

The living standards of families with children reporting low incomes

By Mike Brewer, Cormac O’Dea, Gillian Paull and Luke Sibieta

The Government has high-profile child poverty targets which are assessed using a measure of income, as recorded in the Household Below Average Income (HBAI) series. However, income is an imperfect measure of living standards. Previous analysis suggests that some children in households with low income do not have commensurately low living standards. This report aims to document the extent to which this is true, focusing on whether children in low-income households have different living standards depending on whether their parents are employed, self-employed, or workless.

There are several reasons why income as measured in the HBAI series may give a different impression from another survey-based measure of living standards:

- 1 The concept of ‘income’ that is intended to be captured by the household survey may be conceptually wrong or measured incorrectly.
- 2 The concept of ‘standard of living’ that is intended to be captured by the household survey may be conceptually wrong or measured incorrectly.
- 3 The income recorded in the HBAI series is simply a ‘snap-shot’ measure – reflecting actual, or in some cases ‘usual’, income around the time of the survey. Over an individual’s lifetime, income (correctly measured) and spending (correctly measured) must equal each other, but the fact that individuals can shift their resources over time mean that this need not be the case at any one part of an individual’s life-time.

However, ‘disposable income’ and ‘material living standards’ are fundamentally different concepts. Even if measured perfectly and over very long periods of time, they may give different impressions of which households are the poorest.

Data

Four large-scale household surveys are used in this report:

- Family Resources Survey (FRS);
- Family Expenditure Survey and the Expenditure and Food Survey (FES/EFS) (treated as a single survey);
- Families and Children Study (FACS);
- British Household Panel Survey (BHPS).

The use of four surveys provides three advantages:

- First, they allow the construction of a variety of different measures of living standards. By looking at many different measures, this report aims to build up as complete a picture as is possible of the living standards of low-income households with children.
- Second, each survey has advantages that the others do not have. Data from FRS is used to construct the HBAI series and thus is important in linking our results to those used to assess progress towards the Government’s child poverty targets. EFS has detailed expenditure data allowing us to analyse the spending of low-income households, and FACS and BHPS are longitudinal surveys (i.e. they follow the same households over time), allowing the examination of some of the dynamics associated with hardship.
- Finally, each survey acts as a check on the findings of the other so that it can be shown that the results presented in the report are not sensitive to any particular survey, nor are the general findings unique to any particular measure of hardship defined. The income distributions in each of the surveys are broadly similar, indicating that the results presented are broadly comparable across surveys.

Methodology

A number of measures of living standards were constructed from the four household surveys. These were as follows (the survey from which they were derived is listed in brackets):

- Spending (excluding that on housing and durable goods) (FES/EFS).
- Share of spending devoted to food (food's budget share) (FES/EFS).
- Level of financial assets (FRS).
- Material deprivation (as defined by the Government for one of its indicators of child poverty) (FRS).
- 'Daily living' deprivation (such as an inability to afford items of food, clothing, leisure) (FACS and BHPS, although the measures are different).
- Lack of, or inability to afford, consumer durables, such as personal computers, white goods or electronic items (FACS and BHPS, although the measures are different).
- Housing conditions (FACS and BHPS, although the measures are different)
- Problem debts (FACS)
- Degree of financial difficulties (FACS and BHPS, although the measures are different)

These measures differ in a number of different ways. Some are positively related to well-being (e.g. level of financial assets), whereas some are negatively related to well-being (e.g. the degree of financial difficulties). Some are continuous (for example, household spending) while some are discrete (i.e. a household is considered either to have problem debts or not to have them – there is no in-between). Finally, some are objective measures (e.g. household spending), while some relate to a respondent's subjective impression of their well-being (e.g. whether they are experiencing financial difficulties).

Findings

Do children from households with the lowest incomes have the lowest living standards?

The simplest form of analysis examines how living standards of households with children are related to income. This report confirms other findings that, without taking account of any other factors, children from households with the lowest incomes do not have the lowest average living standards. Instead, in general, average living standards first fall as income rises, and then rise, creating a 'U-shaped' profile between income and other measures of living standards. Equally, levels of deprivation rise then fall as income rises, creating a 'hump-shaped' profile.

