Addressing the cost of living from a poverty perspective requires a multipronged approach

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11/5/2014

*In this article, **Adam Tinson** summarises a report into how those in poverty experience the cost of living. It finds that the interaction between poverty and the cost of living is complicated and multi-faceted. The response will therefore require a range of action from regulators, private companies, consumers and the third sector.*

Even though CPI inflation is currently running well below target at 1.2 per cent, it is not yet time to throw the cost of living crisis into the dustbin of political campaigns contradicted by events. For a start, the cost of living crisis was really about low nominal wage growth, which remains. Secondly, it also allows an opportunity to think about broader issues relating to the cost of living and those for whom it is most important, as we have done in our new report for the Joseph Rowntree Foundation.

People in poverty or on low incomes can experience rises in the cost of living differently to the 'average' household in two main ways. The first is that the spending of a low income household necessarily is skewed towards the most essential goods and services. For example, the bottom fifth of households by income have a higher share of expenditure on food and fuel than the middle fifth, and less on recreation. If these essential goods and services increase in price the fastest, then the inflation experienced by this household will be higher than average. This is just what has happened in the last number of years: food and fuel prices have increased by 30 per cent and 60 per cent respectively, compared to 20 per cent for overall consumer price inflation between 2008 and 2013. Higher income households have also benefited from, for example, lower mortgage costs over the last number of years to a greater extent than lower income households.

The second general way in which those in poverty can experience the cost of living differently to higher income households is through what is known as 'the poverty premium.' The concept of the poverty premium is well known, with many varied applications that make it somewhat imprecise. What these applications tend to have in common is that some factor that correlates with poverty also correlates with higher costs for the same or similar goods. For example, people with low income are more likely to pay for energy through a prepayment meter, which tends to be more expensive than other payment methods. This method of payment may have been imposed (e.g. for chronic non-payment through other methods) or may be preferred as it offers more control over bills. Other forms of premium include expensive credit (such as payday loans or rent-to-buy), lacking the income to benefit from economies of scale, or living in a deprived area with higher insurance costs. The variety of poverty premiums and data restrictions do not allow any substantive analysis of what an 'average' premium might be. It also means some of these premiums cannot be tested adequately – for example, better US data suggests that there is no premium on food for most low income consumers, as they are more adept at shopping around and taking advantage of offers.

While those on low incomes can experience the cost of living differently, certain other groups face a different relationship again. By using the concepts of 'special costs' and 'enhanced costs' to identify these groups two that stand out are disabled people and those living in rural areas. Special costs refer to costs that other groups do not necessarily face – such as additional equipment in the case of disability or private transport in rural areas. Enhanced costs are those faced by other groups but which tend to be higher – for example, heating costs can be higher for disabled people if they spend more time in their homes and can be higher in rural areas for a number of reasons, such as relying on off-grid heating.

The government has a reasonable amount of influence on the cost of living generally and poverty and the cost of living specifically. One way of examining this is to break the interventions down into three types:

- Redistribution and compensation – use of social security to subsidise certain costs, for example, housing benefit or disability living allowance/personal independence payment
- Cost reduction and control – usually obligations placed on companies, such as price controls in water and rail or measures to promote energy efficiency
- Market functioning – measures to ensure markets generally and essential markets in particular are working, such as tariff simplification or competition policy.

Over the last number of years, the focus has been shifting from the first and second pillars towards the third. However, it is important not to overstate this shift. In this parliament in particular, there have been reductions to subsidies for housing costs (for example, through Local Housing Allowance changes) and disability (the transition from Disability Living Allowance to Personal Independence Payment). In terms of the second type, there are no longer price controls on BT phone services, but this is because there is sufficient competition to render them redundant. There have been renewed efforts to improve how some markets work – for example, reducing the number of tariffs energy companies are allowed to offer in order to try and boost switching by making comparisons easier.

However, addressing the cost of living from a poverty perspective requires more. Another measure would be to promote the availability of 'enabling goods', which are goods or services that confer advantages in other markets. These can include internet access or basic bank accounts that allow for additional payment methods. This should be accompanied by the development of basic, low cost products where appropriate. For example, the universal service obligation in telecoms currently requires an affordable phone service. This should be extended to a basic internet service. The interaction between poverty and the cost of living is complicated and multi-faceted. As such, the response will need to reflect this and include a range of action from regulators, private companies, consumers and the third sector.

About the Author

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