Poverty Statistics: a Guide for the Perplexed

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Preface

The authors would like to thank the Social Security Select Committee for their continued support of the Low Income Families series, and the Central Statistical Office for supplying anonymised Family Expenditure Survey data. The analysis of the Households Below Average Income data has benefited from discussions with DSS statisticians. All views expressed and any errors are, however, those of the authors alone.

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1. Introduction

Jonathan Dimbleby: "But hasn't the gap between rich and poor increased?"

Norman Lamont: "I don't believe it has."

Election Call: BBC Radio 4, April 1992

Statistics on poverty and on the distribution of income have been for many years a source of considerable controversy. When a single set of statistics can give rise to apparently contradictory claims about a government's record, and when definitions are changed and old series discontinued, the impartial observer can be forgiven for abandoning the attempt to make any sense of the figures at all.

The purpose of this paper is to evaluate the merits of different methods of measuring low income, and to comment on the results of the two main sets of UK low income statistics published recently. We will also come to the aid of the Chancellor by demonstrating that official figures published in the Summer of 1992 show unequivocally that the gap between the rich and the poor has increased during the 1980s.

We begin in Section 2 by considering some of the issues which have to be faced when constructing low income statistics, and which explain why different sets of statistics can produce apparently different conclusions. In Section 3 we describe the two main series of official low income statistics, and see how the various measurement issues discussed in Section 2 are resolved in each case. Next we move on in Section 4 to assess the strengths and weaknesses of the two approaches to measuring incomes. Anticipating our conclusions, we argue that both series provide an important and complementary insight into low incomes in the UK. Sections 5 and 6 set out the main results from the two series. These results are combined in Section 7, and a concluding section draws together all of the results to provide a more comprehensive picture.

2. Issues in Measurement

Low income statistics should provide an idea of the numbers of poor people, of how their living standard compares with that of other members of society, and of how that living standard has changed over time. It is clear however that terms such as "poor" and "living standard" will need to be defined far more precisely if they are to form the basis of statistical analysis. In this section we set out the way that some of these issues are tackled in official low income statistics. A summary is presented at the end of this section in Table 1.

A. The Use of Income to Measure Living Standards

A person's living standard will inevitably depend on a complex range of factors, and many of these will not be easy to quantify. For the purposes of constructing statistics on living standards, it is normal to concentrate on financial variables, not least because the data on such items are usually much more readily available than those on other indicators of "quality of life". Even with this restriction however, a decision still has to be made on whether income or consumption provides the best guide to living standards.

The measure which would probably coincide most closely with a popular understanding of the term "living standards" would be the value of the goods and services which an individual consumes. This would however be very difficult to measure on the basis of existing data. A consumption measure of living standards would, for example, have to take account of the various consumer durables which an individual possesses and which provide a flow of services. In practice, data on consumer durable ownership are patchy, and do not distinguish, say, between a person owning a brand new automatic washing machine and someone owning an ancient twin-tub machine. Presumably an ideal measure of living standards would regard the owner of the new machine as "better off".

Given the absence of such information, it might be supposed that the next best approach would be to use *current expenditure* to measure living standards. This will at least pick up current consumption and this should in turn be fairly well correlated with total consumption.

There are however two practical problems with using expenditure as a measure of living standards. The first is that expenditure data are typically available only for a given fortnight. Because of this relatively short period, the data can be somewhat "lumpy", with some individuals making large purchases such as new cars and others spending virtually nothing during that fortnight period. It is difficult to believe that either extreme is an accurate reflection of living standards. Only if data were available over a far longer period could such problems easily be overcome.

The second problem with using expenditure data arises when trying to assess the living standards of a particular individual or family unit. Although expenditure data are available for each individual in a household, the person recording the expenditure is not necessarily the person who benefits from it. Consequently, expenditure data should only be used to assess the living standard of a complete household.

An alternative approach is to use *income* as a proxy for living standards, since income represents the power to consume. Income is a less "lumpy" measure of living standards than is expenditure (unless the data contain someone who won the football pools that week). Income is also easier to ascribe to individuals than expenditure, since the person who receives the income is most likely to benefit from it, at least in the first instance.

Using a snapshot of income may however provide an inaccurate picture where individual circumstances have recently changed. Consider, for example, the case of someone who has recently become unemployed. Someone on average earnings who moves to receiving Unemployment Benefit would suffer a fall in income of around three quarters. If this situation persists, then ultimately this will be an accurate reflection of the resultant change in living standards. However, in the first few weeks and months of unemployment, the fall in living standards will probably be much smaller. The recently unemployed may have savings to draw on, will continue to have the benefit of existing consumer durables, and will probably remain in the same accommodation. In the short term, therefore, the fall in living standards experienced by the unemployed person is likely to be substantially less than implied by the crude income measure. In such a case the trend in expenditure might provide a better guide.

It is clear then that neither income nor expenditure will be a perfect guide to living standards. In practice, and partly for historical reasons, official statistics have typically been based on incomes. This is because in the original "Low Income Families" (LIF) series, living standards were measured in relation to Supplementary Benefit (SB) levels, and so income was the most natural yardstick to use. The more recent "Households Below Average Income" (HBAI) approach has, as the name suggests, continued this practice, although the latest edition of HBAI also gives information on the distribution of household expenditure.

B. The Treatment of Housing Costs

As mentioned above, the first official low income statistics were constructed by comparing family incomes with Supplementary Benefit levels. Since the basic rates of SB were intended to cover all living costs except housing, it was necessary to measure family incomes after the deduction of housing costs.

When this series of statistics was replaced in 1988, the most appropriate treatment of housing costs became less clear cut. One of the features of the new series is that it compares household incomes with the national average rather than with benefit levels. This raises the question of whether the best measure to use is income before or after housing costs have been met. The former measure is simply the sum of income from all sources (including social security benefits such as housing benefit), whilst the latter measure nets off mortgage interest or rent and other housing-related costs such as maintenance and insurance.

There were two reasons for using a measure of income after housing costs for the new series. The first was simply that of continuity with the previous series. The second was that housing is an important part of household budgets and it is clear that in many cases changes in housing costs are likely to have an impact on household living standards. By measuring incomes after the deduction of housing costs, any increases in rents or mortgages which are not offset by the benefit system are shown to reduce household living standards. This is a desirable feature where households face increased costs of living in the same accommodation.

There are, however, good reasons to be interested in household incomes before housing costs have been met. In the first place it is not clear why housing should be singled out for special treatment. The cost of other items such as food might be regarded as having an equally important bearing on living standards and yet there has been no suggestion of looking at incomes net of food expenditure.

A second problem with netting off housing is that, for a given household, an increase in housing costs need not necessarily imply a fall in "living standards". To take a simple example, an individual who voluntarily moves from a small house to a larger one and thereby faces an increase in housing costs has presumably not suffered a decline in living standards. Since changes in housing costs may in part reflect changes in housing quality, it may be inappropriate to treat all increases in housing costs as if they made households worse off. This may be particularly true of better off households who may have more choice over housing quality.

It is clear then that the most appropriate treatment of housing costs will vary from household to household. In response to this problem, current DSS figures present details of the income distribution on two bases - before and after housing costs ("BHC" and "AHC" respectively). As we discuss in Section 6, the two measures in some cases can produce strikingly different results.[1]

C. Whose Income is Included?

Having determined that the measurement of living standards will be based on *income* levels, and that these can usefully be measured both before and after housing costs, the next issue to be settled is that of *whose* income should be included. More specifically, is an individual's standard of living best measured by his or her own income, by that of the family unit of which he or she is a member, or by the income of all those living in the same household? The importance of this issue may be seen in the fact that the available statistics on low income arrive at different answers to this question, and this is one of the principal reasons why they produce different results.

1 A more extensive discussion of this issue, together with a suggestion for a single definition of income which overcomes some of the problems discussed here, is presented in Johnson and Webb (1992).

The narrowest possible unit to use would be that of the individual. In this case, large numbers of individuals with no independent income such as children and the non-working partners of working adults would appear to have extremely low living standards. This is unlikely to be a realistic assumption in practice. In general it seems reasonable to suppose that children benefit from the income of their parents, and that non-working adults benefit at least in part from the income of their working partner.

The choice then becomes one of whether to aggregate income over the family unit or whether to go further and regard the income of all household members as important in assessing their living standard. In this context, it should be stressed, the term family unit has a very specific meaning. A family unit comprises a single person or a couple together with any dependent children. The significance of this definition is that it coincides with the assessment unit used for benefit purposes. On this definition, each family unit is entitled to claim to claim benefit in its own right. A household containing a married couple, one child of 15 and an unemployed son of 21 would contain two family units, because the couple and the 21 year-old would each be entitled to make a separate claim for benefit.

In many cases, the family and the household will be synonymous, since a household may consist of only one family unit. Where a household contains several family units, however, a decision must be made as to whether to regard the living standard of each family as independent.

The household unit consists of all those living in private accommodation, under one roof, and with shared facilities. If income is aggregated over the household, it assumes that there is considerable sharing between all its members. Whilst this might approximate reality in a household with grown-up children living at home, it is a less plausible assumption for a household containing several young employees or students. In practice, the majority of multiple-family households come within the first category. As a result, the official HBAI series uses the household as its unit of assessment.

By contrast, its predecessor Low Income Families series was based on a comparison between *family* incomes and Supplementary Benefit (SB) / Income Support (IS) levels. Since each separate family in a household is entitled to claim benefit in its own right, then information about how many families have incomes below or near to SB/IS levels is clearly of interest.

The most appropriate assessment unit will clearly depend on the specific circumstances of each household. However, for the purpose of analysis it will usually be necessary to use a single unit for all households, and the choice of unit will depend on the purpose to which the figures are to be put. If the purpose is to assess the effectiveness of the benefit system, then a family unit basis might well be the most appropriate, since each family unit has an independent right to claim benefit. If the aim is to examine living standards more generally, then in many cases the division of households into slightly arbitrary sub-units may not be realistic and the use of household income may be preferable.

