Poverty (and its changing face)

David Phillips, IFS
June 14th, 2013
Defining poverty

• Income based measure of poverty

• Relative income poverty
  – Individuals in households below 60% of the contemporary median income

• Absolute income poverty
  – Individuals in households below fixed real-terms lines (here 60% of the median in 2010-11)

• Headcount measure: no account of depth of poverty

• Can be measured before housing costs (BHC) or after housing costs (AHC)
Outline

• Recent changes in relative and absolute poverty
  – Latest year
  – Since before the start of recession

• Longer run changes by demographic group and age

• The prospects for poverty
Poverty: changes in 2011-12

- Relative poverty unchanged in 2011-12
  - Incomes in households around the poverty line fell at a similar rate to median income

- Falls in income of poorer households mean absolute poverty increased in 2011-12
  - 900,000 both BHC and AHC
Relative poverty had been increasing a bit in the run up to the recession...

Source: FRS and FES (Various Years)
... But it fell between 2007-08 and 2011-12 to levels last seen consistently in the 1980s.

- By 1,200,000 BHC (2.4 percentage points)
- By 400,000 AHC (1.4 percentage points)

Source: FRS and FES (Various Years)
Absolute poverty fell a lot in the two decades before the most recent recession.
...fell or held steady during 2008-09 and 2009-10 as incomes continued to grow during recession...
...but increased since 2009-10 as impact of recession finally felt in falling incomes...

- Absolute BHC poverty similar to level in 2007-08
- 1.8 ppt increase in absolute AHC poverty since 2007-08

Source: FRS and FES (Various Years)
Changes in relative poverty differ across the population

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- Relative pensioner poverty fell by over a quarter between 2007-08 and 2011-12
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- Relative pensioner poverty fell by over a quarter between 2007-08 and 2011-12
- Also down substantially for children
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- Relative pensioner poverty fell by over a quarter between 2007-08 and 2011-12
- Also down substantially for children
- Up for working age adults without children
What explains these differences?

• Benefits for families with children and pensioners generally increased in real terms or in line with inflation
  – Means those relying on benefits saw position improve relative to those relying on falling earnings
  – Explains why poverty fall more for out-of-work and part-time working families with children

• But working age adults without children hit by poor labour market
  – More single adults without work
  – Falls in real wages push up poverty rates for couples with only one worker
Changes in absolute poverty also differ

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- For children and pensioners, whether fallen depends on whether measured BHC or AHC
- Increases in absolute poverty even bigger for working age adults without children
Long-run changes by demographic and age groups
Relative poverty rates (BHC) 1961 to 2011-12

Source: Figure 6.1b of Living Standards, Poverty and Inequality: 2013

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Relative poverty rates (AHC) 1961 to 2011-12

Source: Figure 6.1a of Living Standards, Poverty and Inequality: 2013

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Relative poverty rates by age group (BHC)

Source: Figure 6.3b of Living Standards, Poverty and Inequality: 2013
© Institute for Fiscal Studies
Relative poverty rates by age group (BHC)

Source: Figure 6.3b of Living Standards, Poverty and Inequality: 2013

© Institute for Fiscal Studies
Relative poverty rates by age group (AHC)

Source: Figure 6.3a of Living Standards, Poverty and Inequality: 2013
The face of poverty gets younger

- Major change in the relative rates of poverty of pensioners versus working age adults without children
  - 6–8 times higher for pensioners in 1960s and early 1970s
  - Around 2 times higher for pensioners in mid 1990s
  - At similar level (BHC) or substantially lower (AHC) for pensioners in 2011-12

- Pensioners make up a much lower share of poor than used to despite being larger share of population
Explaining the fall in pensioner poverty

• Substantial increase in pensioners’ income from state pensions and benefits
  – Higher entitlement to basic and additional state pensions
  – Expansion of disability benefits
  – Increase in generosity of means-tested benefits since late 1990s

• Increase in incomes from occupational pensions

• AHC pensioner poverty fell further due to big shift from renting to owning homes outright.
Explaining the rise in poverty among working age adults without children

- Large rise in poverty during 80s and early 90s associated with
  - Substantial increases in workless families
  - Significant increase in earnings inequality meant low earners fell behind

- Increases since 1996-97 due to low earnings growth

- Benefits for working age-adults without children have fallen substantially relative to the poverty line
Explaining the rise and fall of child poverty

• Large rise in poverty during 80s and early 90s associated with
  – Substantial increases in workless families
  – Significant increase in earnings inequality meant low earners fell behind
  – Benefit rates fell relative to the poverty line

• Substantial falls in poverty since 1996-97 due to
  – Above all, a substantial increase in means-tested benefits
  – Increases in parental employment rates
Work and Poverty (I)

- Has been a substantial rise in the proportion of the poor who are living in a family where someone works
  - Among working age adults without children up from a third in 1979 and 1996-97, to around half in 2011-12
  - Up from 40% of poor children in 1979 and 1996-97 to around two-thirds in 2011-12
- Driven by increases in in-work poverty and falls in out-of-work poverty among families with children
- But poverty rates still substantially higher for non-working families
Low-pay sectors associated with being in in-work poverty

<table>
<thead>
<tr>
<th>Poverty rate (AHC) in 2011-12</th>
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<th>All Other Sectors</th>
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Low hourly wages are more associated with poverty than low hours of work

- Many of those working low hours secondary earners
- Poverty highest for those with low wages and low hours
The prospects for poverty

• But discretionary cuts to benefits now ramping up
  – e.g. 1% nominal increases in many benefit rates
  – e.g. Cuts to housing benefit, council tax benefit and disability benefits

• IFS researchers project substantial increases in child and working age poverty in the coming years
  – e.g. around 600,000 more children and working age adults in relative poverty (AHC) by 2015-16
  – Absolute poverty up even more
  – On basis of current policy, means child poverty will not be eradicated by 2020-21
Impact of direct tax and benefit reforms introduced or planned between April 2012 and April 2015

Whole-population income decile group (under April 2011 system)

Source: Figure 4.5 of Living Standards, Poverty and Inequality: 2013
Poverty: summary

• Relative poverty down but absolute poverty up since 2007-08

• But trends differed for different parts of the population
  – Pensioners and children have fared best

• Differences in poverty between groups much smaller than 50 years ago

• Over the long-run, pensioners have become much less likely to be poor, and working-age adults much more likely to be poor
  – Poverty among children rose and then fell
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