The living standards of families reporting low incomes

Mike Brewer

http://www.ifs.org.uk/publications/4523

© Institute for Fiscal Studies
Background

• “HBAI uses household disposable incomes, adjusted for household size and composition, as a proxy for the material living standards of individuals”

• But income does not always agree with other measures of living standards, especially for very low incomes

• Asked by Child Poverty Unit to investigate this
  – for families with children
  – comparing families with different work states
  – across several datasets and measures of living standards
So what did we do?

- Compared net income to various measures of, or proxies for, “living standards”, or indicators of “hardship”
  - Spending on non-durables
  - Food’s budget share
  - Financial assets
  - Material deprivation
  - Daily living deprivation
  - Lack of, or inability to afford, consumer durables
  - Housing conditions
  - Problem debts
  - Financial difficulties
- Used EFS, FRS, FACS, BHPS, usually from 2001 to 2006
- Results consistent across measures and data-sets
Main findings (1)

- **Low living standards**
  - Lowest living standards between £100 and £200, or 30-50% median
  - Average living standards of those below 50% median similar to those between 50% and 60% median

- **High living standards**
  - Living standards of poorest comparable to those on £300 to £500

Weekly net income

© Institute for Fiscal Studies
Main findings (2)

- The lowest living standards are for workless families...
- And the highest are for self-employed families.

For a given level of income...

© Institute for Fiscal Studies
Does it matter?

• Yes! Income and living standards give different impression of who is “worst off” in society
  
  – Some characteristics are consistently associated with low reported income and low living standards

  │ Having no working adults
  │ Having one worker rather than two
  │ Having low levels of qualifications
  │ Non-white ethnicity

  – Some are associated with low reported income but not low living standards

  │ Having adults who are self-employed (rather than employed)
  │ Having all children aged 10 or more
  │ Having three or more children

  – Some are associated with low living standards but high reported income

  │ Being a lone parent
  │ Having a health problem
What might be causing the differences?

- “Net income” different from “living standards” even over long periods of time, and even if measured perfectly...
- …so mismatch should not be surprising

- Findings consistent with
  - Equivalence scale used in HBAI inappropriate
  - HBAI “net income” does not value “free” goods and services
  - Income mis-measurement greater for self-employed than others
  - Living standards related to longer-term measures of income
Recommendations

• Could drop households with very low incomes (<£50) from HBAI? However:
  – Would drop some households with very low living standards
  – Mismatch not confined to this group
• Where possible, define “poverty” as “low income” and “low living standard”
• Review equivalence scale, including health-related costs
• More research (!)
  – Some persistently low income households avoid low living standards
  – Wealth and Assets survey
The living standards of families reporting low incomes

Mike Brewer, Cormac O’Dea, Gillian Paull, Luke Sibieta
Department for Work and Pensions Research Report 577
http://www.ifs.org.uk/publications/4523