

An expenditure based approach to poverty in the UK

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Outline

- Motivation
- Definitions
- Results
- Final remarks



Measuring living standards with income

Most research focuses on household income as a measure of monetary poverty

- Good proxy for the resources available
- Directly feeds into government policy

Conceptual and practical limitations of income measures

- High volatility
- Under-reporting at the bottom of the income distribution

Why consider expenditure poverty?

- Individuals satisfy their need through the consumption of goods and services
- More stable than income ('Permanent Income Hypothesis')
- Tends to be measured more accurately than income towards the bottom of the distribution
- Some limitations
 - Expenditure is only a proxy for consumption
 - Measurement error
 - Cost of data collection

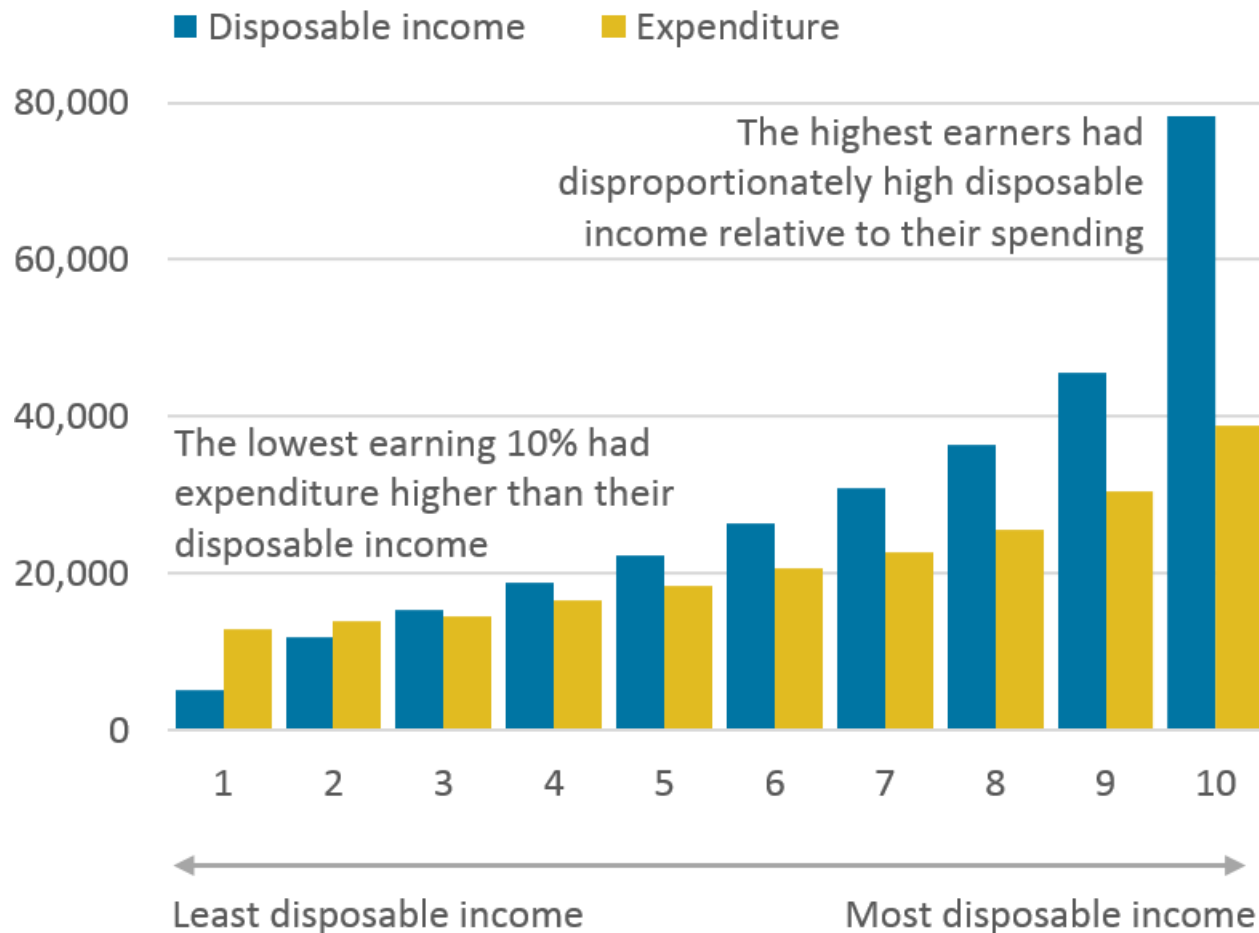
Definition of expenditure poverty

- Relative poverty used (60%-below-median threshold)
- Expenditure measure
 - Includes spending on everyday items as well as more infrequent purchases
 - Excludes housing costs
- Income measure
 - After direct taxes and benefits (disposable income)
 - Excludes housing costs

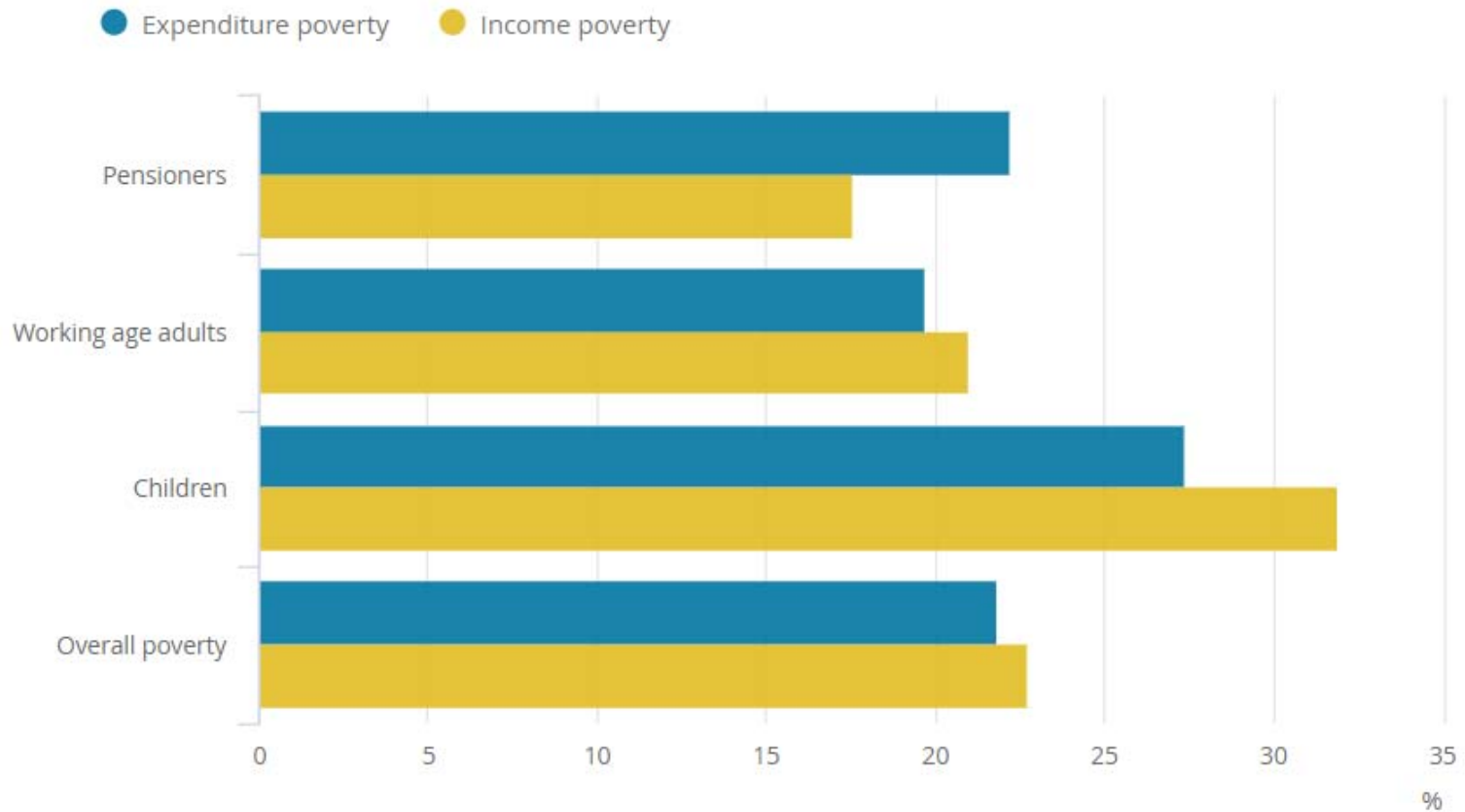
Data source: Living Cost and Food Survey

