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Measuring Poverty and Social Exclusion in Britain

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Introduction

Poverty and social exclusion have recently been measured in a major British study - the *Poverty and Social Exclusion Survey* (PSE). This is one of the largest poverty surveys ever carried out in Britain. Many people were involved in this work and this paper describes the combined efforts of researchers at the University of Bristol, a team at the University of York and at the Universities of Loughborough and Heriot Watt. The survey itself was carried out by the Office for National Statistics - in particular, the Omnibus Team and staff involved in the General Household Survey (GHS). The survey is of a particularly high quality because it was carried out as a follow-up to the GHS which has the highest response rates of any government social survey.

The PSE covered a lot of different aspects of poverty and social exclusion. It is the first time any attempt has been made to operationalise - to go out and directly measure - social exclusion. The survey also asked questions about ‘absolute’ and ‘overall’ poverty, the necessities of life, intra-household poverty, social networks and support, perceptions of poverty, local services, poverty and time, health, housing, crime and a whole range of other subjects.

It is not possible, in a few thousand words, to discuss all the findings from the PSE so this paper will concentrate on theoretical and measurement issues, particularly where they concern the dynamics of poverty.

Social exclusion was not a major research topic in Britain until the election of a Labour Government in May 1997. There had been some social exclusion work done in other European countries but there was very little academic or governmental research into poverty until that time. One of the reasons for the change was a speech made by Prime Minister Tony Blair in 1997, where he set out this commitment:

“And I will set out our historic aim that ours is the first generation to end child poverty forever, and it will take a generation. It is a 20-year mission but I believe it can be done.”

Our plans will start by lifting 700,000 children out of poverty by the end of the parliament. Poverty should not be a birthright. Being poor should not be a life sentence. We need to sow the seeds of ambition in the young. Our historic aim will be for ours to be the first generation to end child poverty, and it will take a generation. It is a 20-year mission but I believe it can be done.”

This is the first time that a British Government has ever committed itself to ending child poverty *forever* – and with a specific timetable (see Walker, 1999, for discussion). However, it is important to understand how the Government defines and measures poverty. Firstly, there is no ‘official’ definition of poverty. When the Minister for Social Security was last asked, he said that he did not need a definition because he knew what poverty was when he saw it. However, despite the lack of an official definition in the UK, there are a number of international agreements and definitions which the UK Government has signed up to.

European Union definitions of poverty and social exclusion

The European Union (EU) definition of poverty is one of the most longstanding and widely known. First adopted by the Council of Europe in 1975, it defines those as in poverty as: “*individuals or families whose resources are so small as to exclude them from a minimum acceptable way of life in the Member State in which they live.*” (EEC, 1981). The concept of ‘resources’ was further defined as: “*goods, cash income, plus services from other private resources*”.

On the 19 December 1984, the European Commission extended the definition as: “*the poor shall be taken to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live.*” (EEC, 1985).

These are clearly *relative* definitions of poverty in that they all refer to poverty not as some ‘absolute basket of goods’ but in terms of the minimum acceptable standard of living applicable to a certain Member State and within a person’s own society. They are similar to the relative poverty definition devised by Peter Townsend (1979), one of the people who has worked on the PSE project. However, they differ quite substantially from the definitions of poverty that were being used when the UK Welfare State was first established. The ‘subsistence’ idea, used by Beveridge (1942), was based on the minimum standards to maintain physical efficiency. It developed from the work of researchers such as Rowntree (1901) in his famous study of poverty in York at the turn of the century (see Bradshaw, 1993, for discussion). A minimum basket of goods was costed, for emergency use over a short period of time, with 6% extra added for inefficiencies in spending patterns, in order to draw up the National Assistance rate. Atkinson (1990, p10) defines a subsistence standard of poverty by the formula:

$$(1 + h) p \cdot x^*$$

where:

- x^* is a vector denoting a basket of goods,
- p is the price of the basket, and
- h is a provision for inefficient expenditure or waste

Subsistence rates were designed to be an emergency level of income and never meant to keep a person out of poverty for any length of time. However, these rates became enshrined into the Social Security legislation.

The ‘modern’ definitions of poverty are very different to those used when European welfare states were first being established, particularly in that they deliver much higher poverty lines. They are also concerned with participation and membership within a society and not just inadequate income.

In Europe, during 2001, considerable scientific efforts were made to improve the measurement of poverty and social exclusion (Atkinson *et al*, 2002)¹ and the proposed new set of statistics and indicators will be a major improvement on previous EU analyses (Atkinson, 2000; Eurostat, 1990; 1998; 2000; Hagenaars *et al*, 1994; Mejer and Linden, 2000; Mejer and Siemann, 2000).

Absolute and overall poverty

There has been much debate about ‘absolute’ and ‘relative’ definitions of poverty and the difficulties involved in comparing poverty in industrialised countries with that in the developing world. However, these debates were resolved in 1995 at the UN World Summit on Social Development. At this Summit, the governments of 117 countries - including the UK Government - agreed on two definitions of poverty – *absolute* and *overall* poverty. They adopted a declaration and programme of action which included commitments to eradicate absolute poverty by 2015 and also reduce overall poverty, by at least half, by the same year (UN, 1995).

