



# **Expenditure-based poverty in the UK: A distributional analysis, 2002 to 2015**

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# Contents

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- Background and rationale for research
- Data and methods
- Overlap of income and expenditure poverty
- Impact of income and expenditure on well-being
- Conclusions

# Background – Why consider expenditure alongside income?

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## Income

- Good proxy for resources available to consume or save
- (Relatively) easy to influence through government policy particularly tax and benefits system

## Spending/expenditures

- Through **consumption** of goods and services that individuals satisfy their needs and wants over time
- Consumption less volatile than income over time.
- Better measured at the bottom of the distribution.
- More accurately reported than income (less sensitive)

## Background – Why consider expenditure alongside income?

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However,

- Data we use measures expenditure, not consumption
- Expenditure poverty may be exaggerated for households owning valuable assets and those dissaving
- Non-response and measurement errors for certain items (alcohol, tobacco, gambling)

# Methods – I

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## **Source:** Living Costs and Food Survey (LCFS)

- Cross-sectional
- Two-week personal diary, all individuals aged 16 and over
- Collects income, expenditure, and well-being — only official source to collect details on all

## Methods - II

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### Definitions :

Income= disposable income after housing costs

Expenditure = total consumption expenditures after housing costs

Equivalence scale = OECD-modified

“companion” scale (flatter scale to reflect non-housing consumption)

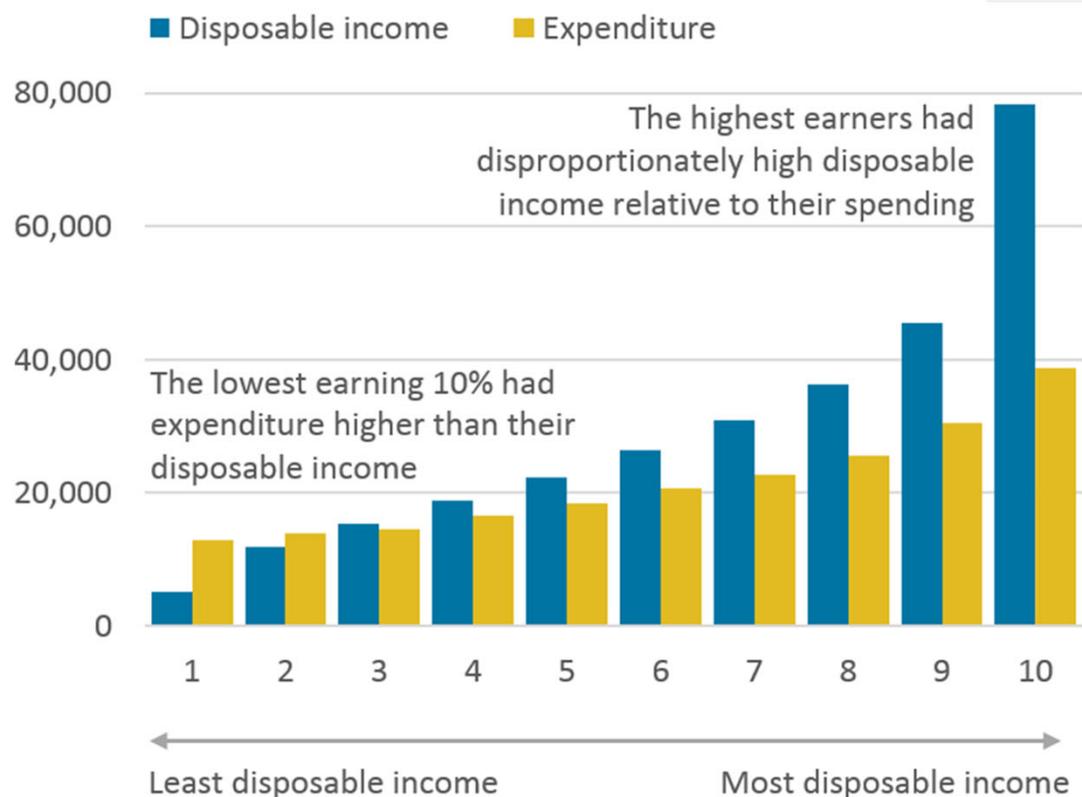
## Methods - III

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### Measures:

