

## A new way of measuring relative financial needs

Several methods have been used to try to calculate the different amounts of money which families need to live on depending on their size and circumstances. This experimental study compares what income different households need in order to achieve the same overall score on a standard of living index based on measures of consumption and participation. The analysis, by Richard Berthoud and Reuben Ford of the Policy Studies Institute, produced consistent findings which confirm some common assumptions but challenge others.

-  Estimates of the extra costs associated with children were substantially higher than the amounts allowed for in social security payments.
-  The study suggested that the first child in a family introduces needs which are greater than those of a second or third child; current levels of income support and child benefit payments per family are consistent with this. But there was no evidence that the cost of younger children is lower than that of older ones, as income support rates currently assume.
-  Child-related costs did not appear to rise with higher levels of family income. The reverse seemed more likely.
-  The analysis suggested that the cost of living was no greater for a couple than for a single person; it may even be lower.
-  Younger people (those under 45) were consistently *worse* off than those in middle or old age if they had the same income. They required higher incomes to achieve the same standard of living as older people.
-  Those coming up to retirement age (between 55 and 65) had the highest standard of living after allowing for income.
-  Tenants, especially social tenants, scored lower on the standard of living index than owner-occupiers with the same income and the same family size.

### Background and objectives

The idea that some households need more than others is a familiar one. Larger families have to buy more goods and services, and therefore would require a larger income than a small family to maintain the same standard of living. It is often said that older people, or people living in certain parts of the country, have higher needs than others.

Other researchers have tried three approaches towards measuring variations in need: comparing the patterns of expenditure reported by different types of household; compiling baskets of goods and services appropriate to households of different sizes; and asking direct questions about the effects of particular circumstances.

This study tried a fourth approach. When a survey reports that many members of a particular group cannot make ends meet, or do not possess certain goods, it is commonly inferred that either the group's needs are high or that its income is low in relation to other, better-off members of society. The study formalised this inference by analysing the relative effects of income and of household structure, on standards of living. If Household A has greater needs than Household B but the same income, it will have a lower standard of living. An increase in Household A's income would bring it up to the same standard as Household B. The increase required can be said to represent the cost of A's additional needs (see Figure 1).

A composite index of living standards was assembled, based on questions about diet, housing, social participation and financial hardship.

The main data used came from two surveys, the Poor Britain survey conducted in 1983, and the Poverty in London Survey conducted in 1986. (All the money estimates have been inflated to 1996 rates.)

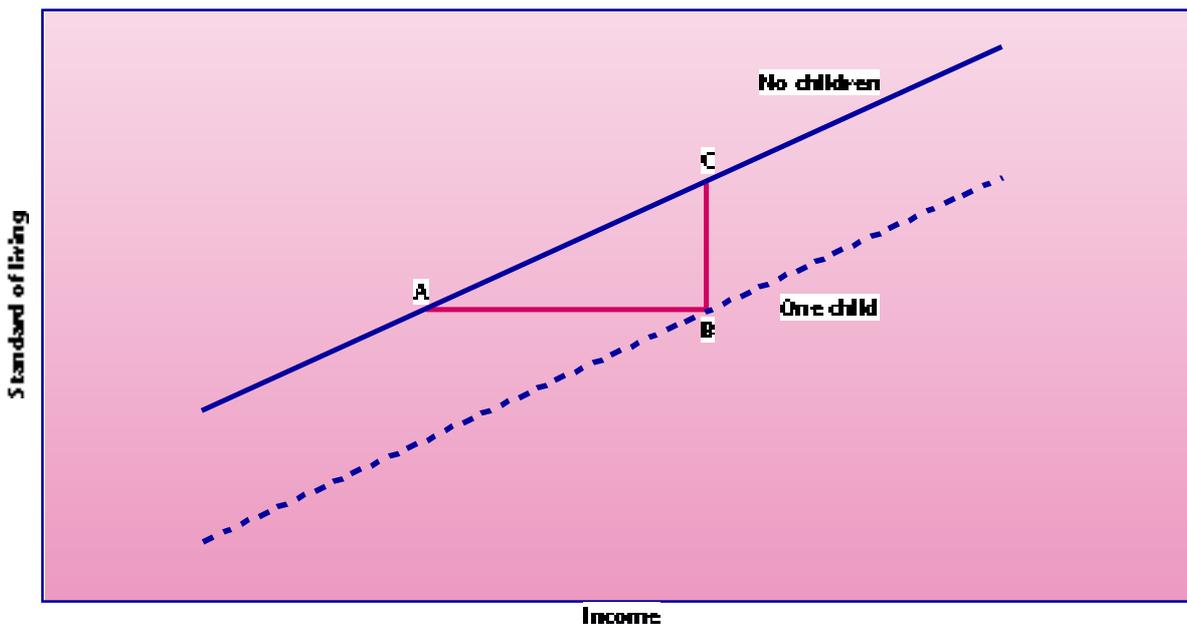
### The costs of children

The two surveys produced rather different base estimates of the average cost of a child: £52 per week from Poor Britain, £32 per week from Poverty in London. These figures were modified as the separate effects of number of children, age of children, and family income were examined. The variations in results between the two sources suggested that this form of analysis could not produce a single 'answer' to replace existing methods. However, it does add to the range of evidence available and is consistent with other sources, all of which suggest that the true costs of children are rather higher than those allowed for in income support (income support pays £10.55 per family, plus between £16.45 and £28.85 per child, depending on their ages).