D. What Should be the Benchmark?

The discussion so far has suggested that a person's living standard is best summarised by the income of the family or household of which he or she is a member. In order to assess whether this living standard is high or low, either in absolute terms or relative to the rest of society, it is next necessary to measure this income against some sort of benchmark. To some extent the choice of benchmark will depend on whether minimum living standards are viewed as *absolute* standards (such as the ability to consume a given basket of goods), or whether the acceptable minimum is in some way *related to incomes in the rest of society.*

A purely absolutist stance would be difficult to defend since the minimum standard of living deemed socially acceptable will inevitably change over time. For example, outdoor toilets, once commonplace and deemed acceptable, are now regarded by many as below an acceptable standard of living. However, this is an argument which has more strength when considering changes in living standards over long time periods. In the short term it may well be useful to use a constant benchmark of poverty, since attitudes to the acceptable minimum may well take time to adjust.

In practice, the most widely quoted low income statistics use thresholds which are at least in part related to the living standards of society as a whole. In the Low Income Families series, this partially relative approach is achieved by comparing incomes with prevailing minimum benefit levels.[1] Although minimum benefit levels do not usually rise as fast as living standards in society as a whole, they do tend to rise faster than prices in the medium term. Comparisons with benefit levels thus at least in part reflect changes in the general level of prosperity in society.[2]

A far more relativist approach is contained in the Households Below Average Income series. Key tables in this series show the numbers of individuals whose household income lies below various proportions of the contemporary national average. In this case the results are wholly dependent on the general level of living standards in society as a whole.[3] Some problems which arise from using a threshold of this sort are discussed in Section 4.

E. How Should Account Be Taken of Different Household / Family Sizes?

In discussing the most appropriate unit of assessment, we concluded that an individual's living standard would depend on the total income of the family or household of which he or she was a member. However, this conclusion presents a problem of comparability since larger households will, other things being equal, tend to have larger incomes but will not necessarily have a higher living standard. Clearly, a family with two adults and five children living on £200 p.w. will be much worse off than a single person with the same income. This raises the question of how the income measure should be adjusted to reflect the needs of households or families of different sizes.

In the Low Income Families series, this adjustment was achieved in a relatively straightforward manner. Family incomes were expressed as a percentage of a Supplementary Benefit line which varied according to the size and composition of the family. Thus, to achieve a living

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1 Supplementary Benefit until 1988, Income Support thereafter.

2 The most recent edition of LIF, however, shows for the first time what the numbers below benefit levels would have been had the real level of the benefit line been held constant.

3 In recognition of this limitation, HBAI also gives details of the changing numbers below a threshold which is held constant in real terms, although these figures usually receive relatively little attention.

standard of (say) twice the SB level, a large family would need more money than a small family. This comparison enabled family living standards to be ranked on a comparable basis.

In the Households Below Average Income series the problem is not solved in this simple way because household incomes are not directly compared with benefit levels. Instead, household incomes are adjusted up or down to reflect household size by means of an "equivalence scale". In the particular scale used, a single person is deemed to need around 60 per cent of the income of a married childless couple to achieve the same living standard. The incomes of single people are thus scaled up to reflect their lower needs. Conversely, the incomes of couples with one or more children are scaled down to reflect their greater needs.

It should be noted that the choice of equivalence scale can have a significant impact on the results produced. For example, if it is assumed that the presence of a teenage child in a household reduces household living standards by around 20 per cent, this will produce a much lower estimate of poverty for families with children than if such a child is deemed to reduce living standards by 50 per cent.

In practice, the derivation of such scales is a complex statistical process, and there is a considerable range of scales in current use.[1] In recognition of this scope for disagreement, the HBAI results are calculated on the basis of a range of different equivalence scales. Where particular results are highly sensitive to the choice of scale this fact is indicated in the publication.

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1 See Banks and Johnson (1992) for a discussion of this issue.

Table 1. Main Features of Low Income Families (LIF) and Households Below Average Income (HBAI) Tables: A Summary

	LIF	HBAI
Living standard definition	Current net income after housing costs	Current net income before housing costs, after housing costs
Assessment unit	Family	Household
Benchmark	Income Support levels: current and base year	National average income: current and base year
Adjustment for differences in family/household size	Incomes expressed as proportion of benefit levels	Statistical "equivalence scale"
Years covered	Alternate years from 1979 to 1989	1979, 1981, 1987, 1988-89

3. The Official Series Described

A. Low Income Families (LIF)

Statistics on the LIF basis have a long historical pedigree, with the first such figures being produced by the (then) DHSS in the early 1970s. The series was dropped by DSS in 1988 with the last edition covering the period 1981-85. The series has however been continued by IFS researchers, with the most recent edition spanning the period 1979-89, (see Social Security Committee, 1992).

The main feature of this series is that it reports how many families are either receiving Supplementary Benefit (SB) / Income Support (IS) or have incomes below or near these levels. The income measure used is family unit income after the deduction of housing costs.

The two main data sources used to construct LIF figures are the DSS's Annual Statistical Enquiry of Supplementary Benefit / Income Support Recipients (ASE) and the Family Expenditure Survey (FES).[1] Statistics

1 The FES is an annual survey of the expenditures and incomes of UK households, with an achieved sample of around 7000 households each year.

on the numbers and characteristics of SB/IS recipients are based on the ASE, whilst information on other low income households not receiving SB is drawn from the FES.

LIF tables for those not receiving SB/IS rank families according to their "Relative Net Resources" (RNR). This is a measure of living standards which uses the SB/IS line as a benchmark. A family wholly dependent on SB/IS would be ascribed RNR of 100. A family not receiving SB/IS but with income (after housing costs) above this level would have an RNR greater than 100, and so forth. More precisely, Relative Net Resources is defined as follows:

$$RNR = \frac{Net \quad Income \quad - \quad Net \quad Housing \quad Costs}{IS/SB \quad line} \quad x \quad 100$$

The main components of this measure are as follows:

1. *Net income*: this includes earnings, self-employment income and social security benefits (excluding housing benefits) but is net of income tax and of National Insurance contributions;

2. *Net housing costs*: this is equal to the total of rent/mortgage interest payments, rates/community charge, water rates and maintenance costs, but is net of any housing benefit or local tax rebate;

3. *SB/IS line*: this varies according to the size and composition of the family concerned.

Typically, all housing costs are ascribed to the family unit containing the head of the household. Where a household contains more than one family, an adjustment is made to reflect the likely contribution of secondary family units to the housing costs of the household.[1]

B. Households Below Average Income (HBAI)

HBAI statistics have been produced biennially since 1988. The first set covered alternate years between 1981 and 1985 inclusive, whilst the most recent edition (DSS, 1992) provides figures for 1979, 1981, 1987 and 1988-89. HBAI provides information on household incomes adjusted for

1 This is achieved using the "non-dependent deductions" which would be made from a claimant's housing benefit in such cases.

household size (or "equivalised"), both before and after housing costs (BHC and AHC). These estimates are based mainly on the FES, although supplementary data from the Inland Revenue's Survey of Personal Incomes are used to correct known inadequacies in the reporting of high incomes in the FES.

HBAI tables are of three main types. The first splits the population into tenths or "decile groups" and reports the composition of these groups according to various categories. A typical HBAI result would thus be that in 1988-89 40 per cent of the poorest decile group were couples with children.[1] A second type of table compares household incomes with the contemporary national average, and reports the numbers and types of families with household incomes below various fractions of the average. Thus in 1988/89 there were 10.4 million individuals with household incomes (BHC) of less than half the national average. Finally, HBAI compares current incomes with the average income in a base year (1979 in the latest edition) uprated only to reflect movements in the general price level. Thus in 1988-89 there were 3.8 million individuals with household income (BHC) of less than half the uprated 1979 average.

4. Relative Merits of the Two Series

When evaluating results from LIF and HBAI, it is worth considering both the strengths and the limitations of the two series. This is particularly important given that the DSS decided in 1988 to discontinue the LIF series following the publication of a highly critical internal review (DHSS, 1988). In this section we examine the strengths and weaknesses of the two series.

A. An Evaluation of LIF

We begin by setting out a number of criticisms of the LIF series which were made in the technical review mentioned above. We then move on to consider some of the advantages of continuing with this series.

(i) Supplementary Benefit/Income Support was being used both as a means of poverty alleviation and as a measure of the extent of low incomes

1 More precisely, this should be "40 per cent of the individuals in the poorest decile group were in families comprising a couple with children". The point here is that each decile group contains one tenth of the individuals in the population, rather than one tenth of the households.

This argument notes the paradox of measuring poverty against benefit levels, whilst at the same time using benefits to relieve poverty. Under the LIF approach, a benevolent government which raises the level of benefits runs the risk of increasing the number of people recorded as having "low incomes".

Whilst this point is certainly true, it can also be argued that the level of SB/IS is indicative of the minimum standard of living society would accept for a family with no other resources. If the government then raises this level, the numbers on low income may well increase but that would reflect the view that it is unacceptable for incomes to fall below this new, higher level.

It is helpful to be able to establish how far changes in the numbers below or near the SB/IS line are attributable to changes in real living standards, and how far to movements in the real value of the line itself. As a result the latest edition of LIF incorporates tables showing how far the growth in the numbers below the SB/IS line between 1979 and 1989 could be accounted for by the increases in SB/IS over that period.

(ii) The use of the family unit overstated measured low incomes

This criticism relates to the debate discussed in Section 2 over whether incomes should be measured over the family (or "benefit unit") or over the entire household. The DHSS criticism was that many of the family units with low incomes were living in households with relatively high incomes, and so were not poor in the generally-accepted sense of the word.

This criticism must indeed be taken seriously, and LIF figures should always be broken down to see how far the presence of such family types is affecting the figures. However, it is also the case that each family unit is in principle entitled to claim benefit in its own right. If a given family unit has resources below SB/IS levels, then this can only be because the family unit in question fails to take up that entitlement (which is presumably a phenomenon of some interest) or is disqualified from benefit. Without LIF it would be impossible to quantify the combined effects of these two factors.

(iii) The use of benefit level as a threshold implies that nobody should fall below it

The poorest group identified in the LIF tables is that not receiving SB/IS and with "net resources" (as defined above) of less than those of someone wholly dependent on SB/IS. It might be supposed from the fact that LIF tables are published that the presence of anyone in this group indicates a failure of the benefit system.

In fact many families are disqualified from SB/IS on the grounds that they have one member in full-time paid work (now defined as 16 or more hours per week) or they have a stock of capital above a certain threshold (currently £8000). In other words, the benefit system does not aim to guarantee everyone net resources (as defined for LIF) greater than SB/IS levels.

