

**Poverty, Wealth and Place in Britain,
1968-2005**

For NCRA Panel

**A Review by Professor G Meen
University of Reading**

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A Review

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Summary

- The report has been produced by a well-respected team of researchers, who have considerable experience in the fields covered by this study. The study has been conducted to the high standards that would be expected from this team. They are also aware of the problems associated with studies of this form.
- However, the results can only be as good as the underlying data. Despite the improvements in neighbourhood data sets in recent years, there are still major gaps, which cannot be easily filled, particularly concerning *long-run* changes in key indicators. Local statistics are generally available only for short time periods. This makes it difficult to conduct definitive analyses for the period since the 1970s.
- The analysis of spatial poverty change is stronger than the analysis of wealth distributions. This is partly because the methodology is better established for the former in the literature and partly because there are few indicators available of spatial wealth distributions. The study relies entirely on house price data for the latter and does not include other asset holdings.
- Therefore, the changing distributions of wealthy households reflect the housing cycle and the so-called “ripple effect”. It is dangerous to use estimates based on single years. Although the authors attempt to assess the relationship between their estimates of wealthy households and share holdings, the study does not take into account *changes* in asset relative prices over time. An important issue in international macroeconomics in recent years has been the possible negative correlation between house prices and stock market prices. If asset prices are not highly positively correlated, the spatial wealth distributions could differ considerably from those in the report.
- The report is almost entirely descriptive. Although this is certainly valuable, there is no substantial discussion of the *drivers* of these changes (or the lack of change). Furthermore, there is a suspicion that the changes between 1968 and 2005 are related primarily to the macro economy and reflect the general economic cycle. Consequently, the report provides only a limited guide for policy. Is it sufficient just to rely on conventional macro economic instruments or is explicit spatial targeting required?
- The report suggests that spatial change is slow (this accords with other studies) and, arguably, the changes identified over the study period are fairly small. Although difficult to calculate, some indication of the error margins surrounding the estimates

- would be valuable. Can we really conclude that there have been any statistically significant changes?
- The report considers additional evidence, from different sources, for the post 2001 period. Although this is useful, the period is too short to draw conclusions for the future, particularly since the period is entirely one of macroeconomic growth.
- Overall the report provides valuable descriptive information, but further work is required as a basis for policy.

Further Details

Dorling and his team are well known for their work on the human geography of the UK and poverty and have compiled an impressive body of work over the years. The team is certainly well suited to work of this form. The team has a strong knowledge of the literature and the technical side of the study appears to have been well conducted. The researchers do not have any axe to grind and the presentation of the evidence is balanced and fair. The study is, therefore, valuable, but cannot be considered as definitive, because of the data weaknesses. In my role as a “friendly critic” I attempt to point to some of the problems.

First, it is worthwhile pointing out that constancy in spatial distributions of poverty do not necessarily imply that the same households remain in poverty over time, due to turnover and the authors do provide some evidence on this. Standard location theory would predict that areas of poverty will reflect the worst environmental and physical conditions, which by their nature can only change slowly over time.

There will always be disagreements about the appropriate definition of poverty, but the “breadline” and “core” poor definitions have been used in the literature before. Equally, the definitions of “asset wealthy” and “exclusive wealthy” are inevitably controversial. The patterns of poverty that are revealed at the national level are broadly in line with other studies, which provides some confidence, although the different paths for core and breadline poor in the latter part of the period was, perhaps, slightly more surprising. As would be expected from Dorling, the presentation in terms of maps is impressive and the work on spatial concentrations in terms of Moran statistics and other tests of clustering was valuable. Overall, the research receives full marks for presentation and analysis of the statistics.

Academics will also always argue about the appropriate choice of study area. Dorling chooses tracts consisting of approximately 45,000 people. They are, therefore, not small areas or neighbourhoods. Nor is there any attempt to link these to Housing Market Areas or Travel to Work Areas, which economists often prefer. This would have been difficult in practice, but it is worthwhile bearing in mind that the study is not looking at very small areas. Furthermore, summary measures of segregation, such as dissimilarity indices, are sensitive to the definitions of spatial area.

