

POVERTY AND ASSETS IN BELGIUM

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This paper discusses how to take assets into account in the measurement of poverty. First asset holdings of current income-poor households are described. Second, the effects on the measured incidence of poverty of two methods to combine income and assets into a single index of economic resources are presented. Third, since the majority of income-poor households do not have assets of much value except for their home, I reconsider the matter of the treatment of housing costs in the measurement of poverty. A method where poverty thresholds are adjusted according to home tenure status is favored, and results of this method are shown. Data are used from the Belgian Socio-Economic Panel, wave 1992.

1. INTRODUCTION

In most applied poverty research, a household's poverty status is assessed on the basis of its current money income. Yet, the assets that a household has are an important part of its command over goods and services. Therefore, a good argument can be made that assets should be taken into account when deciding whether a household is poor or not. In this paper, I address the following three questions. In the first place, how many among the group of households with current incomes below the poverty line hold financial and/or non-financial wealth, and what is the value of these holdings? Secondly, how should household income and household wealth be combined into a single measure of economic resources? Thirdly, what effect does the substitution of such an extended measure for current income have on the measured incidence and distribution of poverty? Data are used from the Belgian Socio-Economic Panel, wave 1992.

As far as I am aware, previous research on household wealth and poverty is mainly limited to the U.S.A. While some studies were already carried out in the 1960s (e.g. Weisbrod and Hansen, 1968), research interest appears to have increased since the end of the 1980s (e.g. Ruggles and Williams, 1990; Wolff, 1990; Rendall and Speare, 1993). The results of these U.S. studies show that among the non-elderly poor, few have financial assets of any substance, though a substantial number own the house they live in. Elderly persons with incomes below the poverty line tend to have both more financial and non-financial wealth than the non-elderly poor. A small minority of the income poor have substantial wealth in unincorporated business or real estate. When wealth is included in the measure of economic resources, poverty rates for the non-elderly are not much affected, but poverty among the elderly is substantially reduced. Unfortunately,

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no specific studies on wealth and poverty appear to have been published for any other country. However, results reported by Banks *et al.* (1994) suggest that in the U.K. the situation is essentially the same: in the lowest income band, only people over 45 have any assets, and the main asset by far is the own home.

The paper is organized as follows. In the second section, a number of indicators of household wealth among the poor are presented and discussed. In the third section, the second and third questions raised above are addressed. Results of two methods to combine income and assets into a single index of economic resources are presented. In the fourth section, I argue for an alternative method of taking home tenure into account when assessing poverty status. Results of an application of this method are presented in the fifth section. Section six concludes.

2. ASSET HOLDINGS OF INCOME-POOR HOUSEHOLDS IN BELGIUM

In this section, I present results on asset holdings among the income poor in Belgium in 1992. Data are from the Belgian Socio-Economic Panel, wave 1992, which covered a sample of 3,821 households. The 1992 questionnaire (French version available on request) contained a set of fairly detailed questions about financial and other assets in addition to questions about income, labor market status, etc. Non-response on the asset questions was quite low: 4 percent for the value of the own home, 18 percent for the total value of other real estate, 6 percent for the total value of financial assets (Meulemans, 1993). As far as possible, missing data have been imputed, using a variety of methods.¹ (cf. Meulemans and Marannes, 1993). Validating these asset data through a comparison with external figures is rather difficult, as there are few other sources. A comparison of asset *income* as measured in the SEP-wave of 1988 with National Accounts figures showed that income from real estate was covered well, but that aggregate income from liquid assets according to the SEP data was only 19 percent of the corresponding amount in the National Accounts (Meulemans and Marannes, 1993, p. 372). A large part of this discrepancy is probably due to differences in the population (the National Accounts figure includes income from non-profit institutions) and in the definition of asset income.