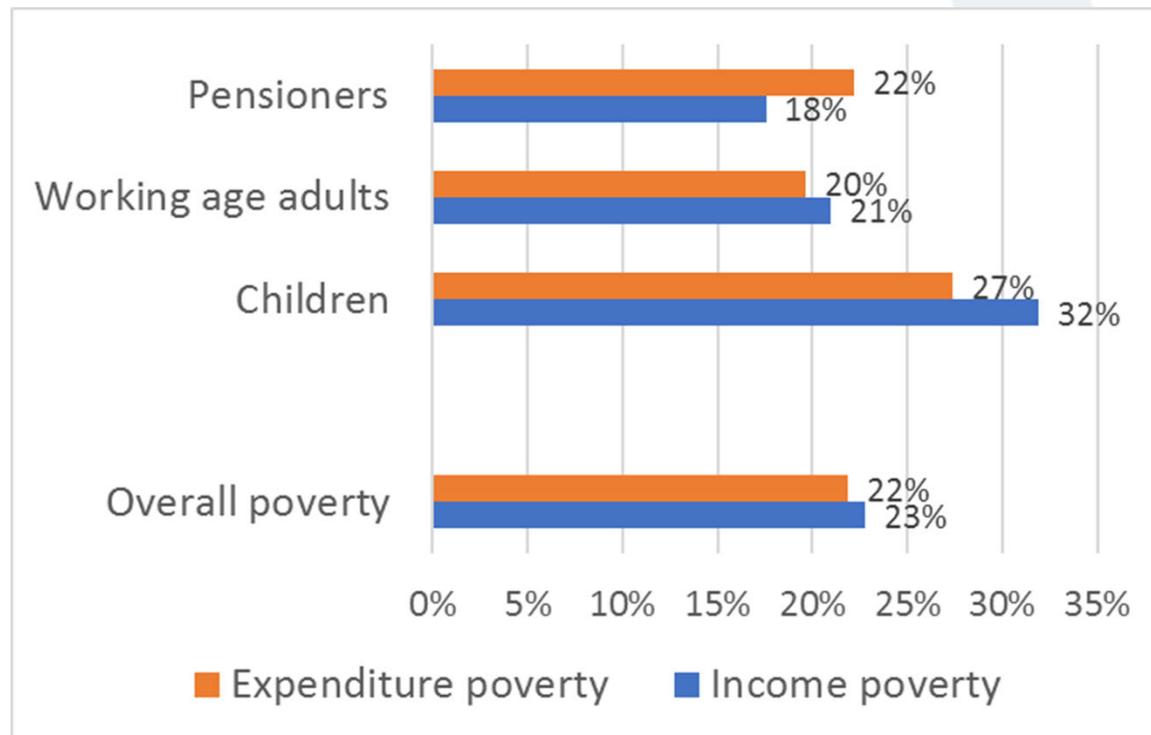
- Poverty: relative – below 60% national median income/expenditure
- Life Satisfaction (2016/17 only; 7500 responses)
- “Overall, how satisfied are you with your life nowadays?” (0-10)

