

Institute for
Fiscal Studies



Poverty

David Phillips, IFS

May 21st, 2010

Poverty: the story under Labour

- After poverty rose between 2004/5 and 2007/8...
 - 200,000 for each of pensioners and children
 - 200,000 for working age adults with children
 - 400,000 for working age adults without children
- ... it fell (slightly) during the first year of the recession (2008/9)
 - Fell for children (100,000) and pensioners (200,000)
 - Rose for working age adults with children (100,000) and for working age adults without children (200,000)

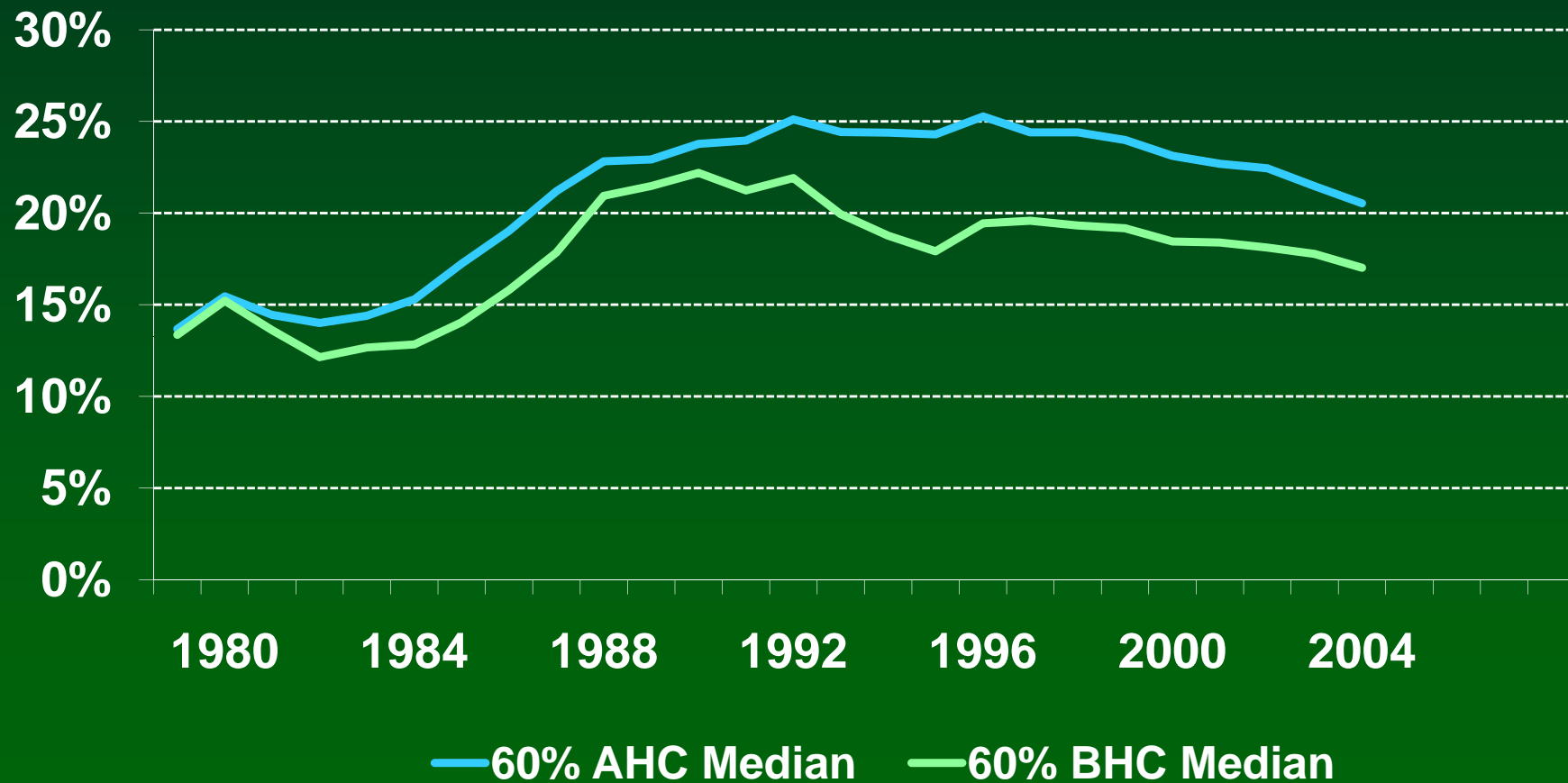
Poverty: what's coming up?

- Recent trends in poverty rates
- Entitlements to benefits and tax credits
- Child poverty and the child poverty targets
- Poverty amongst adults
- Regional trends in poverty
 - After adjusting for cost of living
- Prospects for poverty in 2009-10

Defining poverty for HBAI

- Relative notion of poverty
 - Individuals in households below 60% of the contemporary BHC and AHC median
- No account of depth of poverty
- Focus on rates rather than numbers

Poverty fell in Labour's first two terms...

