

**THE DISTRIBUTION AND DYNAMICS OF ECONOMIC AND SOCIAL WELL-BEING IN THE UK:
An analysis of recession using multidimensional indicators of living standards (MILS)**

Summary Findings – November 2018

Marco Pomati (Cardiff University) and Demi Patsios (University of Bristol)

Background

Living standards in the United Kingdom are typically measured using income as a proxy. Past research into living standards focuses on how living standards have changed over time, the extent to which there are inequalities in living standards for different groups, and the impact of the recession on living standards. To date, little research combines economic and non-economic indicators to inform living standards.

Multidimensional indicators of living standards (MILS) that go beyond disposable (net) income and expenditure or consumption as a proxy are able to capture a fuller picture of living standards and better inform policy making and research.

This *Nuffield Foundation* funded research sought to provide greater understanding of the relationship between objective and subjective indicators of living standards and how this changed over the course of the recession for different family life-course types using data from three national surveys:

- Poverty and Social Exclusion Survey (PSE) 2012
- Family Resources Survey (FRS) 2006/07 - 2015/16
- UK Household Longitudinal Study - “*Understanding Society*” (USoc) 2009-11 - 2014-16.

What are living standards?

Living standards are defined as the sum total of individual and family welfare using both objective and subjective indicators.¹

Our conceptual framework of multidimensional indicators of living standards (MILS) aligns with the German approach to measuring individual and societal welfare (which in turn is based on the Scandinavian level of living and American subjective well-being

approaches) by combining objective indicators of living circumstances with subjective assessments of these circumstances.

Multidimensional Indicators of living standards can be measured in eleven key dimensions of individual and family welfare, which fall under three overarching domains.

What We Have

1. Economic resources
2. Material goods
3. Financial situation
4. Personal and social resources
5. Physical and mental health

What We Do

6. Paid and unpaid work
7. Social and political participation
8. Social relations and integration

Where We Live

9. Housing and accommodation
10. Local area/neighbourhood
11. Local services

What happened to objective and subjective levels of resources over the recession?

In the first stage of the analysis, we explored whether trends in objective and subjective indicators displayed similar patterns across time and for adults in different family life-course types.

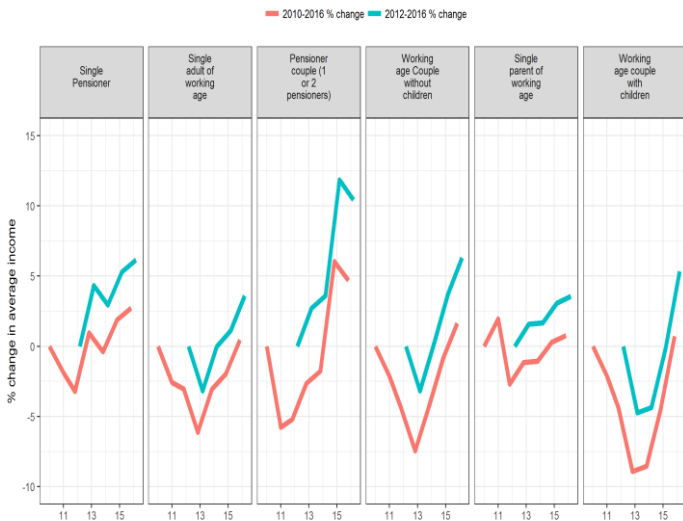
Income

Most family life-course types experienced a drop in incomes between 2008 and 2012 followed by an increase between 2013 and 2016, resulting in a “tick” shape of average income trajectories. The clearest pattern in the change in this objective resource of living

¹ Patsios, D., Pomati, M., & Hillyard, P. (2018). Living Standards in the UK. In G. Bramley, & N. Bailey, *Poverty and Social Exclusion in the UK: Volume 2 - The dimensions of disadvantage* (pp. 57-90). Bristol: Policy Press.

standards is the persistently lower levels of income experienced by single parents and the general clear decrease in incomes during the economic downturn (2008-2012), followed by increases during the recovery (2013-2016). This follows the general trend found in DWP's HBAI series¹.