To identify the income poor, I use the two poverty lines that are most often referred to in Belgium (cf. Atkinson, 1997). The first one is a relative poverty line, called the EC-standard, which is defined as 50 percent of average equivalent income, using the OECD (1982) equivalence scale.² The second one is the CSP-threshold, which is a subjective poverty line; for more details see Van den Bosch *et al.* (1993). The thresholds are shown in Table 4, columns labeled "unadjusted." For most households the CSP-line is much more generous than the EC-standard, though the difference is smaller, or even reversed for large households, due to the fact that the equivalence scale incorporated in the CSP-thresholds is much flatter than the OECD (1982) one. About 7 percent of all households are below the EC-standard, and 15 percent are below the CSP-line.

¹Many thanks are due to Bert Meulemans, who carried out the imputations and prepared the asset data used in this section and the next ones.

²This equivalence scale is built up using the following factors: 1.0 for the first adult, 0.7 for each additional adult, and 0.5 for each child.

A number of indicators of household wealth are presented in Table 1. About half of all income-poor households own their own home, while the same is true for two-thirds of the non-poor. Among the aged, almost three-quarters of families are owner-occupiers, and there is virtually no difference in this respect between the poor and the non-poor elderly. Strikingly, the proportion of home owners among the poor aged is higher when a stricter definition of poverty is used, and the mean value of these homes is also larger. The reason for this strange result is that the aged who were self-employed during their working lives are disproportionately well represented among those with very low incomes. Virtually no-one among the poor aged has to pay for a mortgage. Among the non-aged the proportion of home-owners is much lower, compared to the aged poor, though still substantial. Less than half of the non-aged poor home-owners have to pay for a mortgage. It is notable that the average net value of the homes of non-aged poor home-owners is not very much below that of their non-poor counterparts.

About 10 percent of the poor have some real estate property other than their own home. This is about half of the corresponding percentage among the non-poor. The aged poor are more likely to own other property than the non-aged poor, but the value of their properties appears to be quite low in most cases. The number of poor households receiving income from letting property is very small. About two-thirds of all income-poor households have no, or very small financial assets (i.e. less than 50,000 BF). Ten percent or less have financial assets exceeding half a million BF. Households having no financial assets, as well as those having substantial financial wealth are somewhat more common among the aged poor than among the non-aged poor.

On average, total gross wealth of the poor is about half of that of the non-poor. Among the non-aged poor, median total gross wealth is a fairly insignificant amount, while it is much larger among the aged poor. The median gross wealth amounts also suggest (a suggestion confirmed by other results not shown here) that the various forms of wealth are not substitutes, but rather appear to be complements for the poor: virtually all poor households owning any real estate are owner-occupiers (as can be seen by comparing the lines "Percent owner-occupiers" and "Percent having any property" in Table 1). Also, poor households who do not own their own homes have relatively little financial wealth. As a consequence, wealth is very unequally distributed among the poor. In some of the income-poor but asset-rich households the main earner is self-employed, but these households constitute only a small minority among the poor, and the exclusion of this group does not materially change the results shown in Table 1.

About one in five of the non-aged poor have to pay for consumer debt. Among the aged poor, consumer debt is virtually non-existent. The amounts to pay appear to be fairly large in at least a number of cases. Unfortunately, because information about the duration of the loan was lacking, the amounts paid per month could not be converted into a measure of outstanding debt.

3. THE EFFECT OF ASSETS ON MEASURED POVERTY

In this section I will address the question, what will be the effect on measured poverty, if household wealth is taken into account when assessing poverty status?