To be precise, the roughly one per cent of children living in households with incomes below £50 a week have average living standards comparable to those with incomes of £250 to £500 a week. The lowest average living standards are to be found amongst children living in households with equivalised incomes of £100 to £200 a week, which represents about 11 per cent of all children, and corresponds to roughly 30 per cent to 50 per cent of median income. An example is shown in Figure S.1.

There is more variation in living standards within income bands for households with incomes less than £300 a week, showing that the poorest households contain high proportions of households who have living standards which are either well below or far above the average for their income level.

There is little difference in average hardship rates and living standards between children with household incomes below 50 per cent of median income and those with household income between 50 per cent and 60 per cent of median income.

Figure S.1 Distribution of material deprivation by £25 income bands, 2004-05 to 2006-07

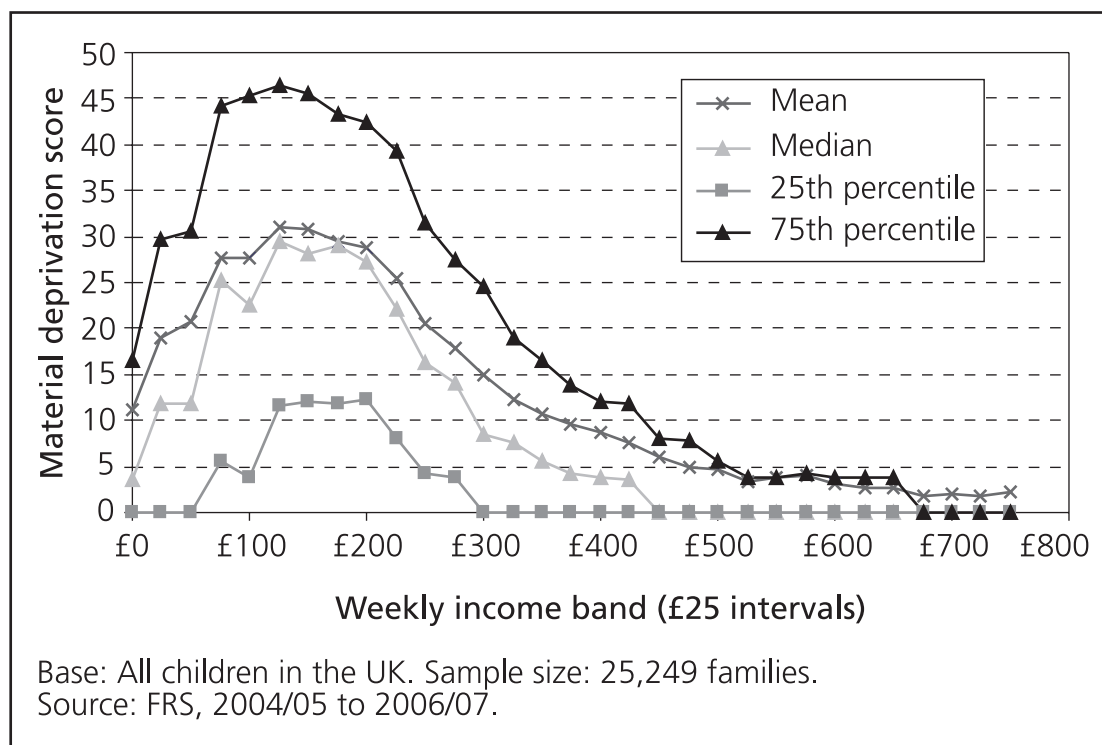
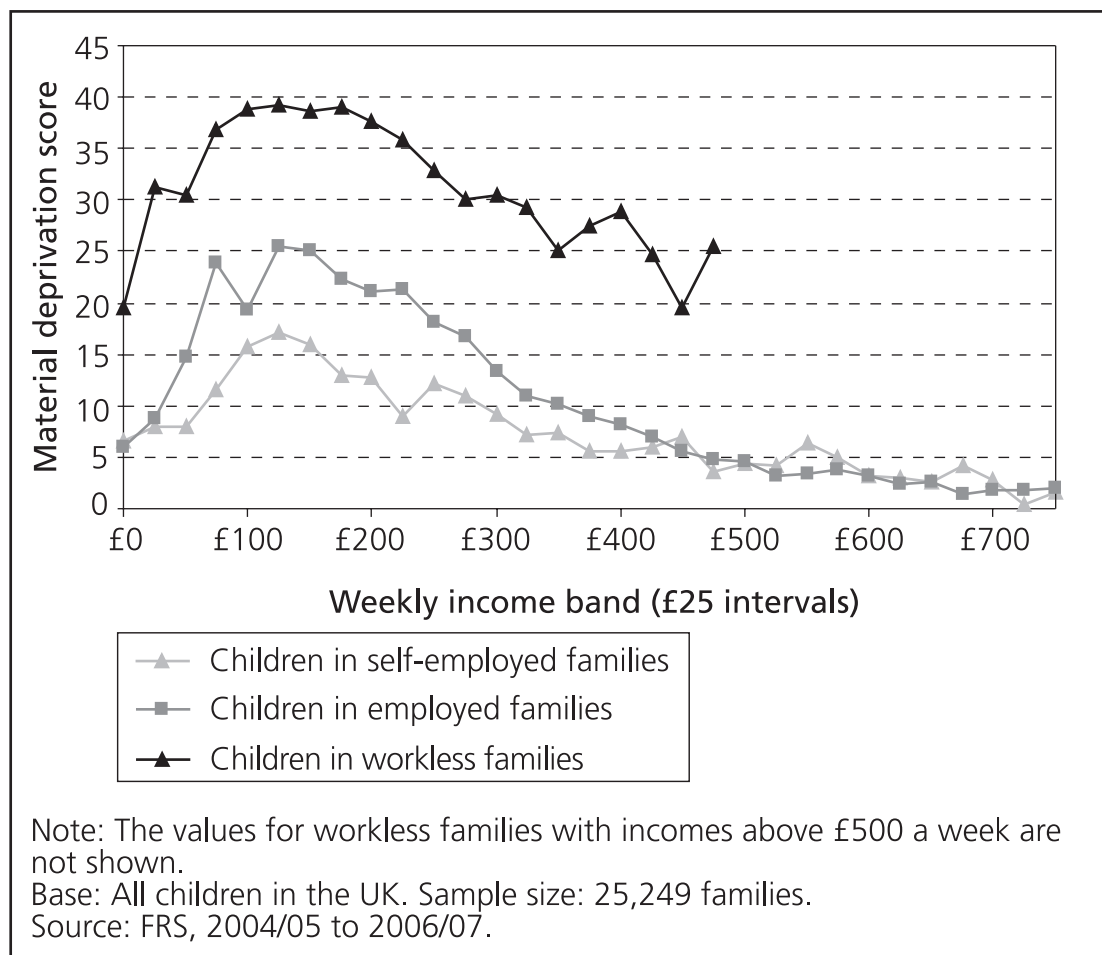


