

**BACKGROUND NOTE
FOR
ROUNDTABLE DISCUSSION ON**

MONITORING THE EFFECTS OF THE FINANCIAL CRISIS ON VULNERABLE GROUPS

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MONITORING THE EFFECTS OF THE FINANCIAL CRISIS ON VULNERABLE GROUPS

Summary

1. The economic crisis may have a profound impact on poverty and social exclusion, which current indicators and statistical systems will have serious difficulties in capturing. This Roundtable Discussion aims to identify the most significant difficulties and some concrete suggestions on how best to improve the information gathered, including the contribution of international organisations.

2. Features of the current crisis which it is important to capture in this context include:

- the extent of household debt and the pressures this is placing on households;
- the falling value of assets in the form of housing and equities and the impact this is having on saving and spending;
- the extent to which falls in income and assets are feeding through to increases in levels of material deprivation, and the nature of the hardships involved;
- problems with housing costs, housing security and accessing decent housing due to conditions in the financial markets;
- the particular problems facing the self-employed as business contracts and credit is difficult to obtain;
- and the extent to which social protection systems are under strain and holes in the safety-net are being revealed.

3. A strategy to improve the flow of information and better capture short-term developments in relation to poverty and exclusion could involve:

- Exploring the scope for learning more, and sooner, from current surveys, including producing preliminary results for a sub-set of cases.
- Carrying out specially-designed and targeted additional surveys
- Enhancing the value and use of data from administrative sources
- Exploiting data from other sources, such as business or the voluntary sector, by looking at the way they are collected, processed and made available.
- Using simulation models to explore the likely impact on households of what is happening in the macro-economy.

Introduction

4. The economic crisis sweeping over the countries of the OECD leaves governments facing a daunting range of challenges; while addressing the fragility of the financial system and seeking to restore the foundations for sustainable economic growth, the immediate and potentially long-term impact on poverty and social exclusion may be profound. To know how best to respond, the contours of the phenomenon must be captured and understood as it unfolds, and current indicators and statistical systems will have serious difficulties in meeting that need. The aim of the OECD's Roundtable Discussion is to identify the most significant of the limitations of these indicators and systems and canvas concrete suggestions on how best to improve the information gathered on poverty and social exclusion, including the contribution of international organisations. This note is intended to highlight some important issues in order to prompt discussion.

The Impact of the Economic Crisis on Vulnerable Groups

5. The recent OECD study *Growing Unequal? Income Distribution and Poverty in OECD Countries* (2008) highlighted that in many of these countries there has been an underlying trend towards increasing income inequality and (relative income) poverty since the mid-1980s or earlier. Against that backdrop, the focus now has to turn to the impact of the economic crisis. The most obvious and immediate way the impact will be seen is via employment and unemployment, but the full effects will operate through a variety of channels and a range of already vulnerable groups – and indeed, given the depth of the economic downturn, on some who would not have otherwise been seen as vulnerable.

6. With firms shedding jobs at an unprecedented rate, unemployment is soaring in many OECD countries and prospects are bleak for those losing their jobs or trying to enter the labour market. This is adding to the fiscal pressures created by declining tax revenues from income, expenditure, company and property taxes; the need to inject very substantial resources into financial institutions also has immediate and long-term implications for the capacity of governments to respond to other needs. Employment rates among less-educated people were already low and household joblessness high in many countries before the crisis; the increase in unemployment and inactivity will undoubtedly affect some of the most vulnerable.

7. However, employment does not guarantee that poverty will be avoided – as OECD (2008) noted, more than half of all poor people belong to households with some earnings, due to low hours worked and/or low wages. This will be exacerbated as wages stagnate or fall with reductions in work hours and pay levels, and in-work benefits supplementing earnings will come under sustained pressure, even though significant declines in inflation, with some prices falling, are helping to cushion the effect of falling earnings.

8. The effects of increasing joblessness and declining earnings on families with children are of particular concern. Child poverty was already widely recognised as a major concern before the economic crisis, with the relative position of families with children having deteriorated in many countries in recent years. Since child wellbeing is increasingly seen as a key determinant of adult outcomes, the impact on children now could have very serious long-term implications. Pensioner poverty, on the other hand, has generally been decreasing, but the economic crisis will impact on the capacity of the state and social insurance funds to pay adequate social security pensions. In addition, the dramatic declines that have occurred in the value of financial assets and the returns they produce have seriously eroded the incomes and broader resources of pensioners for whom that was an important source of income.