Whilst this is true, it would seem that this point could simply be made when commenting on the figures. It does not seem of itself to be a justification for discontinuing the series.

(iv) Production of LIF type analysis seemed to provide an official endorsement of a single way of looking at "poverty"

This is a fair criticism, but it suggests that a series of figures such as HBAI should be produced to supplement LIF rather than to replace it.

(v) The highest threshold in the LIF statistics, 140 per cent of the SB level, might not be regarded as "low income"

The technical review cited an example of a two-child family which would feature in the "below 140 per cent of SB" category but with gross income around three-quarters the national average. This again is a fair criticism, but may be directed more to the title of the series i.e. "low" income families. There are a range of thresholds in LIF - 100 per cent , 110 per cent , 120 per cent , 140 per cent and it could be left up to the reader to decide what constitutes "low" income.

(vi) The shift from SB to IS would present many technical difficulties that would make the series inconsistent over time

> Whilst the new benefit structure introduced in 1988 does indeed present technical problems, it is possible to produce a reworked series back to 1979 that is broadly consistent over time (for a fuller discussion, see Social Security Committee, *op. cit.*).

Having looked at the criticisms made in the DHSS review of the LIF series, we turn now to some of the reasons why the present authors have chosen to persevere with the series.

A first strength of LIF is that the threshold used (SB/IS levels) is simple and easy to understand. If a pensioner has resources less than the IS level the implications of this are transparent - either the pensioner is failing to take up an entitlement or is disqualified from benefit. The approximate income level implied by this is also relatively clear. This cannot be said for thresholds in HBAI. To most people, the comment that a pensioner "has current net equivalised income below 50 per cent of the national mean" conveys very little.

A corollary of this is that the numbers below HBAI thresholds can fluctuate violently and thereby exaggerate changes in the income distribution. A particular example of this is poorer pensioners whose incomes are closely bunched around the level of state support for pensioners. Where a given proportion of average income moves over time from being just below this level to just above, the effect on the numbers of individuals below the threshold can be enormous. Thus the proportion of single pensioners with household incomes below 40 per cent of the national average rose sixfold between 1979 and 1988-89 principally because the SB/IS line for this group moved from being above 40 per cent of average income to slightly below.

LIF is less susceptible to these problems, particularly at the "less than 100" threshold. This is because any movement in the threshold carries with it an increase in benefit entitlement, and so the increase in the numbers below the threshold in such circumstances would be much smaller than under HBAI.

A second argument for LIF-style figures is that they take account of differing household sizes in a simple and readily interpreted way. Each family's income is a proportion of the SB/IS line for *that* family type. There is hence no need for statistically derived "equivalence scales" that have no external significance in the way SB/IS rates have.

A third attraction of LIF is that it provides benefit unit level information on the combined effects of non take-up and of disqualification from benefits. It is presumably of some interest to policy-makers that there are several million family units with independent resources below SB/IS levels because of these two factors. Such figures also highlight the sensitivity of low income statistics to assumptions about sharing within households. It is clear that if resources are not evenly shared within households, then the official HBAI series may understate the numbers of individuals with low living standards.

B. An Evaluation of HBAI

The primary advantage of HBAI is the comprehensiveness of the statistics. The range is very impressive. Tables showing income growth of each decile group in the bottom half of the income distribution are crucial to the question, "have the poor got poorer?". The importance of the cost of housing in the income distribution is shown by having "before" and "after" housing cost measures. The share of income of the lower reaches of the income distribution points to the relative position of the poor, as does the numbers of individuals below certain proportions of average income.

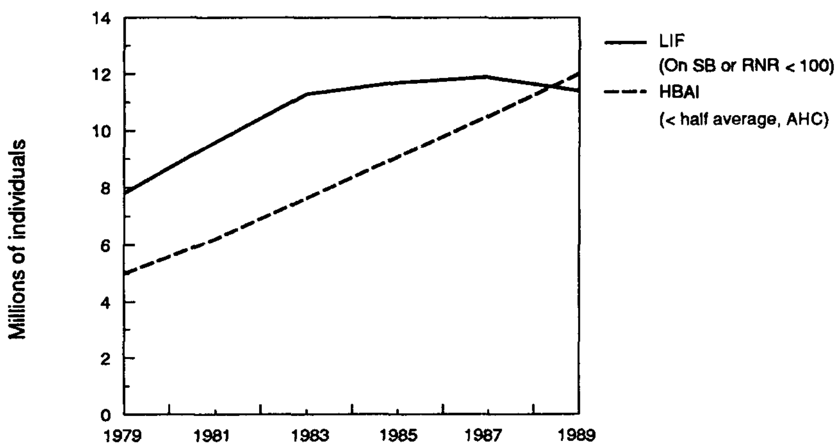
The HBAI methodology also has the advantage that it is basically a description of the income distribution which could readily be applied to different time periods (or indeed different countries). LIF, by contrast, is very much tied to a prevailing benefit system. The limitations of such an approach were apparent in the difficulties of maintaining a consistent series over the period of social security reform in 1988.

The proponents of HBAI also argue that it provides enough information to enable the reader to impose his or her own view on the nature of poverty. If poverty is defined as a living standard removed from that of the majority of society, then the tables showing numbers below proportions of the national average may be useful. Conversely, if poverty is to be measured in some "absolute" sense, then tables are provided which show how living standards compare with a constant benchmark.

The main problem with this latter approach is that the benchmark chosen is not very satisfactory. For example, the latest edition of HBAI shows, in various years during the 1980s, how many individuals had household incomes of less than half the 1979 mean uprated in line with prices. This is not a threshold which is widely used in popular discourse, and it is not surprising that figures from these tables are seldom, if ever, cited.

This brings us to a much wider problem with HBAI which relates to the way in which low income statistics are interpreted. These statistics are widely used as indicating trends in poverty but this can produce rather paradoxical results. To see the nature of the problem, consider Figure 1. The dashed line shows the number of individuals in households below half the contemporary average income (AHC) in 1979, 1981, 1987 and 1988-89. The solid line shows the number of individuals in families either receiving SB /IS, or with resources below this level, over the same period.

Figure 1.
Alternative Measures of Poverty?



Perhaps the most striking difference between the two series is the pattern in the late 1980s, a time of considerable economic prosperity. The LIF-based total shows a modest decline, primarily as the number of people claiming Income Support in respect of unemployment declines. By contrast, and contrary to what one would expect of a "poverty" measure, the HBAI total accelerates. This is because the sharp rise in average incomes brings many of those with incomes slightly above benefit levels into the "below half average" category.

It may be argued that the HBAI figure for numbers below half average income was never intended as a measure of numbers in poverty and is simply a description of the income distribution. Furthermore, as already discussed, HBAI does provide a measure of numbers below a constant line (a total which in this case is virtually the same in 1989 as in 1979). However, given that HBAI is the only series published by the DSS, it is unrealistic to expect commentators not to attempt to quantify the extent of poverty on the basis of these figures. Comment on HBAI results is bound to focus on how current incomes compare with the current average, rather than with a price-indexed version of average incomes a decade earlier. Thus the most widely quoted tables do not provide a figure which could be viewed as a poverty measure, whilst the tables which use a constant line are inaccessible to the non-specialist and are largely ignored. For this reason it is our view that the supplementary information contained in the LIF series is important and should be retained.

5. What the Figures Show (1): Low Income Families

LIF tables have traditionally compared family incomes in a given year with the benefit rates prevailing in that year. The most recent edition of LIF introduces an additional comparison, which is of incomes in 1989 with the rates of Income Support which would have prevailed in that year had there been no above-inflation increases in SB/IS since 1979. We consider the two sets of results in turn.

A. Low Income Families - Using Actual Benefit Levels

Table 2 shows the families and persons in receipt of SB/IS 1979-89. Tables 3 and 4 show the numbers of families and persons not receiving SB/IS with Relative Net Resources under 100, using the benefit rates which actually prevailed in those years. The results are classified by family type and by economic activity. Tables 5 and 6 present a similar analysis for those with RNR of less than 140.[1]

In interpreting the tables it should be noted that Tables 5 and 6 are cumulative, so that all families which appear in Tables 3 and 4 will also appear in these tables.

1 The equivalent tables showing families and persons with RNR below 110 and 120, are published in the Social Security Select Committee Report but are omitted here for brevity.

Table 2. Families and Persons Receiving SB/IS, Analysed by Family Type, 1979-89

	Families						Persons in Families					
(000s)	1979	1981	1983	1985	1987	1989	1979	1981	1983	1985	1987	1989
Total families over pension age (GB)	**1690**	**1670**	**1670**	**1610**	**1610**	**1440**	**2000**	**1970**	**1960**	**1870**	**1860**	**1740**
Married couples	310	290	290	260	260	310	620	590	580	520	510	610
Single persons	1380	1380	1380	1350	1350	1130	1380	1380	1380	1350	1350	1130
Total families under pension age (GB)	**1110**	**1630**	**2490**	**2900**	**3000**	**2480**	**2350**	**3360**	**5000**	**5760**	**5890**	**4890**
Married couples with children	170	310	490	530	490	340	760	1310	2000	2190	2020	1420
Single persons with children	330	360	450	550	640	750	890	960	1210	1440	1680	2010
Married couples without children	90	130	240	310	320	70	180	260	480	620	640	140
Single persons without children	520	830	1310	1510	1550	1320	520	830	1310	1510	1550	1320
Of which large families (3 or more children)	130	160	210	240	240	230	640	820	1070	1210	1220	1130
GB: all families	**2800**	**3300**	**4160**	**4510**	**4610**	**3920**	**4350**	**5330**	**6960**	**7630**	**7750**	**6630**
UK: all families	**2920**	**3450**	**4330**	**4690**	**4800**	**4100**	**4570**	**5630**	**7310**	**8000**	**8130**	**6980**

Sources: Own calculations based on Annual Statistical Enquiries of Supplementary Benefit/Income Support recipients, and figures provided by the Northern Ireland Department of Health and Social Services. A detailed distribution by family type was not available for Northern Ireland for the whole period.

