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Measuring poverty:
seven key issues

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Measuring poverty: seven key issues

The government is committed to the eradication of child poverty and to the reduction of pensioner poverty. It undertook its own review of (child) poverty measures in 2003.[1] But recent research raises questions about the definition, and measurement, of poverty.

This briefing has been written as background for a conference, on March 7 2008, organised as part of the ESRC's Festival of Social Science. But is also designed to be read, and discussed, by people who will not have taken part in the day.

The conference and briefing aim to promote an exchange of views and discussion of priorities between academics, policy makers, pressure groups, policy commentators and journalists.

The seven issues (and the experts commenting on them) are:

1. Non cash incomes *Holly Sutherland and Francesca Zantomio*
   Should we consider there is less poverty if we took account of the value of goods and services such as owner occupation, or schools and health care?

2. Longer-term perspectives *Noel Smith and Sue Middleton*
   Should we focus on persistent, rather than temporary poverty?

3. Budget standards *Donald Hirsch*
   How can a 'minimum standard of living' be established?

4. Comparisons over place and time *Ray Pahl and Richard Berthoud*
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5. Expenditure *Andrew Leicester, Mike Brewer and Alissa Goodman*
   Is expenditure a better measure of living standards than income?
   Recent research shows very different trends, according to the measure used.

6. Distribution within the household *Fran Bennett*
   Households vary in the extent to which resources are shared, but it is difficult to measure this quantitatively.

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   How do indices of material deprivation work? What interpretation should be put on the situation of households with low incomes who are not deprived – and vice versa?

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Non cash incomes

Holly Sutherland and Francesca Zantomio

Should we consider there is less poverty if we took account of the value of goods and services such as owner occupation, or schools and health care?

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Taking account of the value of housing lowers the risk of poverty for older households

The measurement of relative poverty is conventionally based on cash income. But standards of living are also affected by the availability of other resources. These might include the consumption value of assets such as owner-occupied housing, or publicly-provided services such as education, health care and social housing (often called the 'social wage') which people would otherwise have to pay for out of income. Should such non-cash incomes be included in the measures of resources used to assess poverty rates?

The value of housing

In the UK we use two estimates of income for poverty measurement: before housing costs (BHC) and after housing costs (AHC). The AHC measure is designed to take account of the fact that the monthly cost (rents and mortgages) of essentially the same housing varies widely between areas, between owners and tenants, by age group (older owner-occupiers have much lower costs than younger ones) and over time, leaving families with the same income, and the same quality of housing, very different amounts to spend on day to day living. On the other hand this approach effectively delivers free accommodation to everyone, and ignores the fact that the housing itself is an important and variable component of living standards. An alternative measure could include the consumption value of the home, based on the rent the household would have to pay if the accommodation were neither subsidised nor owner occupied ('net imputed rent').

This measure increases the relative income of owner occupiers and those in subsidised rental housing and therefore lowers the risk of poverty for the groups most likely to be in these housing situations. This applies particularly to older households – their poverty risk falls to 10% (compared with 23% on the standard BHC measure) irrespective of their tenure type.

In contrast, the overall poverty picture for families with children is hardly affected – because such families typically pay rent or mortgage contributions quite close to the underlying value of their home.

While including housing income in poverty measures has conceptual attractions, there are some practical and presentational issues to consider. Estimates of imputed rent are based on econometric analysis of rents paid in the private market. These estimates are rather uncertain because this housing sector is small and rather specialised in the UK, and it is not clear how far they reflect variations in housing quality and maintenance costs. Second, it is difficult to decide whether to take account of, or ignore, the huge variations in rents across regions: do residents of London really obtain twice as much value from their accommodation as residents of Scotland? Third, should key social indicators be based on complex estimation techniques that may not be robust over time? These practical issues could be the subject of further research.

The social wage

The social wage aims to capture the difference in standards of living between two households on the same level of cash income, one receiving free health care and other basic services, and the other having to pay for them directly. This type of comparison is particularly important in an international perspective: a country with a relatively generous social wage may be entitled to a better position in the international poverty rankings than that depicted by official statistics based on cash measures. But even within countries, it could be argued that the 60% of median measure should be based on the distribution of all resources, including free goods and services.

