

Institute for  
Fiscal Studies



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## The living standards of families reporting low incomes

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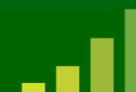
<http://www.ifs.org.uk/publications/4523>

# Background

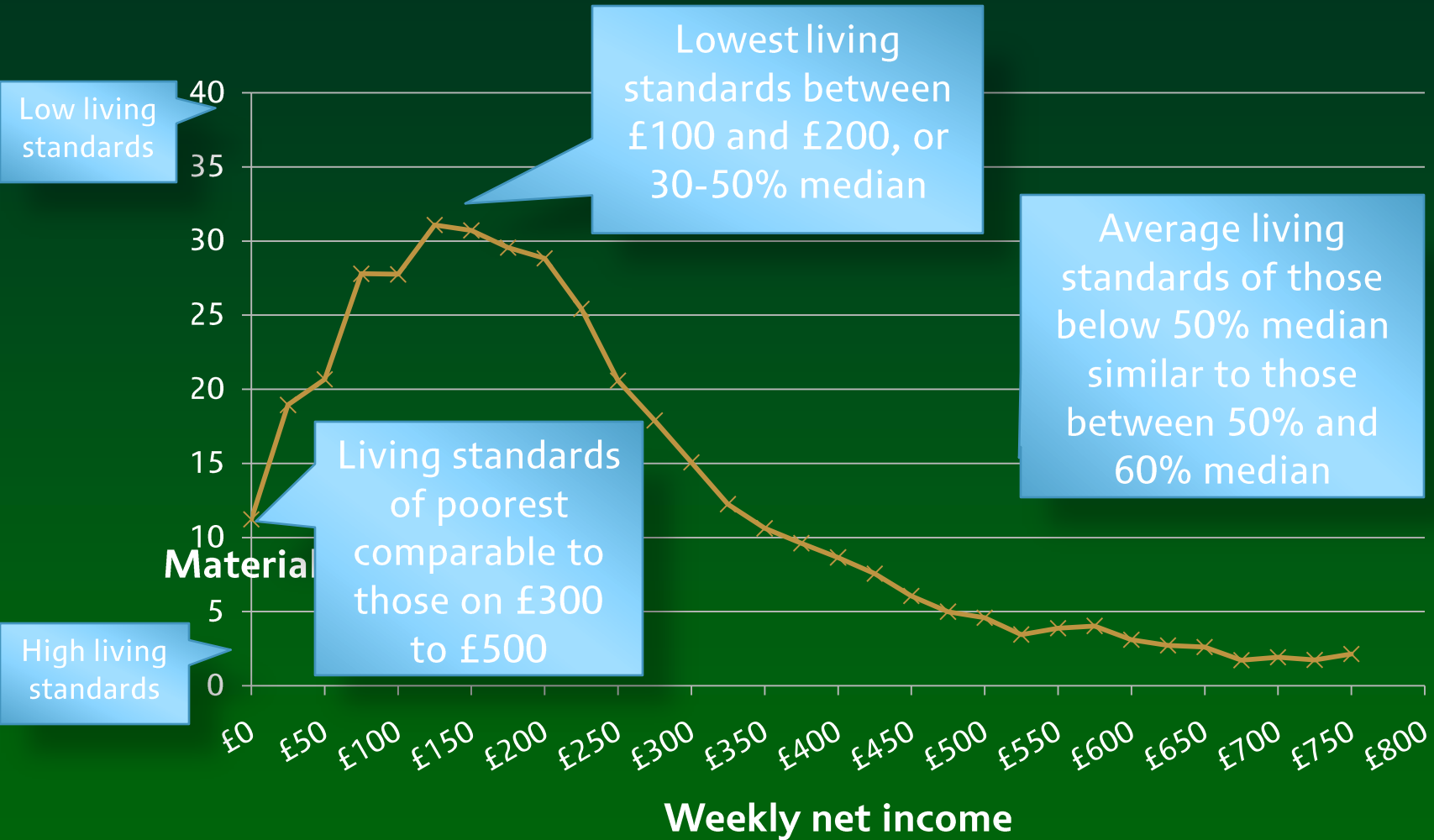
- “HBAI uses household disposable incomes, adjusted for household size and composition, as a proxy for the material living standards of individuals”
- But income does not always agree with other measures of living standards, especially for very low incomes
- Asked by Child Poverty Unit to investigate 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