Table 3. Families and Persons not Receiving SB/IS and with Relative Net Resources Below 100, Analysed by Family Type, 1979-89

	Families						Persons in Families					
UK (000s)	1979	1981	1983	1985	1987	1989	1979	1981	1983	1985	1987	1989
Total families over pension age	**1130**	**1010**	**1160**	**1050**	**1050**	**1110**	**1450**	**1340**	**1460**	**1310**	**1270**	**1280**
Married couples	300	330	290	250	220	160	610	660	590	510	440	320
Single persons	830	690	870	800	830	950	830	690	870	800	830	950
Total families under pension age	**920**	**1280**	**1430**	**1380**	**1510**	**1860**	**1720**	**2620**	**2580**	**2370**	**2510**	**3070**
Married couples with children	190	350	290	250	250	310	800	1430	1190	990	1000	1230
Single persons with children	90	120	200	200	180	160	190	240	410	400	360	310
Married couples without children	[60]	[70]	[30]	[30]	[60]	[70]	[160]	[210]	[80]	[80]	[130]	[200]
Single persons without children	570	740	900	900	1020	1330	570	740	900	900	1020	1330
Of which large families (3 or more children)	70	110	90	70	80	100	390	580	470	390	400	520
All families	**2050**	**2300**	**2590**	**2430**	**2550**	**2970**	**3170**	**3960**	**4040**	**3680**	**3780**	**4350**

Note: Where figures are shown in brackets they should be treated with caution since they are based on small sample sizes and are subject to considerable uncertainty.

Table 4. Families and Persons not Receiving SB/IS and with Relative Net Resources Below 100, Analysed by Economic Status, 1979-89

	Families						Persons in Families					
UK (000s)	1979	1981	1983	1985	1987	1989	1979	1981	1983	1985	1987	1989
All families containing a full-time worker	**170**	**240**	**260**	**290**	**320**	**370**	**470**	**710**	**730**	**790**	**850**	**970**
Couple, both FT	[10]	[20]	[10]	[30]	[40]	[30]	[40]	[80]	[10]	[110]	[120]	[100]
Couple, one FT, one PT	[10]	[40]	[40]	[40]	[20]	[50]	[50]	[130]	[180]	[160]	[80]	[180]
Couple, one FT, one not employed	90	110	120	120	150	150	330	440	450	420	530	530
Single person	60	70	90	100	110	140	60	70	90	100	120	160
All families not containing a full-time worker	**1870**	**2060**	**2330**	**2140**	**2230**	**2600**	**2700**	**3250**	**3320**	**2900**	**2930**	**3380**
At least one person:												
working part-time	130	200	210	180	180	180	230	430	390	270	330	290
aged over 60	1130	1030	1260	1190	1130	1190	1470	1380	1640	1570	1400	1420
unemployed	200	440	380	400	420	470	330	810	650	550	550	660
All other families	410	390	480	380	500	760	670	620	640	510	650	1010
All families	**2050**	**2300**	**2590**	**2430**	**2550**	**2970**	**3170**	**3960**	**4040**	**3680**	**3780**	**4350**

Note: Where figures are shown in brackets they should be treated with caution since they are based on small sample sizes and are subject to considerable uncertainty.

Table 5. Families and Persons not Receiving SB/IS and with Relative Net Resources Below 140, Analysed by Family Type, 1979-89

	Families						Persons in Families					
UK (000s)	1979	1981	1983	1985	1987	1989	1979	1981	1983	1985	1987	1989
Total families over pension age	**3040**	**2860**	**2940**	**3030**	**2700**	**2820**	**4140**	**3990**	**4040**	**4150**	**3660**	**3750**
Married couples	1050	1120	1080	1120	940	930	2150	2260	2180	2240	1990	1870
Single persons	1980	1730	1860	1910	1760	1890	1980	1730	1860	1910	1760	1890
Total families under pension age	**1850**	**2810**	**3100**	**2910**	**2800**	**3090**	**4300**	**6760**	**6930**	**5990**	**5580**	**5790**
Married couples with children	590	1010	1000	780	690	660	2500	4330	4200	3230	2890	2740
Single persons with children	270	320	450	470	410	370	550	630	910	930	820	730
Married couples without children	140	160	100	100	100	150	410	470	280	280	260	410
Single persons without children	840	1330	1540	1550	1600	1900	840	1330	1540	1550	1600	1900
Of which large families (3 or more children)	220	360	340	230	250	240	1230	1990	1830	1260	1340	1290
All Families	**4890**	**5670**	**6040**	**5940**	**5510**	**5910**	**8440**	**10750**	**10960**	**10150**	**9240**	**9540**

Table 6. Families and Persons not Receiving SB/IS and with Relative Net Resources Below 140, Analysed by Economic Status, 1979-89

	Families						Persons in Families					
UK (000s)	1979	1981	1983	1985	1987	1989	1979	1981	1983	1985	1987	1989
All families containing a full-time Worker	**610**	**920**	**1120**	**980**	**870**	**860**	**2020**	**3250**	**3750**	**3000**	**2720**	**2520**
Couple, both FT	[30]	[40]	[30]	[50]	[60]	[60]	[110]	[110]	[90]	[180]	[200]	[190]
Couple, one FT, one PT	100	200	170	150	110	110	380	850	730	550	450	420
Couple, one FT, one not employed	350	520	690	540	490	420	1340	2080	2670	2010	1830	1570
Single person	130	160	240	240	210	270	180	210	270	260	240	340
All families not containing a full-time worker	**4280**	**4750**	**4910**	**4960**	**4640**	**5050**	**6420**	**7510**	**7220**	**7150**	**6530**	**7040**
At least one person:												
working part-time	390	560	460	480	390	420	740	1190	860	800	670	690
aged over 60	2950	2800	3020	3190	2830	2920	4040	3920	4220	4490	3870	3950
unemployed	290	780	650	620	690	630	490	1290	1010	840	930	920
All other families	650	610	790	680	730	1080	1150	1100	1130	1010	1050	1470
All families	**4890**	**5670**	**6040**	**5940**	**5510**	**5910**	**8440**	**10750**	**10960**	**10150**	**9240**	**9540**

Note: Where figures are shown in brackets they should be treated with caution since they are based on small sample sizes and are subject to considerable uncertainty.

I. Families receiving SB/IS

The total number of benefit recipients is already publicly available, but is rarely presented for the UK as a whole or broken down by family type. The figures have been adjusted to exclude those recipients that are homeless or in institutional accommodation so that they are consistent with Tables 3-6 which are based on household survey data.

The numbers of UK families receiving SB/IS rose from 2.9 million in 1979 to 4.1 million in 1989. The corresponding figures for numbers of individuals dependent on SB/IS were 4.6 million in 1979, rising to 7.0 million in 1989. These figures had been at a peak of 8.1 million in 1987 when unemployment was also at a peak. This overall increase is entirely accounted for by the non-pensioner population, as the numbers of pensioners receiving SB/IS fell in the period despite real increases in the real value of the SB/IS line.

Among the non-pensioner population, three main groups account for the rise in the number of families receiving SB/IS. The first is lone parents. Not only has the number of lone parents in the population risen sharply from 0.8 million to 1.1 million but the proportion of those families dependent on SB/IS also rose from 38 per cent to 66 per cent. The combination of these two effects has pushed the numbers receiving SB/IS up from 0.3 million to 0.75 million.

A second reason for the rise in SB/IS claimants has been unemployment, which rose from 1.4 million in 1979 to 1.8 million in 1989. This represents a decline from the peak of 3.3 million in the second half of the 1980s and explains the reduction in the total numbers on SB/IS from 1987 to 1989.

Thirdly, there has been an increase in the numbers receiving SB/IS as a result of long-term sickness. Though a detailed breakdown is not available, we estimate from DSS administrative statistics that the numbers of non-elderly long-term sick receiving SB/IS has doubled over the period from 0.2 million to 0.4 million. This is part of a general growth in the number of recipients of benefits related to long-term sickness during the 1980s.

These are the major reasons for the rise in the numbers receiving SB/IS. We turn our attention now to those not receiving IS/SB.

II. Families not receiving SB/IS and with RNR less than 100

The group of families described in Table 3 is not receiving SB/IS and has net resources (as defined earlier) below those of someone exclusively dependent on SB/IS. Since SB/IS is usually regarded as a "safety net" benefit we begin by discussing the question of how anyone can be in this position.

How Can Anyone be Below SB/IS levels?

In the first place, as was discussed earlier, SB/IS is not in fact designed to be a safety net for all families in all circumstances. In particular, two main types of families are automatically disqualified - those with capital in excess of specific thresholds and those with a member of the family in full time work.

It may appear unlikely that a family with one member in full-time work could find itself below the living standards of someone on SB/IS, but there are a number of circumstances where this can arise. One important group is the full-time self-employed who may be disqualified from benefit on the grounds of hours worked, but who may have very low (or even negative) profits in a given year.

A second group of full-time workers who may nonetheless have RNR of less than 100 is those with relatively large mortgages. Whereas families on SB/IS can have their mortgage interest paid in full by the DSS, there is no similar help for low income home-buyers not receiving SB/IS. A family whose main income comes from a low-paid full-time job and which has a relatively large mortgage can easily find that its income net of housing costs is below SB/IS levels.

A second broad reason for a family to have relative net resources below 100 is non take-up of a benefit, principally SB/IS or housing benefit. At the time of writing, no official figures have been published for the non take-up of income support but Fry and Stark (1993) found that only 76 per cent of non-pensioners entitled to income support in 1989 were taking up the benefit. For particular subgroups take-up rates were found to vary between 66 per cent (single non-pensioners) and 93 per cent (lone parents).

Non take-up of SB/IS will generally, though not always, result in a family appearing in the "under 100" table in LIF analysis. Non take-up may arise for a number of reasons. One of the most important is that in some cases the amounts of benefits to which particular families are entitled may not outweigh the costs associated with claiming. These costs may include the possible stigma attached to being a recipient of a particular benefit and the complexity of the process of claiming. This view is supported by the fact that the expenditure-based take-up estimates (which record the *amount* of unclaimed benefits) are always higher than caseload-based estimates (which record the *number* of families not taking up their entitlement).

Characteristics of Families With RNR Less Than 100

The trends in numbers with RNR below 100 are shown in Table 3. There was an increase in the number of families involved from around 2 million in 1979 to 3 million in 1989. The number of people within these families rose from 3.2 million to 4.4 million.

