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Individualisation of income and poverty risk: A comparative analysis in 24 European countries

Traditional measures of poverty and social exclusion are appropriate only to study the situation of single-member households. Once couples and other household configurations are considered these measures fail to capture real-life individual poverty risks given that they are based on the very strong, not to say incorrect, hypothesis of an equal sharing of income between partners. Sen (1981) already put his finger on this problem by showing that many poor women live in rich households. To address this failure in the traditional household-based poverty literature, this paper suggests an alternative and innovative approach to poverty analysis. It evaluates the risk of poverty at the individual rather than at the household level. Indeed, instead of resorting to equivalence scales, financial resources in the broadest sense are fully individualised so that it becomes possible to compute the real risk of poverty for each individual regardless his or her family configuration. The method used to individualise all financial resources that enter the household tables on a preview of the kind of resource division that would occur in case the household were to dissolve. The thus obtained measure of Individualised income is analysed for 24 European countries (all countries available in EU-SILC 2006 except for Latvia and Lithuania) based on EU-SILC 2006 data and insisting on gender differences. Besides a profound descriptive analysis, probit regressions are done to illustrate how series of individual characteristics contribute to explaining the poverty risk. Among these are sex, age, education, health, being in a couple, number of dependent children and number of adults in the household. Results show that traditional household-based poverty measures substantially underestimate individuals', and particularly women's, real-life poverty risks.