



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

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# Why considering wealth? (I)

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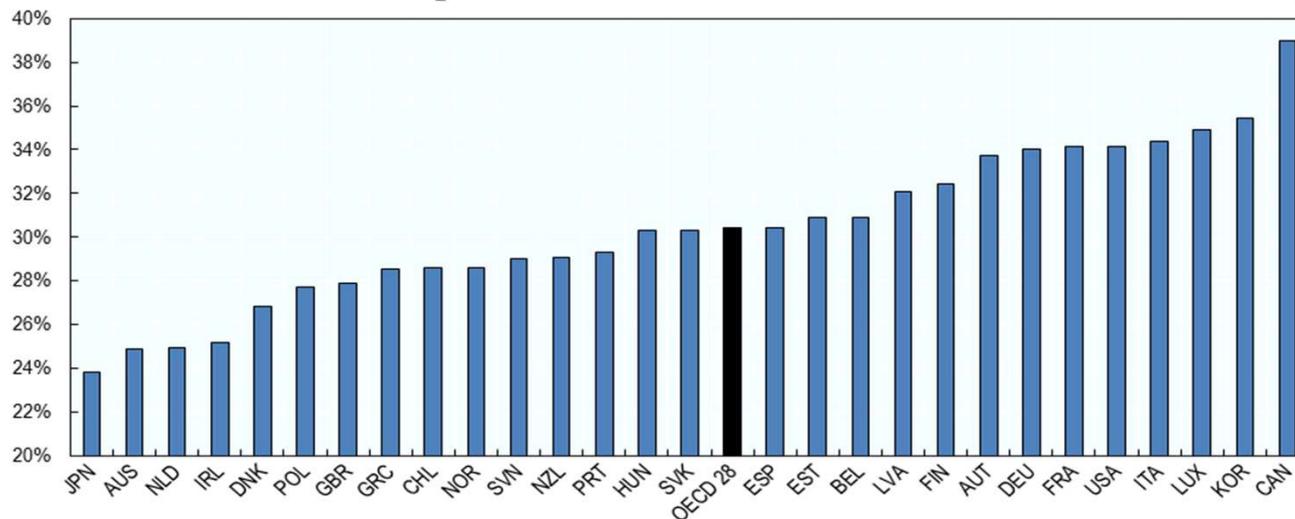
- Standard approach: poverty = **income** insufficiency
  - Lack of income/(consumption) relative to some minimally acceptable level;
  - Many measurement aspects (e.g., absolute vs. relative), but common approach (OECD, Eurostat, NSOs,...);
  - Long time series.
- Household **wealth** only enters through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



Source: OECD Wealth Distribution Database, [oe.cd/wealth](https://www.oecd.org/wealth/).

- 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)

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- 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 (see tomorrow’s presentation).



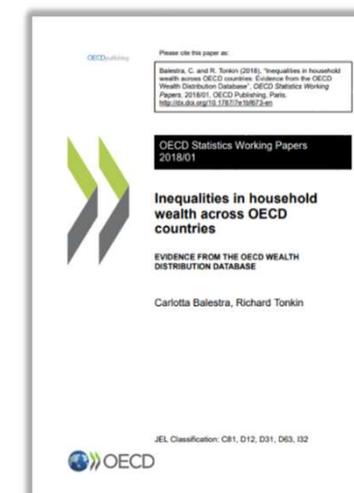
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# The OECD Wealth Distribution Database

- 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:**
  - 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 and over time comparability.
- But **things are rapidly changing:** back in 2015 the OECD WDD covered 18 countries, in 2017 it covered 28.

