THATCHERISM: the RICH got RICHER, the POOR got POORER?

The perception that the policies of 'Thatcherism' led to an explosion of poverty has become received wisdom.

Income statistics appear to lend some credence to this: incomes at the lower end of the distribution grew at a rate well below average income growth. The poor did not literally 'get poorer', but it would seem that they did not benefit from the country's improved economic performance either.

This impression is, however, an artefact explained by idiosyncrasies of the income data. According to other measures, the living standards of the least well-off did improve.

For various reasons, income has ceased to be a reliable measure of living standards at the bottom of the distribution – and the view on Mrs Thatcher is no longer so black and white, says KRISTIAN NIEMIETZ

The anatomy of a myth

Unsurprisingly, the passing of Baroness Thatcher has sparked a renewed debate about her social and economic legacy. Most commentators accept that 'Thatcherism' has, to some extent, reinvigorated economic dynamism. But the perception that this relative success came at a high human cost, in the form of vastly increased levels of poverty, has become received wisdom.

One standard textbook on social policy states: *"The Labour government that came to power in 1997 inherited levels of poverty and inequality unprecedented in post-war history"* (Hills et al, 2009, p.2). Another standard work claims: *"During the 1960s, just over 10% of the population lived in a low-income household. This rose slightly under the Conservative administration [...] and then declined to about 8% during the mid-1970s. In 1979 [...] changes in economic and social policy resulted in a trebling of the proportion of people living in low-income households from 8% to 25%"* (Pantazis et al, 2006, p. 4). Yet another account describes the post-war history of poverty as defined by *"two large-scale shifts [...] creating a giant U-shape: one between the pre-WWII years and the post-WWII years; and one between the late 1970s and late 1990s – shifts that have radically altered the character of our society. [...] The overall pattern is one of shifting from a relatively 'high-poverty equilibrium' to a 'low-poverty equilibrium', and then back to a higher one again"* (Horton & Gregory, 2009, p.6).

It is not difficult to see where this impression comes from: There was indeed a huge spike in relative poverty rates between 1984 and 1990, followed by a moderation, but not by a return to anything resembling pre-1984 levels.

The steep rise in relative poverty over the 1980s was the combined impact of steeply rising median incomes (and thus a steeply rising relative poverty line), and slow income growth at the distribution's lower end. Indeed, at the very bottom, incomes even stagnated completely.

THOSE WITH LOW INCOMES SPEND SUBSTANTIALLY MORE THAN THEIR REPORTED EARNINGS AND THOSE WITH THE LOWEST INCOMES ARE NOT NECESSARILY THE SAME PEOPLE AS THOSE WITH THE LOWEST EXPENDITURE

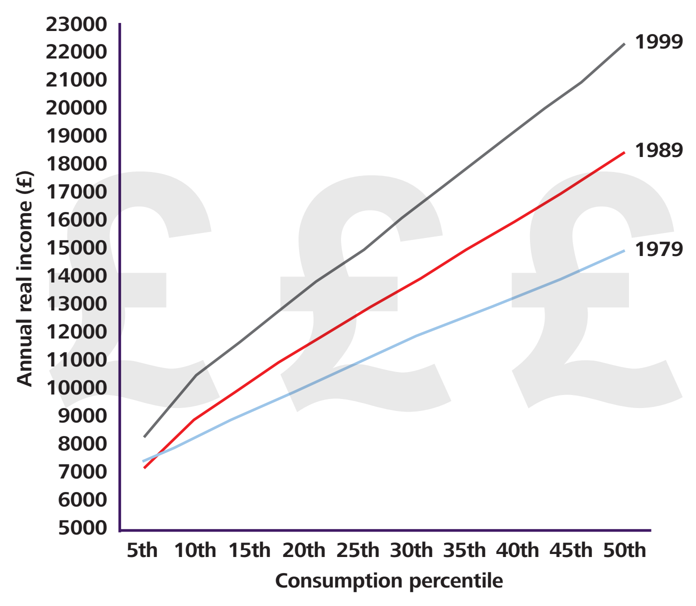

Figure 1: The income gradient in Great Britain over time

-based on data from Brewer & O'Dea (2012)

The graph below shows the lower half of the income gradient in 1979, and then again in 1989. It looks more like an outward rotation than an upward shift. The 1980s, on this account, appear to have been a lost decade for the least well-off.

Should we measure poverty using income data?

But in the mid-1990s, a pioneering study by Goodman and Webb (1995) showed that something about the income data was not quite right. The authors plotted income against expenditure, and found the following pattern:

For most of the distribution, income is a fairly good predictor of expenditure, even if there are always some households who spend notably more or notably less than they earn. But at the lower end of the distribution, this relationship becomes steadily weaker, and at the very bottom, it breaks down completely.

Those with incomes in this region spend substantially more than they (report to) earn, and the spread between 'high spenders' and 'low spenders' is vastly greater than at other points of the distribution. Those with the lowest incomes and those with the lowest expenditure are not necessarily the same people.

Crucially, the authors repeated the same exercise with older data from 1979, and found that the mismatch between income and expenditure had not yet been visible back then. The decoupling of expenditure and income at the lower end must have occurred during the 1980s.

Since then, a number of studies have confirmed and complemented these findings (Blow et al, 2004; Brewer et al, 2009; Brewer et al, 2006).