TABLE 1
INDICATORS OF HOUSEHOLD WEALTH, BY POVERTY STATUS AND AGE OF HEAD OF HOUSEHOLD, BELGIUM 1992

	Below EC poverty line			Below CSP Poverty Line			Above Both Poverty Lines			
	Non-aged	Aged	All	Non-aged	Aged	All	Non-aged	Aged	All	
Percent owner-occupiers	38	70	47	39	59	47	67	73	68	
Mean value own home (Thousands BF)	2,832	2,717	2,783	2,860	2,288	2,560	4,025	3,158	3,819	
Median value own home (Thousands BF)	2,500	2,500	2,500	2,500	1,500	2,500	3,500	2,500	3,500	
Percent with mortgage	21	4	16	18	1	11	41	2	33	
Mean net value own home (Thousands BF)	2,361	2,695	2,503	2,499	2,279	2,384	3,239	3,150	3,217	
Percent owning other property	6	14	8	7	11	9	19	21	19	
Mean value other property (Thousands BF)	1,260	1,192	1,227	1,251	1,077	1,161	2,506	2,348	2,468	
Median value other property (Thousands BF)	1,000	590	1,000	1,000	1,000	1,000	1,770	1,750	1,750	
Percent letting property	1	6	3	2	5	3	9	13	10	
Percent having any property	39	70	48	40	59	48	71	75	72	
Value () of financial assets	0 BF	15	21	17	11	18	14	5	8	6
	1-50,000 BF	53	41	49	53	46	50	19	25	20
	50,000-100,000 BF	16	11	14	18	11	15	8	7	8
	100,000-250,000 BF	10	16	12	10	13	11	16	12	15
	250,000-500,000 BF	3	5	4	4	7	5	14	11	14
	500,000-1,000,000 BF	3	5	3	3	5	4	12	10	12
	more than 1,000,000 BF	1	1	1	1	0	1	26	29	27
Mean value total gross wealth (Thous. BF)	1,712	2,569	1,989	1,815	2,044	1,913	4,051	3,674	3,971	
Median value total gross wealth (Thous. BF)	75	1,575	211	75	1,250	211	3,500	2,575	3,238	
Mean value total net wealth (Thous. BF)	1,051	2,165	1,370	1,161	1,564	1,330	3,566	3,728	3,602	
Percent having consumer debt	23	1	16	19	0	11	23	3	19	
Mean monthly payment consumer debt (BF)	7,100	—	7,100	6,400	—	6,400	9,000	5,700	8,900	
Weighted percent of total sample in category	5.3	2.1	7.4	8.8	6.4	15.2	65.6	18.5	84.1	
Unweighted number of cases in category	178	81	259	299	213	512	2,594	692	3,286	

Notes: EC poverty line: 50 percent of average equivalent income; CSP poverty line: a subjective line, see text for details. Virtually all households below the EC poverty line are also below the CSP poverty line, with the exception of 27 cases (0.7 percent). All percentages with respect to total group; all amounts calculated for those with values larger than zero. Financial assets: demand deposits, savings deposits, savings certificates, bonds, shares, etc.; total value estimated by respondent. Net value own home and total net wealth are defined as corresponding gross amounts minus estimated outstanding mortgage debt.

Following Wolff (1990) and Rendall and Speare (1993), I have annuitized wealth, and added it to non-wealth income, in order to obtain a single measure of economic resources. Since opinions may differ about to which extent it is reasonable to expect households to spend their wealth in order to escape poverty, three different simulations have been carried out. In the first one, only financial assets were annuitized. In the second one, financial assets plus all real estate except the home the household lives in, were annuitized. In the third one, all financial assets plus all real estate, including the own home (but subtracting outstanding mortgage debt) were annuitized. Throughout the simulations, poverty thresholds remained unchanged. As the EC-threshold is a relative poverty line, an argument could be made that it should be recalculated when the concept of economic resources is changed. This was not done, because it would make interpretation of the results more difficult. The latter are in any case meant to be mainly illustrative.

In order to calculate an annuity from a given amount of wealth, assumptions must be made about the remaining lifetime of persons, and about the interest rate. Regarding the latter, I have assumed a real long-term interest rate of 2 percent. This is based on Vuchelen (1991, p. 199) who shows that the real average return, including capital gains, on all wealth of Belgian households between 1961 and 1988 was 2.34 percent on average. As transaction costs for annuities are large, a two percent real interest rate is probably too high, rather than too low.³ Remaining lifetimes by age and sex were calculated from unpublished survival probabilities for the year 1992, calculated by the NIS (National Statistical Institute) and the "Planbureau" (Planning Bureau), and kindly provided by Mr Henk Becquaert of the Belgian "Planbureau." Only the ages of the head of household, and his or her partner, if present, were taken into account. For couples, it is assumed that the annuity is reduced to 70 percent of its current value after the first death of any spouse.

