Why consider asset-based poverty alongside consumption and/or income?

International seminar on measuring shared prosperity and inclusion: Challenges and innovative approaches

November 4th 2022

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Income, consumption & wealth

• Monetary poverty normally measured using income or consumption
  • Poverty defined as lack of income/consumption relative to some minimally acceptable level

• However, economic well-being (people’s command over resources) is a multi-dimensional concept whose components (income, consumption and wealth) are separate but interrelated

• Looking at different types of economic resources jointly allows better identifying of people in distressed conditions, and better targeting of policies
Income & consumption (1)

• **Income**
  • Disposable income is a good proxy for material living standards – amount of money households have available for spending/saving
  • Direct policy levers – government able to influence through changes to taxes/social protection payments

• **Consumption**
  • Consumption of goods/services more closely related to satisfaction of households' needs
  • Consumption expenditures fluctuate less – consumer decisions based on long-term income expectations (consumption smoothing)
Income & consumption (2)

• Looking at income & consumption together can give us better insights for policy intervention:
  • Income poor but not expenditure poor:
    • May be able to consumption smooth to maintain living standards due to (expected) temporary low income
  • Expenditure poor but not income poor:
    • Possible uncertainty over future income levels
    • May indicate over indebtedness – income used to service debts rather than for consumption expenditure

• See Serafino & Tonkin (2017) and Stoyanova & Tonkin (2018) for more discussion/analysis from UK/EU context
Why consider wealth? (1)

- Wealth 3rd primary component of economic well-being
  - Stock measure – more stable
  - Can drop dramatically in investment/housing market crashes
- Makes it possible to sustain levels of economic well-being over time
  - Can use wealth to consume more than income OR can consume less than income & therefore save
  - Life chances depend on a person’s wealth more than their income
Conceptual Framework

• Conceptual framework for household economic resources, mapping the relationship between its different components

Box 3.1. Integrated framework of income, consumption and wealth

Why consider wealth? (2)

• 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 (2015 or latest year)

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

Source: Balestra & Tonkin (2018); OECD Wealth Distribution Database, oe.cd/wealth
Incorporating wealth into poverty measurement

• Two main approaches
  • **Wealth-enlarged income concept.** Combines income and wealth into a single measure of total economic resources. Captures insufficiency of economic resources in order to maintain a certain living standard.
    • e.g. Brandolini, Magri & Smeeding, 2010; Social Metrics Commission, 2020)
  • **Asset-based poverty.** Considers income and assets as two distinct types of economic resources. Household wealth data used to consider how long an individual can maintain a minimum level of consumption by drawing on their accumulated wealth, should their income suddenly fall.
    • e.g. Balestra & Tonkin (2018)
A household/individual is asset-poor when their wealth is not sufficient to secure a given standard of living for a certain period of time.
Asset- and income-based poverty (2)

- “Income poor only” have sufficient wealth to keep themselves above poverty line for a period of time
- “Asset & income poor” lack this buffer – most vulnerable group
- “Asset poor only” have sufficient income to achieve minimally acceptable standard of living, but don’t have assets to protect them from a sudden income shock – economically vulnerable
Methodological choices

- **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, 6 or 12 months commonly used
- **Unit of analysis**: individuals rather than households
- **Equivalisation**: Same scale as income
Percentage of individuals experiencing income and/or asset-based poverty

Note: An individual is classified as being in income poverty if their equivalised household disposable income is less than 50% of the national median (income poverty line). An individual is classified as economically vulnerable if they are not income poor but their liquid financial wealth is less than 3 months of the national income poverty line.

Source: Balestra & Tonkin (2018); OECD Wealth Distribution Database, oe.cd/wealth
Income and asset poverty by age of household head

Source: Balestra & Tonkin (2018); OECD Wealth Distribution Database, oe.cd/wealth

- U-shaped pattern by age for income poverty in most OECD countries
- Asset poverty typically highest for younger age groups & falls with age
Income and asset poverty by age of household head

Percentage values, 2015 or latest available year

- But exceptions exist...
  - e.g. Asset poverty higher in older age groups in Korea, Hungary & Poland

Source: Balestra & Tonkin (2018); OECD Wealth Distribution Database, oe.cd/wealth
Further Reading


• See also:
  
  
  
  
Thank you