Estimation of Joint Income-Wealth Poverty: A Sensitivity Analysis

Sarah Kuypers
Centre for Social Policy, University of Antwerp, Belgium

Ive Marx
Centre for Social Policy, University of Antwerp, Belgium

Paper Abstract:

Most poverty studies build on measures that take account of recurring incomes from sources such as labour or social transfers. However, other financial resources such as savings and assets also affect living standards, often in very significant ways. Previous studies that have sought to incorporate assets into poverty measures agree on the fact (1) that poverty estimates including wealth are considerably lower than the traditional income-based measures; (2) that poverty rates of the elderly are more affected than those of the non-elderly and (3) that poverty rates are especially affected by the household's main residence. This paper assesses the sensitivity of these conclusions to various assumptions, such as the poverty line calculation, wealth concept, equivalence scales, etc. Moreover, we check whether the impact of alternative assumptions is consistent across age and institutional settings. For the latter we compare Belgium and Germany, two countries with similar living standards and income poverty rates, but very different levels and distributions of wealth. Using data from the Eurosystem Household Finance and Consumption Survey we show that accounting for wealth largely affects the incidence and age structure of poverty. However, we also illustrate that results strongly depend on specific measurement choices. First, depending on the operationalisation of the poverty line, poverty rates could increase as well as decrease and can change cross-country rankings. Second, current measures are not representative for young households such that any conclusion on the age ratio of poverty is highly sensitive to the assumptions made.