Moreover, it is children who mainly benefit from publicly-funded education, and elderly people from public health care. So the relative risks of poverty among these two key target groups would fall if education and health spending were included in household resources.

Analysis demonstrates this. If the cost of providing schooling is attributed to families by age of child, the number of people in relative poverty in the UK falls. Not surprisingly families with children appear less at risk. The same is broadly true of other European countries.

A country with a relatively generous social wage may be entitled to a better position in the international poverty rankings than that depicted by official statistics based on cash measures

On the other hand, simply adding in non-cash resources might be misleading. In particular for health, and to a lesser extent for education, consumption of these services simply reflects particular need. At one extreme, adding the cost of health services used would make the sick seem rich. Even an insurance premium approach, allocating spending to households more likely to use the service (by age) does not avoid the issue, and it might be appropriate to adjust equivalence scales (by age) to take account of these variations in need. The availability of a service is not the same as direct spending power. Nevertheless including estimates of the social wage may be the appropriate approach when comparing Europe with the US, or with developing countries with limited tax-funded health and education services.

Further reading

K. Mullan, H. Sutherland and F. Zantomio (2007) ‘The distributional impact of imputed rents in the United Kingdom’, available at:
http://www.iser.essex.ac.uk/msu/emod/aim-ap/deliverables/AIM-AP1.1f.pdf

H. Sutherland and F. Zantomio (2007) ‘The distributional impact of public education expenditure in the United Kingdom’ , available at
http://www.iser.essex.ac.uk/msu/emod/aim-ap/deliverables/AIM-AP1.2f.pdf

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Longer-term perspectives

Noel Smith and Sue Middleton

Should we focus on persistent, rather than temporary poverty?

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Temporary periods of low income do not seem to have a significant impact on material deprivation

When low income is used in poverty measurements it is interpreted to mean that some people cannot afford essential material possessions or the means for social inclusion. Having a low income at any particular time is not in itself a problem: the issue is when having a low income impacts on quality of life and opportunities.

Low income alone would be a justifiable proxy for poverty if the circumstances of low income households were stable – that is, if most remained on a low income long enough for it to have a significant impact on their lives. Indeed, this assumption is implicit in the UK's official poverty measure: all households with incomes below the threshold (60 per cent of equivalised median income) at one point in time are counted as being 'poor', irrespective of how long they have been in that situation.

However, the circumstances of low income households are not stable. Poverty dynamics research, by tracing the same households over time, shows that experiences of income poverty vary widely and that household incomes fluctuate.

For some households – the *temporary* poor – income poverty represents a one-off 'blip' beneath the income threshold. Of all those who experienced any episode of income poverty over a nine year period, about 30 per cent fell below the income threshold in only one year.[2] As temporary periods of low income do not seem to have a significant impact on material deprivation[3] it could be argued that they do not signify experiences of 'poverty'. It is likely that short-term transitions into and out of low income are helped by existing support structures – Jobcentre Plus and the benefits system, for example. But, to a large extent, it is likely that they are the result of 'natural movement' – actions taken by individuals without state intervention. (Alternatively, it has been suggested that some of the survey households who appear below the poverty line only once may reflect under-reporting in the data rather than a true episode of low income.)

> There is strong case for targeting policies at those in persistent income poverty

Other households have variable experiences of low income. Over half of those with some experience of income poverty between 1991 and 1999 had experienced *recurrent* poverty, bouncing above and below the threshold from year to year. Recurrent poverty reflects the fact that income mobility tends to be over a short range: households' incomes increase only enough to lift them just above the threshold, where they remain at risk of falling back into low income again. The poverty experience of these households is unclear. Just as 'blips' below the income threshold do not have a lasting impact on material circumstances, it is unlikely that a temporary escape from low income will do much to help materially deprived households.

The circumstances of households experiencing *persistent* poverty are clearer. Persistent poverty means being on a low income consistently for a number of years. Between 1991 and 1999, eight per cent of the population lived on a low income continuously for between seven and nine years.[4] Persistent income poverty is associated with a particularly entrenched experience of material deprivation, one which does not improve without long periods above the low income threshold.