| + Wealth       |  | Share of individuals with net liquid financial wealth <2% of income poverty line * 1 |       |       |       |      |      |       |       |
|----------------|--|--|-------|-------|-------|------|------|-------|-------|
| + Population   |  | Total Population   |       |       |       |      |      |       |       |
| + Time         |  | 2009   | 2010  | 2011  | 2012  | 2013 | 2014 | 2015  | 2016  |
|                |  | A.T  | A.T   | A.T   | A.T   | A.T  | A.T  | A.T   | A.T   |
| + Country      |  |  |       |       |       |      |      |       |       |
| Australia      |  |  |       |       |       |      |      | 48.70 |       |
| Austria        |  |  |       | (R)   | 29.94 |      |      | (R)   | 23.05 |
| Belgium        |  |  | (R)   | 38.87 |       |      |      | (R)   | 38.34 |
| Denmark        |  |  |       |       | 47.00 |      |      |       |       |
| Finland        |  |  |       |       |       |      |      |       | 74.94 |
| France         |  |  |       |       |       |      | (R)  | 59.4  |       |
| Germany        |  |  |       | 42.4  |       |      |      |       | 41.85 |
| Greece         |  | (R)  | 30.24 |       |       |      |      | (R)   | 42.4  |
| Iceland        |  |  |       | (R)   | 38.85 |      |      | (R)   | 42.4  |
| Ireland        |  | (R)  | 59.54 |       |       |      |      |       | 68.89 |
| Japan          |  |  |       |       |       |      |      | (R)   | 42.08 |
| Netherlands    |  |  |       |       |       |      | (R)  | 59.24 |       |
| Poland         |  |  |       |       | 30.24 |      |      |       | 39.6  |
| Spain          |  |  |       |       |       |      |      |       | 17.00 |
| Sweden         |  |  |       |       |       |      |      |       | 53.00 |
| Switzerland    |  |  |       | (R)   | 31.9  |      |      | (R)   | 42.4  |
| United Kingdom |  |  | (R)   | 38.00 |       |      |      | (R)   | 33.00 |
| United States  |  |  |       |       |       |      |      |       | 27.70 |

[oe.cd/wealth](http://oe.cd/wealth)





# Different approaches

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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.



Source: Adapted from OECD (2013), OECD Framework for Statistics on the Distribution of Household Income, Consumption and Wealth, OECD Publishing. <http://dx.doi.org/10.1787/9789264194830-en>



## Asset poverty (III)

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Several **methodological choices**:

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

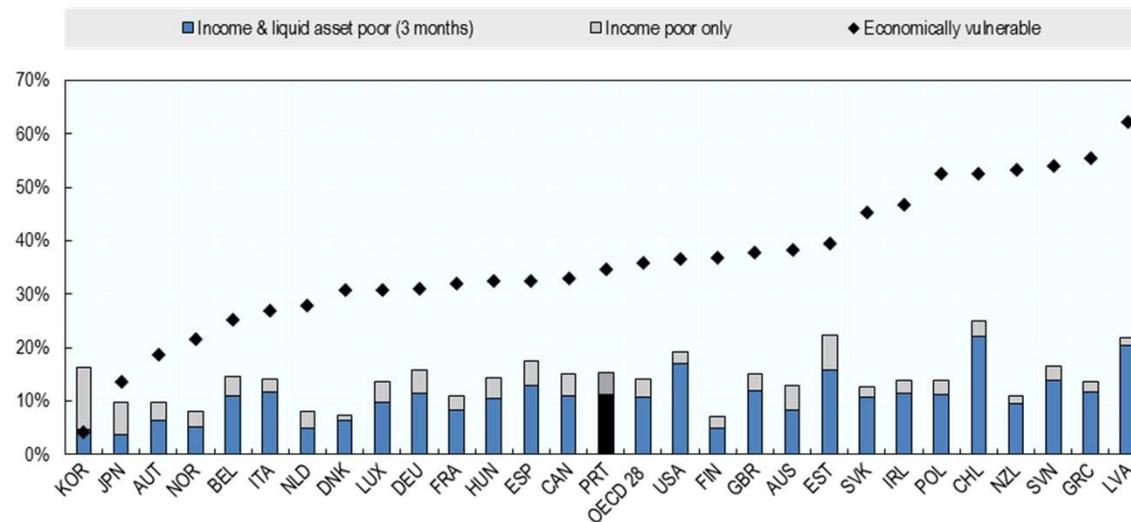
**No common agreement**, but the following generally used:

- 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.