As regards the composition of this group, a first interesting point is that the number of pensioners has been remarkably stable over the decade with 1.0 to 1.2 million pensioners in the "below 100" category every year. Given that the number of pensioners in the population has risen by around 0.4 million, this implies that the *proportion* of pensioners below 100 has fallen. This is particularly true for married pensioners where the absolute number below 100 has nearly halved.

The main reason for the difference between married and single pensioners is that married pensioners are on average younger than single pensioners, and are hence more likely to be in receipt of occupational or private pension income to supplement their basic state pension. Dilnot and Johnson (1992) showed that newly-retired pensioners now tend to rely far less on state benefits than was the case even in 1979. Pensioners fall below 100 (rather than simply receiving SB/IS) because of non take-up (typically of small entitlements) or disqualification on capital grounds for those with little income but high savings.

All the growth in the numbers with RNR below 100 has occurred in the non-pensioner population, and by far the largest group here is single people without children. The numbers in this category have risen consistently over the decade. The single people with RNR below 100 tend to be young and around two-thirds of these live in multiple-family households. Typical examples include households with a grown up child living at home and student households.

When the information is classified by economic status (Table 4) more light can be shed on trends below 100. Only 12 per cent of families with RNR below 100 contain a full-time worker, as might be expected. There are however still 370,000 families in this position having risen from 170,000 in 1979. Further analysis reveals that this group is dominated by the full-time self-employed with very low profit levels and by those with relatively large mortgages.

There has been a small growth in the number of families headed by someone over 60 and with RNR below 100. This rise is concentrated among men who have ceased full-time employment but have not yet reached state pension age. The main growth, however, is in the unemployed and "other" categories. Unemployment trends have been discussed earlier. The "other" category includes students, the long-term sick and disabled. Further analysis shows that students and the sick account for the rise in the "other" category. Much of the reason for this is the rise in the number of students by around 100,000 between 1980-81 and 1988-89.

Resources of Families With RNR Less Than 100

Whilst it is interesting to know the trends in the numbers of families that have RNR of less than 100 and what types of families they are, it is also important to find out just how far their independent resources fall below SB/IS levels. Clearly, a situation where 3 million families all had RNR of 99 would imply a very different policy response to one where some families fell a long way below the line.

Table 7 shows the average RNR of families with RNR below 100. It excludes families with zero RNR (or below) as they predominantly live in households that have a high standard of living, which implies that their standard of living is not accurately reflected by their RNR score.

Table 7 indicates that the average RNR of those below 100 has fallen from 80 in 1979 to 72 in 1989. This means their living standards were on average only three quarters the level of someone on income support.

Table 7. Families with RNR Below 100 but Above 0: Average Values of Relative Net Resources, 1979-89

	1979	1981	1983	1985	1987	1989
All over pension age	87	86	87	87	82	83
Married couple	91	91	91	90	85	89
Single person	86	83	86	86	82	82
All under pension age	67	63	65	65	59	60
Couple with children	66	71	71	68	63	64
Single with children	76	74	68	65	44	62
Couple, no children	[74]	[68]	[68]	[68]	[57]	[66]
Single, no children	64	55	60	63	60	57
All family types	80	75	77	77	72	72

However, there is a dichotomy between the pensioner and non-pensioner populations. The average for pensioners is always above 80 per cent whilst the average for non-pensioners falls to 60 per cent in 1989. Since most pensioners qualify for some state pension and the SB/IS line has always been fairly close to this level, it is not surprising that pensioners do not fall far below 100.

The levels of RNR for non-pensioners are much lower. The implication of the low levels of RNR for these groups is that, even had the income support line been lower in real terms, this would be unlikely to have had much effect on the numbers of non-pensioners below it. Some of this is caused by the bias generated by a few families with very low RNR. Since these tend to be young single people with very low independent income it suggests their living standards might be poorly reflected by their recorded RNR. For these cases the subdivision of the households into family units is least satisfactory. The level of RNR for lone parents and childless couples is erratic due to the low sample size, but stays consistently below the levels of pensioners. Couples with children show a gradual decline from the early 1980s. This is discussed more fully in section 5B.

III. Families not receiving SB/IS and with RNR less than 140

Tables 5 and 6 are the most comprehensive of the LIF tables and include all non-recipients of SB/IS with RNR below 140. A first interesting feature of these tables is that there has been a similar increase in the total number of people with RNR less than 140 as there was for those with RNR less than 100. The trends also move in broadly the same way. This indicates that there has not suddenly been an increase in disqualification or a reduction in take up that shifted people from just above 100 to just below 100, but that the total numbers of people with relatively low income has risen.

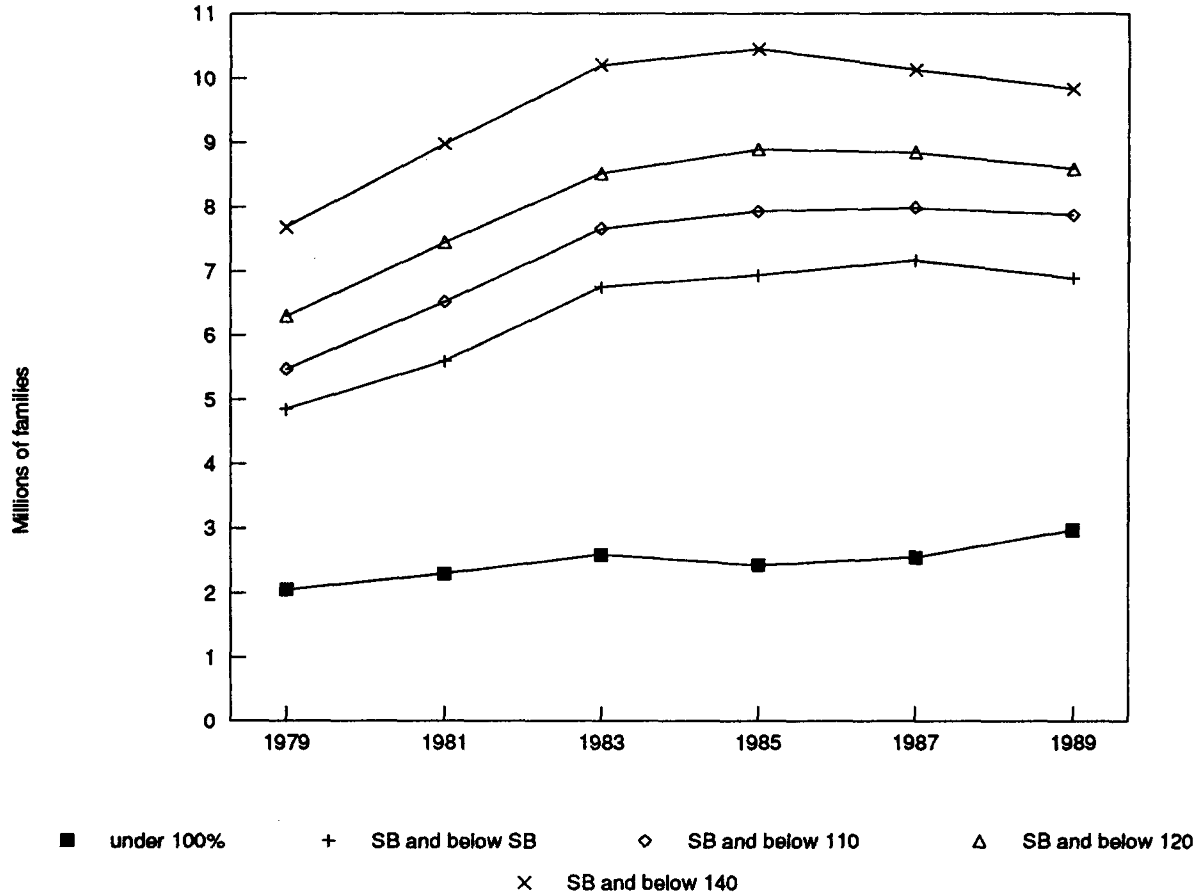
A second interesting feature of the families below 140 (which includes all those below 100 as well) is the higher proportion of pensioners in this category. They comprise almost half of the families below 140, compared to just over one third in the poorest group. This implies that there is a considerable bunching of pensioners in the income distribution just above the SB/IS line. This bunching has, however, been falling consistently over the decade as the proportion of pensioners below 140 in 1979 stood at 62 per cent. This provides further evidence for Dilnot and Johnson's (1992) finding of a widening of the pensioner income distribution since 1979, as people who have recently become pensioners have much increased levels of income from investments, occupational pensions, and/or the State Earnings Related Pension.

There has been a marked increase in the number of single people with relatively low incomes which reflects both the rise in unemployment in the early 1980s and the rising number of students. The economic status classification points to a rising number of the unemployed poor and also, perhaps surprisingly, full-time workers. Again there has been a large increase in the "other" category which, on further analysis, is almost entirely accounted for by students and the non-elderly long-term sick.

The combined results of Tables 2-6 are shown in Figure 2 which also includes the 110 and 120 thresholds.

In Figure 2, the lowest line shows the numbers with RNR below 100 and the second line shows the numbers in that group plus those on SB/IS. The subsequent lines show the totals below the 110, 120 and 140 thresholds, and also include the SB/IS recipients.

Figure 2.
Combined Results for Families with RNR below 100-140 and SB/IS Recipients



On this combined basis, the number of "low income" families (not individuals) has increased by slightly over 2 million in the 1980s, although most of this increase occurred in the early 1980s. It is interesting to note that the recession of the early 1980s seemed to bring millions of people below the thresholds, but the boom of the late 1980s failed to cut the numbers by the same amount.

Two principal reasons can account for this. Firstly, the bulk of the gains from the boom of the late 1980s went to those on above average incomes and may have failed to increase the living standards of some of the poorest in society such as lone parents and the long-term unemployed.

Secondly, changes in the real levels of the thresholds being used will inevitably increase the numbers below those thresholds. It is to this point that we now turn.

B. Low Income Families - Using 1979 Benefit Levels

In the previous section we have taken the SB/IS line as given and looked at the numbers and characteristics of people below various proportions of this line. The SB/IS line moved considerably during the decade, however, and a complete interpretation of Tables 2-6 must take these changes into account.