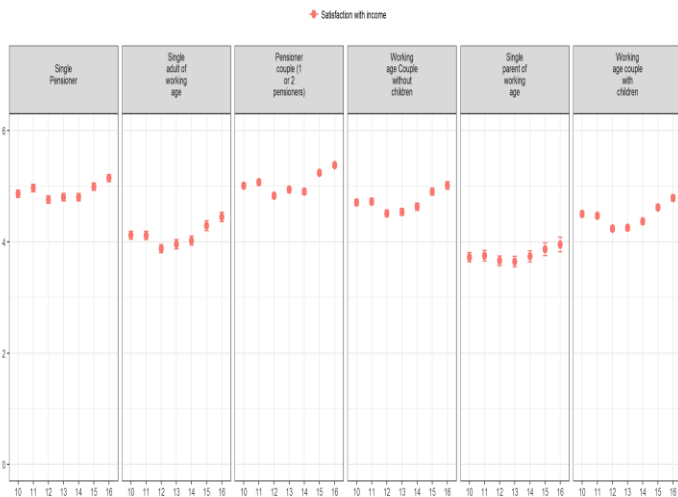
Figure 1: Percentage changes in Weekly Net Income Before Housing Costs, CPI adjusted (FRS)



Satisfaction with income

Changes in satisfaction with one’s income (the only subjective indicator of income satisfaction available for more than one survey year) were remarkably similar to 2010-2016 average income trajectories.

Figure 2: Average Satisfaction with income trends (USoc)



Subjective relative income

Answers to questions about how far adults feel their income is from poverty and average income (our measure of subjective relative income) show a positive

correlation with their actual household income, which suggests that adults are generally aware of their level of resources.

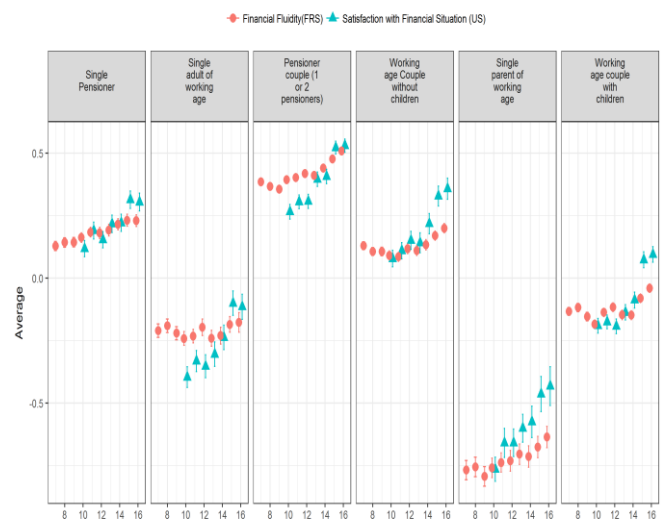
Together with the findings on satisfaction with income, this confirms the importance of looking at perceptions of income along with actual income².

Financial Fluidity

We combined information on debts and savings into an overall measure called Financial Fluidity. Similar to income, this measure shows that most groups were better off in 2016 than they were in 2007, with the exception of single adults of working age who saw no clear changes in their level of savings.

The most important difference between changes in incomes and financial fluidity are that whereas incomes have seen a clear dip between 2010 and 2012 (followed by a sharp rise in the recovery period) financial fluidity seems to have remained relatively stable during the recession and increased after 2012.

Figure 3: Average Financial Fluidity and Satisfaction with Financial Situation trends (FRS & USoc)



These trends are also reflected in the difference between the evolution of satisfaction with income and the subjective assessment of one’s financial situation. Satisfaction with income shows a clear down-then-up trajectory, whereas satisfaction with financial situation shows a rise after 2012.

Our findings are in line with ONS’ indicators of *Economic well-being*, which show that satisfaction with financial situation had a negative index during the economic downturn and a positive index during the recovery (ONS, 2016³).

¹ Department for Work and Pensions. (2017). *Households Below Average Income: An analysis of the UK income distribution: 1994/95-2015/16*. London: DWP.

² Office for National Statistics. (2014). *Economic well-being - Framework and indicators*. Newport: ONS.

³ Office for National Statistics. (2016). *Economic well-being, UK: January to March 2016*. Newport: ONS.

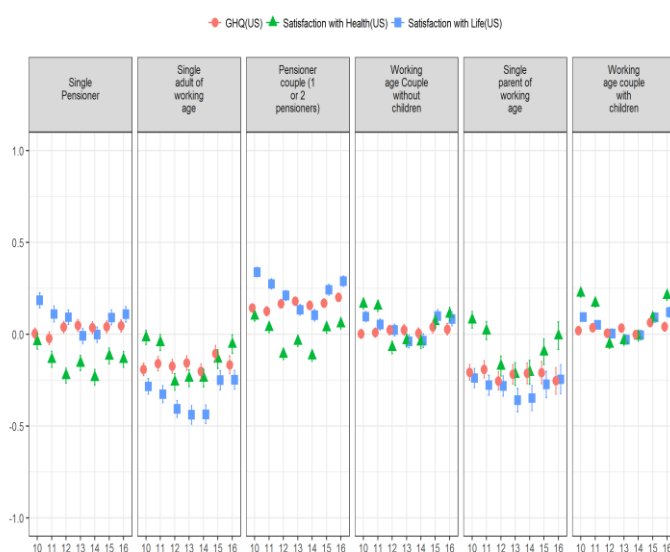
Mental health

Mental health was measured using the General Health Questionnaire (12-item version, GHQ-12¹).