# 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.

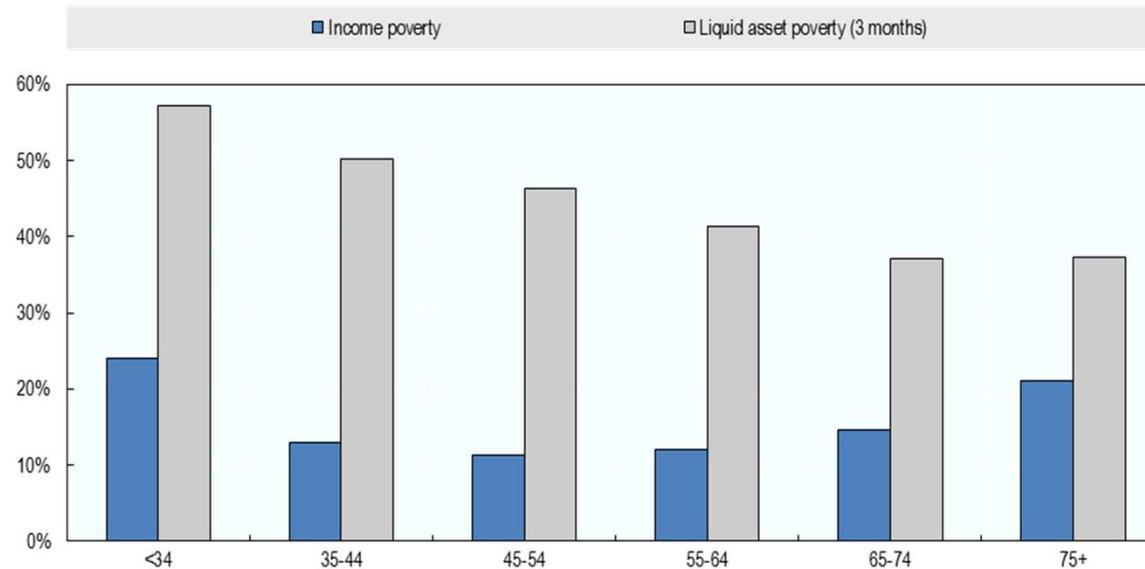


## Liquid asset poverty (II)

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*

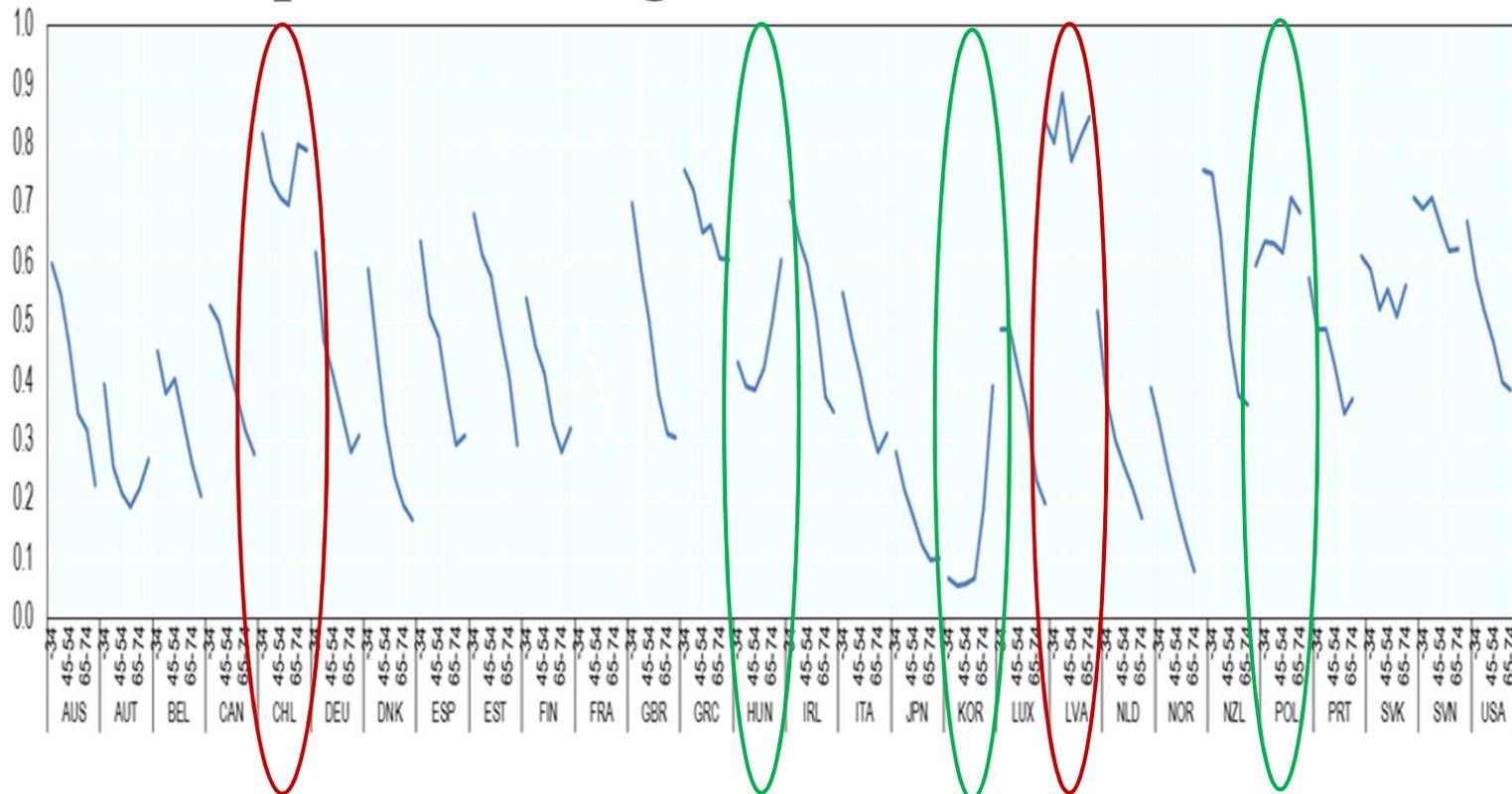


Source: OECD Wealth Distribution Database, [oe.cd/wealth](http://oe.cd/wealth).