Overall and absolute poverty were defined as:

“Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterised by a lack of participation in decision-making and in civil, social and cultural life. It occurs in all countries: as mass poverty in many developing countries, pockets of poverty amid wealth in developed countries, loss of livelihoods as a result of economic recession, sudden poverty as a result of disaster or conflict, the poverty of low-wage workers, and the utter destitution of people who fall outside family support systems, social institutions and safety nets.”

Women bear a disproportionate burden of poverty and children growing up in poverty are often permanently disadvantaged. Older people, people with disabilities, indigenous people, refugees and internally displaced persons are also particularly vulnerable to poverty. Furthermore, poverty in its various forms represents a barrier to communication and access to services, as well as a major health risk, and people living in poverty are particularly vulnerable to the consequences of disasters and conflicts. Absolute poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services.”

Income is important but access to public goods – safe water supply, roads, healthcare, education – is of equal or greater importance, particularly in developing countries. These are the views of the governments of the world and poverty measurement clearly needs to respond to these views.

Both the Copenhagen agreements and the EU definitions of poverty are accepted by the UK Government. All these definitions highlight the need to measure poverty using a combination of both low income and low standard of living.

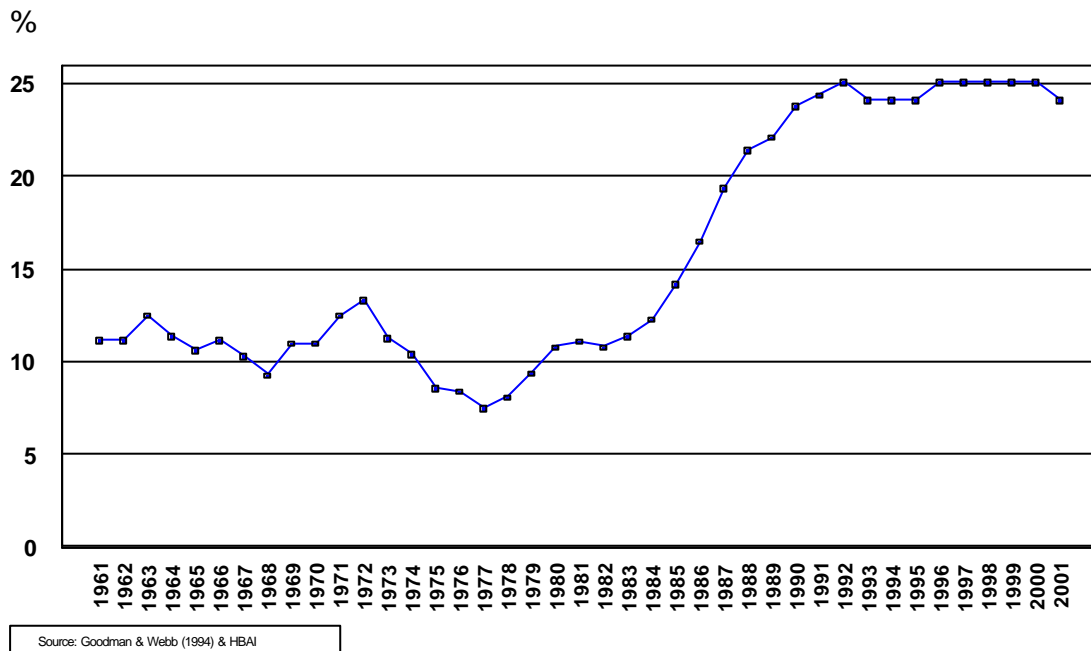
¹ see <http://vandenbroucke.fgov.be/Europe%20summary.htm> for a summary of the new EU poverty and social exclusion indicators and <http://www.vandenbroucke.fgov.be/T-011017.htm> for discussion.

Households Below Average Income (HBAI)

The UK Government operationalised these definitions using a relative income line - the percent of people living in households whose income is below half the average (50%). This is about to change to 60% of the median income but it effectively yields the same result.

In the 1960s, about 11-12% of people were living in households with below half average income. This figure rose slightly in early 1970s, during the Conservative 'Heath' Government and oil price inflation. In the mid-70s, a series of progressive policies ensured that the figure dropped to about 8%. Policies pursued by successive Conservative governments throughout the 1980s and 1990s led to a massive increase in the number of low-income households and families. Poverty effectively tripled rising from 7-8% to 25-26%. During the 1990s, it has been in the region of 25%.

Figure 1: Percent of the population below half average incomes 1961 to 2001 (after housing costs)



Comparative data with other EU Member States on low income is available - for the mid 1990s - from the European Community Household Panel Survey (ECHP). An estimate can be arrived at of the number of people living in households with below half average income in all the EU Member States (using slightly different definitions to the HBAI). The last comparative figures are for 1994 (Table 1) and these show that the UK does lead Europe in one thing - its number of poor households (Gordon and Townsend, 2000).