An important contribution to our theme of *Measuring Poverty* is that the overall poverty rate would be lower if short-term episodes were not counted. For example the DWP's annual HBAI statistics report that 10 per cent of the population were below the conventional threshold in three of the four years 2001-2004, compared with an annual average rate over that period of 16 per cent.[5]

In principle, there is a strong case for targeting anti-poverty policies at those with experience of long-term low income, particularly those in persistent income poverty. Putting this into practice is more problematic. Poverty dynamics research suggests that, rather than distinct risk factors being associated with shorter- or longer-term poverty, a sliding scale of persistence results from an accumulation and intensity of risk factors. This means that it is difficult to target key groups for intervention when the groups most at risk of persistent poverty are the same as those at risk of poverty generally (children, lone parents, older people, workless households, and disabled people and people in ill health). Similarly, it is difficult to propose fresh initiatives to address longer-term poverty when we know that the same things trigger poverty exit for the persistent poor as for the poor generally (particularly employment).

To make progress we need to develop a deeper understanding of the processes involved in movements into and out of low income. Poverty dynamics research highlights groups with the greatest probability of persistent poverty, but it does not explain why some of those at greatest risk nevertheless avoid or escape poverty altogether. Better understanding of this would be important to help design a more effective, targeted response to tackling substantive poverty.

Further reading

N. Smith and S. Middleton (2007), *A Review of Poverty Dynamics Research in the UK*, Joseph Rowntree Foundation http://www.jrf.org.uk/bookshop/eBooks/2040-poverty-dynamics-review.pdf

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3 Budget standards

Donald Hirsch

How can a ‘minumum standard of living’ be established?

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We have so far failed to build public consensus about where the poverty line lies

The measurement of poverty was of largely academic concern when politicians had no commitment to do anything about it. Now that they do have a commitment, measurement matters much more.

In 1999, a prime minister made a rash promise to abolish child poverty in two decades. To everyone’s surprise, nearly halfway into that far-off target, the objective remains prominent, even though progress is behind schedule. Yet in the intervening years we have so far failed to build public consensus about where the poverty line lies and why it is intolerable that millions live below a defined threshold of low income.

This summer, the Joseph Rowntree Foundation will publish a minimum income standard for Britain. It will be based on budgets drawn up by members of the public, informed by experts, aiming to list the goods and services needed for a minimum acceptable standard of living in contemporary society. This is the product of collaboration between the University of Loughborough using its ‘consensual’ budget standards method[6] and the Family Budget Unit at the University of York which draws on the judgements of experts.[7] Panels of members of the public in each household category took the main responsibility for drawing up, revising and validating the budgets, but were guided by the feedback of experts who considered the ability of budgets to meet requirements such as nutrition, and compared them to actual spending patterns.

The items identified by the panels went beyond ‘physical basics’ like food and shelter, with the minimum defined to include sufficient resources to participate in society and to maintain human dignity. But it was not ‘aspirational’: it addressed *needs*, not *wants*. The list of items drawn up for each household were those that the panels thought they should be able to afford, in order to permit an adequate living standard. But this did not imply that everyone would choose to deploy a minimum income in the same way – the notion of a minimum income allows for choice about different ways of reaching such a standard.

How will this minimum income standard help? First and foremost it is a benchmark. It is not designed to replace the existing poverty line, and is unlikely to cause an immediate rise in social security benefits. But it will allow us to see how these relate to an income allowing people to reach an acceptable standard of living. If for example this required 65% of median income for a given household, we could say that people below 60% of median income, the government's preferred measure, have to go without a significant number of things that members of the public think that everybody should be able to afford. If on the other hand it was 55%, we may question whether everyone hitherto defined as in poverty actually suffers hardship.

> Do families accept that things will be tougher during periods of life when there is a high ratio of dependents to earners?

The percentage will in fact vary for different kinds of household. This is because our present way of measuring poverty is arbitrary, not just in the percentage of median income used but also in the weighting it gives to the needs of families of different composition – 'equivalisation' in the jargon. The minimum income standard has no such arbitrariness, since members of each household type drew up lists of their needs separately, in line with their own conception of the norm for their type.

So an important thing that the results will tell us is whether we have been making fair assumptions about how much more, say, a family with two adults and two children needs than a single pensioner to get above a poverty threshold. The researchers chose to make people in each household type the judge of what is adequate, making decisions independently of other household types, since they understand best the needs of that household. Of course, this allows for some groups (e.g. pensioners) being modest about their own needs, but since hardship and inability to participate are highly linked to the norms of one's own 'group', it was considered the best solution. (With the protection that the experts could challenge a budget if, for example, it did not provide proper nutrition for the family members.)

