014 liquid asset poverty has:
- Increased in Italy, Germany, Luxembourg, the Slovak Republic, and Greece;
- Decreased in Austria and Canada;
- Remained stable elsewhere.

Net worth poverty (I)

Asset poverty rates are critically sensitive to the type of assets (liquid financial vs net wealth) and the length of the spell considered (3 vs 6 months).

The larger the concept of wealth and the longer the spell, the higher the asset poverty rates.

Asset poverty rates based on different wealth concepts and time periods
OECD average, 2014 or latest available year
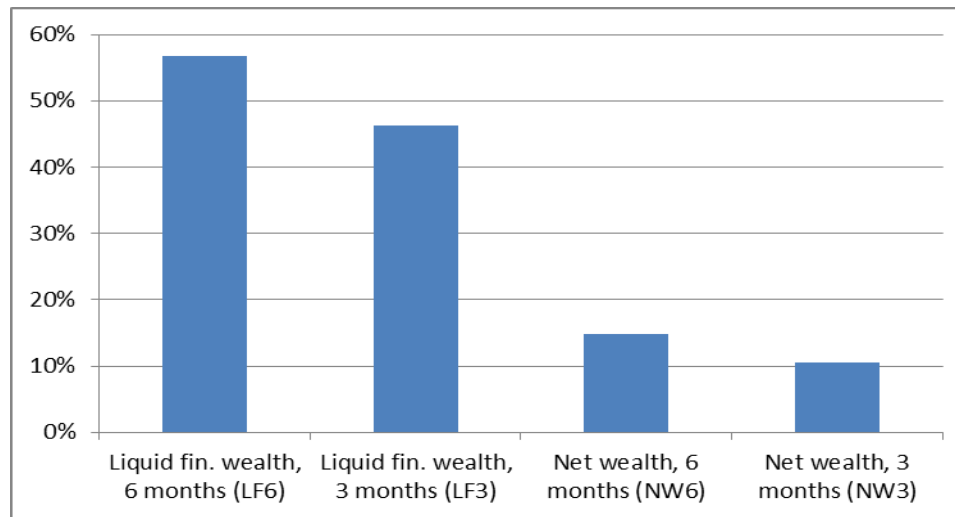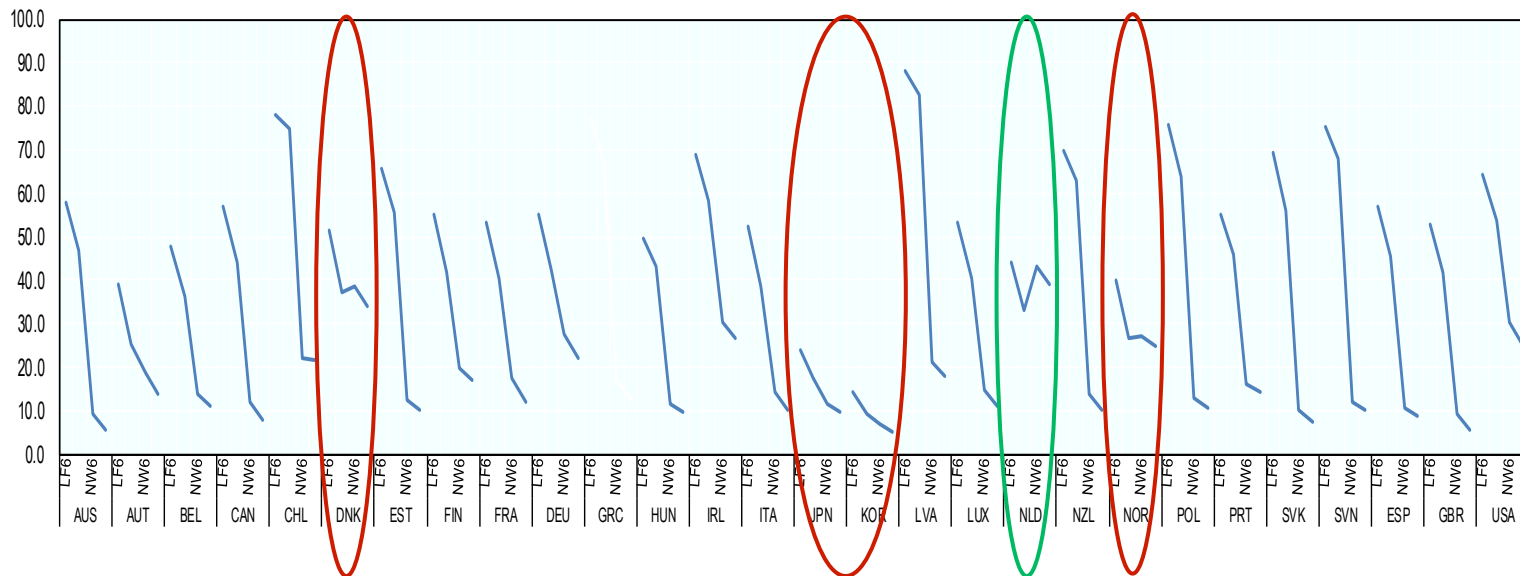

On average, liquid asset poverty is 3 times higher than net worth poverty

Net worth poverty (II)

A few exceptions…

Asset poverty rates based on different wealth concepts and time periods
2014 or latest available year

- The LF-NW poverty gradient is much less steeper in Denmark, Norway, Japan and Korea.

- In the Netherlands, NW poverty can be as high as LF poverty.

Conclusions & policy implications

- Paying attention to household assets and debts is of increasing importance, as the recent financial crisis has seriously affected housing values, mortgage debt arrears, and financial assets in all rich nations;

- Asset-based poverty is much more widespread than income poverty;

- Asset-related measures of poverty may have distinctive informative value with respect to income-based statistics;

- Pools of asset-poor and income-poor do not coincide and their incidence need not move synchronously;

- Important insights that could inform:
    - Asset-based welfare policies;
    - Assessment of the effects of means-testing on benefit eligibility;
    - Policy aiming at increasing financial literacy.

Further readings:

- Balestra, C. and R. Tonkin (2018), "Inequality in household wealth across OECD countries", *OECD Statistics Working Papers*, OECD Publishing, Paris, forthcoming.

- OECD-Eurostat (2018), *Report of the Expert Group on the joint distribution of income, consumption and wealth at micro level*, forthcoming.

- OECD (2018), *New evidence shows that almost 40% of people are economically vulnerable in the OECD, Statistical Insights*, http://www.oecd.org/sdd/statistical-insights-new-evidence-shows-that-almost-40-of-people-are-economically-vulnerable-in-the-oecd.htm

- OECD (2017), *How's Life? 2017: Measuring Well-being*, OECD Publishing, Paris.

- OECD (2013), *OECD Framework for Statistics on the Distribution of Household Income, Consumption and Wealth*, OECD Publishing, Paris.

- OECD (2013), *OECD Guidelines for Micro Statistics on Household Wealth*, OECD Publishing, Paris.

Thank you!

carlotta.balestra@oecd.org

oe.cd/wealth