Table 1: Number and percentage of the population living on incomes below half the average in 14 European countries, 1994

Country	Number of people below half average income	Percentage of the population below half average income
United Kingdom	11,427,000	20
Germany	11,328,000	14
Italy	9,322,000	17
France	7,950,000	14
Spain	7,196,000	19
Portugal	2,425,000	25
Greece	2,042,000	20
Belgium	1,474,000	15
Netherlands	1,275,000	8
Austria	1,108,000	14
Ireland	837,000	23
Denmark	386,000	7
Finland	192,000	4
Luxembourg	57,000	14

Despite the fact that Germany has a much bigger population than the UK, the latter has more low-income households. According to the EU, the total number is nearly 11.5 million and this gives some kind of idea of the scale of the problem the British Government faces if it wants to eliminate poverty *using these definitions*. A look at the comparative circumstances of children shows that the situation is even worse. Using the same European data - but for a previous year (1993) - the UK has, by far and away, the highest percentage of children living in poverty of any EU Member State (HM Treasury, 1999).

A recent analysis by UNICEF (the United Nations Children's Organisation) of the OECD countries shows that, in a ranking of all the industrialised countries, Britain now ranks below Turkey and just above Mexico and the United States in having a higher rate of child poverty (Figure 2). There are not many social indicators where Britain ranks below Turkey – and so this is quite shocking. Britain's position is due to a tripling of poverty or low income in the 1980s.

Figure 2: UNICEF Child Poverty League Table
 (% of children living in households with income below 50% of the national median)

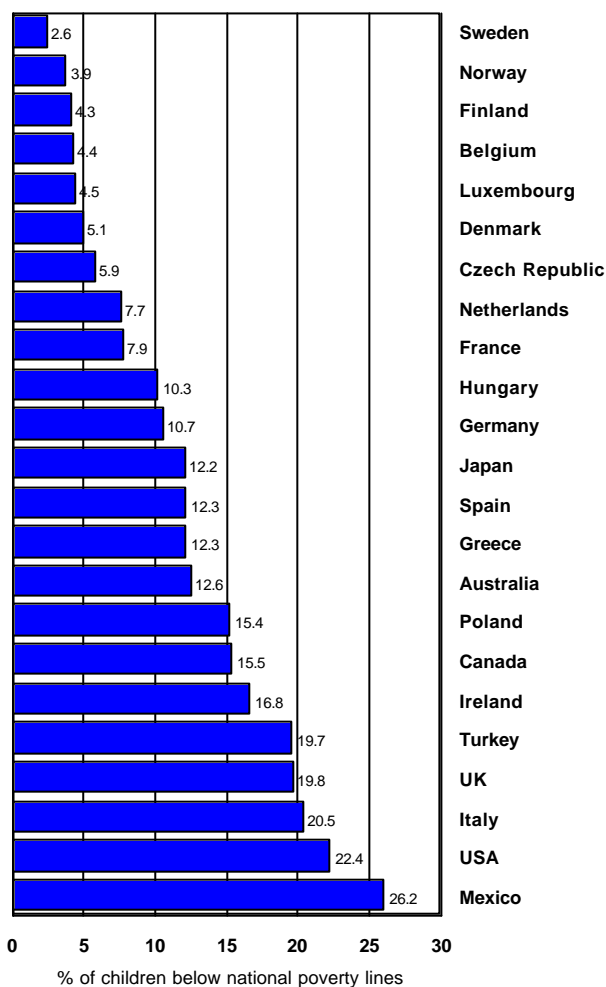


Table 2: Change in real median weekly incomes 1979 to 1996 by decile group at April 1998 prices (after housing costs)

Income Decile	1979 £	1996 £	Change %
Bottom 10%	81	71	-12
10-20%	104	106	+2
20-30%	121	132	+9
30-40%	139	164	+18
40-50%	157	200	+27
50-60%	177	236	+33
60-70%	199	277	+39
70-80%	227	327	+44
80-90%	263	402	+53
Top 10%	347	582	+68
Total population (mean)	185	264	+43

Table 2 (above) shows the redistribution of incomes that occurred during the period of Conservative Government in Britain where the existence of poverty was continuously denied (1979 to 1997). The population has been ranked into 10 income decile groups. In real terms, the lowest/poorest 10% of the population was £10 a week worse off in 1996 than they were in 1979. Their incomes had fallen by 12% in real terms. The richest 10% of the population's income went up by 68%. They were £240 richer. There was a huge redistribution of wealth from the poor bottom half of society to the top half of society.

This redistribution has had dramatic consequences for society because poverty is a causal factor for a large number of social ills - of which one of the most striking is poor health. Comparison of Parliamentary Constituencies (in Britain) which contain the million people who have the highest death rates and the Parliamentary Constituencies which contain the million people who are most healthy shows that the highest death rates are to be found in the constituencies in the poorest areas - Glasgow, Manchester, Liverpool, Tyneside and inner London. However, the people with the lowest death rates are almost all concentrated in the Home Counties - the wealthiest areas. As poverty has widened so has the health gap between the top and bottom half of society (Shaw *et al*, 1999). Whether you look at mortality or morbidity; whether you look at individuals or areas, the gap between the rich and poor in terms of health is bigger now than at any time since the NHS began 50 years ago (Townsend *et al* 1992; Whitehead, 1988; Acheson, 1998; Gordon *et al*, 1999).