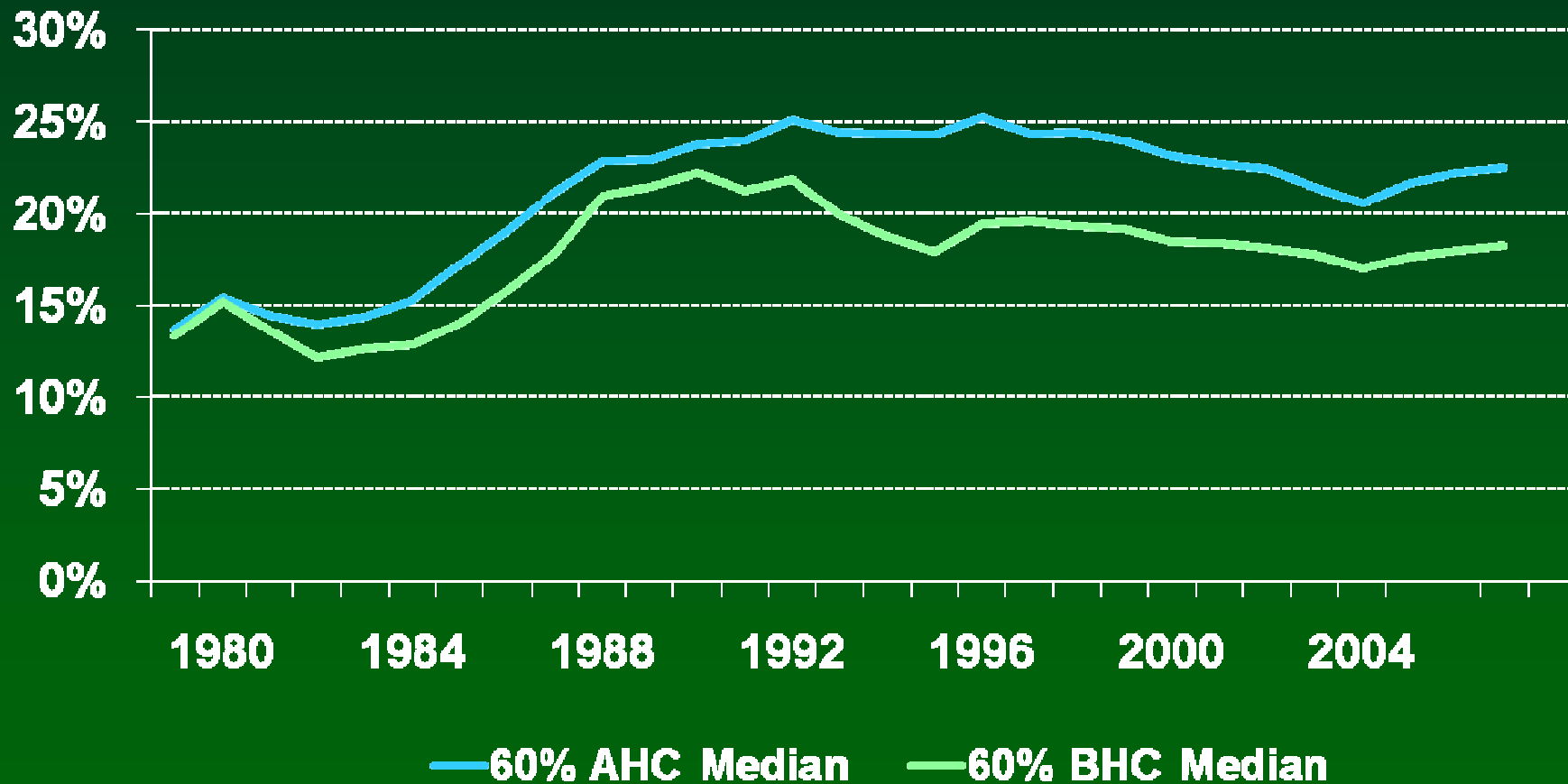


Source: HBAI Data (FES and FRS)



Institute for
Fiscal Studies

... rose between 2004/5 and 2007/8 ...

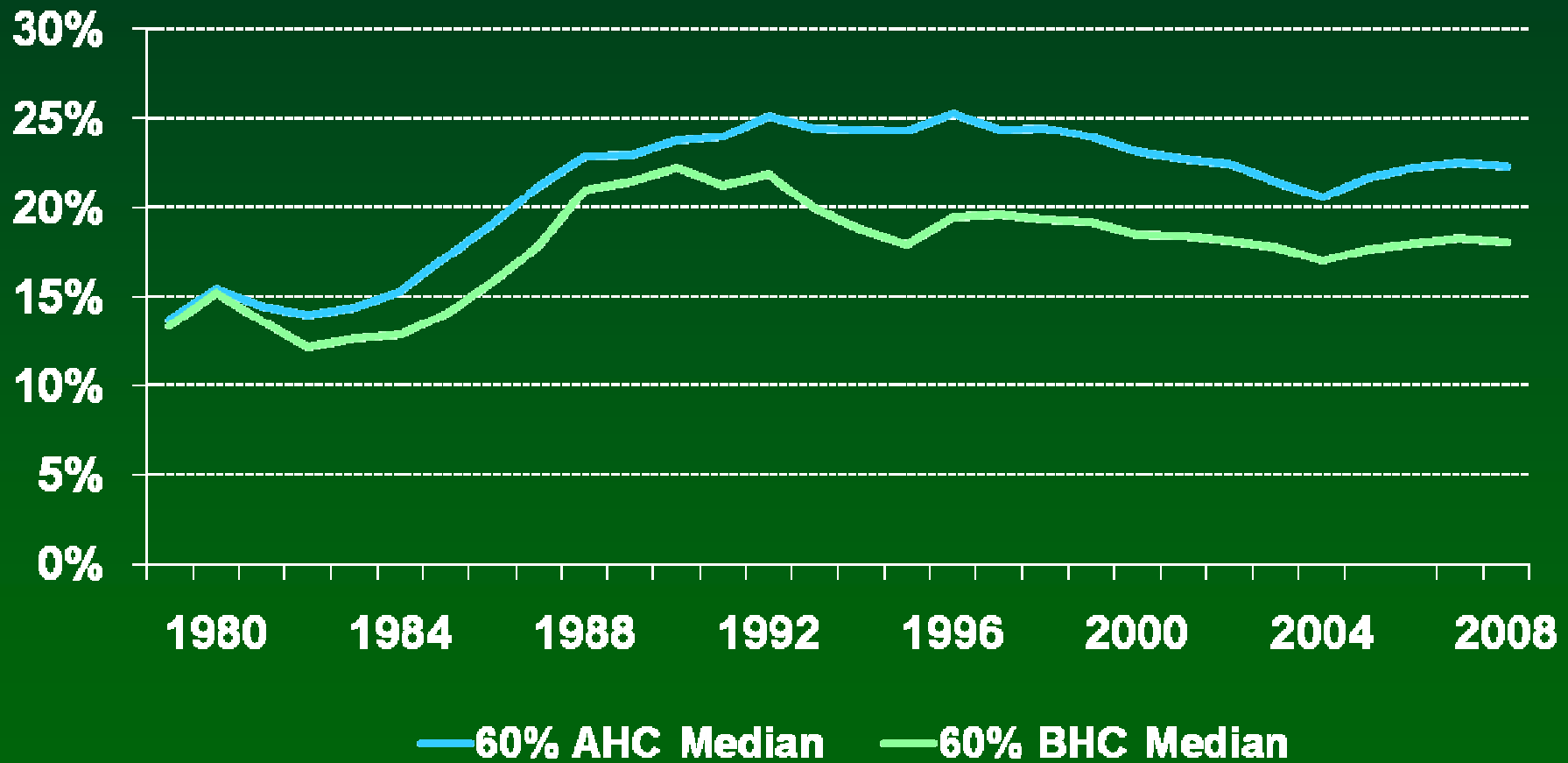


Source: HBAI Data (FES and FRS)



Institute for
Fiscal Studies

... and fell a bit in 2008/9



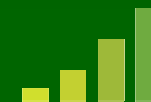
Source: HBAI Data (FES and FRS)

Institute for
Fiscal Studies

Across all thresholds?

	70% of BHC Median	60% of BHC Median	50% of BHC Median	40% of BHC Median
1996-97 Rate	28.1	19.4	10.6	4.3

Source: HBAI Data (FRS)

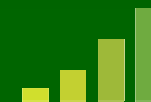


Institute for Fiscal Studies

Across all thresholds?

	70% of BHC Median	60% of BHC Median	50% of BHC Median	40% of BHC Median
1996-97 Rate	28.1	19.4	10.6	4.3
Labour I Change	-0.8	-1.0	(-0.1)	+0.8

Source: HBAI Data (FRS)

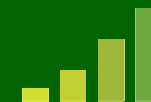


**Institute for
Fiscal Studies**

Across all thresholds?