The results presented in Table 2 show that as long as the own home is not touched (i.e. only financial assets and real estate other than the home is annuitized), the impact of taking account of wealth by way of annuities is minimal. Poverty rates and poverty gaps among the aged are not much reduced, and among the non-aged they are not reduced at all.⁴ In fact, very few households change poverty status: 0.6 percent with the EC-standard, 1.1 percent with the CSP-standard. When the assumption is made that the value of the own home can also be annuitized, the situation changes dramatically. Overall poverty rates are reduced by about one-third and among the aged the reduction is more than 50 percent. The total poverty gap among the aged is cut by no less than two-thirds. The change in the poverty rates and poverty gaps for the non-aged is smaller, but still substantial. The larger effect of the assumption of annuitizing the own home on measured poverty rates among the elderly is due to this group being more likely

³According to Friedman and Warshawsky (1990) annuity rates in the U.S.A. are 2.4 percent-points below interest rates on treasury bonds.

⁴In fact, when the CSP-threshold is used, measured poverty increases a bit among the non-aged. The reason for this apparently anomalous result is that for some persons, the amount of nominal interests and dividends included in disposable income exceeds the inflation-adjusted value of financial assets converted into an annuity.

TABLE 2
 HYPOTHETICAL POVERTY RATES AND POVERTY GAPS WHEN HOUSEHOLD WEALTH IS
 ANNUITIZED

Concept of Economic Resources	EC-threshold			CSP-threshold		
	Non-aged	Aged	All	Non-aged	Aged	All
A: Poverty rates (percentages)						
Disposable income	6.7	8.5	7.2	11.1	25.5	14.9
Disposable income less actual income from assets	8.0	12.6	9.3	13.1	32.9	18.4
Financial assets annuitized	7.0	8.4	7.4	11.5	24.6	15.0
All fungible assets except own home annuitized	6.8	7.8	7.1	11.2	23.5	14.4
All assets annuitized	5.2	3.1	4.6	8.2	11.2	9.0
B: Poverty gaps (as a percentage of poverty gap based on disposable income)						
Disposable income	100	100	100	100	100	100
Disposable income less actual income from assets	119	134	123	121	129	124
Financial assets annuitized	102	93	99	102	92	98
All fungible assets except own home annuitized	101	84	96	100	85	95
All assets annuitized	84	34	71	80	39	64

Source: Belgian SEP, wave 1992.

Notes: EC and CSP thresholds are unchanged through the simulations. Aged: households where both the head of household and his spouse are above retirement age, i.e. 65 for a man and 60 for a woman. Fungible assets are financial assets and real estate.

to own their own home, less likely to have mortgage debt, and having smaller poverty gaps to begin with.

Annuitization implies that the spending of assets is spread out uniformly over the remaining life-time. This may be reasonable for persons in retirement, who can expect that they will experience few changes in income. For the non-aged, however, poverty may be only a temporary condition. If they can anticipate that their income will improve in the foreseeable future, it may be reasonable to expect households to spend down their assets in order to maintain an above-poverty consumption level while their incomes are below the poverty line (cf. Ruggles and Williams, 1989). Unfortunately, the Belgian SEP data do not allow the determination of poverty spells. However, in order to give a rough idea of the possible impact on measured poverty of this assumption, I have calculated how many months each non-aged household could escape poverty by using their assets to fill up the poverty gap between the poverty line and their disposable income, assuming that non-asset income and the poverty line would remain unchanged forever.⁵

The results, presented in Table 3, show that, as long as the own home is not touched, the assets of about half of all non-aged poor would be insufficient to

⁵Spending down assets implies that asset income declines over time. Therefore, in order to avoid double counting, the value of the assets has been converted into an annuity that is just sufficient to fill the poverty gap between non-asset income and the poverty line, assuming a real interest rate of two percent. The number of months that such an annuity would last is, then, the number of months that a household could escape poverty by spending their assets.

maintain a non-poverty consumption level for more than half a year. After one year, about two-thirds of all non-aged poor households would have completely depleted their assets. However, if the assumption is made that the value of the own home can also be spent down (after subtracting outstanding mortgage debt), more than half of all non-aged poor households can escape poverty for one year or more, and more than a third can do so for ten years or more (columns (c) of Table 3).