We found that the overall clinical threshold for mental illness (a score of four or more) remained consistent over the recession. However, The GHQ shows family life-course type differences similar to the subjective indicator of satisfaction with life but the latter show much more variation between 2010 and 2016.

Moreover, trends in satisfaction with health and satisfaction with life are quite similar to the ones seen in the satisfaction with income. Hence life and income satisfaction exhibit similar trends, that is a clear increase during the recovery (2013 to 2016).

Figure 4: Average Mental Health (GHQ), Satisfaction with Health and Satisfaction with Life trends (USoc)



What explains the variation in subjective indicators?

In the second stage of the analysis, we explored how much of the variation in the subjective measure was attributable to its objective counterpart controlling for a range of socio-demographic characteristics, objective indicators of engagement and location, and the impact of critical life events.

In our analysis, we only chose subjective indicators for which there was a clear objective counterpart in the same dataset. Our hypothesis was that most of the variation in the subjective indicator would be explained by its objective counterpart.

Most of the variation in the subjective indicators (subjective relative income, satisfaction with income, satisfaction with life) was explained by the differences

¹ Golderberg D, Williams P. (1988) *A user's guide to the General Health questionnaire*. Windsor, UK: NFER-Nelson.

² Defined as the lack the ability to afford key goods or services (also known as 'enforced lack in the literature).

in objective indicators of resources, reiterating the finding that subjective and objective indicators show the same family life-course type patterns of economic advantage and disadvantage over the recession.

Subjective relative income and Satisfaction with income

Income and material deprivation² explained the largest amount of variation in satisfaction with income and subjective relative income. Social class, education and employment status do not add to the explanatory power of the models. Their role in explaining levels of perceived resources overlaps heavily with income so that once we control for income, we see a modest increase in explained variation.

Satisfaction with life

We found that a large amount of variation in satisfaction with life (our subjective 'counterpart' measure of mental health) was accounted for by GHQ. Satisfaction with life also does not seem to be further explained by material deprivation once we control for mental health and longstanding illness.

Critical Life Events

Critical life events do not seem to explain much additional variation in the two subjective indicators of income. However, satisfaction with life appears to be influenced by having had a major health problem in the past 12 months, which is found in research on negative life events and subjective wellbeing³.

What We Do and Where We Live

Variation in social activities and civic engagement (What We Do) and location (Where We Live) do not explain any further variation in the subjective indicators of income once income and material deprivation are introduced, nor do they explain any further variation in satisfaction with life once objective mental health and longstanding illness are taken into account.

As material deprivation includes some information on social activities and housing/accommodation deprivation, sensitivity analysis was carried out to determine whether the order in which material deprivation is entered in to the model affects the explanatory of what we do and where we live.

We found that the explanatory power of information on What We Do and Where We Live remains limited once we control for income and GHQ for satisfaction with income and satisfaction with life respectively. However,

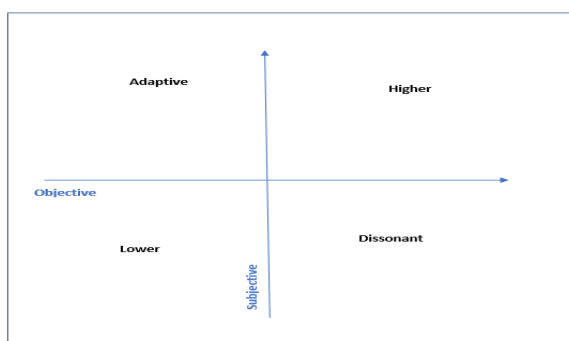
³ Western, M., & Tomaszewski, W. (2016). Subjective Wellbeing, Objective Wellbeing and Inequality in Australia. *PLoS ONE*, 11(10), 1-20.

there was indication that some of the indicators used in material deprivation do indeed overlap with information on social activities and accommodation/housing in subjective relative income.

What is the distribution of welfare types across family life-course types?

In the final stage of the analysis, we explored further the variation in our subjective measures by using the concept of welfare types. Respondents were split into a fourfold classification: those who have high levels of objective and subjective resources ('Higher') and low levels of objective and subjective resources ('Lower'). We defined those who do not follow this pattern as 'Adaptive' (with low levels of objective resources yet high levels of satisfaction with these) and 'Dissonant' (with high levels of objective resources yet relatively low levels of satisfaction with these).

Figure 5: Welfare Types



Source: Adapted based on Zapf (1984) (cited in Berger-Schmitt & Noll, 2000¹).