	70% of BHC Median	60% of BHC Median	50% of BHC Median	40% of BHC Median
1996-97 Rate	28.1	19.4	10.6	4.3
Labour I Change	-0.8	-1.0	(-0.1)	+0.8
Labour II Change	-1.4	-1.4	-0.9	(-0.2)

Source: HBAI Data (FRS)

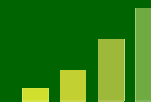


Institute for
Fiscal Studies

Across all thresholds?

	70% of BHC Median	60% of BHC Median	50% of BHC Median	40% of BHC Median
1996-97 Rate	28.1	19.4	10.6	4.3
Labour I Change	-0.8	-1.0	(-0.1)	+0.8
Labour II Change	-1.4	-1.4	-0.9	(-0.2)
Labour III Change	(+0.1)	+1.2	+0.9	+1.0

Source: HBAI Data (FRS)

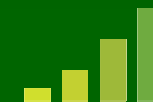


Institute for
Fiscal Studies

What about different poverty thresholds?

	70% of BHC Median	60% of BHC Median	50% of BHC Median	40% of BHC Median
1996-97 Rate	28.1	19.4	10.6	4.3
Labour I Change	-0.8	-1.0	(-0.1)	+0.8
Labour II Change	-1.4	-1.4	-0.9	(-0.2)
Labour III Change	(+0.1)	+1.2	+0.9	+1.0
2008-09 Rate	25.9	18.1	10.4	5.9

Source: HBAI Data (FRS)

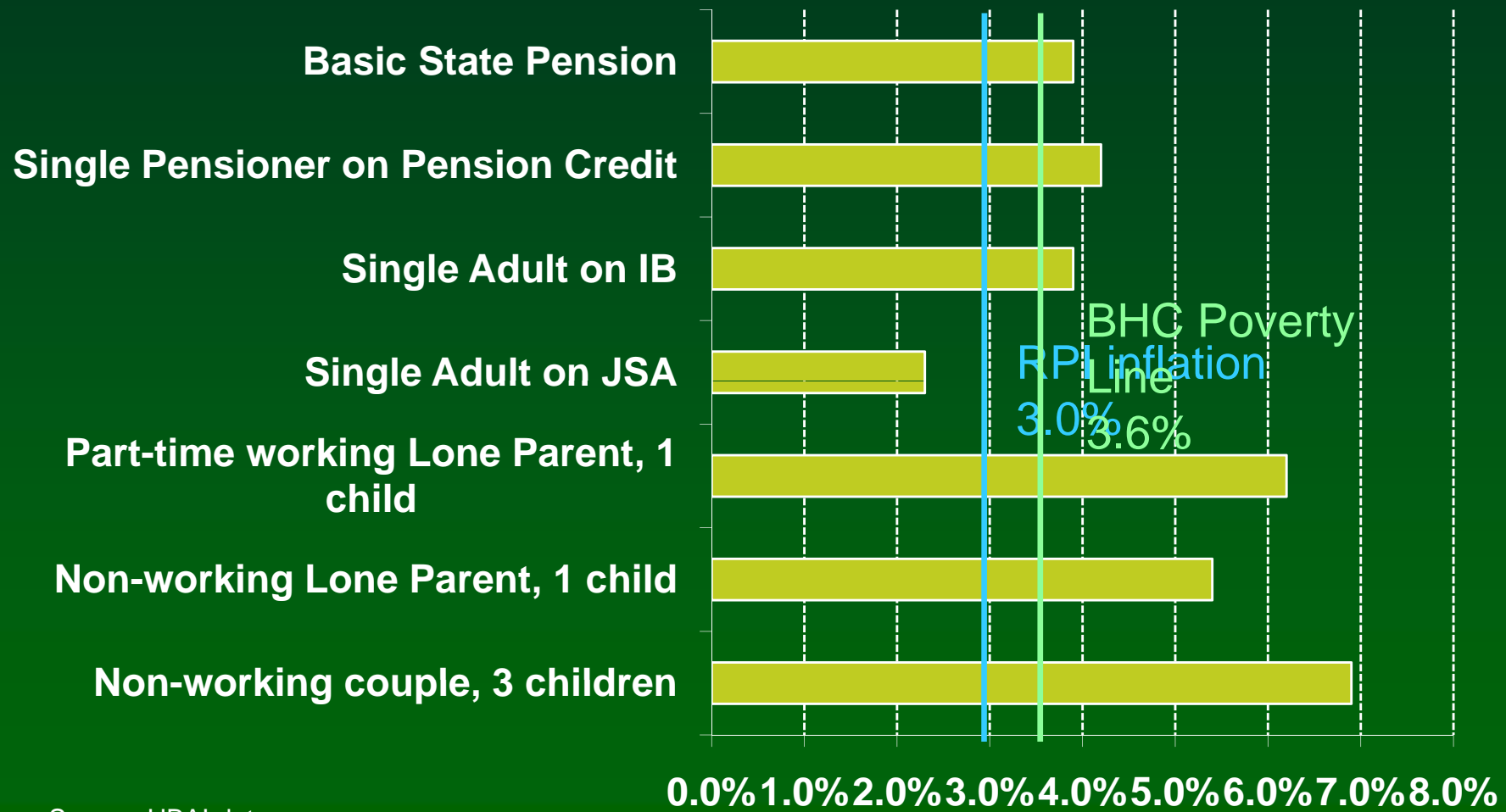


**Institute for
Fiscal Studies**

40% poverty line as severe poverty?

- Commentators have used fraction of people below 40% poverty line as indicator of ‘severe poverty’
 - Suggest severe poverty increased under Labour
- But IFS research suggests this is not good evidence for such a claim
 - Many with lowest measured incomes have fairly high living standards
 - Small changes to the definition of HBAI income
- But stronger evidence ‘severe poverty’ increased since 2004-05

