Poverty & Inequality in the UK

Ali Muriel, IFS
May 8th, 2009
Living standards & inequality: what’s coming up

Living standards
• Sixth consecutive year of weak income growth
• Bleak outlook for the near future

Inequality
• Now at highest level since our series began in 1961
• Income growth since last year: near-zero at almost every point of the income distribution
Poverty: what’s coming up

• After falling during Labour’s first two terms…
  – Most for pensioners and children
  – Longest sustained fall in poverty of recent times
• … poverty has been rising since 2004/05
  – Pensioner poverty up by 200,000
  – Working-age non-parent poverty up by 400,000
  – Child poverty up by 200,000

• 2010-11 child poverty target likely to be missed
How incomes are calculated

• Net of all direct taxes and benefits
• Measured at the household level
• Adjusted for family size (equivalised)
• Presented both before and after housing costs
• GB before 2001, UK figures from 2002-3
  – Will use GB figures for time series of incomes/inequality
• Based on Family Resources Survey (FRS)
  – All statistics subject to sampling error
The UK income distribution in 2007/08

- Median income: £393
- Mean income: £487
- 1.2 million individuals with income above £1,500 per week

Source: HBAI data
Changes in mean real incomes since 1979 (GB)

01/02 to 07/08
0.9% per year avg. growth
Changes in mean real incomes since 1979 (GB)

- 1980 to 1994: Real percentage increase 3.4% per year avg. growth
- 1994 to 1999: Average growth 0.9% per year
- 1999 to 2004: Average growth 0.9% per year
- 2004 to 2007: Average growth 1.0% per year

Source: Institute for Fiscal Studies
Changes in mean real incomes since 1979 (GB)
Average annual growth in components of income (GB)

- Earnings: 66%
- Benefits: 18%
- Self-emp: 10%
- Savings: 11%
- Other: 3%
- Payments: -7%

Source: HBAI data
Real earnings growth since 1997 (GB)

Source: Average Earnings Index
Real earnings growth since 1997 (GB)

Source: Average Earnings Index
Inequality
Income inequality

- Popularly defined as ‘the gap between rich and poor’

- No single agreed measure of inequality

- Important to look at a range of graphical and summary measures
Income changes by quintile group, 2006/07 – 2007/08 (GB)

Source: HBAI data
Income changes by quintile group, 2006/07 – 2007/08 (GB)

Source: HBAI data
Income changes by percentile group: 2006/7 – 2007/08 (GB)

Source: HBAI data
Income changes by percentile group: 2006/07 – 2007/08 (GB)

Source: HBAI data
Income changes by percentile group: 1996/97 – 2007/08 (GB)

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Income changes by percentile group: 1996/97 – 2007/08 (GB)

Average annual income gain (%)

Source: HBAI data
Income changes by percentile group: 1996/97 – 2007/08 (GB)

Source: HBAI data
Income changes by percentile group: 1996/97 – 2007/08 (GB)

Source: HBAI data

- Labour I: 1996-97 to 2000-01
- Labour II: 2000-01 to 2004-05
- Labour III: 2004-05 to 2007-08

Source: HBAI data
The Gini Coefficient: 1979–2007/08 (GB)

Source: HBAI data
Poverty
Defining poverty for HBAI

• Focus on rates rather than numbers
• Relative notion of poverty
  – Individuals in households below 60% of the contemporary BHC and AHC median
• No account of depth of poverty
Poverty fell in Labour’s first two terms…

Source: HBAI Data (FES and FRS)
… but has been rising ever since
## Across all thresholds?

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Source: HBAI Data (FRS)
Growth in benefit entitlements 2006-07 to 2007-08

- Basic State Pension
- Single Pensioner on Pension Credit
- Single Adult on IB
- Single Adult on JSA
- Part-time working Lone Parent, 1 child
- Non-working Lone Parent, 1 child
- Non-working couple, 3 children

Source: HBAI data
Composition of poverty (AHC)

- **Children**
- **Working age with children**
- **Working age no children**
- **Pensioners**

Source: HBAI Data (FES and FRS) and authors' analysis
Child poverty targets

Target: Cut by a quarter by 2004/05
Target: Cut by half by 2010/11
Target: Cut to 5-10% by 2020
Progress to date: challenging

Projection: 0.6 million away from target in 2010
Recent child poverty increases

• Driven by large increase in risk of poverty among children in couple families
  – Especially for couples in which only one parent (or neither) works

• ‘Material deprivation and relative low income’ measure of poverty also increased in 2007-08.
  – 17.1% of children now materially deprived, on low incomes
  – Increase of 200,000 children from 06-07
  – Driven by rising deprivation, not rising income poverty
Pensioner poverty fell until 2005-06

Source: HBAI Data (FES and FRS)
... then ticked up

Number of pensioners living in poverty now:

- 2.5 million (BHC)
- 2.0 million (AHC)

Source: HBAI Data (FES and FRS)
Working-age adults without dependent children

Source: HBAI Data (FES and FRS)
Living standards & inequality: summary

Living standards
- Sixth consecutive year of weak income growth
- Even bleaker outlook for the near future

Inequality
- At highest level since our series began in 1961
- Income growth since last year: near-zero at almost every point of the income distribution
Poverty: summary

- Relative poverty has been rising since 2004/05
  - Pensioner poverty up 200,000
  - Working-age non-parent poverty up 400,000
  - Child poverty up 200,000

- Absolute poverty has also been rising over this period (albeit slowly)

- 2010-11 child poverty target likely to be missed