There seem to be two major factors at work which drive income and expenditure apart, and which were not yet very pronounced in prior decades.

Firstly, the bottom income decile has become a much more heterogeneous place over time, containing people who record similar incomes but who have little else in common economically. Up until the late 1970s, this decile consisted mostly of pensioners.

From then on, the share of the latter decreased while the share of the self-employed and the unemployed increased. While pensioners display a rather stable income situation, there is much more variation among these latter groups, ranging from people who experience a mere short-term income dip to people who experience permanently low incomes.

A second major factor is the underreporting of income from government transfers. For most types of transfers, the sums that people report to receive do not gross up to the sums that are actually being paid out. This is probably not a new phenomenon, but the share of state transfers in household income has increased over time, including during the 1980s which are often erroneously thought of as an era of 'welfare retrenchment'.

Taken together, this means that income data may be a good guide to average living standards, but they are no longer a good guide to the living standards of the least well-off.

Income in this range is not just poorly correlated to spending, but to virtually every other available measure of living standards as well (Brewer et al, 2009).

Expenditure is a far better guide, as it corrects automatically for transitory income fluctuations, while also being more neutral with regard to the composition of income (transfers vs. market income).

When augmented by some estimate of the imputed rental income associated with homeownership, it also makes the situation of owner-occupiers and renters more easily comparable (Brewer & O'Dea, 2012).

The poverty and equality record under Thatcher

The figure below shows the probably best available example of such a measure, expressed as a gradient for the lower half of the distribution. Seen in this light, the situation of the least well-off did improve substantially during the 1980s, albeit less so during the 1990s.

There is no arguing with the fact that Britain became a more unequal society during the Thatcher/Major years, a finding which is robust across indicators. Yet the notion that the poorest became decoupled from the rest of society is a statistical artefact of the income data. It is not borne out by more realistic measures of living standards.

None of this means that the record of Thatcherism in the field of poverty alleviation is an unambiguously positive one.

There was a sharp decline in the employment rates of low-skilled men, which never fully recovered. There was a tendency to use incapacity benefits in order to whitewash unemployment statistics. The house price inflation, which escalated from the mid-1990s onwards, was already well under way, a result of the Thatcher government being profoundly 'un-Thatcherite' in the policy area of land use planning. There was a centralisation of politics, undermining local autonomy – which was already rudimentary – even further.

Among other things, this meant that areas which underwent rapid industrial decline did not have the policy tools (e.g. lower local tax rates) to attract new businesses and investors.

In short, Margaret Thatcher's poverty record is mixed, and there is much room for a debate about her legacy in this field.

But it has to go well beyond the usual soundbites along the lines of "she devastated communities", "she smashed workers' rights" or "the rich got richer, the poor got poorer".

Kristian Niemietz
IEA Senior Research Fellow
kniemietz@iea.org.uk

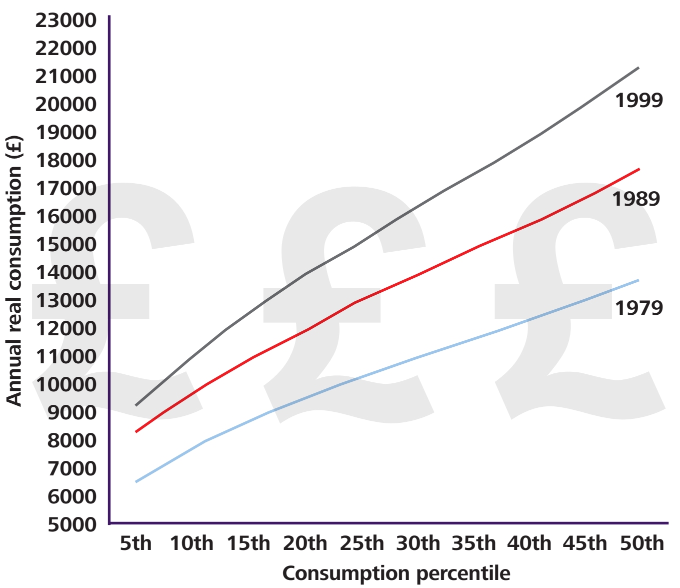

Figure 2: The consumption gradient in Great Britain over time
-based on data from Brewer & O'Dea (2012)

References

Blow, L., A. Leicester and Z. Oldfield (2004) 'Consumption trends in the UK, 1975-99', London: Institute for Fiscal Studies.

Brewer, M.; C. O'Dea; G. Paull and L. Sibieta (2009) 'The living standards of families with children reporting low incomes', Research Report No. 577, London: Institute for Fiscal Studies, for the Department of Work and Pensions.

Brewer, M., Goodman, A. and Leicester, A. (2006): 'Household spending in Britain: What can it teach us about poverty?', London: Joseph Rowntree Foundation.
Goodman, A. and S. Webb (1995) 'The distribution of UK household expenditure, 1979-92', London: Institute for Fiscal Studies.

Horton, T. and Gregory, J. (2009) The solidarity society, London: Fabian Society.

Patanzis, C.; D. Gordon and R. Levithas (eds.) (2006), Poverty and social exclusion in Britain, Bristol: Policy Press.

Hills, J., T. Sefton and K. Stewart (eds.) (2009) Towards a more equal society? Poverty, inequality and policy since 1997, Bristol: The Policy Press