Growth in benefit entitlements 2007-08 to 2008-09



Source: HBAI data

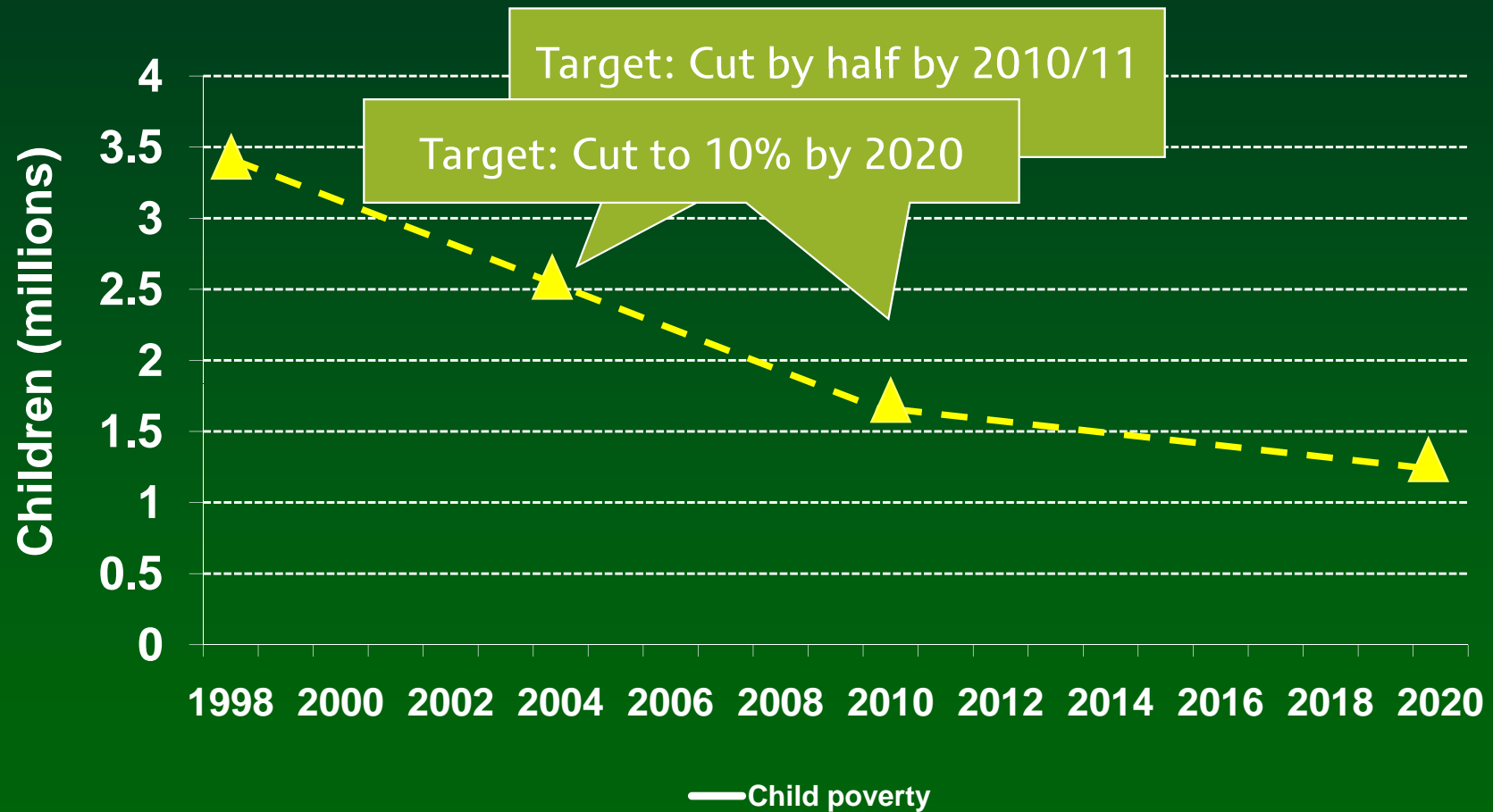
Benefit and tax credit changes in 2008/9

- Increases in the generosity of tax credits
 - £175 increase in child element of CTC
 - £1,200 increase in the WTC threshold
 - But an increase in tax credit taper to 39%
 - These would reduce child poverty by 200,000
- Increase in generosity of winter fuel payments
 - Would reduce pensioner poverty by 40,000

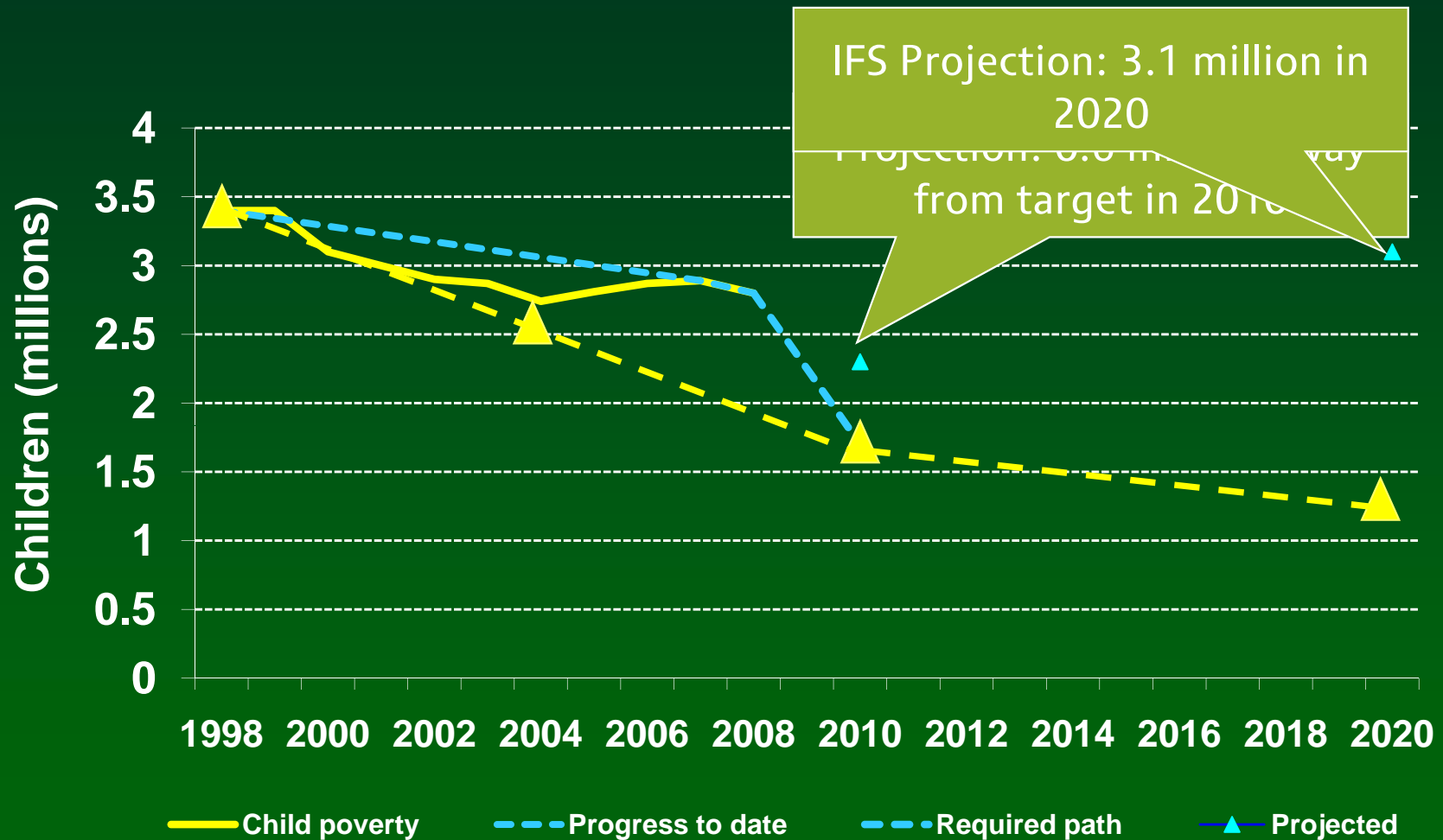
Child Poverty

- Child poverty fell by 100,000 in 2008–09
 - 2.8 million (BHC) or 3.9 million (AHC) children in poverty
 - 21.8% (BHC) or 30.3% (AHC)
 - Government targets are based on the BHC measure
- Fall in child poverty mostly due to declining risk of poverty for certain family types
- But also fall in fraction of children living in workless households