Income and expenditure by income decile

Lower earners were most likely to spend beyond their means in financial year ending 2017

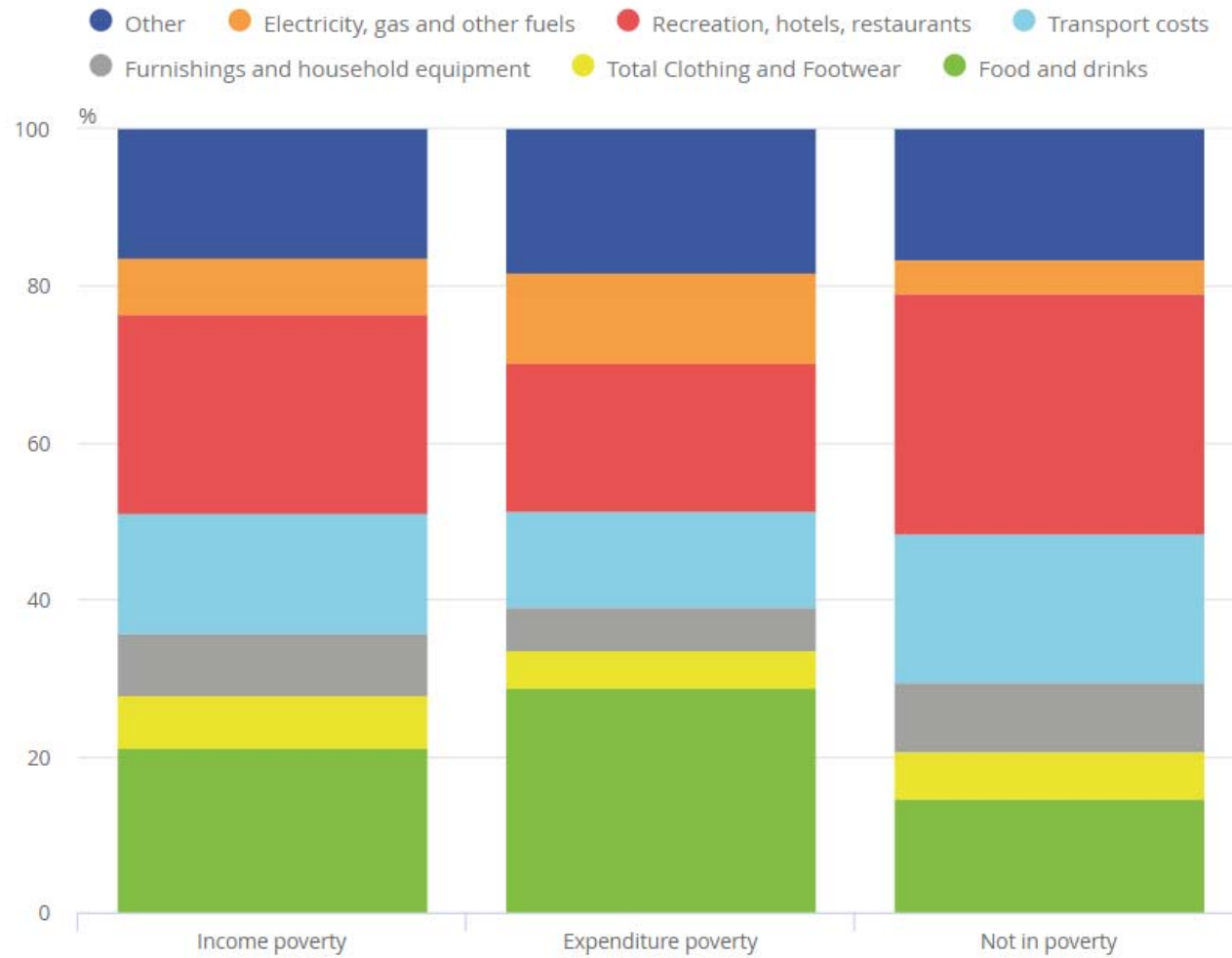


Characteristics of people in income and expenditure poverty