TABLE 3
NUMBER OF MONTHS THAT HOUSEHOLDS COULD ESCAPE POVERTY BY
SPENDING DOWN THEIR WEALTH, BELGIUM 1992

	Households Below EC-threshold			Households Below CSP-threshold		
	(a) %	(b) %	(c) %	(a) %	(b) %	(c) %
0 months	15	14	10	11	11	7
1-3 months	24	23	20	27	25	20
4-6 months	13	12	10	13	13	8
7-9 months	5	5	3	10	9	7
10-12 months	10	9	6	6	6	4
13-18 months	11	12	7	9	9	6
19-24 months	2	2	1	3	2	1
25-36 months	3	2	0	5	5	3
3-5 years	7	6	3	4	4	1
5-10 years	5	5	6	8	8	5
More than 10 years	6	10	35	5	9	37
All	100	100	100	100	100	100

Notes: Non-aged only.

(a) Financial assets annuitized;

(b) Fungible assets (financial assets, real estate except own home) annuitized;

(c) All assets annuitized.

4. POVERTY AND HOME TENURE

The main conclusion that follows from the empirical findings presented above is that in Belgium the great majority of income-poor households do not have assets of much value, except the own home. Consequently, the effect of extending the measure of economic resources by including assets is fairly small, unless the own home is also included. In the latter case, the effect is quite dramatic. As other researchers have recognized (cf. Rendall and Speare, 1993, p. 18), the critical assumption when incorporating assets in the measure of economic resources is that households can indeed completely spend down their assets. Given the normative nature of the concept of poverty, the validity of this assumption depends not on whether it is technically possible for households to consume all their wealth, but on whether it is reasonable to expect households to do so in order to escape poverty. Although facts by themselves cannot settle a normative question of this kind, it is relevant to look at the actual behavior of households in this context, as well as at public policy on this matter.

Casual observation suggests that it is fairly common for people to spend down financial assets after retirement or when their income is temporarily low. On the other hand, Belgian homeowners, in particular the elderly, only rarely sell their homes for purely financial reasons. In many cases, old persons move only because disabilities make it impossible to continue to live in their own home. In principle, home equity could be liquidated without people having to move by means of financial instruments like reverse mortgages, but such financial arrangements appear to be virtually unknown in Belgium.

Public expectations regarding the use of economic resources by households may also be incorporated in social assistance regulations. In Belgium, savings and other financial assets are included in the means test in social assistance. Also, the rateable value of real estate other than the own home, multiplied by a certain factor, is added to the income measure used in the means test. However, the rules generally do not force people to sell their own homes. Although the rateable value of the home is added to household income, there is a minimum threshold that is sufficiently high so that most small or medium-sized houses are disregarded. The conclusion seems to be that, while it is reasonable to expect persons to spend down financial assets and real estate in order to escape poverty, this is not true as regards the own home. In other words, home equity cannot be considered to be fully fungible (for a similar conclusion see Ruggles, 1990, p. 155).

However, even when people do not liquidate their own home, it is clear that, other things being equal, owner-occupiers without a mortgage are better off than tenants: the former have more money left for non-housing consumption. Some kind of adjustment of income is necessary. Two methods appear to have been used for this purpose in the literature. In the first place, one could add the rental value of owner-occupied housing to disposable incomes. However if, as argued above, home equity is not fungible, this is equally true for the rental value, at least in the short term. A second method, often used in the U.K., is to deduct housing expenditure (rent or mortgage payment) from disposable income. The rationale for this procedure is that in a situation of housing shortage, or heavy regulation of rents, housing expenditure is a relatively exogenous element of a family's outgoings, often bearing little relation to the quality of the home (Atkinson *et al.*, 1993, pp. 17–18). However, such a procedure is less defensible in a country like Belgium, where the housing market is relatively free from restrictions, and high rent is in many cases a reflection of a preference for high-quality housing.