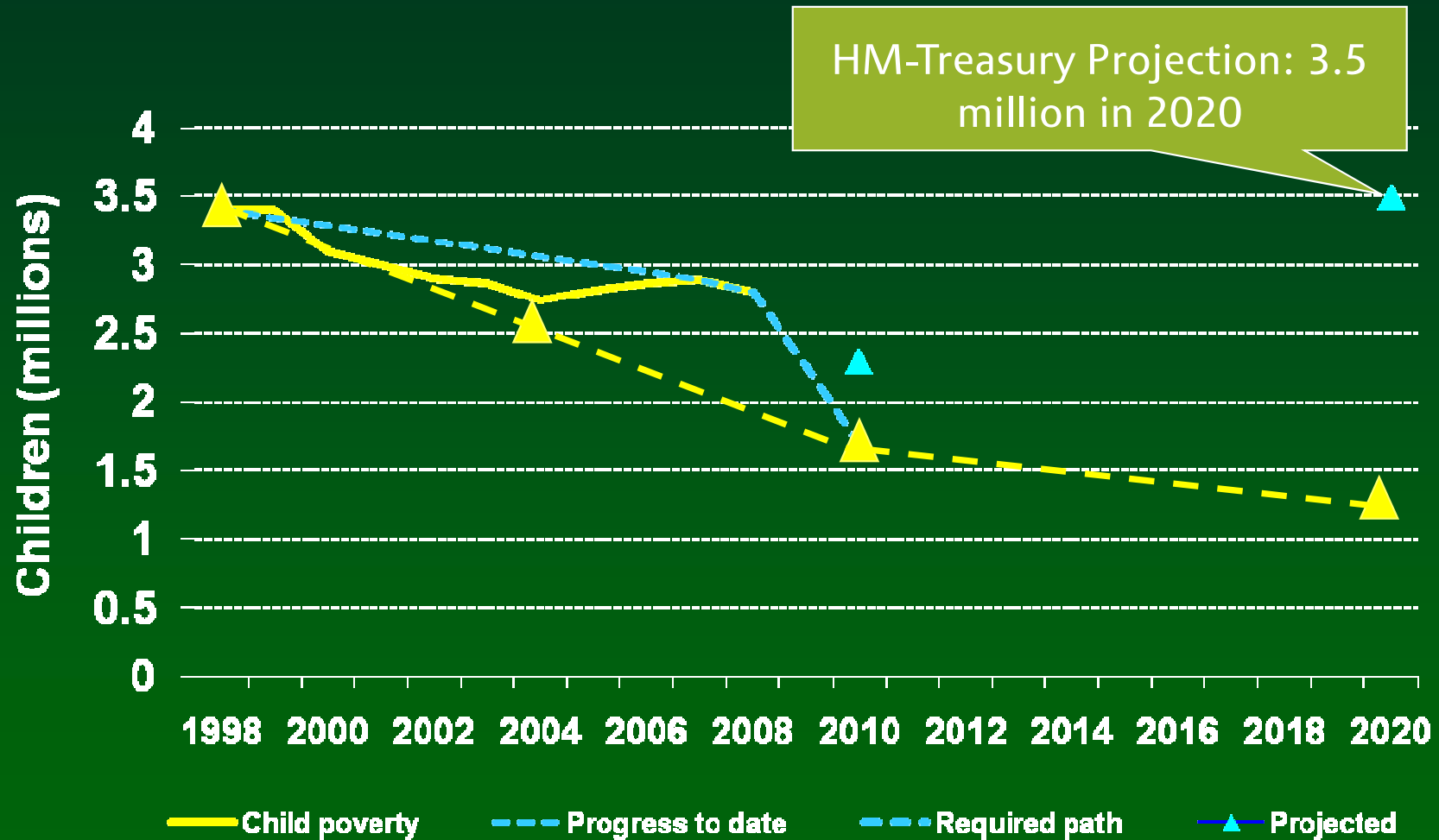
Child poverty targets



Progress to date certain to be unmet



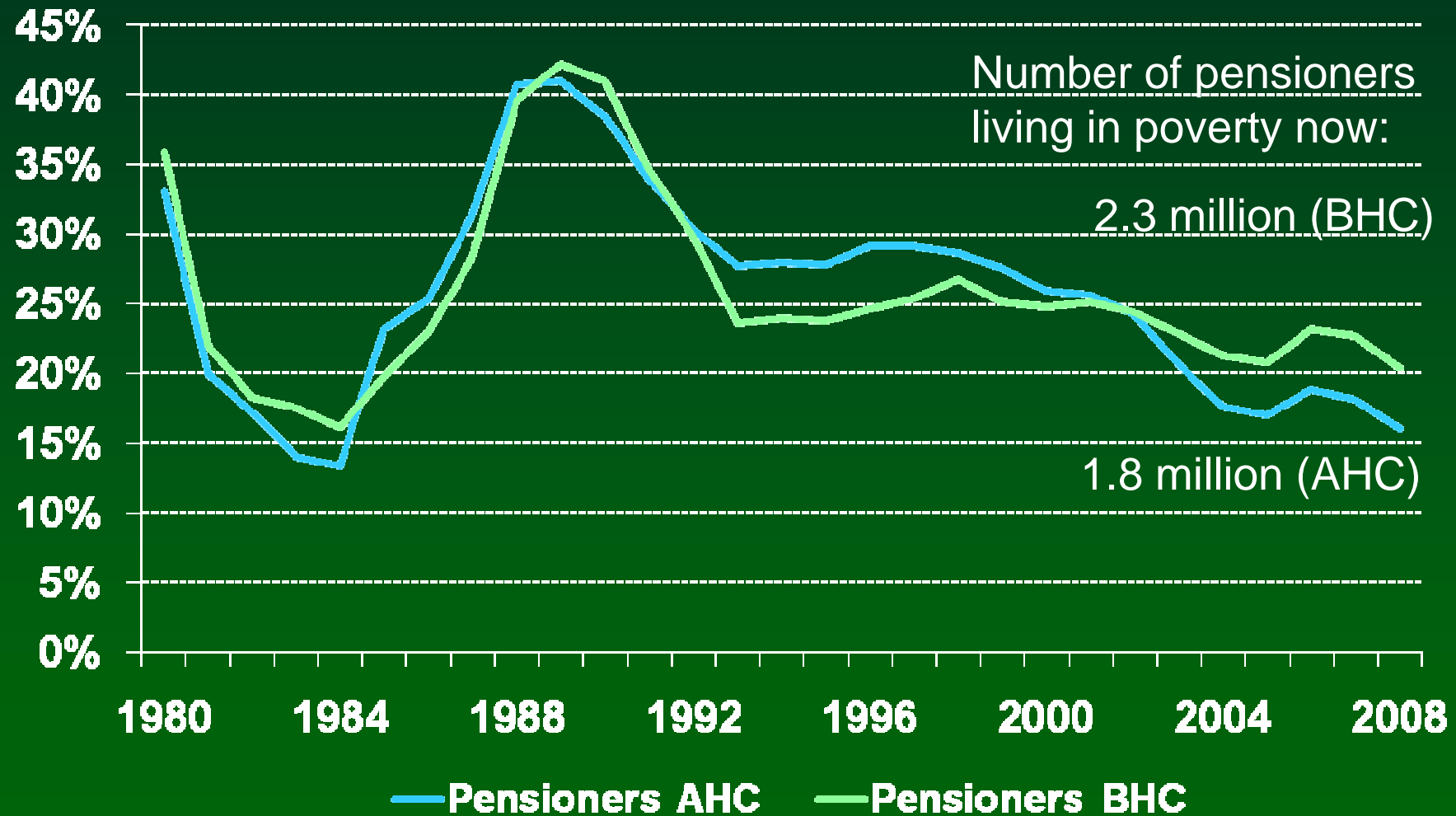
2010 Target nearly certain to be unmet



The Child Poverty Act (2010)

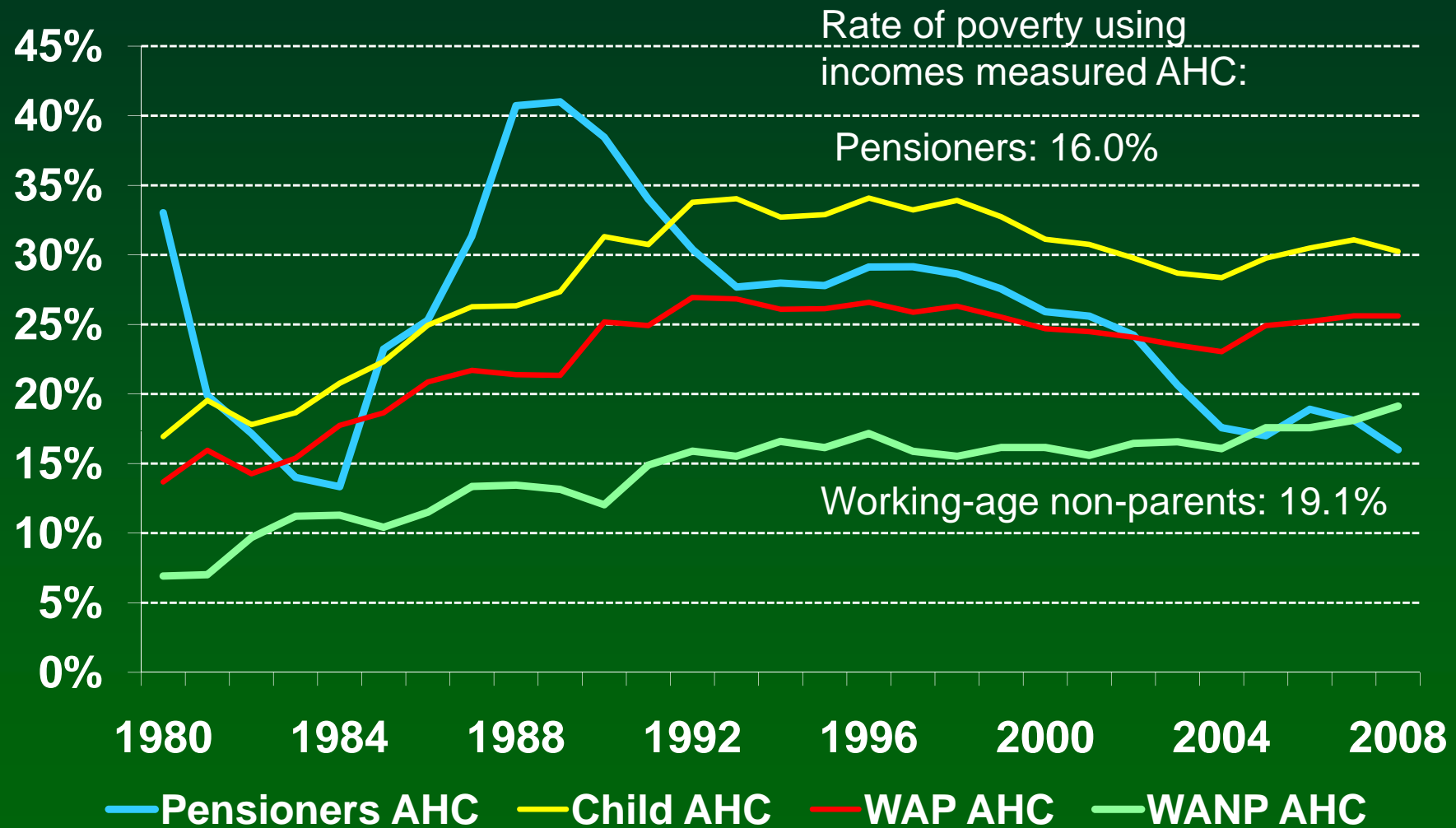
- ‘Eradication’ of child poverty by 2020 is obligatory.
- Four constituent targets
 - Relative child poverty less than 10%
 - Absolute child poverty less than 5% (based on 2010/11)
 - Combined low income and material dep. less than 5%
 - Persistent poverty “approaching zero”
- Few details on coalition’s child poverty strategy
 - Strategy has to be published by 25th March 2011

Pensioner poverty now at its lowest level since the first half of the 1980s...



