The poverty penalty in action—less for your money

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The recent Bank of England evidence on the record levels of personal debt that have accumulated since the 2008 economic crash highlight the financial vulnerability of many people across the UK. Research by the University of Manchester into everyday living costs for those with limited financial resources has been launched this week with the End Child Poverty Coalition at Westminster. Here, Dr Kingsley Purdam and

Oxfam's Graham Whitham outline some of the key issues facing families with limited financial resources.

- 13 million people live below the official poverty line in the UK
- There are differences in essential everyday living costs for people with limited financial resources and this can have a cumulative impact
- Despite new regulations for cash loan companies, interest rates on such loans are still comparatively high
- The credit union sector needs to grow significantly to offer an effective alternative to high interest lenders
- Decision 'tunnelling' can impact most on people already in financially vulnerable circumstances
- The limited capacity of people in the UK, including many families, to save and protect themselves financially makes it more likely that they will have to take on debt when paying for essential goods and services and to pay for unexpected bills

The rapid growth and subsequent recent contraction of the so-called payday lending market in the UK has highlighted the different choice constraints that can be faced by those people with limited financial resources. In 2014/15 there were 3.5 million children living in relative poverty. Research by Step Change found that 18 per cent of households with children in the UK were in arrears on at least one household bill.

Research by the Money Advice Service suggests 2 out of 5 of the working population in the UK have savings of £100 pounds or less. People living in such circumstances can face challenging financial decisions in the context of low pay, precarious employment and reductions in welfare support. Some people have been left in debt following a relationship breakdown or the death of a partner.

Whilst differences in everyday essential living costs can affect all income groups, the impact can be most acute amongst people with limited financial resources. This 'poverty penalty' can take different forms, including being sold products which are of poor quality, being priced out of the market, being faced with the choice of having to spend money on one essential good rather than another, and facing higher costs for the same goods and services.

Our research, building on previous work by Save the Children, highlights the potential differences in essential everyday living costs including: food, energy, transport and communication faced by people with limited financial resources. People in urgent need may not have access to the lowest interest rate loans and have to rely on cash loans. Many people cannot afford to take advantage of bulk buying discounts and can be more reliant on their corner shop, which can be more expensive compared to a supermarket.

"Our research identified how rent-to-buy purchases such as a cooker or a washer usually work out much more expensive in the longer term even if the weekly payments are affordable – a washing machine that was being sold for £249 (including a warranty) at a leading high street retailer would cost over £1,400 if bought from a high street rent-to-buy shop, even though it was available at £6 per week," says Dr Kingsley Purdam.

There is also a cumulative dimension to these higher costs for essential goods and services. If a person takes out a high interest cash loan and uses it to buy goods and services at additional costs, such as gas and electricity prepayment cards, then the differences in costs are compounded. Even though the UK government has introduced new regulations to govern the operation of cash loan companies including the overall level of repayment, the interest rates on such loans are still comparatively high.

Moreover, people with limited financial resources and their children have been targeted for high interest cash loans. It is also notable that one high profile payday loan company has had to pay compensation for sending out fake legal letters chasing unpaid loans. Perceptions of social rank can also be a factor here, and young children have been shown to be aware of, and sensitive to, economic inequalities.

Alternative and more affordable sources of credit do exist in the UK, including credit unions whose membership has grown from 563,000 in 2004 to well over a million. However, the sector needs to grow significantly before it can offer an effective alternative to high interest lenders for those people with limited financial resources in all parts of the country.

'Decisions between different losses' – financial vulnerability and decision-making

Of course an aspect of managing personal finances is individual responsibility and a key issue here is financial literacy and making informed financial decisions. The cognitive control aspects of decision making are affected by circumstance, preference, understanding of risk, future orientation, consumption pressures and lack of alternatives. However it is people's immediate circumstances and needs, their limited resources and options that are partly driving decisions that can reinforce their financial vulnerability. This so-called decision 'tunnelling' can affect all sectors of society, but its impact is potentially more of an issue for those people already in financially vulnerable circumstances.

Research has revealed that people with limited financial resources are making their decisions between different losses. Food bank users in the UK have been shown to be knowledgeable about the costs of food and their weekly budgets but they are limited in their capacity to address their longer-term financial vulnerability.

The limited capacity of people in the UK, including many families, to save and protect themselves financially makes it more likely that they will have to take on debt when paying for essential goods and services and to pay for unexpected bills. There is a built-in disadvantage in the sometimes predatory market place for those people living with limited financial resources. Financial uncertainty and debt are recurring problems.

Despite government policy changes and regulatory efforts, the cumulative disadvantage of the additional everyday living costs potentially faced by people with limited financial resources are likely to be a barrier to improving their financial circumstances in the long term.

More information: Kingsley Purdam et al. Hungry? Food Insecurity, Social Stigma and Embarrassment in the UK, *Sociology* (2016). DOI: 10.1177/0038038515594092

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