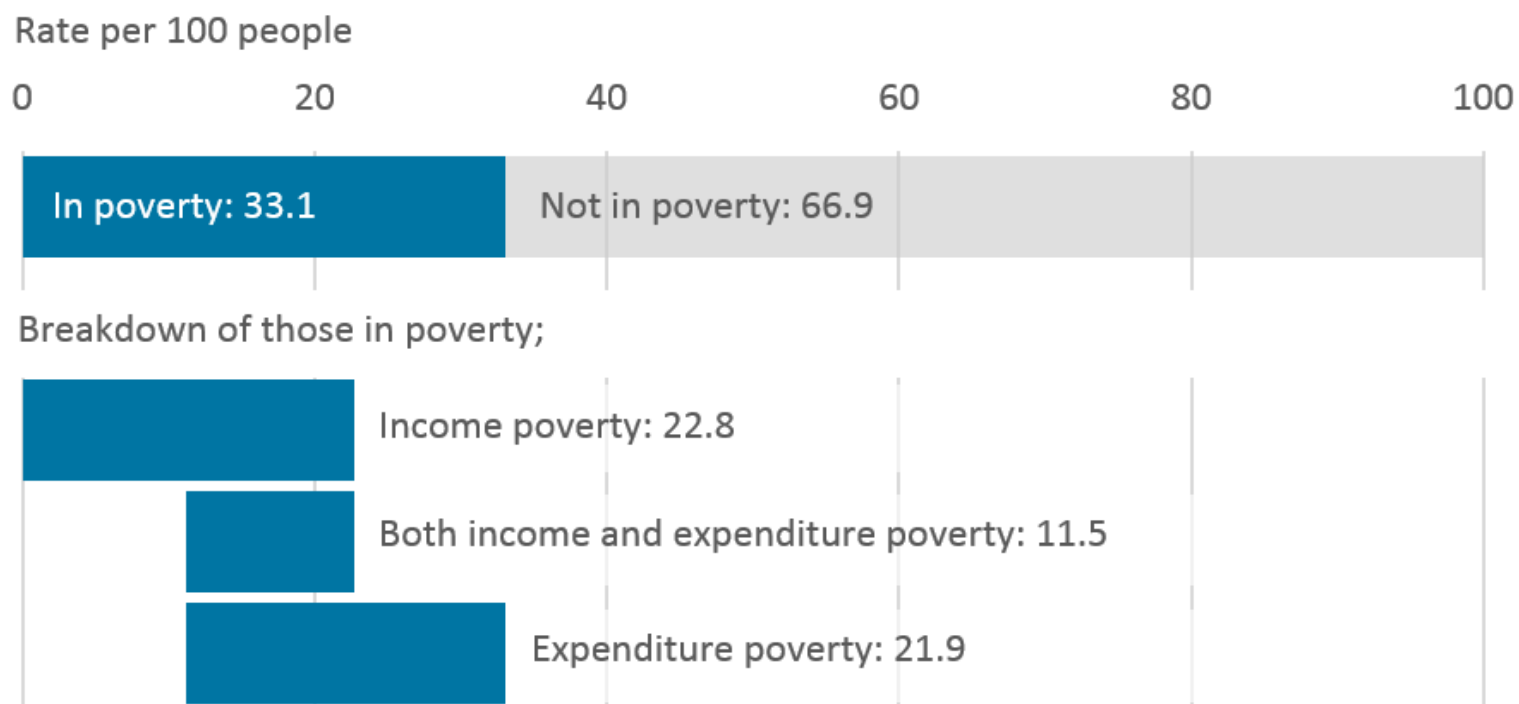
Source: Office for National Statistics

Share of total expenditure by category



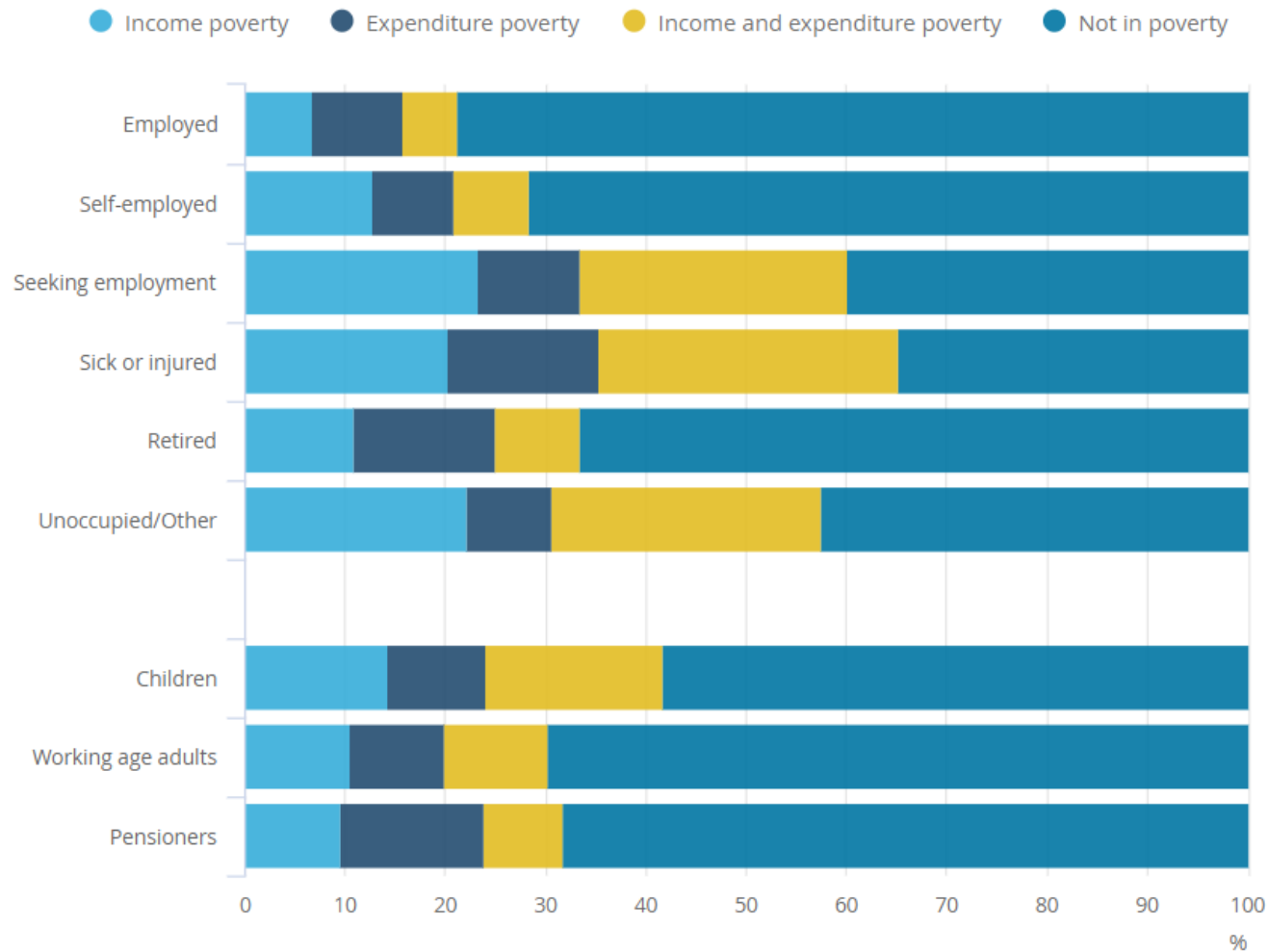
Source: Office for National Statistics