9. A distinctive feature of the economic crisis is the extent of the debt which households had taken on as the economic crisis hit. This will be most detrimental for those who become unemployed, but will be a serious problem for many other households. Combined with the exceptionally wide scope of

unemployment, affecting many who would have seen their jobs as secure as well as those in what would traditionally have been more insecure types of employment, this means that concerns about “new poverty” last heard in the 1980s will resurface.¹ Another noteworthy feature is the position of recent migrants, whom OECD countries were happy to accommodate in large numbers to meet workforce needs but may now be seen as a burden; whether they remain or return home, their situation may be precarious.

10. With governments throughout the OECD searching for ways to stimulate economic growth, it is also important to consider whether stimulus packages can be designed in ways that are also poverty-focused and protect vulnerable groups. One benefit of targeting low-income households is that they will generally spend rather than save, maximising the impact on consumer demand. As far as capital spending is concerned, injecting resources into for example housing for low-income households helps to address both immediate and longer-term needs. Before the crisis, it was becoming clear that investment in poverty reduction has substantial returns in the future. Improving education and socio-economic circumstances in early childhood is one example of anti-poverty investment with a long-term pay-off. More generally, the experience of recent years in the UK and elsewhere has demonstrated that changes in tax-benefit systems together with employment growth can have a real impact on poverty. The implication, unfortunately, is that increasing unemployment, poverty and deprivation during the current crisis will have long-lasting negative effects not just for those immediately affected but for their societies. Such longer-term impact will be felt particularly for those groups who are generally vulnerable, such as persons with sickness or disabilities. This means that as well as focusing on alleviating the impact of the crisis on vulnerable households, policy responses must be aimed at minimising longer-term effects on individuals and their employment prospects, and on the transmission of disadvantage to the next generation. Many countries have invested substantial energy and financial resources into employment activation policies, and there is a very real risk that this momentum will be lost during the downturn.

The Limitations of Current Data and Indicators

11. The capacity to respond adequately to the economic crisis depends on being able to monitor and understand this complex range of channels through which vulnerable groups are being affected. This faces existing statistical systems with two main challenges:

- are the information and indicators which they produce providing a comprehensive characterisation of what is happening, and
- are they doing so in a sufficiently timely fashion so that policy can be framed in that light?

12. Given the unprecedented nature of the crisis it is not surprising that serious limitations in current systems are being exposed in both respects.

13. Key indicators on poverty and social exclusion in most countries come from household surveys and from administrative sources, and each has distinct limitations that have long been recognised, but that are highlighted further in the current context. Data from the administration of the State’s various support systems, in particular the provision of social protection, is often available relatively quickly, and shows how those systems are being affected. Most obviously, as unemployment increases the numbers registering for income support generally provide the first indication of the scale of the problem. (Notification of job losses reported by employers for redundancy purposes often provides another perspective, sometimes in advance of the jobs actually being lost.) In a similar fashion, the administration of other forms of income

1. The underlying notion is that poverty is affecting groups previously insulated from its effects, such as skilled manual or white-collar workers who become unemployed or middle-income families saddled with unsustainable levels of debt.

support will provide measures of increases in sickness and disability, in-work benefit claims where such schemes operate, and safety-net means-tested schemes, often relatively quickly – within a month or two of the claims being registered. The increasing call on local services aimed at particularly groups – for example migrants or the homeless – may also be captured by administrative systems. Changes in the numbers relying on unemployment and safety-net schemes in particular serve in many countries as key indicators of emerging trends.

14. The major limitation with such sources, though, is that they generally give only a very partial picture of the person affected and their household. They register that the numbers claiming unemployment benefit have risen sharply last month, for example, usually the age and gender of those affected, and perhaps their previous occupation. More information about the individual concerned clearly would be valuable – for example their education and previous work history, and the income they had been earning and the impact of unemployment on that income. However, the lack of information about the household is the more serious gap from such sources. The number of family dependents may be known if income support is structured that way, but generally little or nothing will be regularly available on the wider household and its circumstances – the number of household members at work, income and its sources, and whether unemployment is in fact pushing the household below an income poverty threshold (however derived). The same applies to many other administrative systems and the data they produce: these are focused on the individual or at most the family, whereas the conventional practice – justified by the underlying research and evidence – in measuring and assessing poverty is to focus on the household.