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



## A few exceptions to the general rule...



Source: OECD Wealth Distribution Database, [oe.cd/wealth](http://oe.cd/wealth).

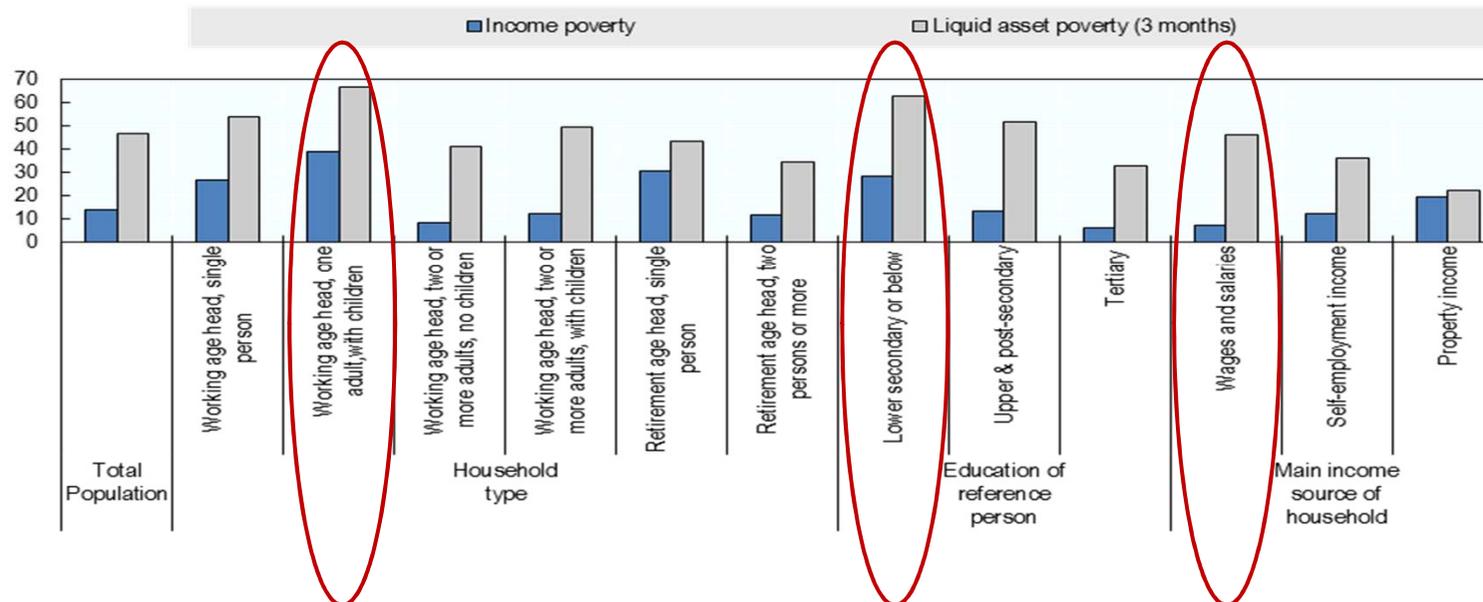
- U-shaped pattern in Chile (and Latvia);
- Upward pattern in Hungary, Korea (and Poland).