There are problems with the way the Government measures poverty - using below half average income statistics. First, they just look at income rather than the effects of income. At any given time, there are many people who are on a low income. They may be self-employed and setting up a new business or they may be temporarily unemployed for a short period of time or have recently become a student.. They do not immediately sink into poverty. So there is not as high a correlation as might be expected between current income and people actually living in poverty and considering themselves to be living in poverty. Accurate academic and scientific study requires not just the examination of current income but also at how people live, their standard of living, if they are deprived or not, whether they can participate in society or not.

A second problem is that income statistics have to be adjusted for household size and composition. It is self evident that a three-person household needs more money than a one-person household to have the same standard of living. Unfortunately, the UK Government's calculations (McClements Equivalisation scale) assume that seven babies cost less than one adult. If your brother and sister came to live with you it would cost you more than if you had seven new born babies! The effect of this is that the income statistics do not show families with young children as living in poverty whereas they often are. This can lead to bad policy when targeting resources at child poverty. They tend to get aimed at those with teenage children rather than young children. However, it is families with young children who often are the poorest and in the most financial difficulty.

Therefore the PSE survey used measures of both low income and low standard of living to measure poverty. It also used the latest available budget standards information to adjust income for household size and composition.

Scientific definitions of poverty

Poverty is a widely used and understood concept but its definition is highly contested. The term 'poverty' can be considered to have a cluster of different overlapping meanings depending on what subject area or discourse is being examined (Gordon and Spicker, 1998). For example, poverty - like evolution or health- is both a scientific and a moral concept. Many of the problems of measuring

poverty arise because the moral and scientific concepts are often confused. In scientific terms, a person or household in Britain is 'poor' when they have both a low standard of living *and* a low income. They are not poor if they have a low income and a reasonable standard of living or if they have a low standard of living but a high income. Both low income and low standard of living can only be accurately measured relative to the norms of the person's or household's society.

A low standard of living is often measured by using a deprivation index (high deprivation equals a low standard of living) or by consumption expenditure (low consumption expenditure equals a low standard of living). Of these two methods, deprivation indices are more accurate since consumption expenditure is often only measured over a brief period and is obviously not independent of available income.

Figure 3: Scientific definition of poverty



The 'objective' poverty line/threshold is shown in Figure 3. It can be defined as the point that maximises the differences *between* the two groups ('poor' and 'not poor') and minimises the differences *within* the two groups ('poor' and 'not poor'). Unfortunately, this can best be done using multivariate statistics (which makes it hard to explain) since there are no accurate equivalisation scales (Whiteford, 1985; Bradbury, 1989; Canberra Group, 2001). Therefore, dummy variables for each different household type have to be put into the model (Townsend and Gordon, 1989). Usually some variant of the General Linear Model is used, such as, Discriminant Analysis, MANOVA or Logistic Regression, depending on the nature of the data (Gordon *et al*, 2000).

This 'scientific' concept of poverty can be made universally applicable by using the broader concept of resources instead of just monetary income. It can then be applied in developing countries where barter and 'income in kind' can be as important as cash income. When the definition of income is

extended operationally to include the value of assets and receipt of goods and services in kind, the correlation between income and standard of living increases (see, for example, Townsend, 1979, p.1176). Standard of living includes varied elements. It includes both the material and social conditions in which people live and their participation in the economic, social, cultural and political life of the country.

Despite the theoretical advantages of measuring poverty using both low income *and* deprivation, most studies of poverty in Europe are restricted solely to the use of low income due to the lack of suitable deprivation measures.

Consensual/social indicators in the PSE Survey

The consensual approach to defining poverty is also known as the deprivation indicator approach to distinguish it from the other empirical approaches based on the public perception of poverty, such as the Income Proxy or subjective approach (see Veit-Wilson, 1987). The deprivation indicator approach aims to discover if there are people living below the minimum publicly-accepted standard. It defines poverty from the viewpoint of the public's perception of minimum necessities which no one should be without:

*"This study tackles the questions 'how poor is too poor?' by identifying the minimum acceptable way of life for Britain in the 1980's. Those who have no choice but to fall below this minimum level can be said to be 'in poverty'. This concept is developed in terms of those who have an enforced lack of **socially perceived** necessities. This means that the 'necessities' of life are identified by public opinion and not by the views of experts or, on the other hand, the norms of behaviour per se."* (Mack and Lansley, 1985).

The approach is based on three steps:

The first step was taken by building up a long list of ordinary household goods and activities. Respondents to the Office for National Statistics *Omnibus Survey* in June 1999 were asked to indicate which items they thought were necessities which no household or family should be without in British society. The second step was to ask people what items they already had or wanted but could not afford. Items defined as *necessities* by more than 50% of the population but which were lacked because of a shortage of money were then used to construct an initial deprivation index. The deprivation index was then refined using standard scientific methods to ensure that all the components were both valid and reliable and added up.(see Gordon and Pantazis, 1997: Gordon *et al*, 2000, for details).

