Poverty, Material Insecurity and Income Vulnerability: the role of savings

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Ruth Lister
Professor of Social Policy
University of Loughborough

The first part of the paper on which my presentation is based analyses the experience of poverty, material insecurity and income vulnerability, using the livelihoods framework first developed in the international development context. The second part assesses the role that savings and the Savings Gateway might play in promoting greater material security.

Part I. Poverty, material insecurity and income vulnerability

- As a material condition, poverty may have many manifestations but its defining quality is a combination of insufficient money and poor living standards. Underlying the immediate preoccupations of trying to get by on an inadequate income is a state of insecurity created when lack of money makes a person vulnerable to even minor mishaps, requiring additional spending, that others can take in their stride.

The sustainable livelihoods framework

- The framework of ‘sustainable livelihoods’ has been adopted by various agencies as a way of promoting material security. Oxfam defines it as ‘a means of living which can maintain itself over time, and which can cope with and recover from minor crises or unexpected events’. Three elements are of particular relevance here. The first is the ‘vulnerability context’, which DFID conceptualises as framing the environment in which people live. ‘Vulnerability or livelihood insecurity…is a constant reality for many poor people’. The second is the agency involved in the process of deploying different kinds of resources to ‘compose a livelihood’ (Bebbington). Third are those resources inc. financial assets.

- The livelihoods approach can be used to encapsulate the range of shocks against which people in poverty have little or no financial protection: from job loss or relationship breakdown, through burglary or theft to equipment breakdown. The aim of the livelihoods approach is to help people in poverty build up their assets so as to increase their resilience to adverse changes in the vulnerability context.

- This is where agency – how individuals respond to and make choices within the vulnerability context – comes in to the model. The sustainable livelihoods framework pays due regard to the strategies adopted by people living in poverty in order to get by – commonly characterised as ‘coping
strategies’. Typical adjectives attached to these strategies are: ‘complex’, ‘innovative’, ‘sophisticated’ and ‘creative’.

Poverty and agency: getting by
- Acknowledging the agency of people living in poverty, rather than characterising them as passive victims somehow different from the rest of us, helps to counteract the process of what I have called Othering. At a very minimum, coping or getting by is an active process of tight money control, juggling, piecing together, highly focused shopping, going without or going into debt; and there is plenty of research evidence to this effect. Some of the strategies are high risk, such as buying cheap second hand electrical and white goods, which are more likely to break down, thereby worsening the vulnerability context.

- Another common strategy is the prioritisation of children, especially by women who carry the main strain of managing poverty. A research overview concludes that ‘in general, poor people manage their finances with care, skill and resourcefulness’. Nevertheless, they often run out of money and money is a pretty constant worry.

Poverty and the vulnerability context
- The delicate balance involved in getting by can be upset when faced with an ‘expenditure shock’ – an unexpected demand on income – or a drop in or disruption of income. As one family member told an ATD workshop, poverty is ‘being just one crisis away from collapsing – every day’.

- A diverse range of expenditure needs can cause problems for families living in poverty. Relatively high risk of domestic fire and of crime (together with lack of insurance) add to the vulnerability context. Debt – inc. to loan sharks - is a common ‘solution’ to dealing with income shocks in the absence of any savings to fall back on.

- Income volatility is another important element of the vulnerability context for people living in or on the margins of poverty. Research suggests that families often cope with such fluctuations through ‘careful but short-term planning’ but that ‘problems occur when there are unexpected extra expenses, and there is no margin to cover them’ (Hills et al).

Part II: Savings

The effectiveness of saving as a coping strategy
- Evidence from the first Saving Gateway pilot gives some support to the hypothesis that the existence of savings creates a greater sense of material security among people on low incomes and, to a lesser extent, enhances their feeling of being in control over their lives, thereby strengthening their resilience and ability to cope in a difficult vulnerability context. A sense of greater security came across strongly in some of the quotations taken from the qualitative interviews.
The evidence suggests that many people living on a low income do put money aside for savings, either formally or informally, when they can. It also supports the argument that precautionary or ‘rainy day’ savings can strengthen resilience against the vicissitudes of a difficult vulnerability context. Arguably in doing so, it enhances their agency.

Patterns of and attitudes towards saving among low income groups

- There are a number of sources of information on saving among those on low incomes. All, not surprisingly, show that the ability to save is closely associated with income level, although even among low income groups there are some people with, usually limited, financial assets. Analysis of the BHPS found the strongest relationship was with subjective assessment of one’s financial situation. Recent research indicates that an improvement in income – particularly a stable income - is frequently accompanied by an increase in savings.