In general, the work on poverty distributions is stronger than wealth distributions. Since the “non-poor, non-wealthy” category is the residual, any errors in the remaining four categories are reflected in the residual. As the authors note, much more previous research

has been conducted on the former with very little on the latter. Therefore, the methods for analysing poverty are much better established. Of course, the research on wealth is also the report's most original contribution. However, critically, the analysis of wealth is based entirely on house price data and this is a major weakness, although it is difficult to see what else could be done, given the state of the data. Given the manner in which the distributions have been constructed, the spatial structure is in line with expectations, reflecting the stage of the housing market cycle. But the following are major problems:

- (i) The study attempts to construct measures of housing *equity*, which is the appropriate concept, i.e. the value of outstanding debt has to be deducted from the value of the property. However, there are no direct estimates of mortgage debt at the local level, and strong simplifying assumptions have to be made.
- (ii) The authors are aware that housing wealth is only one part of the wealth stock, although the largest single element. They argue that housing wealth is likely to be a good proxy for the total and, indeed, provide evidence that wealthy households hold both. The problem, however, is that the price of assets do not move in line with each other over time. Indeed, there has been considerable debate in the macroeconomics literature recently that house prices and stock market prices (particularly in the US) are negatively correlated. Therefore, periods in which house prices rise could correspond with periods in which stock market prices fall. In Britain, there are periods in which the two are positively correlated and others in which the correlation has been negative. Since the authors conclusions about changes in the spatial distribution of wealth are strongly related to the house price cycle, these could change considerably if a wider class of assets is added. Their conclusions only hold if asset prices are strongly positively correlated.
- (iii) Asset wealthy households are considered to be those who hold assets above the inheritance tax threshold. There are, of course, questions whether a tax threshold, designed to raise a certain level of revenues, can be considered as an appropriate definition of wealthy. In addition, the authors adjust the threshold to take account of the fact that only housing wealth is measured. The adjustment is based on the national share of housing wealth in the total. But, as noted under (ii), this is only appropriate if house prices and asset prices move in line over time.
- (iv) House prices are highly cyclical and, therefore, measuring house prices at a particular point in time can be misleading, since the changes may only be temporary. More importantly to this study, spatial house prices have exhibited a "ripple effect" over successive cycles. This implies that prices rise, first, in the southern part of the country and then gradually spread out to the rest of the country. But if wealth is measured in a single year, the ripple distorts the spatial wealth distribution. In the longer term, spatial price movements are much more spatially co-ordinated.
- (v) Generally, the finer the spatial scale, the more house price data suffer from "noise" due to small sample problems. Furthermore, transacted house prices can suffer from a variety of sampling biases, since traded prices are not a random sample of the housing stock.
- (vi) The report might have considered the extent to which the spatial wealth distributions reflect the age distribution of the population. Presumably the distribution is likely to

reflect at least to some extent the length of time households have had to accumulate assets.

A common finding from studies that look at aspects of distributional change over time is that change is slow (cyclical indicators such as house prices overstate the true pace of change). Particularly in terms of the poverty distributions, this seems to hold also in the Dorling report, reflected in the spatial autocorrelation statistics, for example. However, some modest changes in spatial patterns are found. But it is difficult to know whether these are true changes or whether they lie within the margins of error of the estimates. Although difficult to prove, my suspicion is that the changes may be statistically insignificant. Of course, this matters for policy, but it is hard to draw conclusions.

Furthermore, the report does not attempt to identify the drivers of change over time, although there is a brief description of the role of migration. Although the extension would be a major task and it may be argued that description is an important first step, it appears to be the case that macroeconomic developments, rather than specific spatial policies, have been the major influence. This is particularly true for the spatial wealth distributions. Further work needs, therefore, to concentrate on the causes of change and stability if it is to be even more useful for policy.

It is unsurprising that the report wants to look at the most recent position (2005). But in the absence of a census after 2001, the authors are forced to rely on a different set of indicators. The choice of indicators is reasonable, but there are potential problems in using this information as the basis for predictions for the future. There are two problems. First, the indicators are measured over a period of economic strength and spatial distributions are likely to change in a downturn. Second, some of the indicators are measured over very short periods and it would be dangerous to make extrapolations. This is particularly noticeable for the Barclay's income measures, which look at changes only between 2003 and 2005. The variable also appears to be expressed in nominal rather than real terms and prices (particularly housing costs) vary spatially. Further care is needed with the education indicators. These compare those graduating between 1997-2001 with graduates for 2001-2005. However the latter group entered higher education between 1998 and 2000. Since entry might be considered the decision variable, arguably the indicator tells us little about the first years of this century.