The issue of the relative needs of different groups raises some crucial questions not just about the technicalities of measurement but also about how we think about poverty and income adequacy. An odd feature of the way we presently measure poverty is that even though it is about being substantially below the norm, poverty *is* the norm among families with some structures. A family with four or more children has about a 50:50 chance of having an income below 60% of the median.

Might this kind of family judge income norms partly in relation to other families like them? Or do they think in terms of a minimum living standard constant for all family types, with larger families needing proportionate adjustments to meet it? Poverty measurement assumes the latter. But don't most families accept that things will be tougher during periods of life when there is a high ratio of dependents to earners? Our definition of who is poor depends crucially on the answer to these questions. The minimum income standards research will help us answer them.

Further reading

The final report on minimum income standards will be published on 1 July, when it will be available on the Joseph Rowntree Foundation website, www.jrf.org.uk

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Comparisons over place and time

Ray Pahl and Richard Berthoud

Who do families compare their position with?

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There is increasing interest in the possibility that the distribution of income across the whole EU should be the base for establishing the poverty benchmark

The concept of relative poverty holds that people are poor if their resources are so limited that they are unable to participate in the basic living standards and activities which are considered normal in the society in which they live.[8] The doctrine rightly locates the 'society' and its 'norms' in the here and now, so that the facts that living standards are much lower in many other countries, and used to be much lower in previous centuries, are discounted. Poverty is 'relative' not 'absolute'.

This contribution nevertheless asks whether the society whose norms we adopt should not be thought of as rather wider in space and in time than the United Kingdom in 2008. How do we identify basic living standards and activities, the lack of which spells poverty? What are the normative processes by which the public derives its perception of a necessity? Those processes might be studied using Runciman's approach to relative deprivation[9] – asking what social groups people tend to compare themselves with. His own study suggested that individuals tended to compare themselves with others only a few rungs above or below themselves on the social ladder, and that people were much more conscious of the position of others in the same 'walk of life' than of the rich and famous. Indeed our own preliminary research seeking to replicate that approach has, similarly, suggested that people feel more deprived in relation to their neighbour's Mondeo than to David Beckham's Ferrari.

Our argument is that although variations in living standards over space and time need to be *discounted*, they cannot be *ignored altogether*. It would not be appropriate for a poverty benchmark to be set at the same absolute value in Britain and in Kenya – but how many of us would be willing to stand in the slums of Nairobi and claim that a sixth of the British population suffers poverty? Closer to home, the widening range of the European Union has sociological as well as political implications – the people of Poland are certainly aware of the much higher levels of prosperity available in Britain, even if we may not be so conscious of their situation. There is increasing interest in the possibility that the distribution of income across the whole EU, rather than (or perhaps as well as) the member state, should be the base for establishing the poverty benchmark.[10]

But the main issue we want to raise is the construction of social norms – and therefore of poverty standards – over time. No-one is suggesting that the standards of living common in 1776 (Smith), 1899 (Rowntree), 1943 (Beveridge) or even 1969 (Townsend) provide an appropriate benchmark for measuring poverty in 2008.[11] All these thinkers acknowledged (not always explicitly) that consumption should be judged in relation to the standards of the day. But it would be absurd to suggest that the doubling (or halving) of every household's income over a ten year period would have no effect on the prevalence of poverty.

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We argue that social norms are formed over time, and adapt only gradually to changes in prosperity. People's memories of their families of origin help to shape their perceptions of current inequalities. So, in our recent pilot study of relative deprivation, people were content if they thought their current position was satisfactory in relation to their childhood social experience and the social ladder which existed at some time in the past.[12]

This leads to the suggestion that poverty should be benchmarked, not against the current median income, nor against the median at some fixed point in the past, but against the median observed ten or twenty years ago – a 'lagged' poverty line. Such a measure would reduce the amount of poverty observed during periods of economic growth, make no difference to the poverty count when trends are flat, but increase poverty prevalence during times of economic decline. Surely this makes more sense than assuming an instantaneous adjustment of norms to changing circumstances.