# Results – Income vs expenditure distribution



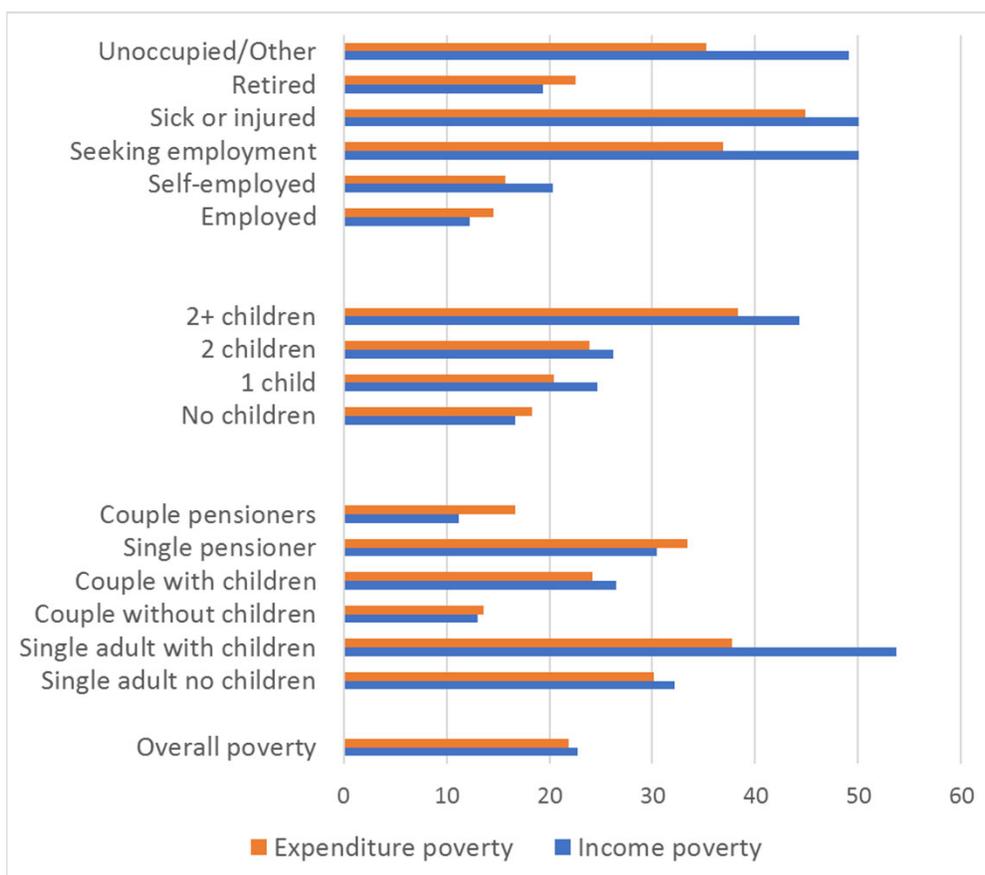
- Households in the bottom income decile spent, on average, around £12,700 in 2016/17 while their average income was only about £5,000. Possible reasons include:
  - Underreporting income.
  - Temporary low income

# Income and expenditure poverty rates



- Overall, income poverty slightly higher than expenditure poverty.
- Pensioners only group where expenditure poverty > income poverty. Possibly due to:
  - Heightened fear of unexpected injury/illness
  - Desire to maintain wealth levels to provide inheritance to relatives

# Poverty breakdown by household composition



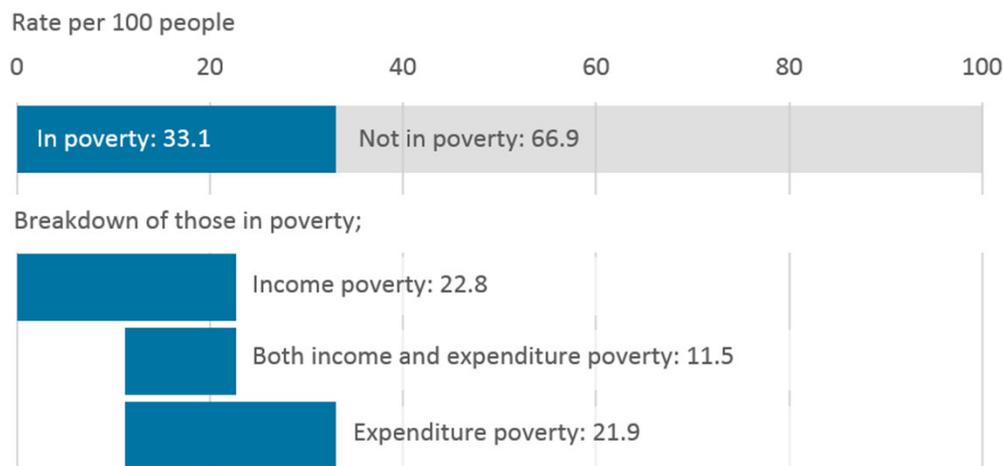
- Largest gap between income and expenditure poverty was observed for the Unoccupied/Other group (e.g. stay-at-home parents, students, etc).
  - May have volatile income flows but are able to smooth out consumption.
- Lone parents had highest income poverty rates among all groups at 53.7%.
- Couples without children and pensioner couples had a relatively lower income poverty rates of 13% and 11.2%, respectively.

# Overlap between income and expenditure poverty

People in income and expenditure poverty have a lower income than those in income or expenditure poverty separately.