Here, I put forward a third approach (briefly considered by Ruggles, 1990, p. 158), which does not treat home ownership as a source of income, but regards home tenure as a variable affecting the income needs of households. Since non-mortgaged owners do not have to pay rent or mortgage payments, they require less income than tenants or mortgaged owners in otherwise similar circumstances to reach a certain standard of living. The practical implication of this approach is that poverty thresholds are adjusted to take account of home tenure. The difference between the poverty thresholds for the two groups—tenants or mortgage paying home owners on the one hand and non-mortgaged owners on the other—should reflect the minimum cost of housing, i.e. the price of a home of minimum adequacy.

Two methods could be used to determine the cost of minimum adequate housing. In the first place, one could stipulate the characteristics of a house of minimum adequacy, and then use the results of a hedonic regression of rent to estimate the price of such housing. A second method would be to introduce housing tenure status into models that are used to calculate poverty lines and equivalence scales. Examples of such models are the food-share method, and other methods using expenditure data, as well as the subjective method. I am not aware of any expenditure-based set of equivalence factors incorporating the housing tenure distinction for Belgium. Housing tenure or housing cost has been included in some models of subjective income satisfaction, e.g. Poulin (1988), Saunders and Matheson (1993) and Halleröd (1995). Van den Bosch (1996) has carried out such an analysis using Belgian data. The results depend strongly on the measure of income satisfaction used, however, and the estimates of relevant parameters were not very reliable, and therefore did not seem particularly useful. In order to be able to illustrate the effect of using poverty standards that are adjusted according to home tenure, I have used an *ad hoc* method described in the next section.

5. POVERTY LINES ADJUSTED FOR HOUSING COSTS: EMPIRICAL RESULTS

In this section I will present results of an application of the third approach outlined above, where poverty thresholds are adjusted to take account of differences in housing costs related to home tenure. First, minimum housing costs will be estimated, and incorporated into the CSP and EC poverty lines. Secondly, poverty rates and poverty gaps resulting from those poverty lines will be compared with those derived from unadjusted poverty thresholds.

There are two assumptions behind the procedure (which is of a somewhat *ad hoc* nature) used to estimate minimum housing costs. First, tenant households in the neighborhood of the poverty line are assumed to allocate their budget in such a way that they pay the price of housing of minimum adequacy. Secondly, the level of the poverty lines that are unadjusted for home tenure is supposed to be equal to the average of the “true,” adjusted ones across home tenure categories. The first assumption implies that:

$$(1) \quad \text{MINCOST}_i = \mathbf{b}\mathbf{X}_i + b_y \text{PLINEHC}_i,$$

where MINCOST_i represents minimum housing costs for household type i , \mathbf{X}_i a vector of values of background variables for household type i , \mathbf{b} a vector of regression parameters, b_y the regression parameter for household income, and PLINEHC_i the poverty line including minimum housing costs for household type i . The regression parameters were estimated in a regression of paid rent in the private sector on household income, household type and a number of control variables. The second assumption can formally be expressed as follows:

$$(2) \quad phc_i \text{PLINEHC}_i + (1 - phc_i)(\text{PLINEHC}_i - \text{MINCOST}_i) = \text{PLINEUA}_i,$$

where phc_i is the proportion of households of type i who pay rent or for a mortgage, and PLINEUA_i is the unadjusted poverty line for household type i . Equations (1) and (2) make it possible to solve for the minimum housing costs and

the adjusted poverty lines. (Details about the regression and the computations are given in a full version of the paper, which is available on request.)

The resulting adjusted poverty thresholds are shown in Table 4, together with the implied minimum housing costs. Unadjusted CSP and EC poverty lines are shown for reference. The level of minimum housing costs is fairly low, but does not seem unrealistic. Minimum housing costs for families with children turn out to be about the same as those for single elderly persons. This may seem implausible, but it is in agreement with the average rents actually paid by these types of households. At equal family sizes, the elderly appear to face higher minimum housing costs than the non-elderly.