A more complex point is that the historical 'benchmark-in-the-mind' may vary systematically between social groups, depending on their life experiences. The older you are, the earlier the period might be at which you fixed your normative expectation of living standards. This 'cohort effect' may explain the much lower levels of deprivation often reported by older people in Britain, in spite of their relatively low levels of income.[13] Pakistanis and Bangladeshis have strikingly lower household incomes than other ethnic groups in Britain,[14] but may still have a higher purchasing power than they or their parents experienced in their countries of origin. Similarly, recent migrants from Eastern Europe working long hours for low pay are assumed to be better off than they were before they came to Britain. (Note the interaction between 'place' and 'time' in these two latter examples.) Should the poverty benchmark ideally be defined in relation to each individual's personal experience, however difficult this might be in practice? Or is the concept of a social norm intrinsically collective, so that everyone's current circumstances have to be assessed in relation to the same standards?

Further reading

R. Pahl, D. Rose and L. Spencer, 'Inequality and quiescence: a continuing conundrum', ISER Working Paper 2007-22, University of Essex
http://www.iser.essex.ac.uk/pubs/workpaps/pdf/2007-22.pdf

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Expenditure

Andrew Leicester, Mike Brewer and Alissa Goodman

Is expenditure a better measure of living standards than income? Recent research shows very different trends, according to the measure used.

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Households at the very bottom of the income distribution spend much more than their means would appear to allow

Poverty analysis aims to reflect variation in living standards – but measuring people's standards of living is difficult. Income is often used – it is probably the first thing most people consider when thinking about how rich or poor they are, and survey data on incomes are readily available over a long time period. Moreover, it is much easier to think of tax and benefit provisions which adjust the distribution of income, than to devise policies which directly affect consumption.

But incomes can be very volatile both in the short-term (bonus pay, periods of temporary unemployment and so on) and in the longer-term (progress in pay, family-rearing, retirement). Do living standards vary so much over time? People can save when their incomes are high, and borrow when their incomes are low, smoothing their standard of living across fluctuations in cash income. This suggests *expenditure* as an alternative measure of longer-term living standards.[15] In addition, for some households, income as measured in surveys might not reflect true income very well – some components of the total may be poorly recorded. For these households, expenditure could provide a more robust indicator of their true living standards.

Like incomes, there are good, long-term measures of household expenditures that can readily be analysed to provide an alternative view of poverty. Expenditure surveys have been carried out annually since 1957 and provide data on the income and expenditure of thousands of households each year. Even a first look at the data suggests that the two may well provide quite different views on living standards: those at the very bottom of the income distribution spend much more than their means would appear to allow.

In the same way that someone is 'income poor' if they live in a household with less than 60% of the median income, we can define 'expenditure poor' as living in a household with less than 60% of the median expenditure. For some groups there are substantial differences between the incidence of income and expenditure poverty. The self-employed, for whom incomes are particularly hard to measure from year to year, have much lower spending poverty rates, as do those temporarily out of work and seeking employment. This suggests strongly that many of these types of households are able to maintain their living standard during temporary periods of low income. On the other hand, pensioner households are slightly less likely than other households to be income poor, but have much higher rates of spending poverty.

The falls in child and pensioner poverty which have been such striking trends over the Blair period are less clear in the expenditure analysis.

Looking over the whole of the last 30 years or so, expenditure poverty trends have been very different from the well-known rise and fall in income poverty. The steep increase in poverty over the Thatcher period was much less marked when measured by expenditure. And the falls in child and pensioner poverty which have been such striking trends over the Blair period are less clear in the expenditure analysis. This might suggest that while the government has had some success in reducing short-term income differences for pensioners and families with children, this has not (yet) fed through into longer-term inequalities.

This should not lead us to argue that expenditure is always to be preferred to income in measuring living standards. Expenditure may also be poorly recorded in surveys, in particular for things like alcohol and tobacco. Measures of current spending may not reflect the consumption value that households enjoy from durable goods purchased earlier. (I may not buy a TV during the period of the survey but I still benefit from the one I bought years ago. See also the discussion of the value of housing consumption in Holly Sutherland's paper.) It is probably consumption that we need to measure, as distinct from expenditure, but it is extremely difficult to do so accurately.