15. The other limitation of such administrative data sources is that they naturally reflect the way the systems involved are structured, with the data obtained being what the specific scheme's benefit eligibility requirements are rather than what one might like to know from a policy (much less research) perspective. This means that they may miss important sub-sets of the group in question – for example those who become unemployed but do not qualify for benefit - or indeed entire groups, for whom there is no support, as well as those who do not take up the benefits or assistance to which they are entitled, due to stigma or other reasons. This means that it is very difficult to make meaningful comparisons across countries based on such data, because systems differ so much from one country to another. A more immediate problem for policy-makers is that this may also be an issue for measuring trends over time, as systems may change - often in quite subtle ways and the crisis may trigger such changes, such as the rules for scheme eligibility – so figures produced at different points in time may not be comparable.

16. Household surveys are the main source of the key indicators of poverty and social exclusion employed in most countries precisely because they provide a way of dealing with these problems. Such surveys can clearly obtain a much more comprehensive picture of the circumstances of individuals in their households, particularly when they seek to interview all the adult members; they can obtain information about the labour force status, incomes and other circumstances of those individuals, allowing an aggregated view of the situation of the household to be derived. This means that core poverty indicators such as whether total household income adjusted for the numbers in the household is below a poverty threshold can be derived. Furthermore, other features of households that add to or help to explain those indicators – such as the number of households with no-one in work, or relying on social transfers – can also be tracked. Thus in many countries, and in monitoring the European Union's Social Inclusion process, it is mostly data from household surveys that is used to track not only the proportion with income below various thresholds, but also material deprivation, joblessness, educational disadvantage, and other core poverty indicators.

17. However, in contrast to (at least some) administrative data, results from household surveys are often available only with a significant lag, which may mean that key policy decisions have to be made in their absence. With the main annual large-scale cross-section surveys used to capture living standards and poverty, it would not be unusual for at least a year to elapse after completion of the field-work before the

results appear. This reflects the time needed to properly collate, check and process the data obtained and prepare the publication, and even with the advent of computer-based interviewing this necessarily takes a significant amount of time. (Panel surveys that follow the same people over time are particularly useful in capturing the persistence of low income but are more complex to run and may take longer to produce results than cross-sectional surveys.) Surveys carried out on a quarterly basis and with a more limited focus, such as the labour force surveys carried out in many countries, have a much shorter lead time but provide a much less comprehensive picture. The other major limitation of household surveys in this context is that they may systematically find it difficult to represent certain groups of particular relevance – with the homeless being the most obvious example, but with migrants and ethnic minorities, relatively mobile population, and those in institutions also being problematic, as well as any vulnerable group that comprises only a small proportion of the population.

18. The other issue to note with indicators drawn from household surveys is that even the most comprehensive survey cannot obtain the full range of information one would ideally like to have in framing policy. This means that information gathered in a number of different surveys may have to be employed, with linkages made across them in a more or less technical fashion; even then, there may still be important gaps in the information available as the nature of poverty and exclusion and how they manifest themselves change in unexpected ways.

Priorities and Strategies for Improving the Monitoring of Poverty and Social Exclusion

19. The gravity of the economic crisis and the prospects for lasting damage to vulnerable groups mean that special measures are required to enhance the capacity of current statistical systems to provide policy-makers with the information they need to design effective responses now. This means building on rather than abandoning existing sources, but seeking to address their limitations. To the extent that this can be done in a co-ordinated way, and comparability across countries can be maximised, countries will find it easier to learn from each other – and international organisations have a potentially valuable role in this respect.

20. A strategy to improve the flow of information and better capture short-term developments in relation to poverty and exclusion could entail as strands:

- Exploring the scope for learning more, and sooner, from current surveys, including producing preliminary results for a sub-set of cases.
- Carrying out specially-designed and targeted additional surveys
- Enhancing the value and use of data from administrative sources
- Exploiting data from other sources, such as business or the voluntary sector.
- Using simulation models to explore the likely impact on households of what is happening in the macro-economy.