Figure S.2 Average level of material deprivation by £25 income bands and family work status, 2004-05 to 2006-07



Are living standards different for children in self-employed families from other families?

Among households with similar incomes, there are clear differences in living standards, on average, depending on the work status of the household.

In general, self-employed families with children have higher living standards than employed families with children with similar incomes, who in turn have higher living standards than workless families with children with similar incomes. An example is shown in Figure S.2.

This pattern is remarkably consistent across measures of living standards and the four datasets examined, although in some cases the gap between self-employed and employed families is small. The difference in the living standards between self-employed and employed families is usually greatest at the bottom of the income distribution: it is not evident, for example, for children in households with incomes of £400 a week or more.

It is also the case that, for all work types, families with the lowest incomes do not have the lowest living standards, on average.

The findings that self-employed families with children have higher living standards than employed families with children with similar incomes, and that, for all work types, families with the lowest incomes do not have the lowest living standards, on average, are both mostly true even after taking account of other characteristics of the household.

Dynamics of work, poverty and living standards

The proportion of children in any type of long-term hardship is greater than the proportion in long-term poverty (where long term is defined as three consecutive annual interviews). However, very few children are both in long-term poverty and in any type of long-term hardship.

Just under one in five children who are in poverty are experiencing transitory poverty (defined here as not being in poverty at the previous and future interviews). Poverty is slightly more transient for children in employed families than self-employed families, but is considerably less transient for children in workless families than children in families from either working group.

Daily living and consumer durables hardship exhibit a similar degree of transiency to poverty, but most other hardship measures are more transient than poverty. Hardship for children in workless families is considerably less transient than for the working groups. But, in contrast to the poverty picture, hardship is more transient for self-employed families than employed families for FACS hardship measures – although some of the BHPS measures suggest a much lower degree of transiency for the self-employed than the employed.

The proportion of children in hardship rises with poverty duration for most of the hardship measures, but not to a substantial degree: a considerable proportion of families remain out of any type of hardship even during prolonged periods of poverty.

The difference in the living standards of families with different work states can be seen in a dynamic analysis: for a given experience of poverty, those with time out of work are much more likely than those always in work to experience hardship, and those always in self-employment are less likely than those always in employment to experience hardship. And, even allowing for differences in poverty duration, the likelihood of hardship differs across the work groups for most of the hardship measures, suggesting that the differences between the work types are not all due to differences in the length of time in poverty across the work groups.

Which children are more likely to live in a household with a relative low income, and which children are more likely to live in a household with a low living standard?

As poverty and hardship give different impressions of who has the lowest living standards, it is vital to know whether these differences are systematic. In other words, are there characteristics which have opposite impacts on the risk of poverty and the risk of hardship? This would happen if a characteristic increases the risk of poverty but reduces the risk of hardship.

An analysis of the composition of children in poverty and hardship reveals that the following types of children are over-represented both amongst children in poverty and amongst children in hardship:

- children in a lone parent or workless or self-employed family;
- children from a large family;
- children from a family with young children;
- children from a family with poorly-educated parents;
- children from a non-white family.

The same is true when comparing children in hardship with all children. However, compared with children in poverty, children in hardship are more likely to come from:

- a lone parent family;
- a workless family;
- a large family;
- a family with young children.

An analysis of the characteristics which contribute to the risk of poverty and hardship, taking account of the impact of other household characteristics, reveals that the following characteristics increase the risk of poverty:

- being a couple family rather than a lone parent (conditional on work status);
- having more children in the family;
- having a youngest child aged over ten;
- having adults who are self-employed (rather than employed);
- having no working adults in the family;
- having one worker (rather than two);
- for couples; having parents with low levels of education;
- being from a non-white ethnic group;
- not having a health problem.

Some of these characteristics are also associated with a higher risk of hardship:

- having no working adults in the family;
- having one worker rather than two for couples;
- having parents with low levels of education;
- being from a non-white ethnic group.

But other characteristics have opposite impacts on the risk of hardship and the risk of poverty:

- being a lone parent family, rather than a couple (conditional on work status);
- having three or more children;
- having a youngest child aged over ten;
- having adults who are self-employed (rather than employed);
- having a health problem.

For these characteristics, it matters whether policy seeks to target those on a low income or those with low living standards.

What might cause the differences between income and other measures of living standards for some types of households?

It should not be surprising that income and the other measures of living standards often give differing impressions of the relative position of a particular household; as 'disposable income' and 'material living standards' are fundamentally different concepts, so households with low disposable incomes need not be the same as those households with low material living standards, even if both were measured perfectly.

The report did not – and could not, given the limitations of household survey data – explore the reasons for the discrepancies between income and other measures of living standards. But the findings are consistent with the following possible explanations:

- The Modified OECD income equivalence scale, which is used to adjust the incomes of households of different sizes to enable direct comparisons, gives lone parents too low a weight relative to couples with children, and children aged ten or more too low a weight relative to younger children.
- The HBAI measure of disposable income does not value non-purchased resources through so-called home production (goods or services not obtained from the formal economy).
- The fact that the Modified OECD income equivalence scale takes no account of the additional costs incurred by households because of long-term health problems or disabilities.
- There is greater mis-measurement (in particular, under-recording) of income amongst the self-employed than other groups (although it must be stressed that it is not possible for studies such as this to determine whether income or another measure of living standard is actually being mis-measured).
- The measures of living standards that are analysed might be conceptually or practically flawed. The report cannot provide evidence that this is not the case, but it has shown that the pattern of findings are reasonably robust across a range of different measures of living standards.