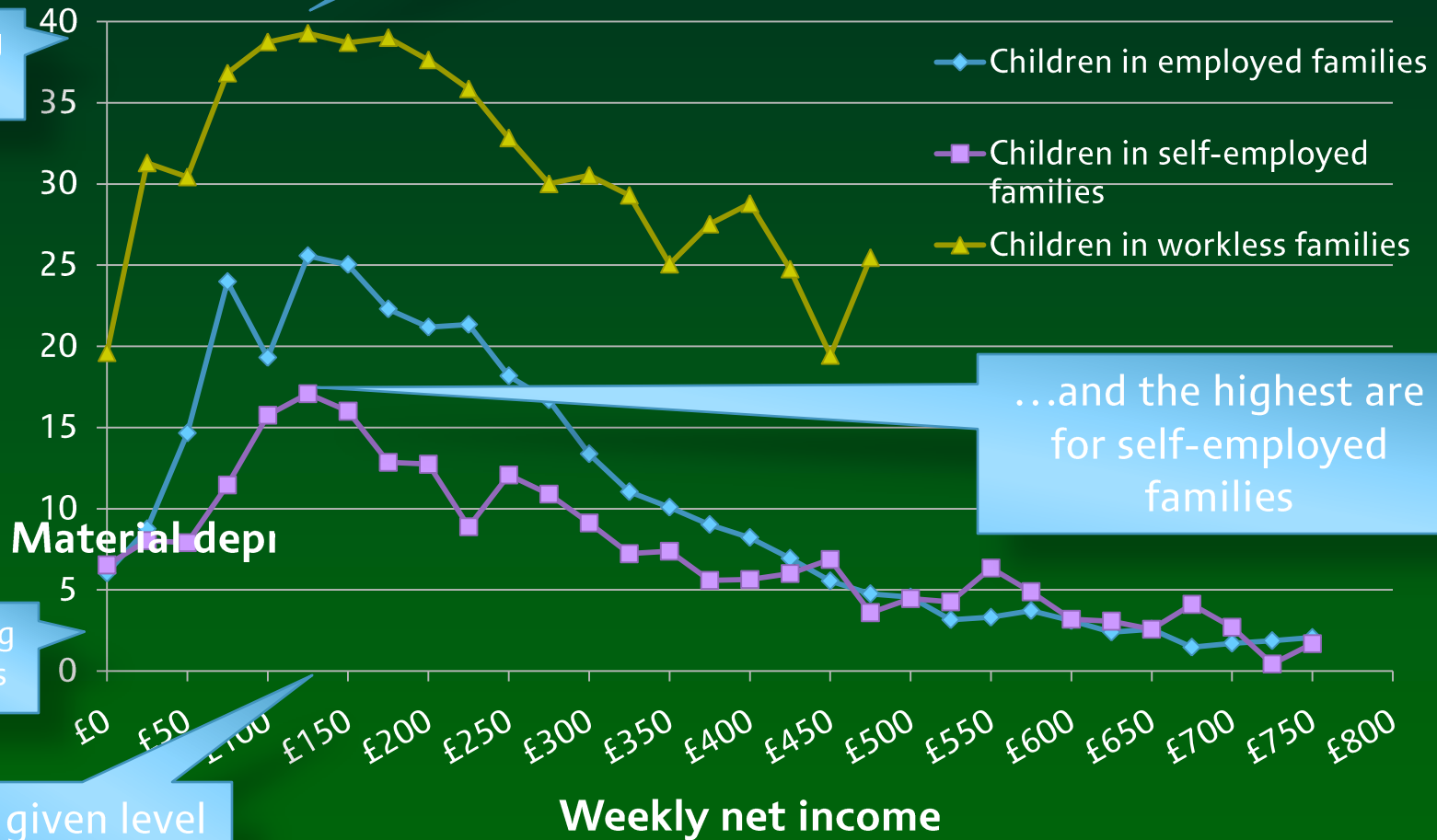
# Main findings (1)



# Main findings (2)

...the lowest living standards are for workless families...

Low living standards



...and the highest are for self-employed families

High living standards

For a given level of income...

# 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
  - Some are associated with low reported income but not low living standards
  - Some are associated with low living standards but high reported income

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

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

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





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