

## Alternative measure of poverty rises under Labour

When household spending, rather than income, is used to measure living standards, relative poverty in Britain has risen, rather than fallen, since 1997, finds a new study by researchers from the Institute for Fiscal Studies.

The study, funded by the Joseph Rowntree Foundation, suggests that a useful alternative definition of relative poverty would be living in a household which spends less than 60% of the median-spending household, rather than the measure most used by the government, which is to be living in a household whose income is less than 60% of the median-income household.

### Using this alternative measure, the study finds that:

- The poverty rate based on household spending rose from 20% to 22% between 1996/97 and 2002/03. This compares to a fall from 25% to 22% in the conventional poverty rate measured using income.
- The rate of child poverty based on household spending rose by 11 per cent between 1996/97 and 2002/03, whereas the measure of child poverty targeted by the Government, based on income, fell by 15 per cent over the same period.
- Pensioner poverty has remained roughly unchanged since 1996/97 when measured using household spending, but has fallen rapidly when measured using income.

### The study sets out reasons why using spending to measure poverty can be very informative alongside conventional income measures:

- Spending provides a more direct measure of people's material well-being, since it more directly captures the consumption of goods and services.
- Spending may provide a better picture of households' long-term financial circumstances than income because, while incomes tend to fluctuate over time, most people borrow and save to ensure that their standard of living changes by less.

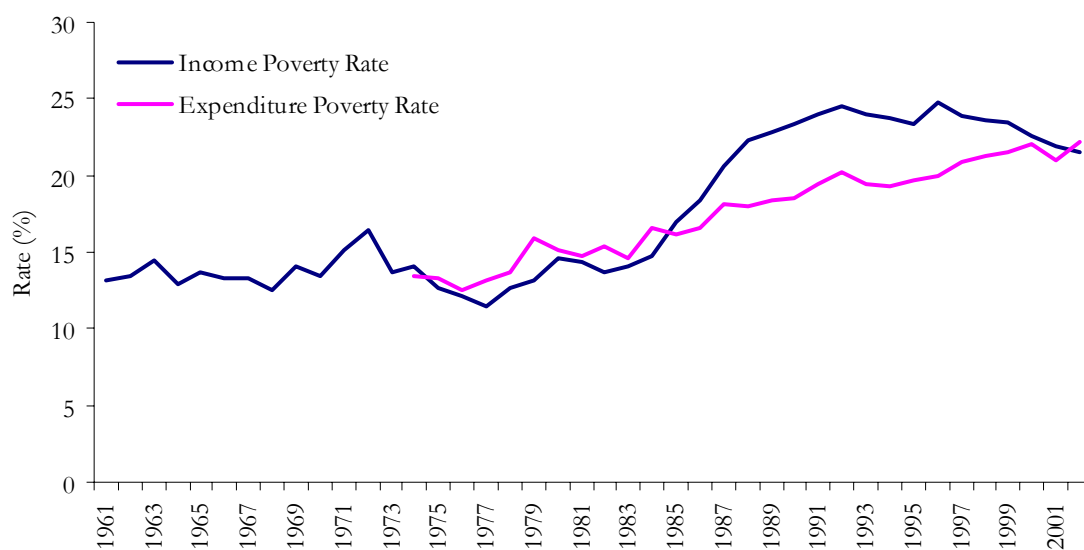
While the lowest income households have seen relatively rapid income growth compared to middle income households in recent years, the lowest spending households have not seen similarly rapid spending growth. **The study suggests further research is required to explain the findings. Possible explanations are:**

- Not all low income households are relatively low spenders. In fact, almost a half of households in poverty measured using income are not in poverty measured using spending. This means that increases in means-tested benefits and tax credits targeted on low income households will not have benefited all those with the lowest spending.
- Poorer households may be feeling more uncertainty over their income than richer households in recent years, and this could have made them less likely to increase their spending. However, the study also finds that poor pensioners have increased their spending – particularly on non-essentials – in response to their increased means-tested benefit entitlements in recent years.

Middle- and high- income households might have reduced their savings, or increased their borrowing, by more than low income households.

The findings as a whole suggest that, while the Government has made some inroads into reducing income inequality, it is yet to reduce spending inequalities, which arguably better reflect longer-term differences in society. The authors conclude that there is a strong case for trends in spending poverty to be monitored carefully in the future alongside the existing measures based on income.

**Figure 1:** Income and expenditure poverty rates, 1961 to 2002/03



Sources: Family Expenditure Survey and Family Resources Survey (various years). *Note:* Poverty rate is defined as the proportion of individuals with spending (income) below 60% of the median spending (income). Data is drawn for calendar years up to and including 1992, and fiscal years thereafter. Income is after housing costs and expenditure does not include housing.

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#### Notes to editors:

1. The median income household is the household in the middle of the income distribution, such that half of households have a lower income, and half have higher income. Similarly, the median spending household has spending greater than half of households and less than half of households.
2. Household Spending in Britain: What can it teach us about poverty? By Mike Brewer, Alissa Goodman and Andrew Leicester, is published by the Policy Press and available from [www.policypress.co.uk](http://www.policypress.co.uk) or Marston Book Services, PO Box 269, Abingdon, Oxon OX14 4YN (tel: 01235 465500) price £12.95 plus £2.75 p & p. A summary of the findings and the report can be downloaded free of charge from [www.jrf.org.uk](http://www.jrf.org.uk)
3. Findings from this report will be presented at a briefing on 17<sup>th</sup> May 2006, 1pm – 2pm, at the Institute for Fiscal Studies. Please contact Bonnie Brimstone ([bonnie\\_b@ifs.org.uk](mailto:bonnie_b@ifs.org.uk)) if you would like to reserve a place.
4. The Joseph Rowntree Foundation has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policymakers, practitioners and service users. The facts presented and views expressed in the report are, however, those of the authors and not necessarily those of the Foundation.