Some interesting - albeit expected - findings emerged in the analysis of welfare types across family life-course types. Single adults (those of working age and single parents) were generally worse off (i.e. falling into the 'lower' category) across all measures used in the analysis of welfare types.

We also found that working age couples without children were doing relatively better on the income-related measures (ie. they fall into the 'higher' category), which has been shown by other research in the field (Corlett, Finch, & Whittaker, 2016²).

In terms of pensioners, the analysis of welfare types seems to suggest that they are relatively more likely to fall into the 'higher' health welfare type, which again is

in line with existing research in the field that shows despite the increase in chronic conditions with age, personal well-being is consistently found to be higher in older adults than among young or middle aged adults (DoH 2014³; ONS, 2018⁴).

The utility of welfare types in analysis of (or for) policy

Some caution should be exercised in using welfare types for more than descriptive accounts of the impact of the recession or the extent these welfare types might have changed over time for two reasons: first, differences in welfare types could be caused by real differences between family life-course types in levels of resources which are not captured accurately enough in data and second, that welfare types are simply adjectives (or descriptors) in relation to the average of the objective and subjective measures and are not based on a scientifically validated threshold.

Summary/conclusions of the research

Subjective indicators have so far been neglected and often dismissed as unreliable, yet we show that satisfaction with income, satisfaction with financial situation, and satisfaction with life can be used as valid and reliable subjective indicators for monitoring differences and changes in living standards.

Living standards can be measured using some specific subjective indicators because their variation is mostly explained by variation in the relevant objective living standards, particularly where there is a clear counterpart.

Why use subjective indicators then?

Subjective indicators can corroborate objective indicators such as income and material deprivation, which are not collected consistently across surveys or over time.

Subjective indicators can help track changes in living standards across time and across family life-course types because their variation is explained mostly by what people have rather than who they are, where they live and what they do. Only by going beyond objective indicators of resources are we able capture a fuller and more nuanced picture of living standards in the UK.

¹ Berger-Schmitt, R., & Noll, H.-H. (2000). *Conceptual Framework and Structure of a European System of Social Indicators. EuReporting Working Paper No. 9*. Mannheim: Centre for Survey Research and Methodology (ZUMA), Social Indicators Department

² Corlett, A., Finch, D. & Whittaker, M., 2016. *Living Standards 2016: The experiences of low to middle income households in downturn and recovery*, London: Resolution Foundation.

³ Department of Health, 2014. *A Compendium of Factsheets: Wellbeing Across the Lifecourse*, Department of Health: London.

⁴ Office for National Statistics, 2018. *Measuring National Well-being: Quality of Life in the UK, 2018*, Newport: Office for National Statistics.

Summary of implications and recommendations

Policy making

Inequalities in living standards between different family life-course groups. The research has confirmed that some family life-course groups, e.g. single adults of working age, had been affected more than others by the economic downturn. Specifically, single adults below retirement age and single parents are two groups that might warrant further policy attention, particularly during periods of economic downturn.

Research for policy

Social indicators – harmonised principles of indicators of subjective living standards. In order to contextualise some of the trends over time identified in this project and ongoing work on measuring national and personal well-being by ONS, the Government Statistical Service (GSS) should consider carrying out a Harmonised Principles exercise on subjective indicators of living standards (e.g. satisfaction with income, satisfaction with accommodation/home, satisfaction with local area/neighbourhoods).

Data collection and measurement

Material Deprivation. UK government should collect information on material deprivation indicators consistently and review the current suite of questions, ensuring that comparable questions are asked of all adults regardless of age (i.e. instead of the current situation where some questions are asked only of respondents of 65 years of age or older).

Contact for further information

Demi Patsios, Senior Lecturer, School for Policy Studies, University of Bristol, demi.patsios@bristol.ac.uk

Marco Pomati, Lecturer in Social Sciences and Research Methods, School of Social Sciences, Cardiff University, [pomati@cardiff.ac.uk](mailto:pomatim@cardiff.ac.uk)

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Financial situation. Where feasible, surveys should collect information about savings and debt and possibly economising activities so that trends and patterns in financial fluidity can be further explored.

Mental Health. Given the current drive to measure happiness and personal and national wellbeing, national surveys like the FRS include a validated and highly reliable mental health questionnaire like the General Health Questionnaire.

Subjective Relative Income. Surveys that aim to measure living standards and inequality should include questions about how respondents perceive their income.

Satisfaction with Income and Financial situation. Subjective indicators seem reliable and consistent over time. As such, large annual surveys like the FRS should collect these two simple questions yearly.

Life events. An accurate measurement of their physical and mental health might be more insightful than knowing whether someone has had a major health problem.

Further research and analysis

Family Life-course groups. There should be further research on the overlap between household types and benefit unit (family) types.