I. The real value of the SB/IS line

Table 8 shows the average real value of the SB/IS line used in LIF, split by family type.[1]

1 It should be remembered that this calculation is carried out only for those families in the sample who do not report receipt of SB/IS. Even in the absence of changes to the benefit system, the average line used would still fluctuate because of changes in the composition of this group.

Table 8. Real Value of SB/IS Lines Used in the Analysis

(1989 prices, £ per week)	1979	1981	1983	1985	1987	1989
Married pensioners	62.82	66.49	70.48	70.49	70.86	68.04
Single pensioners	38.25	40.33	43.07	43.32	43.34	43.62
Couple with children	72.00	78.35	82.79	83.06	81.65	81.82
Single with children	51.78	58.19	60.15	60.72	59.27	63.83
Couple, no children	50.67	53.79	57.66	60.40	58.48	54.95
Single, no children	25.53	26.74	28.80	29.24	29.03	29.65

Between 1979 and 1983 the real value of the SB line used in the analysis rose sharply for all family types. There are a number of reasons for this trend:

(i) benefit levels for children under 5 and those aged 11-12 were "levelled up" to those for children aged 5-10 and 13-15 respectively in 1980;

(ii) additions to SB in respect of heating costs were extended in the early 1980s;

(iii) SB was mistakenly "over-indexed" in 1983 following an inflation forecasting error by the Treasury;

(iv) all non-working men in the 60-64 age group became immediately entitled to the higher long-term rate of SB in 1983.

By 1985 this trend had flattened and the average rate of benefit used had fallen back by 1987, mainly because of the withdrawal in mid-1985 of special additions for non-pensioner households towards the cost of central heating.

In 1988 income-related benefits were reformed, with Income Support replacing Supplementary Benefit, and with households on IS having to pay 20 per cent of their rates/community charge and all of their water rates.[1] The aim of the Fowler reforms was to divert money to families with children and it can be seen that there was an increase in the average IS line for both married couples and lone parents.

1 To avoid a discontinuity in the series, the benchmark line used for 1989 is therefore the IS level applicable to a particular family less its water rates and less 20 per cent of its domestic rates.

The increase in the line used for lone parents is probably an exaggeration of the true position. Prior to 1989, the short-term rate of SB was used for lone parents, when in fact around half of them would have received the (higher) long-term rate. Under IS this distinction was ended, and so the line used is an average for all lone parents. This is higher than the old short-term rate of SB.

Perhaps most surprising is the fall in the real line for married pensioners between 1987 and 1989. Although Table 8 is an average for the whole FES sample, the example below shows a hypothetical case to demonstrate how this result could arise.

Example: Married Pensioner Aged Under 75

April 1987 Supplementary Benefit		April 1989 Income Support	
Long-term scale rate	61.85	Personal allowance (couple)	54.80
		Pensioner premium (couple)	17.05
plus heating addition	+2.20	*less* water charges[b]	-1.94
less "available scale margin"[a]	-1.00	*less* 20% domestic rates[c]	-1.93
SB line (1987 prices)	63.05		
Uprate to 1989 prices (+9.5%)	69.04		67.36

Notes:
a. The "available scale margin" was a standard deduction from the contribution towards the additional requirements of long-term SB recipients.
b. Source: "The Water Industry" (CIPFA, 1989) using Thames water charges.
c. Source: English average based on DoE "Local Government Financial Statistics No 1, 1989", Table 23.

Clearly domestic and water rates will vary from household to household, but this example (which uses typical figures) seems to suggest that the higher levels of income support may not always have been sufficient to compensate certain groups for their increased expenses under the new system.

In summary, we see that the average level of the line clearly increased for all family types over the 1980s. In the next section we consider how this affects our interpretation of Tables 2-6.

II. Results using a constant line

The same LIF analysis was carried out using the 1989 IS structure but by scaling down the levels of the line to the 1979 level for each family type. In this hypothetical situation not only would there be fewer non-recipient families below or near to IS levels, but also there would be fewer recipients of IS itself. Whilst we have sought to quantify this latter group we have not attempted to redistribute them among the tables for non-recipient low income families, though most would at least have RNR of less than 140.

Table 9 shows the numbers not receiving IS and with RNR below 100 on the basis of a deflated line and compares this with the numbers below the actual line for 1979 and 1989. Table 10 shows how many of the IS recipients in 1989 would not have been receiving IS had the real value of the safety net benefit not risen since 1979.

Table 9. Numbers of Families and Persons with RNR Below 100 with the Real Value of Benefit at 1979 Levels

	Benefit Units			Persons		
	1979	1989 Actual	1989 Constant Line	1979	1989 Actual	1989 Constant Line
All families	**2050**	**2970**	**2130**	**3170**	**4350**	**3140**
Classified by family type						
All over pension age	1130	1110	590	1450	1280	650
Married pensioner	300	160	60	610	320	130
Single pensioner	830	950	520	830	950	520
All under pension age	920	1860	1540	1720	3070	2490
Married with children	190	310	240	800	1230	970
Married, no children	90	160	120	190	310	240
Single with children	60	70	50	160	200	150
Single, no children	570	1330	1130	570	1330	1130
Of which large:	70	100	80	390	520	440
Classified by economic status						
Families containing a full-time worker						
Couple:						
Both working FT	10	30	30	40	100	90
One FT, one PT	10	50	50	50	180	170
One working FT	90	150	110	330	530	390
Single Person:						
Working FT	60	140	120	60	160	140
Families with no full-time worker						
At least person who is:						
working PT	130	180	130	230	290	220
aged over 60	1130	1190	640	1470	1420	740
unemployed	200	470	410	330	660	580
Other families	410	760	650	670	1010	830

Table 10. Estimated Effects on Numbers of IS Claimants of Reducing Average Line to its 1979 Real Level (000s)

TOTAL REDUCTION	1020
Of which:	
Married pensioners	180
Single pensioners	700
Couple with children	[10]
Single with children	[40]
Couple, no children	[10]
Single, no children	80

Note: Given the known problems with FES data on pensioner IS receipt, the estimated effects on the pensioners caseload are subject to considerable uncertainty.

Had benefit levels not been increased, we estimate that the number of pensioner families below the IS line would have fallen from 1.1 million in 1979 to around 0.6 million in 1989. The fall would have been particularly pronounced among married pensioners. This is consistent with the result in Table 7 that those pensioners with RNR below 100 are typically not far below that line. The number of pensioners *receiving* IS would also have been substantially lower, as Table 10 indicates. Comparison with a constant real line would thus produce a sharp fall in the number of pensioners appearing to be on a very low income.

For non-pensioners, the numbers below 100 would still have increased from 0.9 million to 1.5 million families over the decade, and this is not very different from 1.8 million families under the actual 1989 line. The drop comes almost entirely from single people without children. Similarly, though Table 10 indicates that the number of non-pensioner families receiving SB/IS would have been around 0.14 million lower without the real increases in benefits, this would still have left around 1 million more families on SB/IS in 1989 than in 1979.

Table 11. Numbers of Families and Persons with RNR Below 140 with the Real Value of Benefit at 1979 Levels

	Benefit Units			Persons		
	1979	1989 Actual	1989 Constant Line	1979	1989 Actual	1989 Constant Line
All families	4890	5910	4950	8440	9540	7640
Classified by family type						
All over pension age	3040	2820	2440	4140	3750	3210
Married pensioner	1050	930	760	2150	1870	1530
Single pensioner	1980	1890	1680	1980	1890	1680
All under pension age	1850	3090	2510	4300	5790	4430
Married with children	590	660	470	2500	2740	1920
Married, no children	270	370	310	550	730	610
Single with children	140	150	90	410	410	250
Single, no children	840	1900	1650	840	1900	1650
Of which large:	220	240	160	1230	1290	860
Classified by economic status						
Families containing a full-time worker						
Couple:						
Both working FT	30	60	40	110	190	150
One FT, one PT	100	110	90	380	420	310
One working FT	350	420	250	1340	1570	910
Single person:						
Working FT	130	270	190	180	340	220
Families with no full-time worker						
At least person who is:						
working PT	390	420	300	740	690	500
aged over 60	2950	2920	2530	4040	3950	3370
unemployed	290	630	580	490	920	860
Other families	650	1080	970	1150	1470	1320

Table 11 shows the number of families not receiving IS and with RNR below 140 in 1989, again assuming no real increase in the SB/IS line. At first sight it would appear that the total number of "low income" families would scarcely have altered had the real line been maintained. It should be stressed, however, that the 1 million families who would have been floated off Income Support in 1989 had the real line been kept at its 1979 level (Table 10) would almost certainly have appeared in the under 140 table. Thus the combined total of "low income" families would still have been around 1 million higher in 1989 than in 1979, even if the real value of the line had not moved.

It should also be recalled that the growth in the real value of SB/IS which actually took place may well in part have reflected a view that the poorest families should have some share in the economic growth of the 1980s. The fact that there was a substantial rise in the number of families who failed to meet this changing acceptable minimum cannot lightly be ignored.

6. What the Figures Show (2): Households Below Average Income

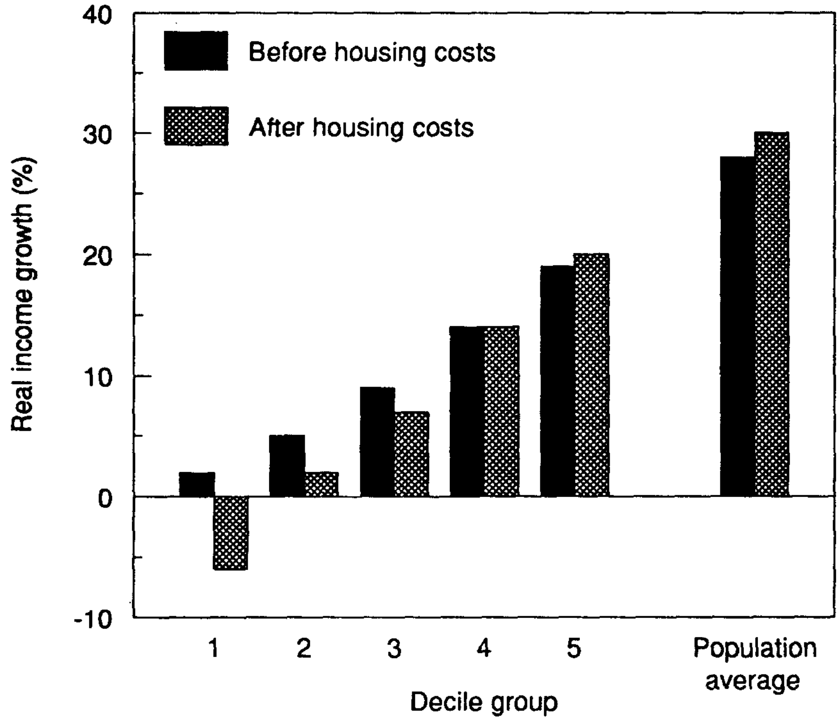
Households Below Average Income (HBAI) is the methodology for analysing low incomes currently favoured by the DSS. In July 1992 figures for 1979, 1981, 1987 and 1988/89 were published and these contain a vast amount of information relating to the households with incomes below the national average. Of the three main types of HBAI tables, the decile group tables give results that relate to trends in real income and shares of total income, whilst the tables that compare income with the contemporary average and the average in a base year can be taken together to give an overall picture of the income distribution. We consider each type of result in turn.