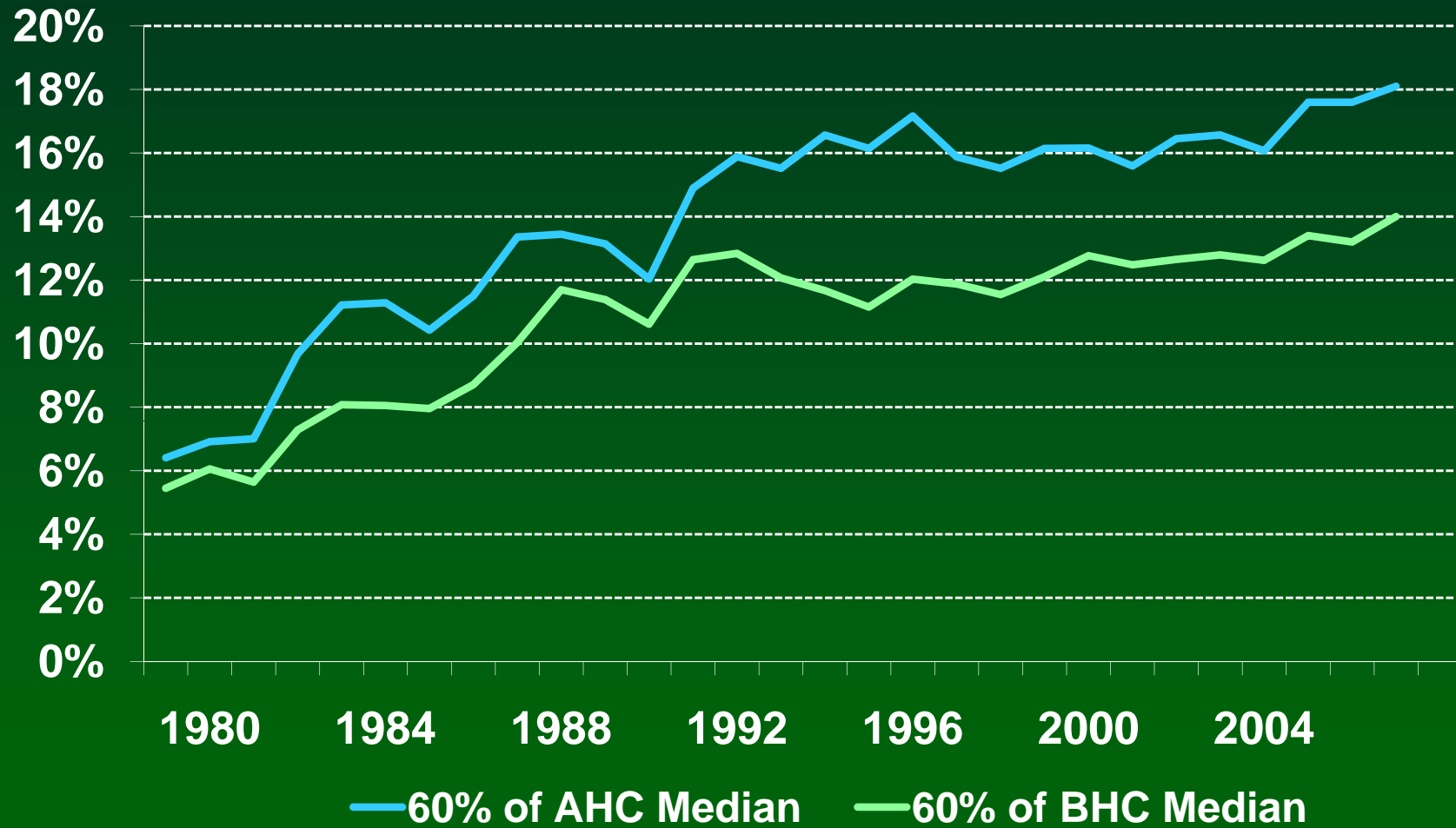
Source: HBAI Data (FES and FRS)

... and using incomes measured AHC the lowest of any group in society

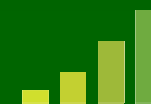


Source: HBAI Data (FES and FRS)

Working-age adults without dependent children

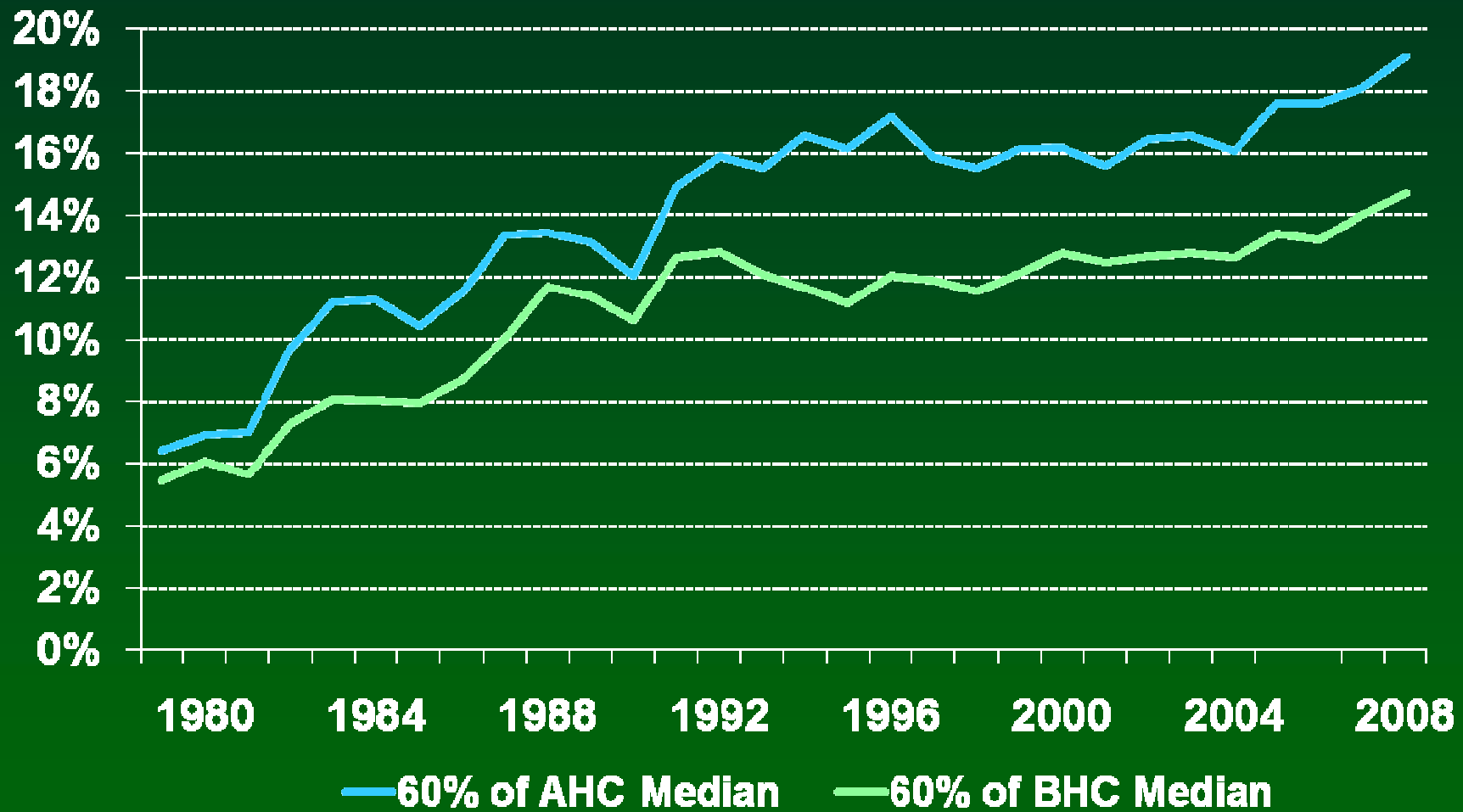


Source: HBAI Data (FES and FRS)

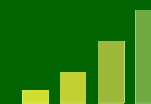


Institute for
Fiscal Studies

Working-age adults without dependent children



Source: HBAI Data (FES and FRS)