However, at the very least it seems extraordinary that expenditure is not considered amongst the many measures of well-being included in the DWP's *Opportunity for All* publication.[16] There is clear evidence that at least some of those right at the bottom of the measured income distribution are not really in poverty. Perhaps we should be most concerned about the very poorest as measured by expenditure. Careful analysis of expenditure provides, if nothing else, an informative chapter in the book of poverty analysis.

Further reading

M. Brewer, A. Goodman and A. Leicester (2006), *Household Spending in Britain: what can it teach us about poverty?*, The Policy Press
http://www.jrf.org.uk/bookshop/eBooks/9781861348555.pdf

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6 Distribution within the household

Fran Bennett

Households vary in the extent to which resources are shared, but it is difficult to measure this quantitatively.

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It is important to explore what is happening inside the 'black box' of the household if we want to know how poverty is experienced by individuals.

The usual measures of poverty take a family or household as the unit of measurement, even though they produce estimates of the number of individuals in poverty. This convention rests on certain assumptions. One is that income coming into the family/household is shared between its members in such a way that it results in equivalent living standards for all. This means that we assume everyone living in a poor household is equally likely to be poor, and that everyone in poverty lives in a household in poverty. It is based on a model often called the 'unitary household'.

But it is important to explore what is happening inside the 'black box' of the family/household if we want to know how poverty is experienced by individuals. (A 'family' is defined here as a benefit unit – i.e. an individual, or a nuclear family made up of a couple, with or without dependent children. A household can be wider than this.) This is relevant whether we measure poverty directly (via deprivation) or indirectly (via income), and whether we conceptualise non-poverty as the right to a minimum level of resources or having a minimum standard of living. It is also important for policy, because it recognises that families/households are themselves key sites for the (re)distribution of resources, including income and time.[17]

Resources are likely to be shared within a family (and, less certainly, within a broader household); but we cannot assume they are always shared fairly. Families adopt a range of pooling methods; and different resources (income, car, computer) may be shared differently.

In qualitative studies, parents in low-income families are often found to be trying to protect their children from poverty by sacrificing their own living standards.

(This is not universally the case, and in particular may not be true in cases of parental addiction.[18]) Some qualitative research[19] has found that parents in low-income families seemed to be sharing equally in deprivation. But other studies have found that income is not always shared equally in such families;[20] in some, mothers may put their children's (and partner's) needs above their own. It is also women who tend to spend more time converting income into the living standards enjoyed by the family.

Different kinds of income (e.g. wages, benefits), who brings it in, and how it is labelled (e.g. a benefit for children or for the 'jobseeker') may also affect how it is used. Personal spending can be defined differently for men and women resulting in differential spending. Unequal gender relationships may be subscribed to by both partners – just because they are agreed does not make them equal. And the ways couples manage money, especially who controls it, can affect patterns of spending.[21]

Unequal gender relationships may be subscribed to by both partners – just because they are agreed does not make them equal.

Some studies have experimented with assumptions about sharing of income, and shown what difference this makes. One estimated that if married couples shared housing costs and nothing else, 11 per cent of married men but 52 per cent of married women would be income poor.[22] This is obviously extreme. But it is difficult to find out about actual sharing within families, much less within wider households. Money management research can tell us how people handle their money, and decide what to do with it; but it is hard to deduce figures about income sharing.

Quantitative evidence on deprivation is scarcer than qualitative studies. But the Poverty and Social Exclusion Millennium Survey, for example,[23] found that in low-income households 27 per cent of female respondents said their partners lacked fewer items than they did. Women were more likely to say they went without clothes, shoes, food, heating, telephoning friends and family, and going out, whereas men were more likely to say they went without visits to the pub, having a hobby or taking a holiday.

How would we view poverty differently if this alternative perspective could be incorporated more effectively in poverty measures? We would have a more accurate picture of how many individuals live in poverty. We would be able to see whether there was 'hidden' poverty for individuals inside a family with an income above the poverty line. In a family below the poverty line, we could tell whether some individuals were not living in poverty, and whether some were in deeper poverty.

Policy-makers already sometimes operate on the basis of incomes affecting outcomes differently, depending on how they come into the family – e.g. income for children's needs may be given to the mother (or main carer), on the grounds that a pound given via the purse rather than the wallet is more likely to be spent on the children. But if we focused more on the individual rather than the family/household unit, we might look more positively on measures to improve individual incomes, even if those affected by them do not live in a poverty-stricken family or wider household.

