



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

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Background – Why consider expenditure alongside income?

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?

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

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

Definitions :

Income= disposable income after housing costs

Expenditure = total consumption expenditures after housing costs

Equivalence scale = OECD-modified

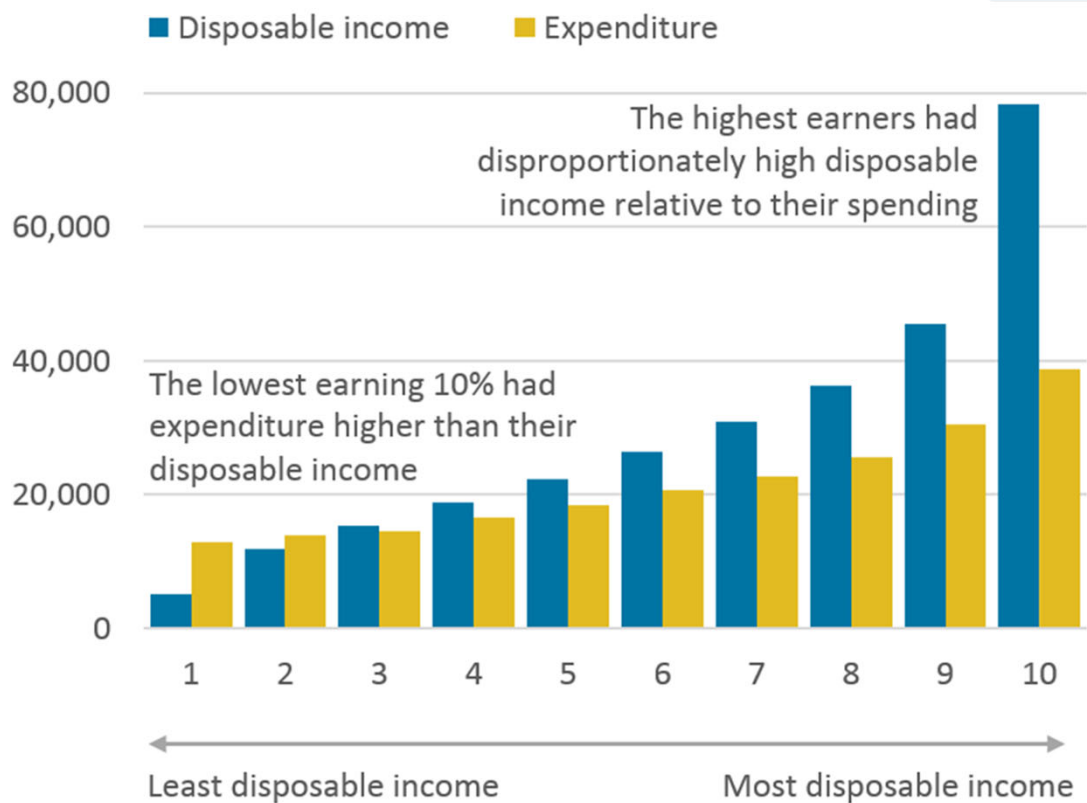
“companion” scale (flatter scale to reflect non-housing consumption)

Methods - III

Measures:

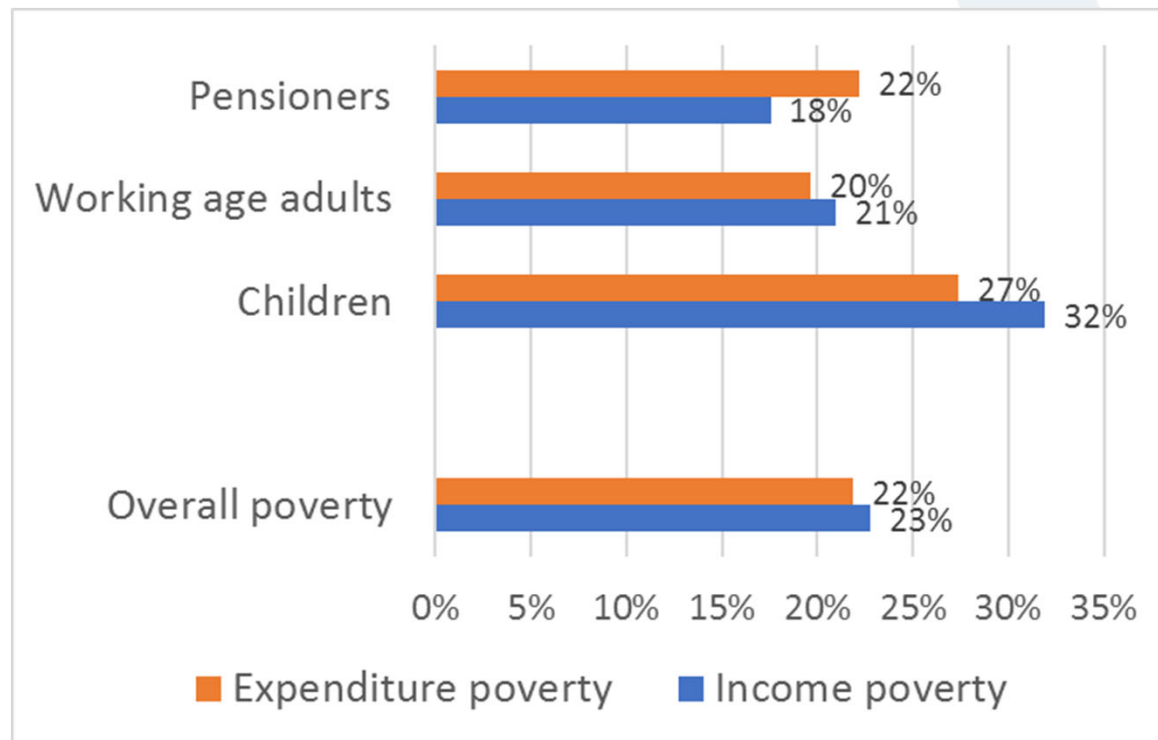
- Poverty: relative – below 60% national median income/expenditure
- Life Satisfaction (2016/17 only; 7500 responses)
- “Overall, how satisfied are you with your life nowadays?” (0-10)

Results – Income vs expenditure distribution



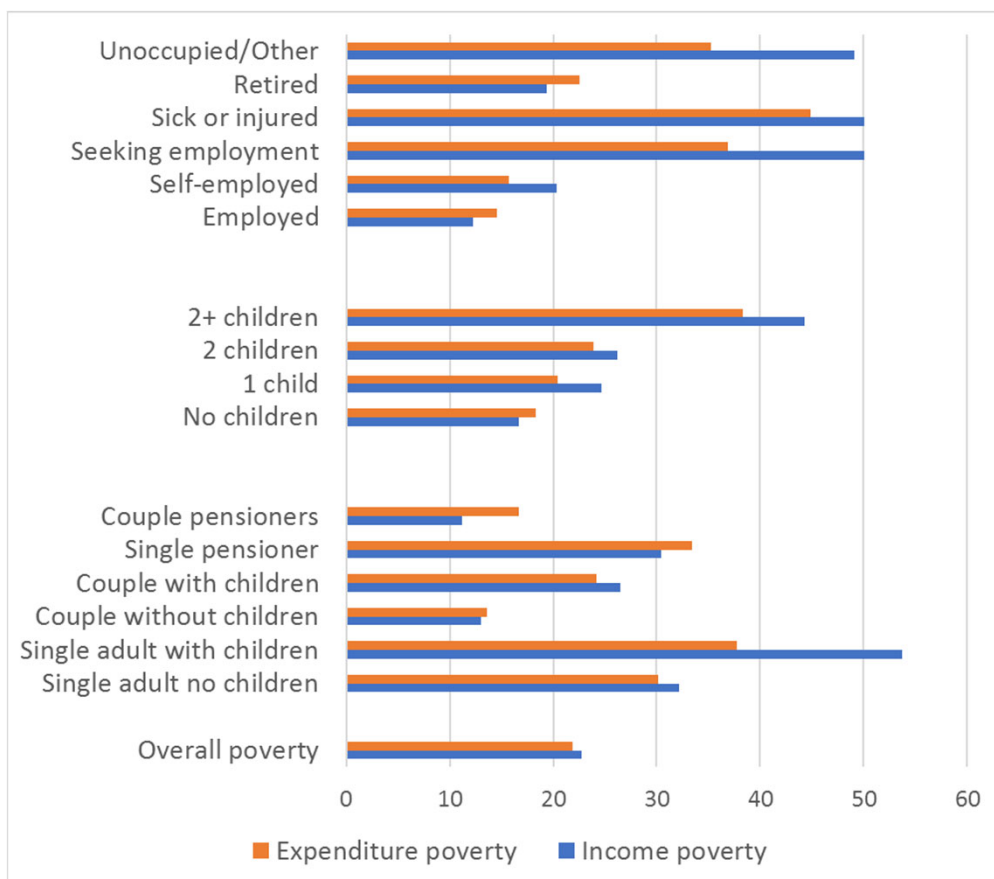
- Households in the bottom income decile spent, on average, around £12,700 in 2016/17 while their average income was only about £5,000. Possible reasons include:
 - Underreporting income.
 - Temporary low income

