JRF JOSEPH ROWNTREE FOUNDATION

INSPIRING SOCIAL CHANGE

POVERTY AND THE COST OF LIVING

This report looks at how the relationship between poverty and the cost of living differs between types of goods, markets and population groups, and considers the policy options.

Key points

- Essential goods and services to meet basic needs and participate in society take up a relatively larger share of low-income budgets.
- The price of essential goods and services has risen relatively quickly in recent years, meaning the cost of living has risen faster for those on low incomes. Some groups – such as disabled people and those living in rural areas – have specific or enhanced costs of living as a result of additional costs, higher prices, or higher quantities.
- Low-income individuals are less likely to be ‘active consumers’ switching suppliers and shopping around, partly due to a lack of access to ‘enabling goods’ that give consumers advantages, e.g. a bank account or internet access.
- Public policy has a direct influence on the cost of living, for example through the level of indirect taxes such as VAT, direct price regulation and through stewardship of competition in the market. Essential costs may be reduced or compensated for by, for example, discounts for targeted energy customers, the universal service obligation in the telecoms sector or money to offset some costs (such as housing and childcare).
- Regulators are increasingly using the concept of ‘consumer vulnerability’ – a more dynamic and flexible concept than that of ‘disadvantaged groups’. However, there are concerns over how it can be used in practice, and how poverty and low income fit into this framework.
- Policy options can target the cost of living and its link to poverty – focusing on low-income households, high-cost households or the whole population but with particular benefits to either low-income or high-cost groups.

The research
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BACKGROUND

Most discussion of poverty centres on incomes and the policy solutions are assumed to lie with individuals and government. The cost of living is an important extension to this discussion, bringing in different markets and widening the group of actors to include companies and regulators.

How do low-income budgets differ?

The concept of essential goods and services, such as those set out in JRF's Minimum Income Standard (MIS), is common across developed countries. In the UK, a higher proportion of expenditure by low-income households is on essential goods and services compared with better-off households. This results in a differing inflation rate. In recent years, those with low incomes have tended to experience a higher rate of inflation, although this was not the case in general between the 1970s and the 2000s.

There may also be a different relationship between costs and poverty among low-income households. For example, some groups face 'special' and enhanced costs. Special costs are those that other groups do not face; enhanced costs are costs that other people have, but not to such a large degree. For example, a disabled person with restricted mobility faces special costs of home adaptations, and enhanced costs of heating a home they spend more time in. Those in rural areas have special costs to some extent in the form of higher transport needs and may have enhanced costs, for example through higher heating bills.

The poverty premium

The poverty premium is the idea that 'the poor pay more'. This may include, for example, paying for energy through more expensive prepayment meters, which are used mainly by low-income households; paying more due to a lack of banking facilities for direct debit payments; paying more in fixed costs due to low consumption.

This poverty premium does not only affect those in poverty, nor is its effect consistent. For example, people in poverty are more likely to live in deprived areas, where home contents insurance premiums are higher, but most people in poverty do not live in such areas, and most people living in those areas are not in poverty. The poverty premium often relates to a higher chance of paying a higher price, often associated with something related to poverty but not necessarily poverty itself. Being in poverty may also mean lacking the resources to get around the problem – for example, the ability to afford transport to a supermarket rather than relying on higher-cost local shops.

Despite numerous examples of a poverty premium, it is difficult to quantify. There have been no estimates of an 'average' effect or the numbers of households that might be affected.

Public policy and the cost of living

Almost all economic decisions made by government and business have the potential to affect people's cost of living. For example, trade policies can raise or lower the price of imported goods. Planning policies can raise or lower the cost of land, and so the cost of housing.

This research identifies the policy decisions made by government or public bodies that have a direct and immediate influence on the cost of some essential items. This takes various forms including: housing benefits; restrictions on the uprating of water and rail charges; and stewardship of the market to ensure competition (see Table 1).

Government intervention can increase as well as reduce the cost of essentials. There is some debate in the literature over whether indirect taxes, such as VAT and excise duties, weigh more heavily on low-income households. These policies do not apply exclusively to people in poverty, and indirect taxation represents a smaller share of the minimum socially acceptable budget than of average expenditure – partly because some key goods like food and energy are subject to either no, or reduced, VAT. Moreover, the costs of some key essentials, such as food and energy, are influenced by global market factors as well as domestic policy.