# Liquid asset poverty (III)

## Income and liquid asset poverty by population group

OECD average, 2014 or latest available year



Source: OECD Wealth Distribution Database, [oe.cd/wealth](http://oe.cd/wealth).

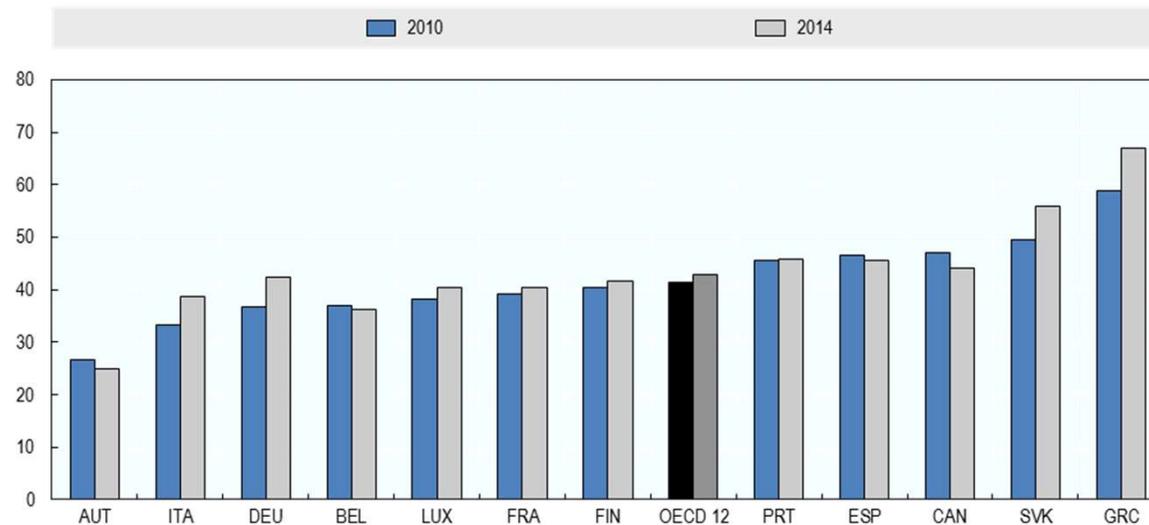
General patterns. Liquid asset poverty is highest for households headed by:

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



# Liquid asset poverty (IV)

## Changes in liquid asset poverty rates, 2010-2014



Source: OECD Wealth Distribution Database, [oe.cd/wealth](http://oe.cd/wealth).

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.



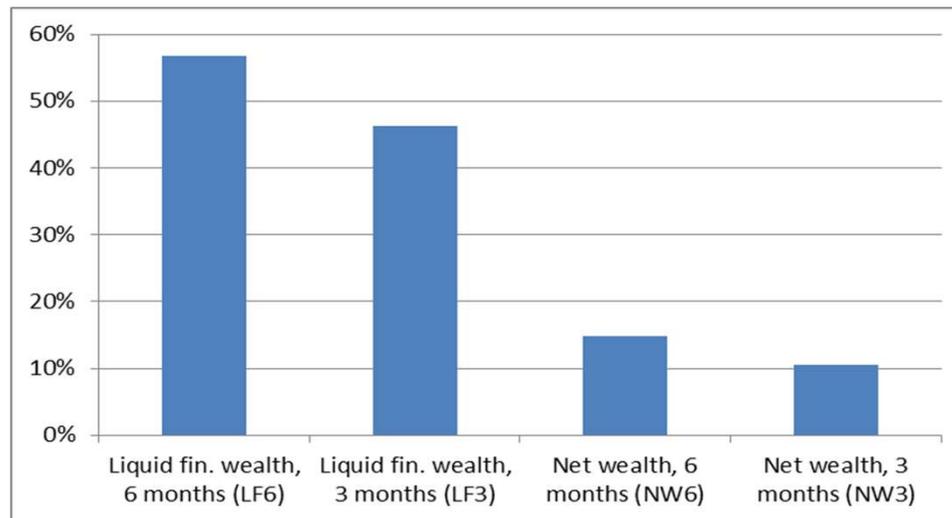
# Net worth poverty (I)

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 narrower 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*



Source: OECD Wealth Distribution Database, [oe.cd/wealth](http://oe.cd/wealth).