**Table 1. Median income and expenditure for different population groups, 2016/17**

<i>£ per year</i>	<u>Income poor</u>	<u>Expenditure poor</u>	<u>Income &amp; Expenditure poor</u>	<u>Not poor</u>
Median income	11,257	20,593	9,820	30,289
Median expenditure	15,829	8,590	7,377	21,508

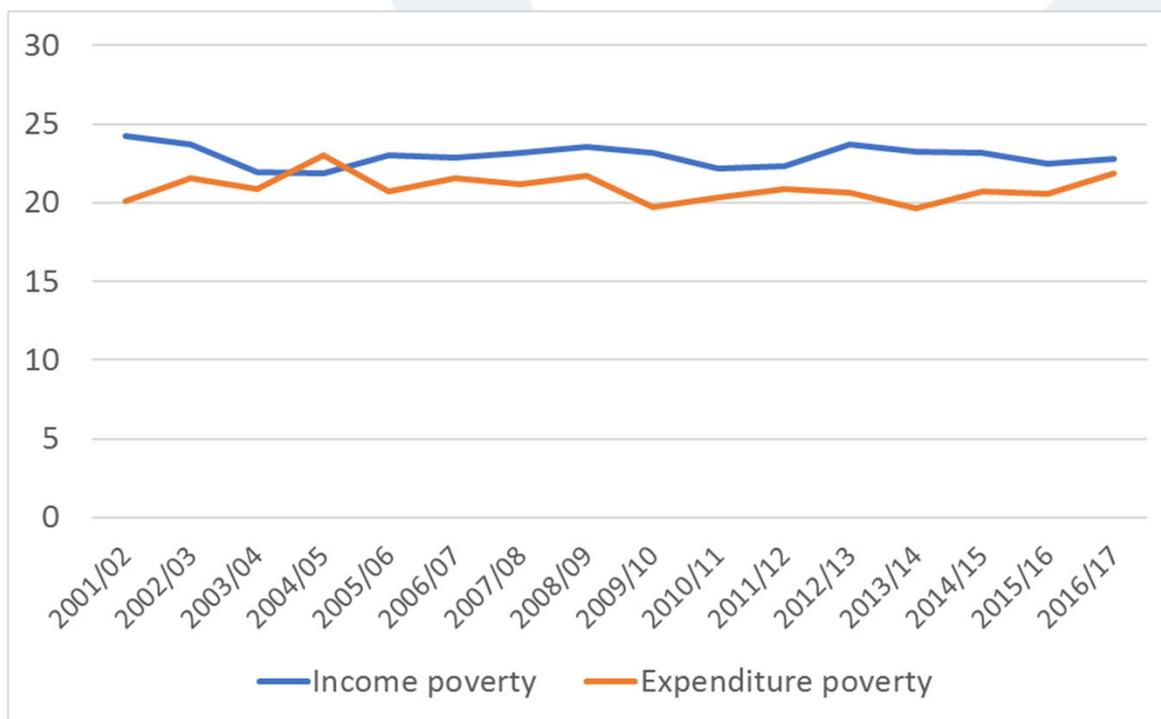


Of the 14.9 million people who were in income poverty, 50% were also in expenditure poverty.

Of the 14.3 million people in expenditure poverty, 47% were also considered to be in income poverty.

## Time series of income and expenditure poverty

- Overall, both measures of poverty quite similar, with income based poverty rates slightly exceeding expenditure based poverty rates in most years.
- However, for both measures the levels of year-on-year change have been very modest over this period, with levels of both income and expenditure poverty broadly unchanged over the last 15 years.



# Well-being regression results

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- Performed OLS regression of life satisfaction scores on expenditures, income, poverty status, sociodemographic controls
- Provide evidence that expenditure is a stronger predictor of overall life satisfaction than income
  - Doubling of income vs expenditure associated with 0.05 vs 0.18 points higher average life satisfaction score on scale of 0 to 10.
- Relative income and expenditure poverty are associated with overall life satisfaction, but expenditure poverty is more strongly associated with lower levels of overall life satisfaction than income poverty.

# Conclusions

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- Examining income and expenditures together provides useful insights into changing living standards.
- Income poor are necessarily expenditure poor, and vice versa
- 11.5% of population of UK individuals were both income and expenditure poor
- Expenditures and expenditure poverty better predictor of overall life satisfaction than income

# Thank you for listening

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