- The income that is recorded in a single cross-section of a household survey may be a poor reflection of income assessed over a long period. Although income (correctly measured) over an individual's lifecycle has to be equal to spending (correctly measured) over their lifecycle, the fact that individuals can shift resources over time mean that this may not be the case at any given point in time. This report has shown that the risk of hardship rises with the duration of poverty, but this does not explain away the mismatch between income and living standards, nor does it fully account for the differences in average living standards between families of different work statuses.

The report has also shown that, of all children in poverty in a given year, children in employed families are less likely to be experiencing persistent poverty than children in self-employed families. This suggests that recent volatility in the rate of poverty for children from self-employed families does not reflect volatility at the level of individual families, but instead reflects the sort of volatility that would be expected given that the rate of poverty for children from self-employed families is based on a relatively small sample of households in the underlying FRS (children from self-employed families are less than a fifth of all children). And it means that the difference in the average living standard of children from employed or self-employed families cannot be ascribed to a higher volatility of income amongst the latter group.

Recommendations for future policy and research

The relatively high living standards enjoyed by those with the very lowest incomes (i.e. £0 to £50 a week) means that there is very little sense in monitoring trends in the number of children in such households, or in assuming that the characteristics of such children are informative about the children who have the lowest living standards.

However, looking at a larger group of children at the bottom of the income distribution need not solve this problem. Although the lowest living standards are to be found amongst households

with children with incomes between £100 and £200 a week, or roughly 30 to 50 per cent of median income, the high living standards of the poorest one per cent of children mean that there is little difference in the average hardship rates or living standards between children with household incomes below 50 per cent of median income and those with household income between 50 per cent and 60 per cent of median income.

One solution to this would be to exclude all households with children who report a very low income (such as below £50 a week or below £100 a week). This would remove households for whom income and other measures of living standards are very weakly related. But it would also remove some households who genuinely have a very low income and very low level living standards. It is also unclear how to interpret changes over time in a measure such as 'children with incomes less than 60 per cent median but over £50 a week', and beyond the scope of this study to discuss the political acceptability of a measure of child poverty which excludes – albeit for well-founded statistical reasons – those households with children reporting the lowest incomes of all.

A more attractive alternative would be to use those households who had both a low income and a low living standard to identify the number and characteristics of those children who are the worst off in society, like one of the measures of child poverty currently tracked by the Government. On a practical note, it would aid understanding if the Government reported separately the number of children in relative low income and with a material deprivation score exceeding 25, so the extent of the overlap and how it changes over time can easily be seen.

While the research presented in this report was being undertaken, the Government proposed how it would measure progress towards eradication of child poverty (Child Poverty Unit, 2009). This research was not about identifying an appropriate measure of child poverty, but the results in this report may help inform the debate about whether it is sensible or feasible to seek to lower a relative income measure of child poverty to very low levels.

If there is a strong desire to continue to use income-based measures of child poverty, then it would be sensible to review the use of the Modified OECD equivalence scale. It would also be helpful to understand why some families with children who appear to have a very low income manage to avoid hardship, perhaps by commissioning qualitative research to follow-up particular families in FRS or FACS. Wealth is poorly measured in most household surveys, and it would therefore be very useful to use the forthcoming Wealth and Assets Survey to explore whether the living standards of those with apparently low income are being maintained through high levels of wealth.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 564 4. Research Report 577. May 2009).

You can download the full report free from: www.dwp.gov.uk/asd/asd5/rrs-index.asp

Other report summaries in the research series are also available from the website above and from:

Paul Noakes,
Commercial Support and Knowledge
Management Team,
3rd Floor, Caxton House,
Tothill Street, London SW1H 9NA.
E-mail: Paul.Noakes@dwp.gsi.gov.uk

If you would like to subscribe to our email list to receive future summaries and alerts as reports are published please contact Paul Noakes at the address above.