The third step, finding the poverty threshold, was taken by using multivariate methods to determine the income for each kind of household that maximised the differences between the 'poor' and 'not poor' and minimised the differences within the two groups ('poor' and 'not poor'). This is the 'objective' poverty line and households which have to survive on this low level of income for any appreciable length of time are highly likely to suffer from multiple deprivations.

At the end of the Millennium in Britain, 95% of people thought that 'beds and bedding for everyone in the household' was a necessity of life that everybody should be able to afford. Conversely, at the other end of the scale, only 5% of people thought a satellite TV was a necessity of life (Table 3) .

Table 3: Perception of adult necessities and how many people lack them

	Omnibus Survey: Items considered		Main Stage Survey: Items that respondents	
	Necessary	Not necessary	Don't have don't want	Don't have can't afford
Beds and bedding for everyone	95	4	0.2	1
Heating to warm living areas	94	5	0.4	1
Damp free home	93	6	3	6
Visiting friends or family in hospital	92	7	8	3
Two meals a day	91	9	3	1
Medicines prescribed by doctor	90	9	5	1
Refrigerator	89	11	1	0.1
Fresh fruit and vegetables daily	86	13	7	4
A warm waterproof coat	85	14	2	4
Replace broken electrical goods	85	14	6	12
Visits to friends or family	84	15	3	2
Celebrations on special occasions	83	16	2	2
Money to keep home decorated	82	17	2	14
Visits to school e.g. sports day	81	17	33	2
Attending weddings, funerals	80	19	3	3
Meat, fish or vegetarian equivalent	79	19	4	3
Insurance of contents of dwelling	79	20	5	8
A hobby or leisure activity	78	20	12	7
A washing machine	76	22	3	1
Collect children from school	75	23	36	2
Telephone	71	28	1	1
Appropriate clothes for job interviews	69	28	13	4
Deep freezer/fridge freezer	68	30	3	2
Carpets in living rooms and bedrooms	67	31	2	3
Regular savings for rainy days	66	32	7	25
Two pairs of all weather shoes	64	34	4	5
Friends or family round for a meal	64	34	10	6
Money to spend on self weekly	59	39	3	13
A television	56	43	1	1
A roast joint/vegetarian equivalent weekly	56	41	11	3
Presents for friends/family yearly	56	42	1	3
A holiday away from home	55	43	14	18
Replace worn out furniture	54	43	6	12
A dictionary	53	44	6	5
An outfit for social occasions	51	46	4	4
<i>New, not second hand, clothes</i>	48	49	4	5
<i>Attending place of worship</i>	42	55	65	1
<i>A car</i>	38	59	12	10
<i>Coach/train fares to visit friends/family</i>	38	58	49	16
<i>A evening out once a fortnight</i>	37	56	22	15
<i>A dressing gown</i>	34	63	12	6
<i>Having a daily newspaper</i>	30	66	37	4
<i>A meal in a restaurant/pub monthly</i>	26	71	20	18
<i>Microwave oven</i>	23	73	16	3
<i>Tumble dryer</i>	20	75	33	7
<i>Going to the pub once a fortnight</i>	20	76	42	10
<i>A video cassette recorder</i>	19	78	7	2
<i>Holidays abroad once a year</i>	19	77	25	27
<i>CD player</i>	12	84	19	7
<i>A home computer</i>	11	85	42	15
<i>A dishwasher</i>	7	88	57	11
<i>Mobile phone</i>	7	88	48	7
<i>Access to the Internet</i>	6	89	54	16
<i>Satellite television</i>	5	90	56	7

Note: All figures show % of adult population.

When poverty is measured using a low income and a low standard of living in this scientific way, the results showed that, at the turn of the 21st Century, just over 25% of people were suffering from both multiple deprivation and low income – they were poor. These percentages translate into a staggering 14.5 million people living in poverty in Britain at the turn of the 21st Century.

Roughly nine and a half million people cannot afford adequate housing conditions, cannot afford to keep their home adequately heated, free of damp or in a decent state of decoration. Eight million cannot afford one or more household goods like a fridge, telephone or carpet. They cannot afford to mend any electrical goods or replace worn out furniture. Seven and a half million people are too poor to engage in common social activities. They cannot afford to attend weddings or funerals, visit family or friends or hold celebrations or buy presents for their children on birthdays. A third of British children go without at least one of the things their parents think they need. Six and a half million adults do not have essential clothing, four million are not properly fed and over 10.5 million people suffer financial insecurity and cannot afford to insure the contents of their home.

We can compare how poverty has changed over the 1980s in a much more rigorous way than was done for HBAI statistics. This is because there have been all kinds of changes to the way that data has been collected over the years, making them not strictly comparable over time. We can compare both standards of living and income over time and found that, between 1983 and 1990, the number of *households* living in poverty increased by half – from 14% to 21%. During the 1990s, this figure slowly crept up to over 24% of household by 1999. The rapid increase in poverty occurred at the same time that the majority of the population was becoming better off. For the past 20 years, Britain has become wealthier and wealthier and we are now richer than at any other time in our history.

