



# Institute for Fiscal Studies



## Income Poverty

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FOUNDATION



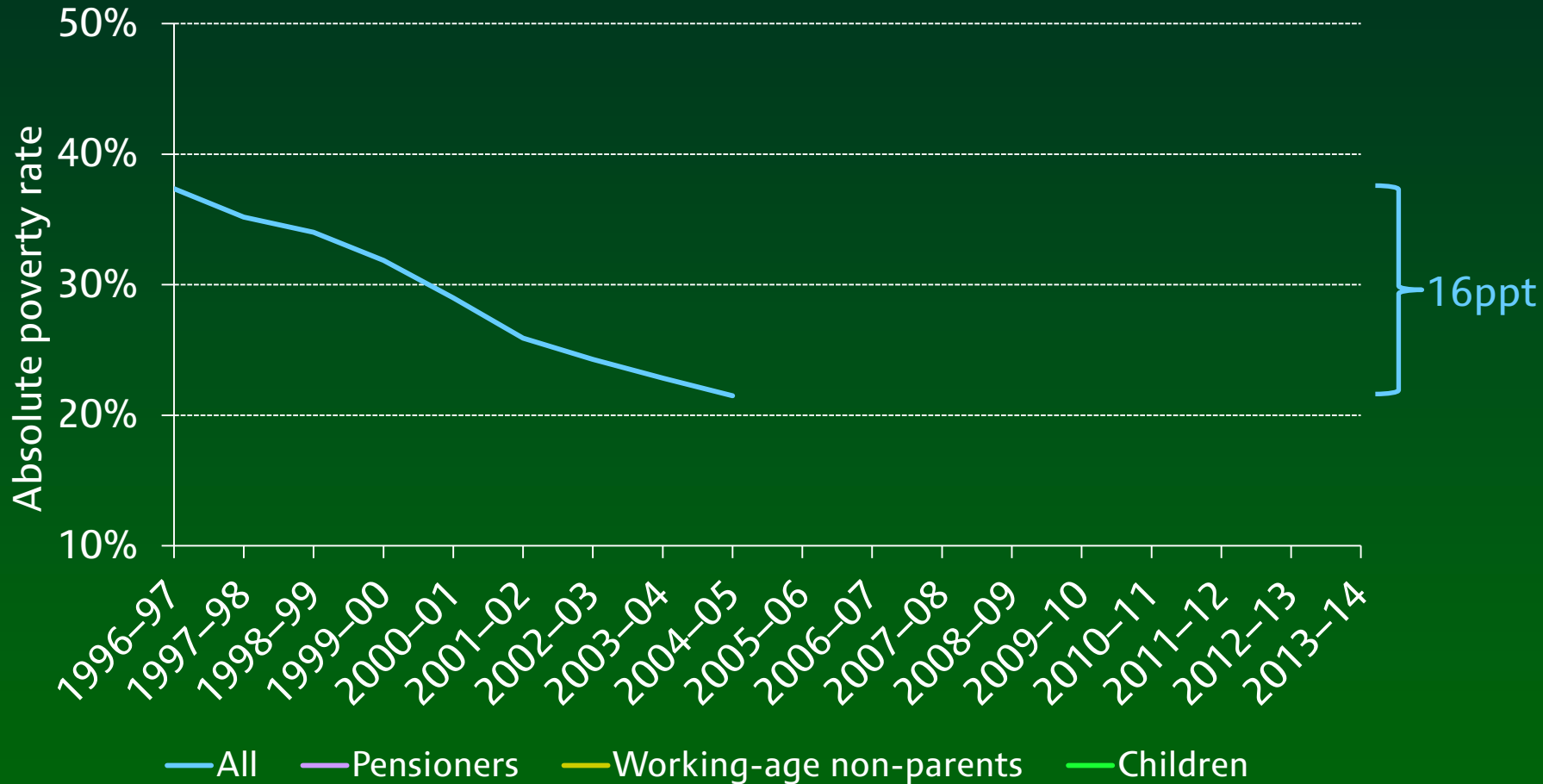
# Outline

- Recent trends in income poverty
  - how has poverty changed since the recession and why?
  - how have different groups been affected?
- Relationship between work status and poverty
- Prospects for poverty

# Defining income poverty

- Absolute income poverty (fixed poverty line)
  - poverty line is 60% of the 2010-11 median in real terms (CPI adjusted)
- Relative income poverty (moving poverty line)
  - poverty line is 60% of the contemporary median income
- Can be measured before housing costs (BHC) or after housing costs (AHC) have been deducted
- We are going to focus on absolute AHC poverty