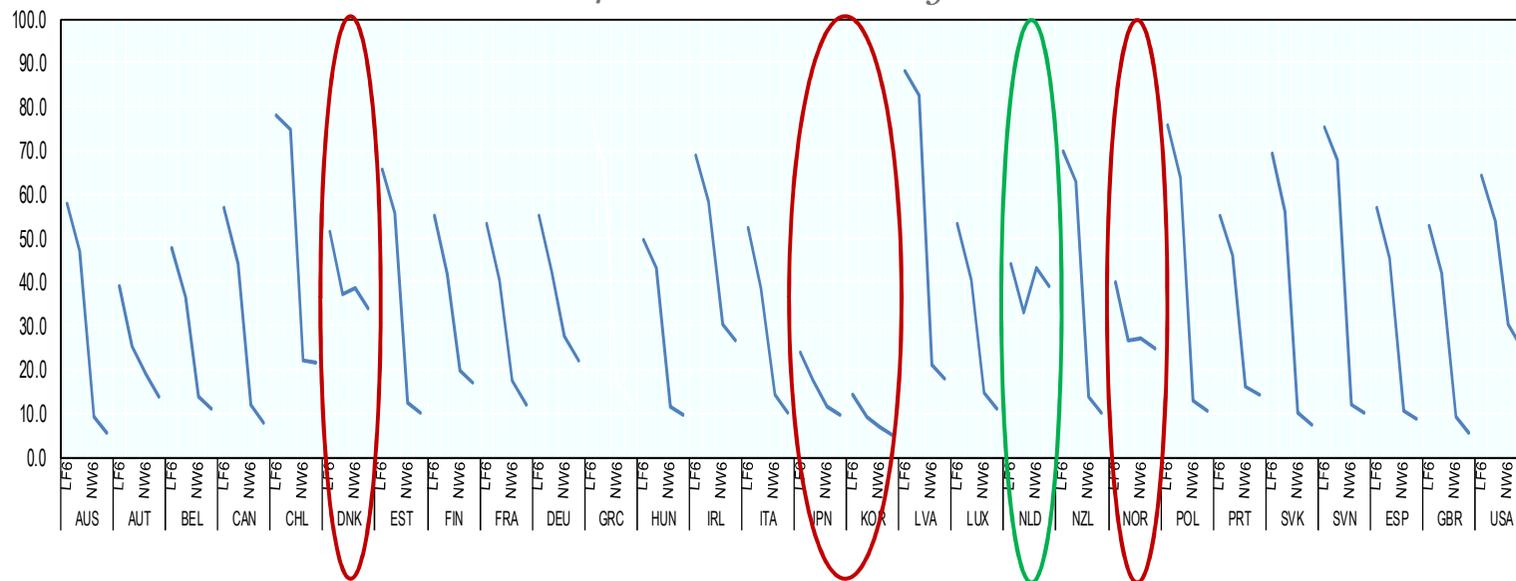
On average, liquid asset poverty is **3 times higher** than net worth poverty



# Net worth poverty (II)

A few exceptions...

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



Source: OECD Wealth Distribution Database, [oe.cd/wealth](http://oe.cd/wealth).

- 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.



# Conclusion

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- 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;



## Further readings:

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- OECD-Eurostat (2019), *Report of the Expert Group on the joint distribution of income, consumption and wealth at micro level*, forthcoming.
- Balestra, C. and R. Tonkin (2018), "Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database", *OECD Statistics Working Papers*, No. 2018/01, OECD Publishing, Paris, <https://doi.org/10.1787/7e1bf673-en>.
- 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, [https://doi.org/10.1787/how\\_life-2017-en](https://doi.org/10.1787/how_life-2017-en).
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- OECD (2013), *OECD Guidelines for Micro Statistics on Household Wealth*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264194878-en>.



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**Thank you!**

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