Definitions of social exclusion

The PSE survey also attempted to define and measure social exclusion, firstly by looking at the academic literature to see what groups were socially excluded according to various authors.

Socially Excluded Groups?

The long term or recurrently unemployed;
Those employed in precarious and unskilled jobs, especially older workers or those unprotected by labour regulations;
The low paid and the poor;
The landless;
The unskilled, the illiterate and school drop-outs;
The mentally and physically handicapped and disabled;
Addicts;
Delinquents, prison inmates and persons with criminal records;
Single parents;
Battered or sexually abused children, those who grew up in problem households;
Young people, those lacking work experience or qualifications;
Child workers;
Women;
Foreigners, refugees, immigrants;
Racial, religious and ethnic minorities;
The disenfranchised;
Beneficiaries of social assistance;
Those in need but ineligible for social assistance;

Residents of rundown housing, disreputable neighbourhoods;
Those with consumption levels below subsistence (the hungry, the homeless, the Fourth World);
Those whose consumption, leisure or other practices (drug or alcohol abuse, delinquency, dress, speech, mannerism) are stigmatised or labelled as deviant;
The downwardly mobile;
The socially isolated with friends or family;

Source: Studies on specific social categories in the research literature on social exclusion compiled by Silver (1994: p548-9)

If all the groups listed by Silver (1994) are *socially excluded*, then the only person in Britain who was not socially excluded under these definitions was Prince Philip. For example, the Queen herself is a woman and she is also a pensioner, so these were not particularly useful definitions. We applied what we called the 'Lady Di' test to the definition of social exclusion. Any theory that would have included Lady Diana as socially excluded, because she was a lone parent with mental health problems, probably was not very useful because we took it as axiomatic that she was not. We were therefore able to discard most of the literature on social exclusion.

We decided that social exclusion was an inability to participate in social activities that the majority of people think of as necessary. There are four dimensions:

1. *Impoverishment* – not being able to participate because of poverty.
2. *Labour market exclusion* – because exclusion from the labour market is a very important concept to social exclusion and also causes poverty.
3. *Service exclusion*
4. *Exclusion from social relationships*. Social exclusion has to be related to the 'social', if you are isolated and alone, do not have any friends or family and no one to call on for support when needed, then you are excluded from social relationships.

Labour market exclusion

Most of the debate in Europe and in Britain has defined social exclusion in terms of those excluded from the labour market. However, 43% of adults have no paid work: they are doing other things: looking after children and families or they are pensioners. Most of these people are not socially excluded *per se*. Over half the population in some countries does not participate in paid labour for good reason and no one would expect them to which illustrates the difficulties of attempting to end poverty and social exclusion just through full employment. Most of the 43% are outside the labour market through choice. They have unpaid labour that they have to do. If they do not do that unpaid labour, somebody else is going to have to. Others do not want to participate in the labour market – they are too old or too young.

There is another aspect to this. The first reason given why people don't participate in 'necessary' social activities - like attending weddings and funerals - is because of lack of money. They simply cannot afford it. The next most popular reason given was lack of interest, followed by lack of time due to childcare responsibilities. People also said that they were too old and ill or did not have enough time because of *paid work*. Therefore, it appears that paid work itself can cause social exclusion if you have a job with long hours. Just being in paid work does not mean you are not socially excluded or that you can participate in society the way you would like to.

Service exclusion

Similarly, the PSE examined exclusion from a range of public and private services. For example, libraries are a public service where cost is not a barrier to use. However, unavailability tends to be a barrier to use for 9% of people. When we looked at service exclusion in aggregate for a whole range of both public *and* private services, we found that 9% of people were excluded (these are ones that are necessary public services according to the majority of the population). Nine percent were excluded because of poverty and 41% were excluded because at least one of the services was unavailable (Table 4). Unavailability of essential services, particularly in rural areas, is a bigger barrier to use.

Table 4: Percentages lacking different numbers of services because unaffordable and/or unavailable in Britain (1999)

	Lacking none	Lacking 1	Lacking 2+
	(%)	(%)	(%)
<i>Public services</i>			
Number of public services can't afford/unavailable	69	21	10
Number of public services can't afford	95	3	1
Number of public services unavailable	72	20	8
<i>Private services</i>			
Number of private services can't afford/unavailable	70	16	14
Number of private services can't afford	93	4	2
Number of private services unavailable	75	15	11
<i>Both public and private</i>			
Number public/private services can't afford/unavailable	54	22	24
Number public/private services can't afford	91	5	4
Number public/private services unavailable	58	23	18

Services are very important in combating poverty, particularly free or subsidised services. The bottom 20% of households have an income around £1,500. They tend to get another £1,500 worth of benefit in aggregate and their income goes up another £3,000 from the value of the services they receive (Gordon and Townsend, 2000). To the poorest groups, services are worth twice as much as they earn. The Welfare State is a very effective mechanism for combating poverty. It tends to multiply the income of the bottom 20% four fold through welfare benefits and, more importantly, through the income benefit of services received (income in-kind). To end poverty forever, this would probably have to be increased to a five fold multiplication.