The adjustment of poverty thresholds according to home tenure produces poverty rates (head counts) that are about one percent-point higher than the unadjusted poverty rates, while the average poverty gap increases by 12 percent (CSP-standard) or 16 percent (EC-standard). Since the overall level of the adjusted poverty lines vis-à-vis the unadjusted lines is to some extent arbitrary, Table 5 shows poverty rates and poverty gaps under both assumptions by age and home tenure in relative terms, i.e. in proportion to the overall poverty rate and poverty gap, respectively.⁶ Not surprisingly, poverty among mortgage-free home owners falls considerably. Before adjustment, poverty rates and poverty gaps in the group of non-elderly owners without a mortgage are around average, but after adjustment, they are less than half of the latter. Among elderly home owners, poverty is also heavily reduced. Among non-aged owner occupiers with a mortgage, poverty increases only a little after adjustment, and remains slightly below average poverty. (Elderly mortgaged owners are virtually non-existent, forming only 0.3 percent of the sample.)

Adjusting poverty lines has strong effects for tenants, however. Poverty gaps and poverty rates in this group were quite high to begin with, and the adjustment boosts them considerably. Among non-elderly tenants, the extent of poverty increases relatively by 9 to 21 percent. The situation of aged persons who have to pay rent appears to be especially dramatic. After adjustment, they are more than three times more likely than the average household to be below the poverty threshold, and two times more likely to be in that situation than the average elderly household. The poverty gaps are more than doubled after adjustment.

Adjustment of poverty lines for housing costs leads to a shift of poverty from the non-elderly to the elderly, although this is more pronounced with the EC-line than with the CSP-line. Otherwise, results not shown here indicate that the changes in measured poverty rates and poverty gaps by age and labor market status of the head of household and by family type are fairly limited.

6. SUMMARY AND CONCLUSION

In most poverty studies, a household's poverty status is assessed on the basis of current money income. Yet, the assets that a household has are an important

⁶Poverty gaps are calculated as the aggregate poverty gap of poor households in any category, divided by the total number of households in that category. They therefore reflect both the proportion of households below the poverty line, as well as how deep poor households are on average below the poverty line.

TABLE 4
POVERTY LINES ADJUSTED FOR HOUSING COSTS

Family type	Percent With Housing Costs	CSP-line*				EC-line			
		Unadjusted	No Housing Costs	With Housing Costs	Implied Housing Costs	Unadjusted	No Housing Costs	With Housing Costs	Implied Housing Costs
Single elderly person	34.3	26,700	24,000	32,000	8,100	19,100	16,500	24,100	7,600
Single non-elderly person	76.5	28,400	23,500	30,000	6,800	19,100	14,600	20,500	6,200
Two elderly persons	19.6	35,800	34,300	42,300	8,000	32,400	30,900	38,700	7,800
Two non-elderly persons	66.5	39,300	34,500	41,800	7,400	32,400	28,000	35,000	7,000
Couple and one child	81.1	48,600	42,300	50,000	7,900	42,000	36,100	43,400	7,500
Couple and two children	85.6	54,000	47,200	55,200	8,100	51,500	44,800	52,700	8,000
Couple and three children	85.6	57,900	50,600	59,100	8,300	61,100	53,600	62,300	8,500
One-parent families	80.4	40,800	34,200	42,500	9,400	34,400	28,500	36,000	9,100
Other types of families	44.7	52,300	46,400	59,800	8,500	51,100	43,900	60,200	8,500

Source: Belgian SEP.

* Amounts shown are averages for family type.