There was, however, quite strong supporting evidence for the proposition that having *any* children made more difference than the number of children. These estimates suggest that a second child costs less than half as much as the first child.

If that was in line with expectation, the next finding was not. There was no support for the suggestion that older children had much more of an impact on a family's standard of living than younger ones. It may be, therefore, that the recognisably larger appetites of teenagers for food and clothing are

Figure 1: Hypothesised relationships between standard of living, income and family structure



offset by some other factors in the domestic economy. Possibly it is because, being more like adults, they share many of the goods and services which the adults buy for themselves. Whatever the explanation, the current practice of paying less benefit to the parents of younger children is thrown into question.

Many analysts have assumed that children would draw a roughly constant share of a household's income; thus the cost in pounds per week might be expected to rise with income. The analysis becomes extremely complicated at this point, and the precise answer to the question is sensitive to the formula chosen. Nevertheless, the evidence suggests that the cost of a child may be a fixed number of pounds per week; or may actually fall as income rises. If the latter finding was confirmed, it would raise fresh questions about the payment of child benefit to all families, regardless of income.

### Adults

Perhaps the most surprising finding was that couples were at least as well-off, and perhaps better-off, than single people receiving the same household incomes, and in otherwise similar circumstances. Although the two surveys came up with different results in detail, both agreed that two could live for the cost of one. On the other hand, additional adults - mainly the grown-up children of the householder - imposed additional costs, in much the same way as young children did.

### The effects of age

The study suggested that younger people - below the age of 45 - are consistently worse off than those in middle or old age. This implies that older people as a group seem to have lower needs than others. Actually, it was those coming up to retirement age - between 55 and 65 - who had the highest standard of living, even *after* taking account of their incomes and family structure.

### The effects of tenure

The analysis confirmed other studies which have found that council or housing association tenants were significantly worse off than owner-occupiers, even after allowing for the fact that tenants have lower incomes and/or more children. This was partly associated with benefit dependence and social class, which produced similar effects.

Although the original survey data refer to the mid-1980s, before many tenants had bought their homes from the council, the evidence suggests that the tenure effect is just as strong in the 1990s. This

in turn therefore suggests a case for providing some form of extra support for social housing tenants. But the main point to emerge is that people's standard of living (as measured by these indicators) is not simply determined by the purely economic effects of income and household structure. There is an unmeasured social influence as well.

### Conclusion

This analysis was an experiment. It worked in the sense that several different indicators produced similar patterns from four different surveys and produced a number of credible findings.

The study has not produced precise and incontestable measures of the costs associated with children, adults, old age or tenure, but some fairly consistent conclusions have been reached. Those which contradict the conventional assumptions might cast doubt on the whole idea of using survey questions to indicate standards of living. Alternatively, they suggest new lines of analysis and enquiry.

### About the study

Data from four major surveys were analysed. These were: the Poor Britain survey conducted for London Weekend Television in 1983; the Poverty in London Survey conducted for the Greater London Council in 1986; a DSS funded study of low income families in 1991 and a PSI study of credit and debt carried out in 1989. The Poor Britain and the Poverty in London surveys were selected for more detailed treatment. (All the money estimates have been inflated to 1996 rates.)

Some standards of living questions which are commonly used in the surveys proved to be unsuitable for the index: for example, large households were consistently more likely than small households with the same income to have consumer durables such as fridges or cars, presumably because an item is more valuable to a large household for the same price, and therefore represents better value for money.

The index of living standards was based on questions about things that most people regard as basic (though was not intended as a measure of poverty). It was therefore more sensitive to variations in income at the lower end of the scale, than to differences between the prosperous and the rich. This was formalised in the analysis by relating standards of living to the square root of income. Multivariate regression equations were used to estimate the relative importance of a series of household characteristics, including income, in determining standards of living.

### Further information

The summary report, **Relative Needs** by Richard Berthoud and Reuben Ford, is published by the Policy Studies Institute. It is available from BEBC Distribution on 01202 715555, priced £4.

The more detailed technical report, **Estimating Relative Needs through a Comparison of Living Standards** by Reuben Ford, is available from the Policy Studies Institute on 0171 468 2201, priced £15.

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