Institute for
Fiscal Studies

Regional trends in poverty

- DWP publish regional poverty rates but do not account for differences in cost of living
- Here we make use of regional price indices constructed by ONS for 2004-05.
 - Unlikely that relative prices remained constant but better than assuming same price level across country

Poverty (BHC) in 2006-07 to 2008-09

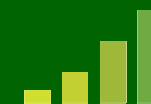
Region	National Prices
North East	22.0%
West Midlands	21.9%
Wales	20.9%
East Midlands	20.7%
Yorkshire	20.6%
North West	20.3%
Northern Ireland	20.3%
London	17.7%
Scotland	16.9%
South West	16.1%
East of England	15.1%
South East	12.9%
Total	18.1%

Poverty (BHC) in 2006-07 to 2008-09

Region	National Prices	Regional Prices
London (8)	17.7%	22.1%
West Midlands (2)	21.9%	21.1%
East Midlands (4)	20.7%	19.8%
North West (6)	20.3%	18.9%
Northern Ireland (7)	20.3%	18.2%
North East (1)	22.0%	17.7%
Yorkshire (5)	20.6%	17.4%
Wales (3)	20.9%	17.4%
South West (10)	16.1%	17.0%
East of England (11)	15.1%	16.1%
South East (12)	12.9%	15.2%
Scotland (9)	16.9%	14.6%
Total	18.1%	18.0%

Poverty (BHC) using regional prices

Region	1996-97 to 1998-99	2006-07 to 2008-09	Change
London	23.5%	22.1%	-1.4%
West Midlands	19.4%	21.1%	+1.7%
East Midlands	19.2%	19.8%	+0.6%
North West	21.2%	18.9%	-2.3%
Northern Ireland	-	18.2%	n/a
North East	21.2%	17.7%	-3.5%
Yorkshire	20.5%	17.4%	-3.0%
Wales	19.0%	17.4%	-1.6%
South West	19.8%	17.0%	-2.8%
East of England	16.5%	16.1%	-0.5%
South East	15.6%	15.2%	-0.5%
Scotland	17.8%	14.6%	-3.1%
Total	19.4%	18.0%	-1.4%



Regional trends in poverty by group

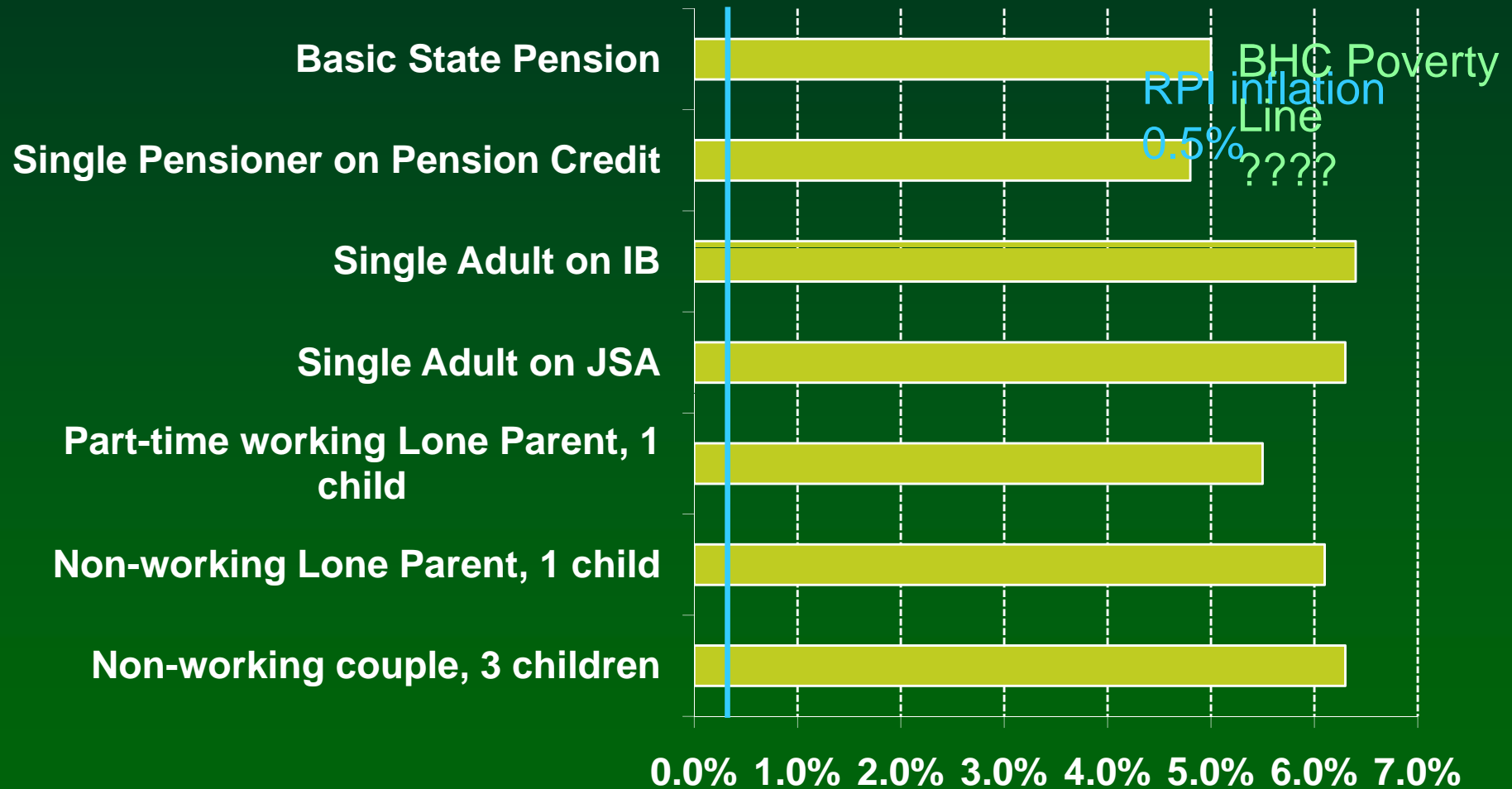
After adjusting for price differences:

- Child poverty
 - Lowest in East of England, highest in London
 - Fell most in North East, rose in West Midlands
- Pensioner poverty
 - Lowest in Scotland, highest in London
 - Fell most in Scotland, fell least in London
- Working-age non-parent poverty
 - Lowest in South East, highest in North East
 - Rose least in Yorkshire, rose most in West Midlands

Prospects for poverty

- Further increases in unemployment will likely push up poverty amongst working-age non-parents
- May see falls in median income.
- Further real increases in benefit entitlements.
 - Policy measures
 - Inflation fell further in 2009-10

Growth in benefit entitlements 2008-09 to 2009-10



Source: HBAI data

Poverty: summary

- Relative poverty fell for the first time since 2004/5
 - Pensioner poverty down 200,000
 - Child poverty down 100,000
 - Working-age non-parent poverty up 200,000
- Poverty has fallen most under in Scotland and the North East but risen in the Midlands
- May expect 2009-10 to continue pattern of poverty changes seen in 2008-09