- The evaluation of the Savings Gateway Pilot Project also throws some light on savings behaviour and attitudes. The scheme appears to have encouraged most participants to save regularly and to have increased the incidence of ‘rainy day’ saving.

- The evaluation also pointed to the importance of ethnicity and gender. In one of the pilots the high participation among members of the Bangladeshi community contrasted with their very low levels of savings nationally, which is attributed both to their very low incomes and to Islamic Sharia law, which prohibits the receipt of interest.

- Women were ‘greatly over-represented’ in the pilots and women and lone parents were also over-represented among those who had previously been regular savers and informal savers. Research by the Fawcett Society found that ‘women with the lowest personal incomes are more likely to save than equivalent men’ and that women valued savings as a ‘financial cushion’ for the family and their own economic autonomy.

Savings policy and income vulnerability

- Turning to policy, although savings can be an effective way of coping with vulnerability, as some of the literature on assets acknowledges it does not follow that encouraging people on low incomes to save is appropriate in all instances or that support for savings should necessarily take priority over improving weekly income. Paxton and Regan for instance concede that ‘a progressive assets-based policy will only be successful with corresponding improvements in the adequacy of income levels’.

- This goes some way to meeting the scepticism expressed by organisations like CPAG and IFS. They question whether saving is necessarily the wisest strategy if income is too low to meet needs. Moreover, without ‘corresponding improvements in the adequacy of income levels’ the danger is that policies to promote savings amongst those in poverty will not reach those who are having the greatest difficulties in making ends meet. Interestingly, the participatory Get Heard!
consultation found a desire for both improvements to weekly incomes and financial products to support and encourage saving.

- CPAG has also warned of the dangers of aggravating feelings of inadequacy, powerlessness and helplessness among people in poverty who don’t manage to save. This is more likely if policies are presented as promoting saving as a moral virtue that will lead to self-improvement and self-reliance among ‘the poor’ rather than as a means of supporting existing aspirations to build a cushion against income vulnerability, thereby helping to establish sustainable livelihoods.

- The avoidance of stigma is also a factor to be born in mind when deciding on eligibility criteria for the national roll-out of the Savings Gateway. More generally, on the one hand, the wider the eligibility limits the more likely it is that the additional resources will accrue to those who are already using formal savings institutions and with reasonable savings levels. On the other hand, the narrower the limits the greater the danger that they are targeted on the very group least likely to be able to benefit because of the difficulties they face in stretching their income to meet current needs. Also, given the evidence on income dynamics, there may be a case for including those living on the margins of poverty on the grounds that they are vulnerable to falling into poverty.

- Take-up among the most marginalised and deprived groups could also be depressed without the support of community organisations, which proved important in promoting participation in the pilot. If the aim is to maximise the involvement of more deprived groups, arguably resources would be better used in involving community organisations – at least where they exist in deprived areas – rather than in widening eligibility significantly up the income scale. Unfortunately, we lack information on why those potentially eligible to participate in the first SG pilots did not do so.

- We also lack information on intra-household patterns in responses to the SG. Another trade-off is between eligibility income levels and whether they are applied on an individual or household basis. Given women’s primary responsibility for budgeting in low-income families, their greater propensity to save and their particular vulnerability when resources are not shared fairly within families or on the breakdown of a relationship, there is a case for considering whether eligibility should be on an individual rather than household basis. At the very least, for those out of work and on benefit eligibility should not be confined to the formal benefit ‘claimant’ (as it was in the second SG pilot), for this could depress participation and reinforce gender inequalities.

- Although we lack information on the factors behind non-participation in the SG pilots, the evaluation, together with earlier research by Collard et al using community select committees, does offer some lessons. First, both confirmed the importance of the financial incentive of the £ for £ matching in encouraging participants to open an account. Matching also enables
Muslims, who can not benefit from interest for religious reasons, to participate.

- Given the difficulties people on low incomes face in saving and the importance of not endangering current well-being, the Saving Gateway's flexibility— in terms of the amounts and regularity of savings and methods used – is important and should be retained.

- Another issue is the period of savings required before matched funding is made available. The majority of those interviewed in depth in the pilots were in favour of a period longer than the 18 months adopted. Three years appeared to be the most widely acceptable time limit. But for a minority, and also the community select committees, longer than 18 months would create too much of a strain.

Conclusion

- My conclusion, as someone who has been fairly sceptical about the wonders of asset-based welfare, is that supporting savings does have an important role to play in a wider anti-poverty strategy, provided that strategy also addresses weekly income levels.