

2020

36th IARIW General Conference

Paper Prepared for the 36th IARIW General Conference, Oslo, Norway, August 24-28, 2020

Poverty in the EU Using an Augmented Measure Of Financial Resources: The Role of Assets and Debt

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Poverty research, especially comparative poverty research in the rich world, builds overwhelmingly on income based measures, that is to say measures that gauge disposable income flows during any given time period against income thresholds. This has yielded an enormous amount of cross-country comparative studies, including studies that seek to account for these differences, focusing mostly on the role of tax and benefit systems but also other aspects of welfare systems such as employment and family policies. Income-based poverty measures have some well-known limitations. Households may have significant assets that they can draw on to boost their living standards, for example savings or property. But households may also have debts that weigh severely on the living standard they can realise with their income.

This paper offers a picture of poverty in the EU that takes into account assets and debt, using various approaches for accounting of this. We aim to answer to following research questions. How are cross-country differences in poverty rates across the EU affected by accounting for assets and debt? Are there countries where the impact is bigger, for example because home acquisition has been encouraged? How does the picture alter for various subgroups in society, for example the elderly as opposed to the active aged and children. And do models explaining income poverty variation across the EU do an equally good job accounting for poverty variation using an augmented concept of financial resources? Or do different or additional drivers play a role?

A number of studies have proposed poverty indicators which jointly take into account income and wealth (e.g. Azpitarte, 2012; Brandolini et al., 2010; Haveman & Wolff, 2004; Weisbrod & Hansen, 1968). In a previous paper (Kuypers & Marx, 2018, Social Indicators Research) we estimated such joint income-wealth poverty measures for Belgium and Germany and studied the sensitivity of poverty outcomes to several plausible alternative operationalisations of the indicator. We relied on income and wealth data from the first wave of the HFCS (i.e. income reference period 2009). As the HFCS originally only included gross incomes, they have been transformed to disposable incomes using the microsimulation tax-benefit model EUROMOD.

With the current paper we add several novel aspects to the literature on joint income-wealth poverty indicators. First, while earlier studies have focused on a single or a few countries case studies, we are the first paper to provide joint income-wealth poverty estimates for a set of 17 EU countries (Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Poland, Portugal, Slovak Republic, Slovenia, Spain). As these countries strongly differ in their income poverty rates as well as the extent to which income and wealth are correlated this wide scope will provide an interesting overview of the effect of including wealth in poverty estimates in various institutional settings. It also easily allows to compare our results with the official at-risk-of-poverty approach used at Eurostat and the literature on income poverty in the EU. Furthermore, in the existing literature on joint income-wealth poverty the emphasis is almost exclusively on the positive effects of asset ownership on the financial situation of those in income poverty. Yet, we also highlight in detail the potential negative effects of debt. Indeed, income poor households may be even more financially deprived if they need to pay off substantial amounts of debt and perhaps even more interestingly there are also households who are not poor in the traditional income approach, but are considered to be vulnerable in the joint income-wealth framework due to their liabilities. From a social policy perspective it is interesting to show the incidence and demographic structure of the latter. Finally, we are the first paper aiming to explain cross-country variation in joint income-wealth poverty estimates. We will show whether the models that are used to explain cross-country variation in income poverty rates also work for the augmented concept and hence which explanatory factors may play a role. In this way we contribute to the understanding of the driving factors of wealth accumulation among the most needy.