The dynamics of poverty

Since the work of Townsend in 1968 (Townsend, 1979) many researchers in European countries have scientifically measured poverty in terms of both low income and deprivation. However, in all these cross-sectional studies, there exists a relatively large group of people/households that have a low income but do not have a low standard of living – this phenomena has puzzled many commentators. The explanation lies in the dynamics of poverty.

People/households in these poverty surveys with a high income and a high standard of living are not poor whereas those with a low income and a low standard of living are poor. However, two other groups of people/households that are 'not poor' can also be identified in a cross-sectional (one point in time) survey, such as the *Poverty and Social Exclusion Survey*:

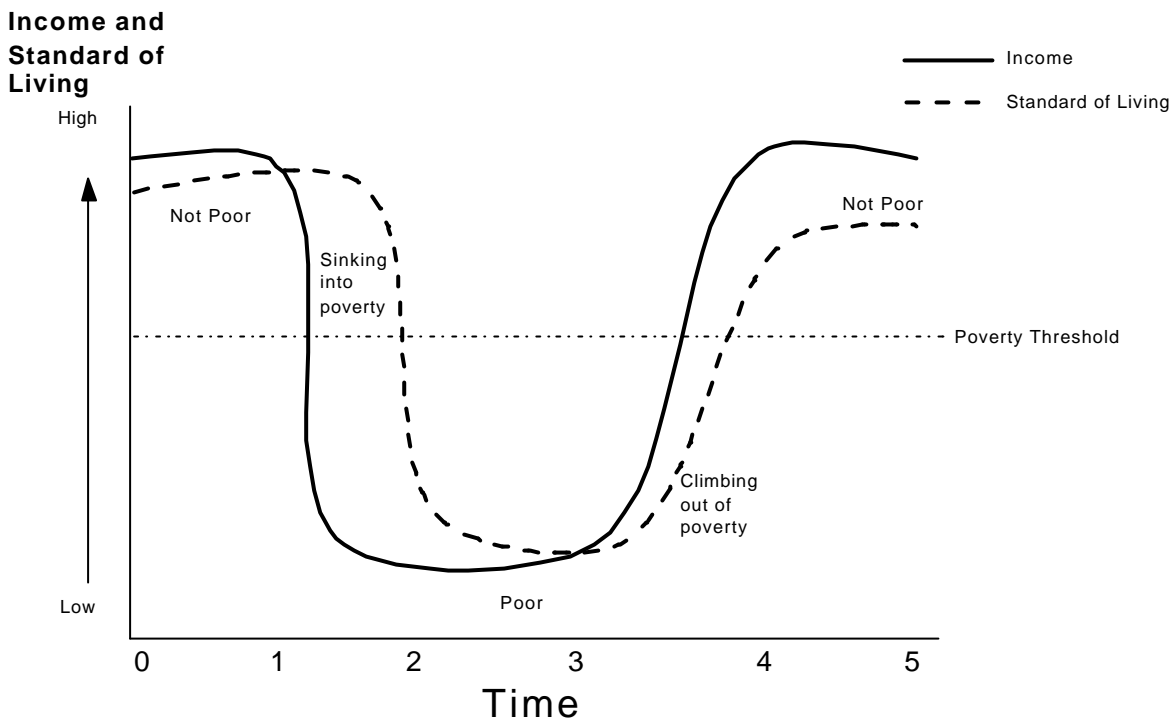
1. *People/households with a low income but a high standard of living.* This group is not currently poor but if their income remains low they will become poor - they are currently sinking into poverty. This situation often arises when income falls rapidly (e.g. due to job loss) but people manage to maintain their life style, for at least a few months, by drawing on their savings.
2. *People/households with a high income but a low standard of living.* This group is currently 'not poor' and if their income remains high their standard of living will rise – they have risen out of poverty. This group is in the opposite situation to the previous group. This situation can arise when the income of someone who is poor suddenly increases (e.g. due to getting a job), however, it takes time before they are able to buy the things that they need to increase their standard of living. Income can both rise and fall faster than standard of living.

These two groups have been found in both British poverty surveys and Irish and Swedish studies (Callan *et al*, 1993, Saunders *et al*, 1993; Halleröd 1994, 1995, 1996; Nolan and Whelan, 1996a, 1996b). A cross-sectional 'poverty' survey can provide some limited but useful information on the dynamics of poverty since it is possible not only to identify the 'poor' and the 'not poor' but also those sinking into poverty (i.e. people/households with a low income but a high standard of living) and those escaping from poverty (i.e. people/households with a high income but a low standard of living).

Poverty is, by definition, an extremely unpleasant situation to live in so it is not surprising that people go to considerable lengths to avoid it and try very hard to escape from poverty once they have sunk into it. Therefore, a cross-sectional poverty survey ought to find that the group of households sinking into poverty was larger than the group escaping from poverty since, when income falls people will try to delay the descent into poverty, but if the income of a poor person increases she will quickly try to improve her standard of living.

