

Poverty and inequality rise again as benefit payments lag inflation and incomes grow fastest for the rich

Poverty and inequality both increased for a second successive year during 2006-07, as benefit and tax credit increases failed to keep pace with rising inflation, and as the richest households enjoyed the biggest increases in income, according to official statistics released today. On average across the population, take-home incomes continued to grow much more slowly than in Labour's early years in office.

The annual *Households Below Average Income* report from the Department for Work and Pensions describes the pattern of household incomes after deducting direct taxes and adding tax credit and benefit payments, and adjusted for family size. Incomes can be compared both before housing costs (BHC) and after (AHC). Poverty lines for some typical family types can be found at the end of this press release.

The biggest surprise in today's data was the increase in pensioner poverty, which rose by 200,000 AHC and 300,000 BHC. We had expected an increase of 100,000, reflecting the abolition of age-related winter payments. In Budget 2008, the government announced additional one off payments to pensioners in winter 2008 at a cost of £575m. These will reduce pensioner poverty in 2008-09. However, if the money is not found to repeat them, pensioner poverty may then increase again in the following year as it did in 2006-07.

Key findings in today's data include:

- **Relative poverty has risen for the second year in a row**

The most widely used measure of relative poverty is the number of people living in households with income below 60% of the median. (If households were lined up from richest to poorest, adjusted for family size, the median income would be that of the household in the middle.) On this basis the number of people in poverty rose by 400,000 to 13.2 million AHC and 300,000 to 10.7 million BHC in 2006-07. This gives statistically significant increases of 1.2 million AHC and 700,000 BHC over the latest two years. But poverty remains significantly lower than when Labour came to office.

- **Unexpectedly large rise in pensioner poverty**

The number of pensioners in poverty rose by 200,000 to 2.1 million AHC and by 300,000 to 2.5 million BHC in 2006-07. IFS researchers had previously predicted a rise of approximately 100,000, mostly due to the abolition of age-related payments. The actual increase is both statistically significant and unexpectedly large, especially as the Pension Credit guarantee is increased in line with average earnings.

- **Child poverty has risen for the second year in a row**

The number of children living in poverty in the UK rose by 100,000 to 3.9 million AHC and 2.9 million BHC in 2006-07. Neither change is statistically different from zero, but both follow increases in the previous year. Child poverty is now 100,000 higher than it was in 2004-05 BHC and 300,000 higher AHC. The fall in child poverty under Labour came to an end in 2004-05, and it now seems to be on the increase again.

The Government has a target to halve child poverty BHC from its level in 1998-99 by 2010-11. Having cut child poverty by about 70,000 per year over the last eight years, it now needs to cut it by 300,000 a year over the next four to meet the target. (Indeed, the Government has still not managed to lower child poverty by a quarter from its 1998-99 level: having risen in the past two years, it is now only 15% lower than in 1998-99.) On existing policies, IFS researchers predict that the number of children in poverty will fall by 700,000 to 2.2 million BHC in 2010-11, but this would still mean missing the target by 500,000. Additional spending on child tax credit of around £2.8 billion a year by 2010–11 would be needed for the government to have a 50:50 chance of meeting its target.

- **Average incomes once again rose only modestly.**

Median income rose by just 0.5% and mean income by 0.8% in 2006/07. This is a similar rate to the previous four years, but well below the 2% or more recorded in Labour's first five years in office. This underlines the fact that the increases in poverty seen during 2006-07 reflect weak income growth towards the bottom of the income distribution rather than rapid income growth in the middle.

- **Income inequality rises again**

The incomes of the poorest fifth of households fell by 1.6% between 2005-06 and 2006-07, whilst the incomes of the richest fifth rose by 0.8%. Neither change is likely to be statistically significant in isolation. In addition, the share of income received by the poorest fifth of the population fell slightly, while the share received by the richest fifth rose slightly compared with 2005-06. These factors suggest income inequality has risen. However, to the level of accuracy reported by DWP, the Gini Coefficient – a commonly used measure of income inequality – is unchanged since 2005-06. But it remains at a level higher than that which Labour inherited and equal to its highest level seen since the start of a consistent time series in 1961.

The broad increase in poverty in 2006-07 comes as little surprise, when we consider that benefits and tax credits grew less quickly than prices (let alone earnings) for people of working age. Benefits are increased in April in line with the inflation rates recorded in the previous September, so they automatically lag price increases when inflation is rising. We already know that benefits and tax credits for people of working age continued to increase less quickly than prices in 2007-08, which suggests that next year's HBAI figures may well show further increases in poverty among children and working-age people. Pensioners are treated more generously, which might lead us to expect better news there – but the fact that pensioner poverty increased by significantly more than we expected in 2006-07 suggests that we cannot even be confident of that.

“Further increases in poverty and inequality will not be welcome news to the Government, even though they should come as no surprise. We estimate that it would need to spend a further £2.8 billion a year by 2010-11 to give itself a 50-50 chance of meeting its next child poverty target. But the Chancellor will be under pressure to spend the same amount renewing last month's ‘one off’ income tax cut, most of which benefits families on middle incomes rather than the poor”, says David Phillips, IFS Research Economist.

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Notes to editors:

1. The full Households Below Average Income publication can be found on the Department for Work and Pensions website at <http://www.dwp.gov.uk/asd/hbai.asp>

2. Further analysis of the data underlying the official statistics will be available in *Poverty and Inequality in Britain: 2008* by Mike Brewer, Alastair Muriel, David Phillips and Luke Sibieta. This report will be launched at IFS on 11 June 2008. The briefing will start at 10:30am and is expected to conclude by 12:30pm. If you would like to attend, please contact Bonnie Brimstone (020 7291 4800 or bonnie_b@ifs.org.uk).

3. The official HBAI document reports numbers in poverty to the nearest 100,000, but reports changes in poverty based on the unpublished unrounded numbers. Where no official estimate exists of the change in poverty between two years, this note reports the change in the rounded numbers.

Poverty lines (60% of median household equivalised income) in 2006-07 include:

£ per week	Childless couple	Single individual	Couple, one child (age 8)	Couple, two children (ages 8 & 15)	Lone parent, one child (age 8)	Lone parent, two children (ages 8 & 15)
AHC	£193	£112	£231	£312	£150	£231
BHC	£226	£151	£271	£346	£197	£271

Nominal increases in income from state benefits and tax credits for various families in relative poverty and Inflation (RPI)

Year	Couple, 3 children, adults not in work	Lone parent, 1 child, adult not in work	Lone parent, 1 child, part-time work	Single Person on Jobseekers Allowance	Single Person on incapacity benefit	Basic State Pension	Pensioner entitled to full Pension Credit	RPI Inflation
2006-07	3.1	2.7	3.0	2.2	2.7	2.7	4.2	3.7
2007-08	3.7	3.3	3.7	3.0	3.6	3.6	4.4	4.1

The poverty line increased more rapidly than inflation in 2006-07 (because median income grew in real terms by 0.5%) so growth in the pension credit very slightly outpaced the poverty line. Income from benefits and tax credits for other families in relative poverty fell in real terms. The rate of growth of the poverty line for 2007-08 is not yet known, but the table shows that income from benefits and tax credits for some families in relative poverty again fell in real terms.