Overlap between income and expenditure poverty in financial year ending 2017



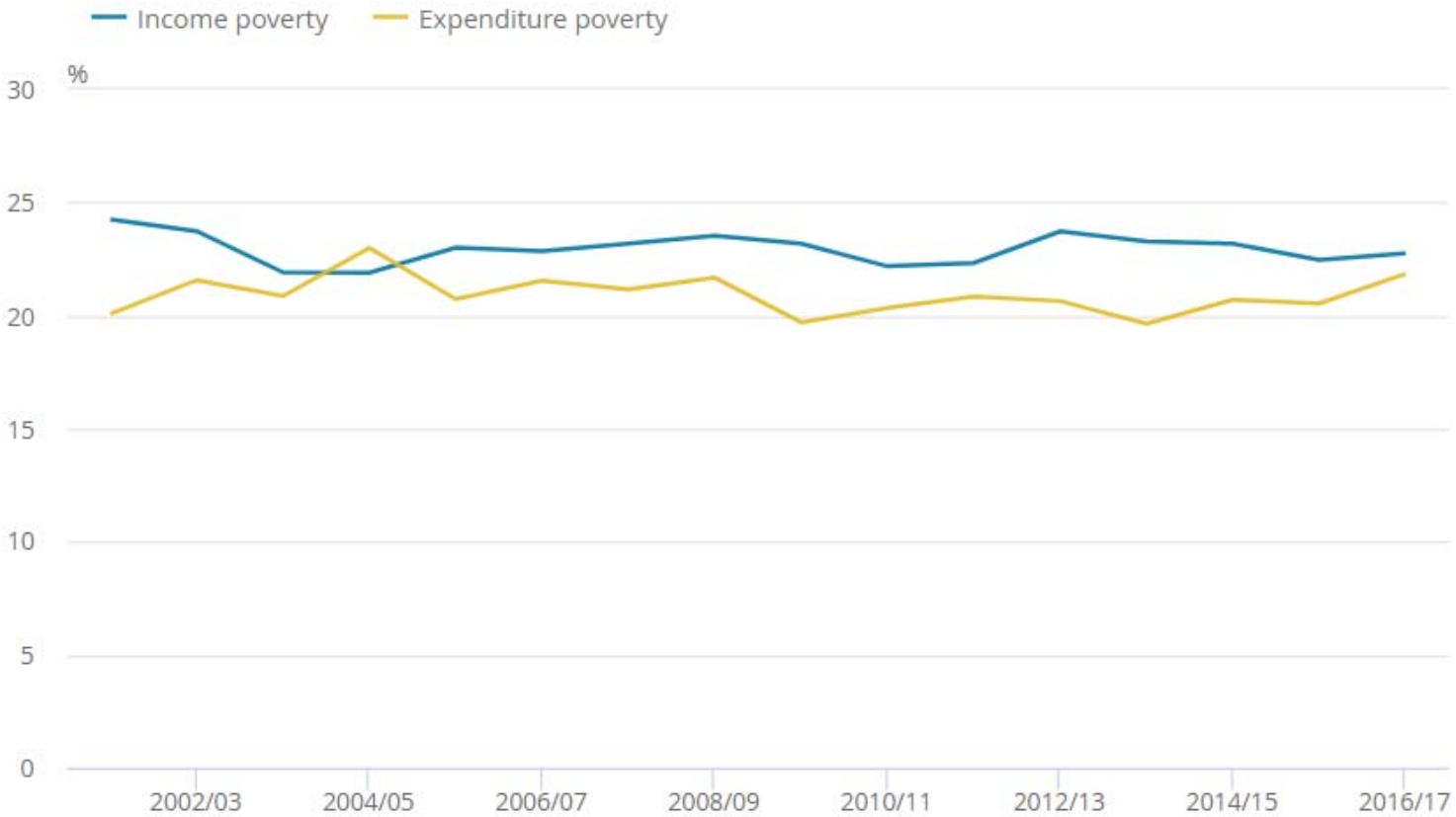
Source: Office for National Statistics

Income and expenditure poverty breakdown by employment and demographic group