Figure 4 (overleaf) illustrates this concept:

Figure 4: The dynamics of poverty



Between time 0 and 1, the household has both a high standard of living (dotted line) and a high income (solid line): it is 'not poor'. At time 1, there is a rapid reduction in income (e.g. due to job loss, the end of seasonal contract income, divorce or separation, etc), however, the household's standard of living does not fall immediately. It is not until time 2 that the household's standard of living has also fallen below the 'poverty' threshold. Therefore, between time 1 and time 2, the household is 'not poor' but is sinking into poverty (i.e. it has a low income but a relatively high standard of living). Between time 2 and time 3, the household is living in poverty, they have both a low income and a low standard of living. At time 3, income begins to rise rapidly, although not as fast as it previously fell. This is because rapid income increases usually result from gaining employment but there is often a lag between starting work and getting paid. Standard of living also begins to rise after a brief period as the household spends its way out of poverty. However, this lag means that there is a short period when the household has a high income but a relatively low standard of living. By time 5, the household again has a high income and a high standard of living.

On the basis of this discussion, it is possible to update Figure 1 to give a more realistic picture of movements into and out of poverty. Figure 5 illustrates this:

Figure 5: Movements into and out of poverty



In Figure 5, the sizes of the groups moving into and out of poverty have been exaggerated for clarity. However, it is clear that movements into and out of poverty tend to occur close to the X and Y axes and there is little movement across the poverty threshold at the centre of the graph. Households in Britain typically become poor when their income falls precipitously followed by a gradual decline in their standard of living. Households rarely slide into poverty because their income and standard of living declines gradually together. Similarly, moves out of poverty tend to follow a rise in income followed by a rise in standard of living. It would be rarer for both income and standard of living to rise gradually together.

People become 'poor' after their income has dropped catastrophically. However, they usually successfully manage to maintain a reasonable standard of living for a period after this drop in income. Similarly, people stop being poor usually after a substantial rise in income (e.g. after finding a job, new partner, etc.). The major causes of poverty in Britain - job loss, family break-up, retirement, severe ill health, etc - are all typified by rapid declines in income. Relatively few people in Britain experience a simultaneous decline or rise in both their standard of living and income which leads to a gradual decent into or rise out of poverty. Some pensioners who are supplementing their pension by drawing on a declining amount of capital may experience a simultaneous decline in both income and standard of living. However, this situation is comparatively rare compared with the other causes of poverty in Britain.

The benefits system in Britain also operates in a manner that accentuates the existence of poverty threshold/line. There is a large literature that identifies the numerous 'poverty traps' in the British benefits system, which result in 90% or even over 100% marginal 'tax' rates for people whose

income rise slightly above the Income Support standard. Steep tapers in Housing Benefit and the withdrawal of other ‘passported’ benefits results in there being a relatively large number of people with incomes on or just below the Income Support standard but relatively few people whose incomes are just above this level e.g. there are a lot of people/households whose income is 100% of the ‘benefit standard’ but relatively few people/households with incomes of 105% or 110% of the ‘benefit standard’.

People typically escape from the benefits system when they gain a new job which often pays substantially more than State Benefits. Therefore, there is a gap between the incomes of those living on benefits and those in work. This gap has widened over the 1980s and 1990s in Britain due to the removal of the link between State Benefits and average earnings. This and the inadequacy of State Benefits has accentuated the poverty threshold/line in Britain.

The dynamic poverty groups in Britain

The PSE survey allowed the estimation of the relative sizes of these four ‘dynamic’ poverty groups discussed above. These groups are, the *poor*, *those who have risen out of poverty*, *those who are currently vulnerable to poverty* and the *not poor*.

Table 5: Classification of the PSE respondents by dynamic poverty grouping

Poverty Groups	Percent of respondents in each group	Percent of group saying their income or standard of living had risen in the recent past
Poor	25	29
Rising out of poverty	2	56
Vulnerable to poverty	11	29
Not poor	62	44
Total	100	

Table 5 shows that, at the turn of the 21st Century, just over 25% of people were suffering from both multiple deprivation and low income – they were poor. A further 11% had low incomes but were not yet suffering from multiple deprivation. Two percent were on their way out of poverty pretty fast and 62%, the overwhelming majority, were not living in poverty and not in danger of poverty.

The four dynamic poverty groups were identified solely by multi-variate statistical methods, however it is possible to get an indication of the validity of these statistical methods from the perceptions of respondents about recent changes in their circumstances. The second column in Table 5 shows the percentage of respondents who said that their incomes or standard of living had increased in the recent past. If the theoretical dynamic poverty groupings are valid then it would be expected that higher percentages of the ‘rising out of poverty’ and ‘not poor’ groups would have witnessed recently improved circumstances than the ‘poor’ and ‘vulnerable to poverty’ groups. The results shown in Table 5 are consistent with the predictions of the theoretical poverty dynamics model presented in this paper.

In order to test this poverty dynamics model, further longitudinal income and deprivation data are needed. This work is currently being undertaken using the first five waves of the European Community Household Panel survey.

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