Table 1: Classifying cost of living policies relevant to people in poverty

Category of intervention	**Redistribution and compensation**	**Reduction and control**	**Market functioning**
Category description	Compensation for costs incurred; includes parts of the social security or tax systems.	Reduced or controlled costs (through prices or quantities that need to be consumed).	Measures which ensure the competitiveness and smooth operation of various markets.
Examples	Housing (e.g. Housing Benefit) Childcare (e.g. childcare element of tax credits) Council Tax (e.g. setting and reduction schemes).	Water (e.g. voluntary tariffs) Heating and electricity (e.g. price regulation for distribution and transmission; Warm Homes Discount; the Energy Companies Obligation) Transport (e.g. price controls on regulated fares).	Heating and electricity (e.g. tariff simplification) Food and drink (e.g. investigation into price collusion) Communications (e.g. Universal Service Obligation, monitoring of competition) Transport (e.g. competitive tendering for bus services) Financial services (e.g. investigation into high- interest credit).

The role of companies and regulators

Regulators are increasingly using the concept of 'consumer vulnerability', meaning individuals in vulnerable situations that may affect their ability to engage in markets. It is a more dynamic and flexible concept than that of 'disadvantaged groups' which it replaces. There are concerns over how it can be used in practice, and how poverty and low income fit into this framework. However, it is clearly a concept with which an anti-poverty strategy could engage since it raises the question of whether regulators should intervene in the market only for the general consumer, or whether they should also intervene for particular types of consumer.

Regulators like Ofcom, Ofgem and the Financial Conduct Authority are leading the field, seeking to move companies from a reactive to a strategic approach to dealing with issues of consumer vulnerability. This involves working closely with individual companies, consumer groups and other bodies to empower those tasked with addressing consumer vulnerability issues and facilitating co-ordination across regulators and companies. Regulators monitoring how markets are working for different groups can also help to reveal which parts of the market are not well served, helping companies to identify commercial opportunities for addressing cost and access issues. Further promotion of good practice among companies could also help.

As a possible type of policy, consideration could be given to the development of modern Universal Service Obligations (USOs). While there is a USO for phone lines, there is no equivalent for the internet, although the internet is an MIS necessity and MIS could be used as a benchmark.

The role of individuals and the third sector

People with low incomes are less likely to have access to so-called 'enabling goods', which helps people get better and cheaper deals, e.g. bank accounts which allow customers to pay bills by direct debit (often a cheaper method) or a broadband connection that allows online shopping and price comparisons. Measures to increase access can be effective, but they are unlikely to be sufficient as there is a need for products that better suit the needs of low-income households.

The third sector has a role to play here, and organisations have responded to markets that do not work well for low-income households, for example through the establishment of food and community energy projects. In some cases new products have been developed to better serve the needs of certain groups, including low-income families.

Recommendations for an anti-poverty strategy

To address the cost of living as part of an anti-poverty strategy requires engagement with a range of players including companies, regulators and third sector organisations. Public policy alone cannot address the issue.

There are also tactical decisions to be made about how an anti-poverty strategy should approach cost of living issues. Table 2 presents two types of household – low- income and high-cost – and whether the policies that could be applied are specific to the households in the group or whether they apply generally but with a greater impact on those in low income.

Table 2: Policy interventions for different types of household

	Low-income households	**Households with specific higher costs**
Examples of costs specific to the group	**A** - Cuts in public subsidies and discounts targeted at low-income families	**B** - Costs associated with disability or living in rural areas
Examples of costs affecting whole population which affect the group disproportionately	**C** – Uprating of transport and water costs, consumption taxes	**D** – Costs associated with consumer vulnerability or lacking enabling goods

Much activity and campaigning against poverty focuses on group A, but there is a need for greater focus on special and/or enhanced costs too (group B), among whom low-income households may be over-represented. There is also a case for thinking about costs that affect the whole population but have a greater impact on those with low incomes or higher costs (groups C and D). This may be a way of building a broader coalition for action.

About the project

This project consisted of a literature review covering both the UK and international evidence.

FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

The main report, **Poverty and the cost of living** by Adam Tinson, Peter Kenway, Sabrina Bushe and Tom MacInnes, is available as a free download at www.jrf.org.uk

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