A. Real Income Growth of Different Deciles

HBAI provides information on income growth (both before and after housing costs) from 1979 to 1988-89 for the bottom decile (10 per cent) of the population. This is repeated for each successive decile group up to the fifth and for the population as a whole.[1] Figure 3 shows the income growth results.

1 It should be noted that for the purposes of HBAI, the "average" income of each decile group is summarised by the median rather than the mean income.

Figure 3.
Real Income Growth by Decile Group 1979 to 1988-89



The most striking point to note from Figure 3 is that whilst the population average income over the decade rose by roughly 30 per cent, the income growth of those on below average incomes rose by far less. Indeed the AHC measure for the bottom decile group fell by 6 per cent.

I. Why have real incomes after housing costs fallen?

In interpreting the result that the bottom decile group in 1988-89 is poorer than the bottom decile group in 1979, it should be borne in mind that the composition of these groups may have changed. In other words, HBAI does not take the poorest decile group in 1979 and track their real incomes for the next decade. Rather, it takes the poorest decile group in 1988-89 and compares them with the poorest decile group in 1979. Thus the "-6 per cent" number should taken as meaning that "the poorest 10 per cent in 1989 were 6 per cent worse off in real terms than the poorest 10 per cent in 1979".

One consequence of this is that if lowest income groups such as lone parents or the unemployed have become more numerous over the decade then, other things being equal, those in the poorest decile in 1989 are likely *on average* to be poorer than their 1979 counterparts.

Between 1979 and 1988/89 the main groups whose representation in the bottom decile (AHC) grew were the unemployed (from 16 per cent of the bottom group in 1979 to 30 per cent in 1989) and the "other" category (up from 18 per cent to 23 per cent), which includes students and the long term sick and disabled. There was also a small increase in the proportion of families containing a full-time worker, mainly because of the growth in self-employment and in the number of self-employed with very low profits. This latter group overlaps with another increasingly important group in the bottom decile, namely mortgage payers not receiving Income Support, who have increased from 10 per cent of the bottom decile in 1979 to 20 per cent in 1988/89.

The conclusion that can be drawn from these compositional shifts is that the bottom decile now contains types of individuals who are absolutely poorer than the types that used to be in the bottom decile. These people are generally characterised by unemployment, low-paid self-employment and/or high housing costs.

II. Are the estimates being distorted by unreliable data?

We have noted that one of the low income groups whose importance has grown in recent years is the self-employed with low (or even negative) profits. It may however be unrealistic to suppose that the zero or negative incomes which result in these cases are a fair reflection of their standard of living. In particular it might be argued that the growth in such extreme cases makes the statistics for the poorest households unreliable.

In order to test this hypothesis, the DSS carried out an investigation of the expenditure patterns of the bottom decile group, and the results of this investigation are reported in HBAI. They conclude that "...the income results (for 1988-89) for those at the very bottom of the income range may not be giving a reliable picture of the actual living standards of at least some of those individuals ... particularly when the results themselves may be affected by changing numbers of people with little or no apparent income".

The particular reason for this concern was that the households with zero or negative incomes (AHC) in 1988/89 not only had expenditures higher than others in the bottom decile group but in fact had expenditures higher than the national average.

A further check of the robustness of the "-6 per cent" figure was then carried out. This involved testing the effects of temporarily excluding the poorest 0.5 per cent of the income distribution in both 1979 and 1988-89, thereby excluding all of the zero and negative income cases. It was found that the real income of the (new) bottom decile group in 1988/89 was still 5 per cent lower than that of the corresponding group in 1979. This result demonstrates clearly that the drop in income of the poorest group was not simply a consequence of the growth in self-employment and in households with possibly spurious zero or negative incomes.

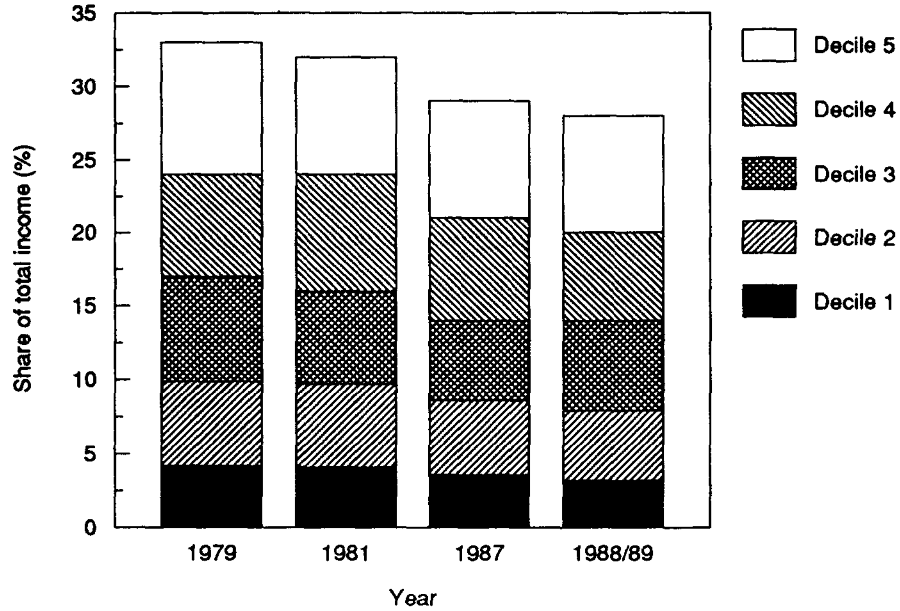
B. Shares of Total Income

Figure 4 shows the percentage of total income that is received by the lower half of the income distribution split into deciles. The values here are for income before housing costs.[1] The share of the lower 50 per cent of the income distribution fell from 33 per cent to 28 per cent of total income and this fall was a consistent trend over the 1980s.

Figure 4 shows that the bottom decile's share fell from 4.2 per cent to 3.2 per cent. Each decile in the lower half had a falling share of income, although this was not necessarily a consistent trend through the 1980s as can be seen by the position of the third decile between 1987 and 1988-89.

1 The AHC figures display the same trends, but are slightly lower.

Figure 4.
Shares of total income received by the bottom half of the income distribution



C. Numbers Below Various Fractions of Average Income

HBAI provides figures for the numbers of people below various proportions of average (mean) income ranging from 40 per cent to 100 per cent of the average. Table 12 summarises some of the key figures.

Table 12. Number of Individuals Below Various Proportions of Average Income

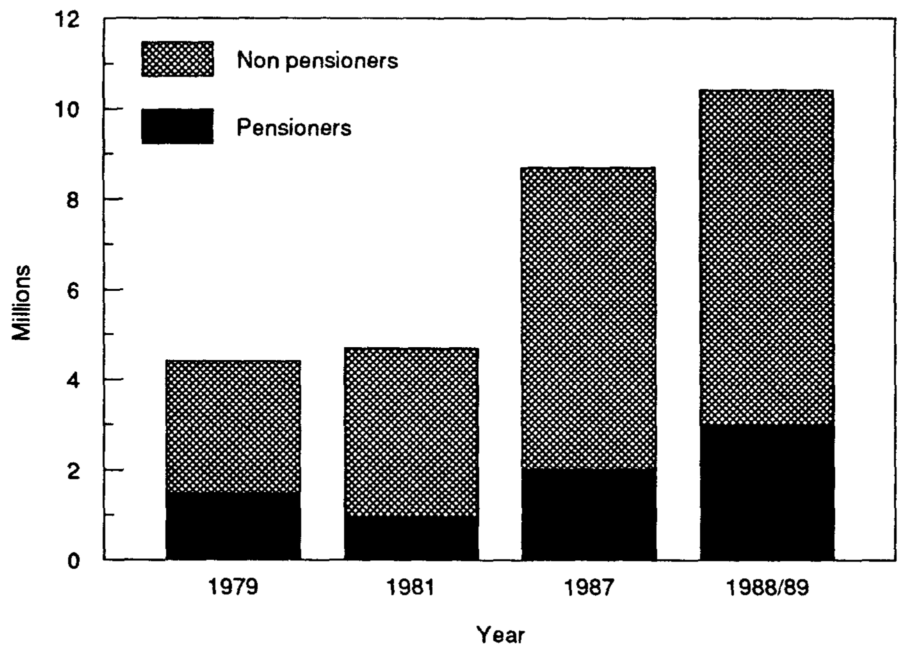
	Before Housing Costs		After Housing Costs	
(Millions)	1979	1988-89	1979	1988-89
Percentage of average income				
40	1.3	4.5	1.7	6.1
50	4.4	10.4	5.0	12.0
60	9.8	16.0	10.4	16.8
100	32.0	34.7	31.8	34.3

Clearly the number of individuals with income substantially below the national average has risen significantly during the 1980s, regardless of the specific income threshold chosen or of the definition of income used. To examine some of the reasons behind this result, Figure 5 provides a more detailed breakdown of the trend in the numbers below half average income.

It is clear that nearly all of the rise in the numbers on relatively low incomes has occurred among the non-pensioner population. Fifty per cent of lone parents now fall below half average (AHC) compared to 19 per cent in 1979. This further highlights the increase not only in the numbers of lone parents but in the proportion of lone parents on low incomes.

Sixty nine per cent of the unemployed also fall in the below half average income category. It may be surprising that the figure is not substantially larger, but it should be remembered that the income measure is that of the total household. A significant group of young unemployed people may well be living in households with a wage-earning parent and thereby find themselves with household income above half the national average.