Further reading

Millar, J. (2003), 'Gender, poverty and social exclusion', *Social Policy and Society* 2:3, 181-188

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7

Deprivation indicators

Richard Berthoud and Mark Bryan

How do indices of material deprivation work? What interpretation should be put on the situation of households with low incomes who are not deprived – and vice versa?

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It is a tall claim that deprivation indicators provide a more reliable measure than income – however 'scientific' the approach to their construction.

Indicators of material deprivation have swept the social policy world as a complement, or even as an alternative, to household income as the primary measure of living standards. These indicators are based on surveys which aim to establish how many people cannot afford such basic necessities as having friends round for a drink or a meal, or keeping their home up to a decent standard of decoration. People lacking these things are said to be 'in hardship', or 'poor'. The approach dates back at least to Peter Townsend's monumental study of Poverty in the United Kingdom, and reached its fullest development (so far) in the survey of Poverty and Social Exclusion in Britain, led by David Gordon. It has also been very influential in EU circles, though there has been less interest in the USA.[24]

These indicators make a major contribution to our understanding of living standards, and of poverty, within Britain and across countries. But we argue that this contribution has been undermined by analysts who have made stronger claims for their validity and role than these rather fragile survey questions can support.

On the empirical front, it has been suggested that deprivation scores are needed because income surveys provide an imperfect measure of resources. This is a paramount concern in many developing economies, where cash income is so irregular, and contributes to so small a proportion of total consumption, that deprivation indicators are the only reliable guide. But in developed economies, it is a tall claim that deprivation indicators provide a more reliable measure than income – however 'scientific' the approach to their construction.

The DWP is including a deprivation score among its proposed measures of progress towards the elimination of child poverty.[25] Welcome though this is, two comments on the scoring system likely to be used help to illustrate the technical problems:

- Limiting the score to items that survey respondents *say* they cannot afford is theoretically attractive, but in practice converts what was intended to be an objective measure into a subjective one – which seriously understates the extent of hardship experienced by elderly people.[26]
- The proposed scale will use an absolute measure of deprivation – that is, one which does not adjust automatically with changes in the overall distribution of scores. The findings in this area are perplexing. But they suggest that poverty measured as deprivation will disappear altogether in less than a decade – without any improvement in the rate of poverty measured as low income – unless the measure is re-expressed as a relative scale.

There are also important theoretical issues. Poverty occurs when lack of resources prevents people from participating fully in the normal life of their society. So does poverty consist of lack of resources (with non-participation its consequence)? Or does it consist of non-participation (with lack of resources its cause)? If, with Stein Ringen,[27] you favour the latter interpretation, then you will regard deprivation scores as a direct, and low income only an indirect, measure of poverty.

The crucial issue is how we interpret the finding that low income and deprivation do not always coincide, household by household. One reason for such inconsistencies is that the measures of income, and of deprivation, are unreliable: the correlation between them would be much greater if better measurement tools were available on both sides. Systematic inconsistencies between the two can nevertheless provide valuable evidence about the details of economic life at the margin: about families' ability to smooth their standards of living across periods of fluctuating income; about the availability of other resources besides income; about variations in need between different types of household, or in the cost of living between different parts of the country.

Systematic inconsistencies between low income and deprivation can provide valuable evidence about the details of economic life at the margin

When all these considerations have been taken into account, it will still be important to interpret the position of people who suffer significantly more material deprivation than a calculation of income in relation to needs would lead us to expect, and of others who are less deprived than expected. The debate enters more complex sociological and psychological territory at this stage, because much depends on personal preferences, and the efficiency with which resources are converted into living standards. The suggestion that a deprivation score should take priority over an income measure implies that an inefficient spender of a moderate income is of greater interest to policy than an efficient spender of a low income. How many participants in this debate would endorse that opinion?

In conclusion: deprivation scores make an enormous contribution to our understanding of poverty. But they are just indicators, and it is unhelpful to treat them too literally as direct measures of people's experience.

Further reading

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About ISER

The Institute for Social and Economic Research (ISER) specialises in the production and analysis of large and often complex datasets. It collects and uses longitudinal data – evidence that tracks changes in the lives of the same individuals over time – household and other panel studies, as well as diary studies, and cross-national and historical comparative materials.

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