TABLE 5
POVERTY RATES AND POVERTY GAPS WHEN ADJUSTING FOR HOUSING COSTS, BY AGE AND HOME TENURE

	Relative Poverty Rates*				Relative Poverty Gaps**				Percentage in Sample
	CSP-line		EC-line		CSP-line		EC-line		
	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	
All	100	100	100	100	100	100	100	100	100
Non-elderly, all	76	76	93	84	84	79	101	97	74.1
Tenants	117	142	143	156	133	154	149	173	24.8
Owners with mortgage	36	40	50	54	30	36	52	59	29.0
Owners without mortgage†	81	47	94	41	100	47	112	59	20.3
Elderly, all	170	174	118	145	147	160	97	108	25.9
Tenants	224	354	103	340	178	391	105	252	6.6
Owners without mortgage†	153	109	122	74	136	78	93	54	19.0

Source: Belgian SEP.

Notes: * Relative poverty rate is poverty percentage in category, divided by overall poverty percentage, multiplied by 100. ** Relative poverty gap is poverty gap in category, divided by overall poverty gap, multiplied by 100. Poverty gap is aggregate poverty gap, divided by total number of households in category, including non-poor ones. † Including a few tenant households who do not pay rent.

part of its command over goods and services, and should be taken into account when deciding whether a household is poor or not. This being accepted, three questions arise. In the first place, how many among the group of households with current incomes below the poverty line hold financial and/or non-financial wealth, and what is the value of these holdings? Secondly, how should household income and household wealth be combined into a single measure of economic resources? Thirdly, what effect does the substitution of such an extended measure for current income have on the measured incidence and distribution of poverty? Answers to these questions have been given, using data from 1992 wave of the Belgian Socio-Economic Panel.

As regards the first question, the most important findings are that in present-day Belgium many poor households own their own home, while few have other real estate or financial wealth of any substance, and that wealth is very unequally distributed among the poor. Poor elderly households tend to have more assets than the non-elderly poor.

The most common method to combine income and assets into a single index of economic resources is to convert wealth into an annuity, and add this to non-wealth current income. An application of this method led to the conclusion that as long as the own home is not touched, the effect of including assets in the measure of economic resources on measured poverty rates is quite small. However, when the value of the own home can also be annuitized, the impact is quite dramatic: overall measured poverty rates go down by about one third; among the aged poverty is more than halved. Following another method, I have also calculated how many months each household below the poverty line could escape poverty by spending down their assets to fill up the gap between the poverty line and their current income. This led to similar conclusions.

I have argued, however, that it is not realistic to expect households to spend down wealth incorporated in their own home. It is unusual for people to do this, and eligibility for welfare payments is, in general, not conditional on such a spend-down. This is particularly true for the elderly. Therefore, home equity cannot be regarded as fungible, and to add the annuity value of the own home to current income is inappropriate. Yet, it is clear that owner-occupiers without a mortgage are better off, other things equal, than tenants or mortgage-paying owners. I have argued that the best way to take this difference into account is to have lower poverty thresholds for the first group than for the latter one, the difference being equal to the amount of rent that has to be paid for a dwelling of minimum adequacy.

A tentative application of this method of adjusting poverty thresholds resulted in a slight increase in overall poverty rates and poverty gaps. A small drop in the poverty rate of owners without a mortgage is more than compensated by a strong rise in measured poverty among tenant households. In particular, the unfavorable income situation of elderly persons who rent their home, is very pronounced. The measured extent of poverty among home owners with a mortgage becomes about equal to that among owners without a mortgage, instead of being considerably lower, as is the case with the unadjusted poverty thresholds. Otherwise, taking account of differences in minimum housing costs related to home tenure has surprisingly little effect on the structure of poverty.

What recommendations can now be made regarding empirical poverty research? Gustafsson (1995), p. 377 has written that the goal for research efforts in the field of poverty measurement methodology “is perhaps not to replace estimates made from disposable income but to indicate in which directions statements made from broader considerations can point.” In this vein, I would like to make the following points. First, in Belgium, the possible impact on measured poverty rates of incorporating financial wealth and real estate other than the own home into the measure of economic resources, seems to be minimal. A good argument can be made to take account of differences in housing costs related to home tenure by adjusting poverty thresholds. Such an adjustment may have considerable effect on measured poverty rates, in particular among tenants. However, before poverty thresholds are routinely adjusted according to home tenure, more research is needed into the minimum housing costs faced by households.

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