# Absolute poverty

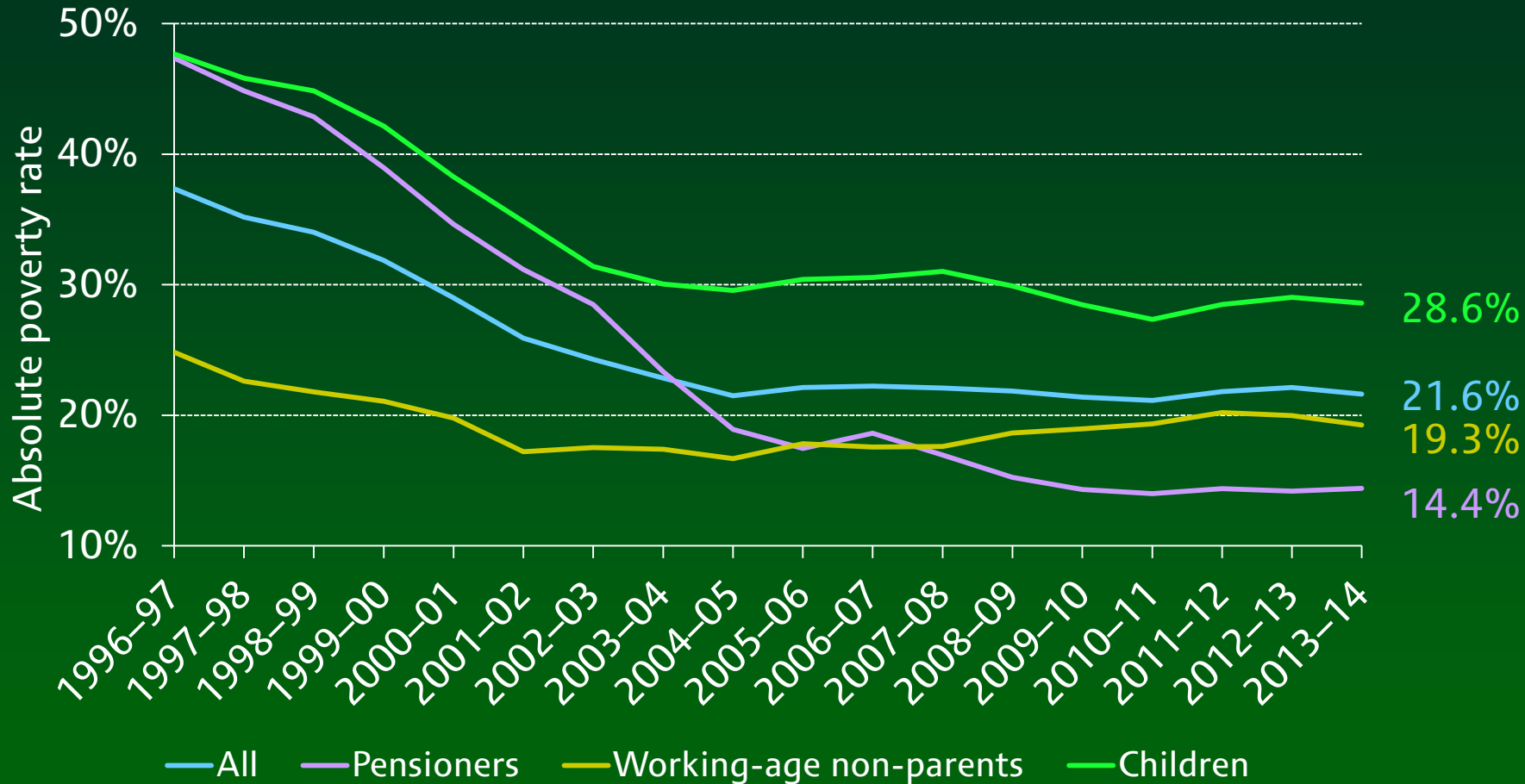


Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2015*



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# Absolute poverty



Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2015*

# Why did child poverty not increase in 2013–14?

- Child poverty was broadly unchanged in 2013–14 when many expected it to rise
- Important not to place too much emphasis on year-on-year changes
- Explanations in the 2013-14 data:
  - Fast increase in employment growth (faster than LFS)
  - Falling poverty in families with self-employment parents (uncertain)
  - Falling poverty in families with workless lone parent families (surprising given cuts to benefit entitlements)