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



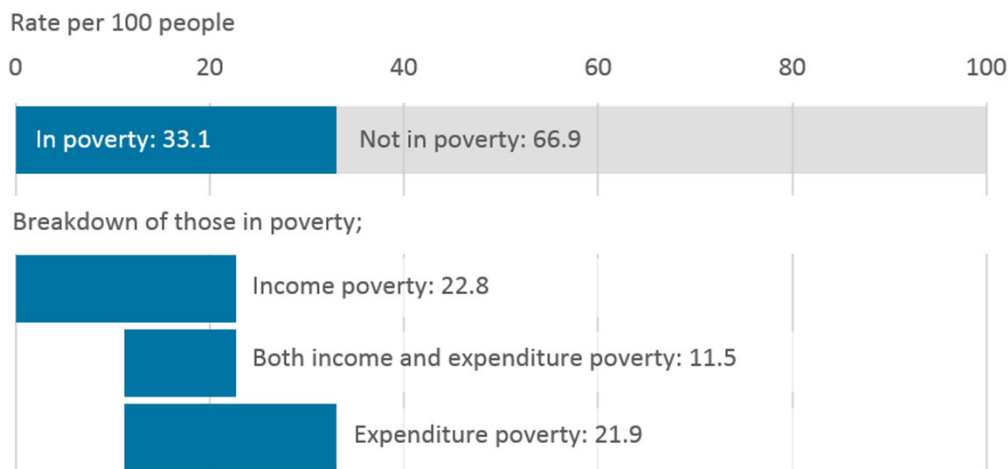
- Largest gap between income and expenditure poverty was observed for the Unoccupied/Other group (e.g stay-at-home parents, students, etc).
 - May have volatile income flows but are able to smooth out consumption.
- Lone parents had highest income poverty rates among all groups at 53.7%.
- Couples without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

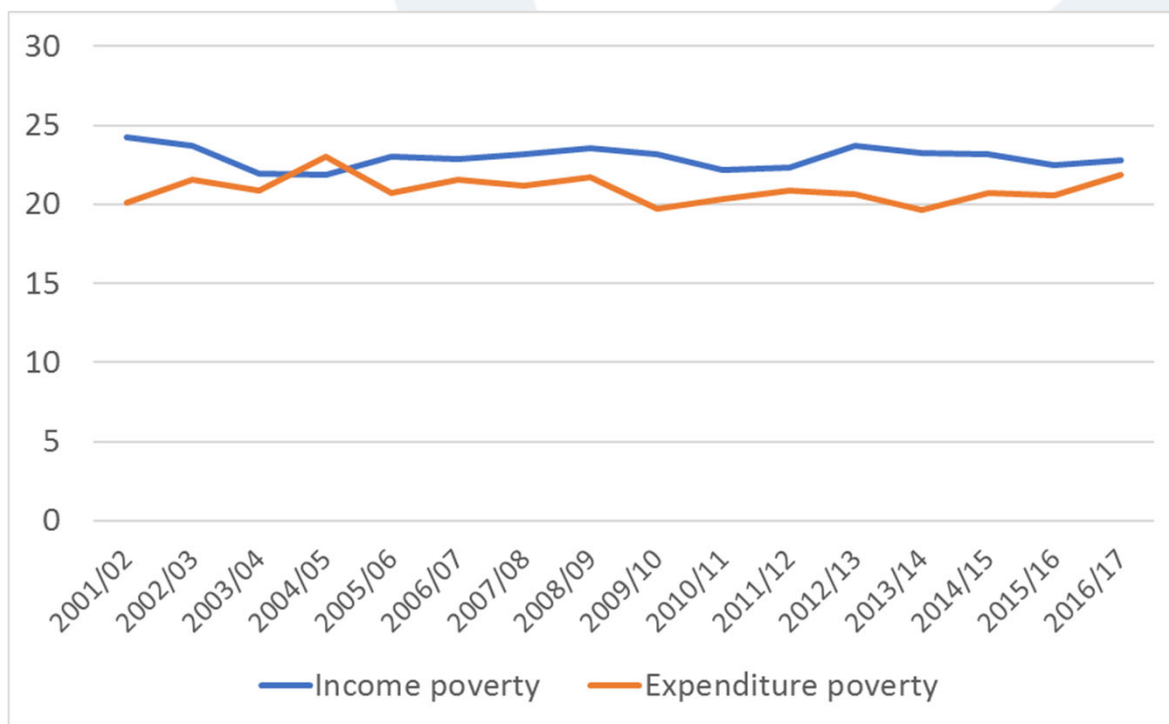


Of the 14.9 million people who were in income poverty, 50% were also in expenditure poverty.

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

- 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

- 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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