Source: Office for National Statistics

Trends in income and expenditure poverty



Source: Office for National Statistics

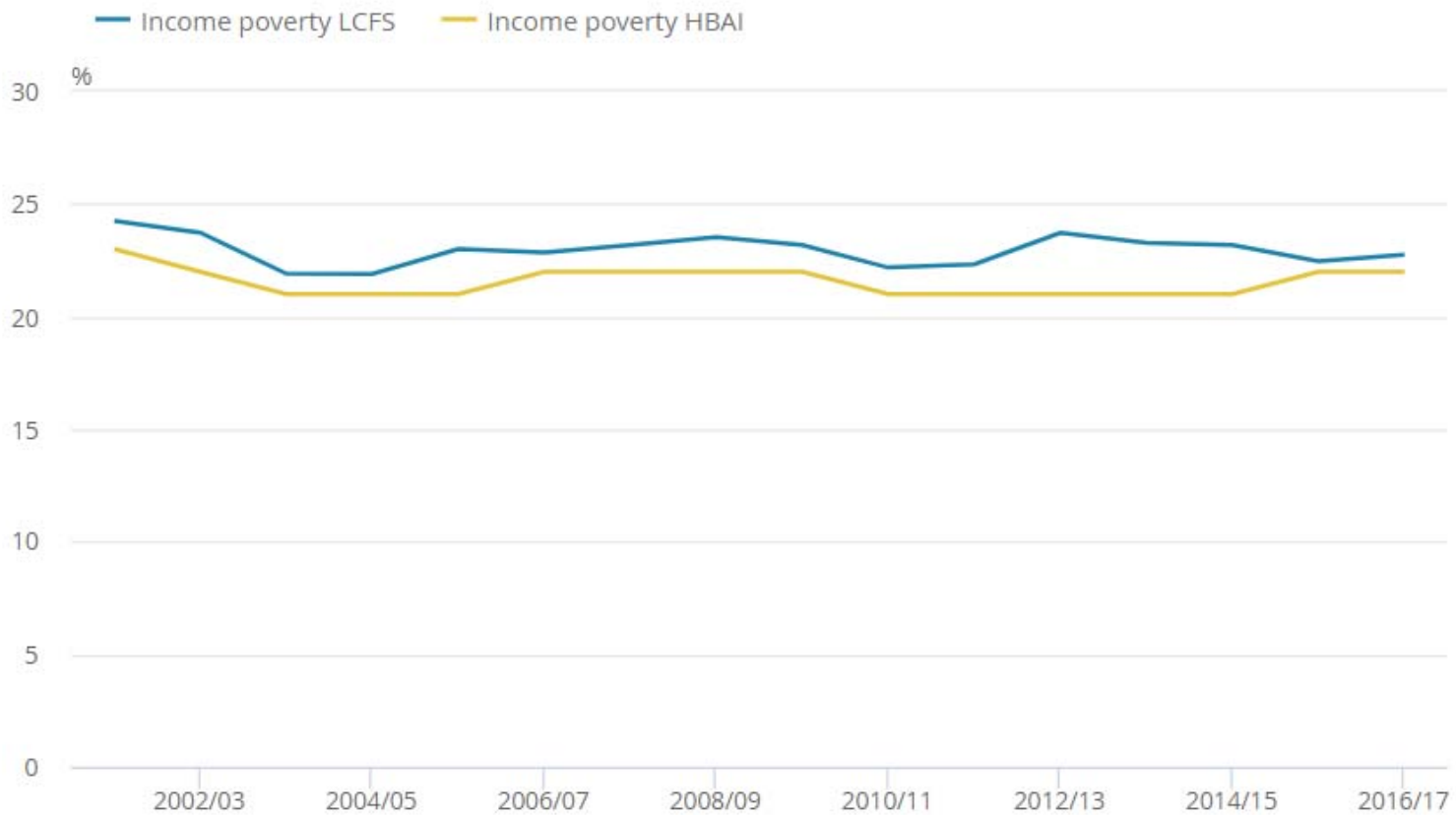
Final remarks

- Income and expenditure have strengths and limitations
- A lot can be learned by considering both together
- More research needed on measuring material living standards

Thank you!

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Income poverty in LCF and HBAI



Source: Office for National Statistics