Figure 5.
Numbers of Individuals Below Half Average Income,
Before Housing Costs



It is clear, however, that much of the rise in the numbers below half average can be accounted for in the rise in average earnings which itself pushes up the thresholds. The DSS also publish information on the number of individuals below the 1979 thresholds uprated by price alone. These tables show that the number of individuals with household incomes (BHC) below half the 1979 average income level held constant in real terms fell from 4.4 million to 3.8 million. After housing costs, the number rose from 5 million to 5.3 million.

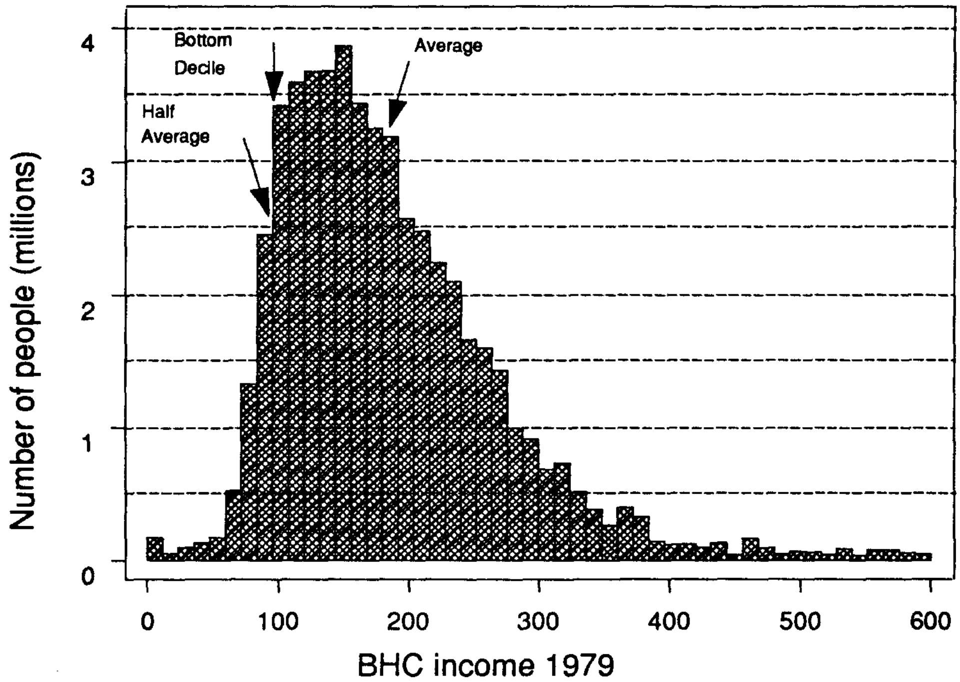
The numbers below a constant threshold would fall primarily if a generally low income group enjoyed increased prosperity. During the 1980s the main group of whom this was true was pensioners. The proportion of pensioners below the 1979 mean stood at 16 per cent in 1979 but had fallen to 8 per cent in 1988-89.

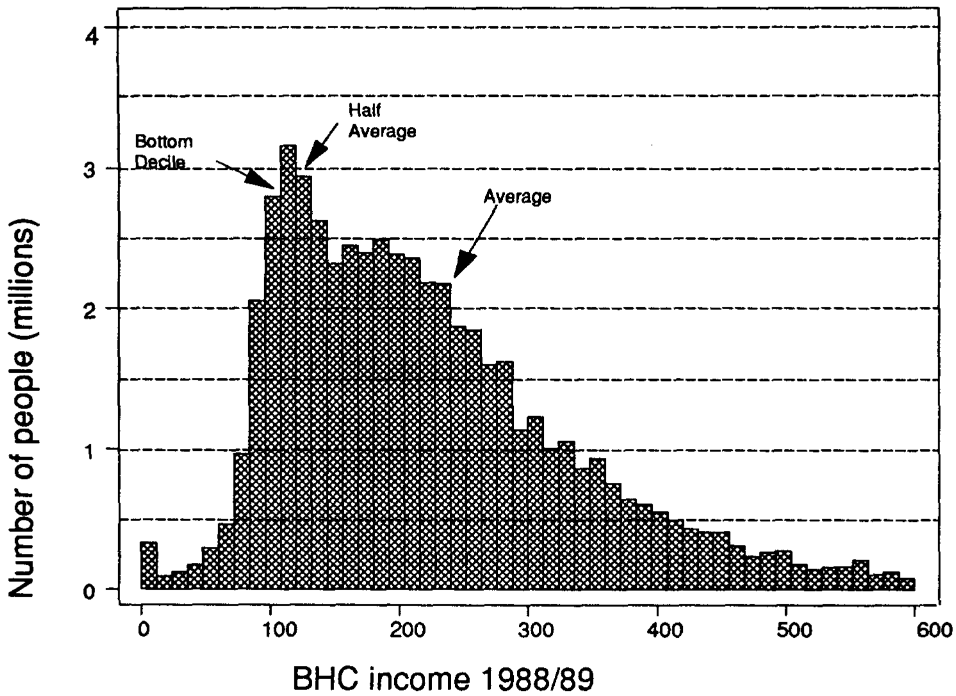
D. Shape of Overall Income Distribution

The results on income shares and numbers below thresholds are summarised in Figure 6 which shows the distribution of income in 1979 and 1988-89. The most striking feature of Figure 6 is the way the income distribution has widened over the 1980s. Not only has the gap between the employed and the non-employed population grown, but also within the employed population there has been a growth in the inequality of earnings.

A large proportion of the population has equivalent household income over £300 per week now compared to a tiny fraction in 1979, whilst the bottom end of the income distribution has remained fairly static. Rising average income has pushed more individuals below half average, whilst the concentration of this growth among higher earners has reduced the share of the lower end of the income distribution.

Figure 6. The distribution of income 1979, and 1988-89
(April 1992 prices)





7. What the Figures Show (3): The Combined Picture

Whilst LIF and HBAI individually provide a fairly comprehensive account of the extent of low income and the types of people affected over the 1980s, the two series are complementary and, as such , can be used in conjunction to get a more complete picture.

Using the examples of pensioners and full-time workers with mortgages, we will attempt to illustrate what extra information is gained by looking at the results of both methods of calculating low income. This exercise could be performed for all types of family but, as this would imply considerable repetition of the results in sections 5 and 6, only these two examples are chosen to illustrate the point.

A. Pensioners.

Both LIF and HBAI show that pensioners were less prevalent in low income groups in 1989 than they were in 1979. HBAI shows that the proportion of those with incomes below half average (BHC) that were pensioners fell from 32 per cent in 1979 to 28 per cent in 1989. Equally, LIF shows that the number of pensioners receiving income support or with incomes below this level fell from 3.5 million to 3 million.

Though each series undoubtedly shows the reduction in the importance of pensioners in low income statistics, they also impart other information that is not common to both of them.

HBAI shows that the proportion of the bottom decile that are pensioners has fallen from 36 per cent in 1979 to 23 per cent in 1988-89 and that the income even of the poorest fifth of pensioners rose by more than 10 per cent in real terms. This all adds to the impression that pensioners fared well relative to non-pensioners and can no longer be viewed as a fairly homogeneous group that is poor.

As LIF concentrates on the income level of pensioner families in relation to benefit levels, a slightly different picture is painted. Table 3 shows that throughout the 1980s there were just over 1 million pensioner families that lived below the IS/SB level. This figure is remarkably consistent and indicates that it would be wrong to infer from HBAI that pensioners are no longer poor.

An overall picture emerges that shows pensioners generally moving up the income distribution but with a relatively stable and large number of pensioner families that fall below benefit levels, either because they are not taking up their entitlements to benefit or because they are disqualified.

B. Families with a Full-time Worker and a Mortgage.

This category of families has appeared in the discussion in Section 6 as the "new poor". This is not because a family with a large mortgage and in low-paid full-time work would not have been poor in the past, but there were many more families in this position by the end of the 1980s than at the beginning. If a family contains someone working full-time (currently defined by the DSS as 16 hours per week), that family is not entitled to any help with their mortgage and so can have a very low disposable income. This situation usually arises if one member of the family is unemployed and the mortgage was originally based on a joint income.

HBAI-style analysis shows that the proportion of people in the bottom decile (after housing costs) that live under these circumstances rose from 10 per cent to 20 per cent. This feature helps to explain some of the difference between the "before" and "after" housing costs figure for the income growth of the bottom decile.

LIF makes it possible to quantify the extent of this problem. As these families are not entitled to IS, they will fall below a RNR of 100 if the mortgage is high enough. Further analysis of the LIF results shows that of the individuals in families with a full-time worker and an RNR below 100, two-thirds (620,000) had a mortgage in 1989 compared to less than half (200,000) in 1979. This shows that not only have the numbers of full-time workers grown in the "below 100" category, but the proportion of those with mortgages rose as well. LIF, therefore, helps to identify just how poor families in this situation actually are.

8. Conclusions

The latest editions of Households Below Average Income and Low Income Families statistics have produced a comprehensive description of changes in the UK income distribution during the 1980s. Both series report that the number of individuals counted as having low incomes has risen sharply. HBAI showed that the number of individuals in households below half average income (after housing costs) rose from 5.0 million to 12.0 million between 1979 and 1988/89. LIF found the combined number on SB/IS or with resources below this level rose from 7.7 million to 11.3 million.

The two series confirm that, among low income groups, pensioners have fared best during the 1980s, although even in 1989 1 million pensioner families still live below IS levels. By contrast, lone parents and the unemployed have increased their representation, not only in the population as a whole, but especially among the poorest groups. Other groups to figure more prominently at the lower end of the income distribution are students, the self-employed with low or negative profits, and low income working families with relatively large mortgages.

Whilst the two sets of figures to some extent cover the same ground, we have shown that they also complement each other with each providing useful insights. HBAI provides a comprehensive description of trends in household living standards and in the share of total income enjoyed by different groups. LIF assesses the extent to which families may fail to achieve even the standard of living offered by Income Support, and provides an easily understood yardstick for the assessment of low incomes. For this reason we believe that the Government should resume publication of Low Income Families statistics on an official basis in addition to the existing Households Below Average Income series.

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