21. Looking first to household surveys, the key source for information about poverty and exclusion at household level, the most pressing issue is timeliness, and in the special circumstances currently prevailing novel approaches are worth considering. Two complementary approaches could be considered. The first relates to the income and living standards surveys from which core poverty indicators are currently drawn. These are most often carried out and presented annually, but rather than waiting until a full sample has been obtained, preliminary results for a sub-set might be produced much more quickly. Adjustments for

any special features of that sub-sample, such as seasonality, would have to be incorporated into the results produced, and the size of the sub-sample would constrain the level of detail presented and limit statistical confidence in the figures, but the potential is worth considering. The other way to obtain key survey data in a more timely fashion would be to look to other surveys that are already being carried out and reported on more quickly, notably the quarterly labour force surveys: could some limited additional information be added to those surveys to address the most pressing needs? This is a less attractive option in that it would run the risk of affecting response rates and thus jeopardise what are otherwise good response surveys, but might be worth considering in a limited fashion.

22. As well as timeliness, the other concern with current household surveys is whether they are gathering the information needed in the current very unusual circumstances. This will obviously vary from country to country, but one could certainly point to certain features of the current crisis which it is important to capture, including:

- the extent of household debt and the pressures this is placing on households;
- the falling value of assets in the form of housing and equities and the impact this is having on saving and spending;
- the extent to which falls in income and assets are feeding through to increases in levels of material deprivation, and the nature of the hardships involved;
- problems with housing costs, housing security and accessing decent housing due to conditions in the financial markets;
- the particular problems facing the self-employed as business contracts and credit is difficult to obtain;
- and the extent to which social protection systems are under strain and holes in the safety-net are being revealed.

23. A combination of adapting existing surveys and introducing new surveys with a short turn-around time covering specific topics or groups will have to be considered. While national statistical institutes (NSIs) will have to direct and oversee this process, they do not necessarily have to gather all the data themselves: there may on occasion be a role for market research companies with their capacity to obtain and produce survey data quickly.

24. As discussed earlier, data from administrative sources is widely available and used, but ways of enhancing the value of this information need to be found. This could include linkage of data from different administrative sources, on which some countries already rely very heavily and where many others are trying to make progress; while substantial advances may be possible only in the medium term, the needs of the current situation could act as a spur to some immediate advances. Other areas to be considered include the data that is actually collected by different administrative systems and the way this is processed and reported. Some modest additions to the information obtained by particular systems could be very valuable: for example, information about the labour force status of other household members from those who are registering as unemployed would provide a very useful window into their household situation. It seems likely in this context that countries could learn from an exchange of information about what is actually collected by their different administrative systems and the use that is made of it. The same is true of the way this information is processed and made available, both in terms of timeliness and presentation, in order to maximise its value to policy-makers.

25. Another potential source of data which could perhaps be exploited more effectively is information available to the business or voluntary sectors. Voluntary service providers often deal with the most pressing needs of vulnerable households, for example in providing emergency accommodation or assistance with basic needs. Lending institutions have to deal with the difficulties of households in a problematic situation with respect to repayment of accumulated debt. While figures from such sources often make newspaper headlines, it is often hard to know how much weight to place on them in terms of reliability and comparability over time; there may be more structured ways of ensuring that the way they are collected, processed and made available maximises their value in reliably capturing short-term developments.

26. Finally, simulation offers a way of assessing the current situation and future prospects based on representative sample data even if those data are not right up to date. Tax-benefit simulation models working on the base of data from large-scale household surveys allow the likely impact of what is happening in the macro-economy on households to be investigated, and the effects of alternative policy responses to be explored. The Euromod project, for example, allows for such a simulation approach to be implemented in a harmonised fashion across countries, while an increasing number of countries have such simulation models in use by researchers and policy-makers nationally. Key poverty indicators such as the proportion below income poverty thresholds can be produced, and the impact of changes in the extent of unemployment and household joblessness “predicted”. While this may not capture the full range of effects of the financial and economic crisis, it does allow the impact of specific core features of that crisis on household poverty to be studied, and the effectiveness of different policy options (at least with respect to the tax and benefit systems) to be assessed.