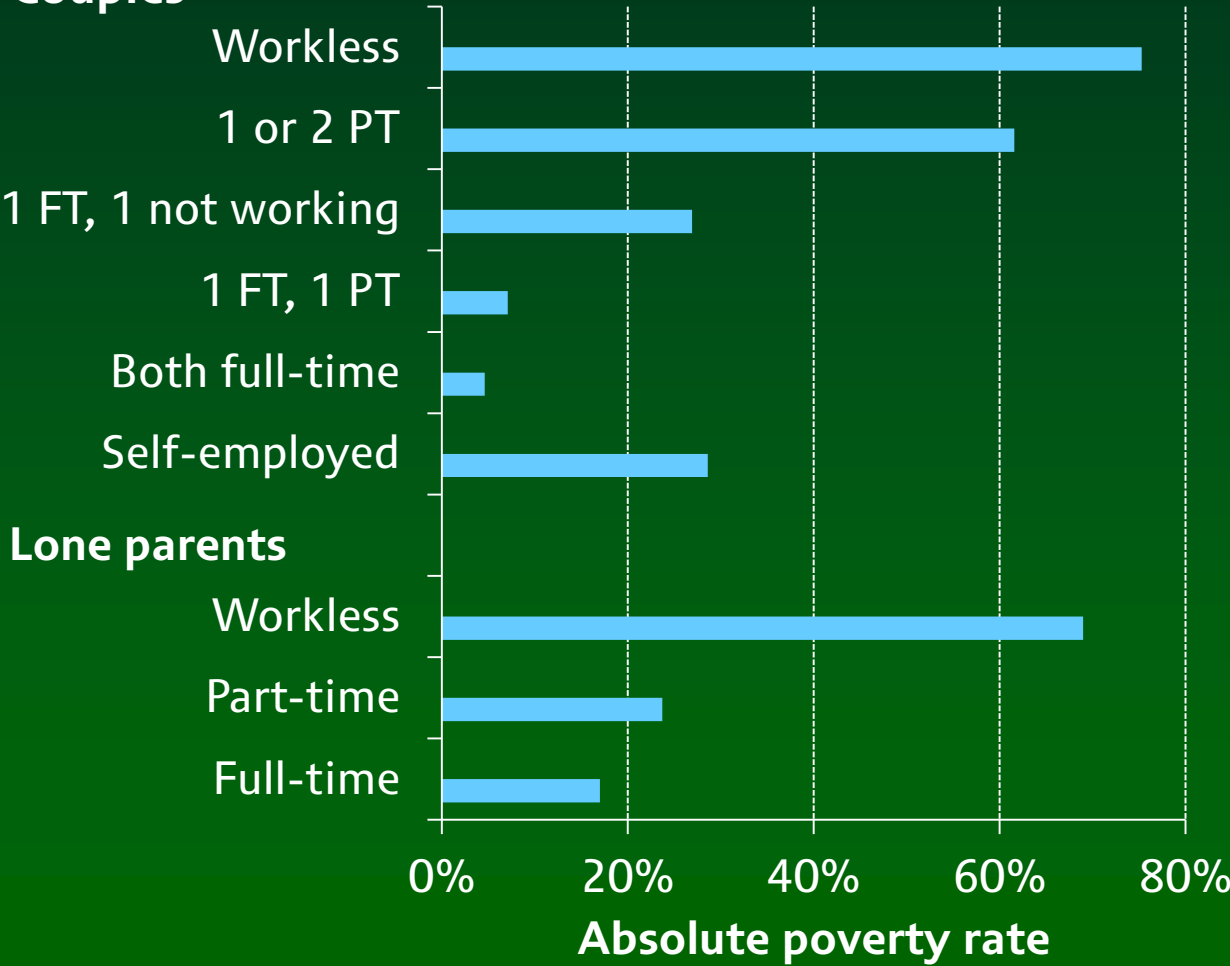
# Relationship between work status and poverty

- Between 2009–10 and 2013–14 there were contrasting labour market trends
  - The employment rate recovered (increased by 3.2ppt in the HBAI data)
  - But real earnings fell
- How has this impacted poverty?
  - Child poverty was broadly unchanged between 2009–10 and 2013–14
  - However during this period the proportion of children living in workless families from 18% to 16%

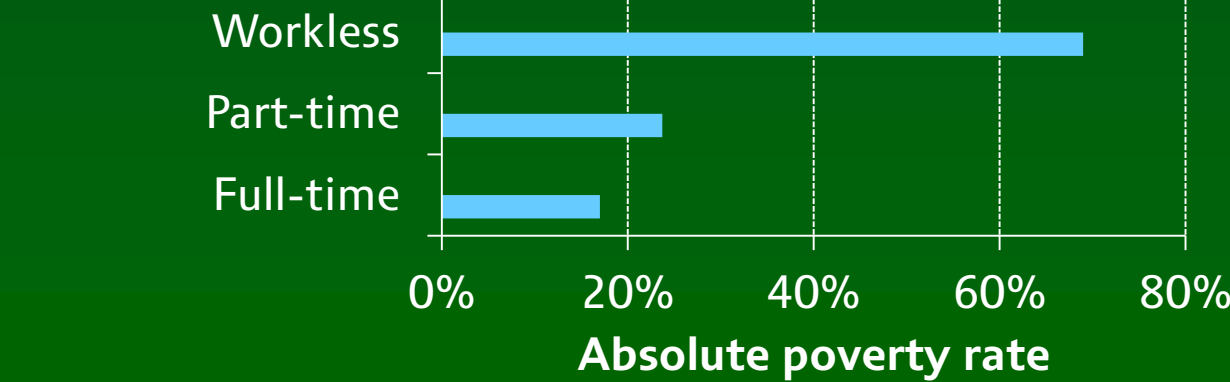
# Child poverty by parental work status

Source: Table 4.5 of *Living Standards, Inequality and Poverty in the UK: 2015*

## Couples



## Lone parents



Proportion of child population in 2009-10	
6.9%	2013-14
4.7%	2009-10
16.9%	2013-14
20.8%	2009-10
15.8%	2013-14
11.6%	2009-10
11.4%	2013-14
6.1%	2009-10
5.7%	2013-14

■ 2013-14 ■ 2009-10

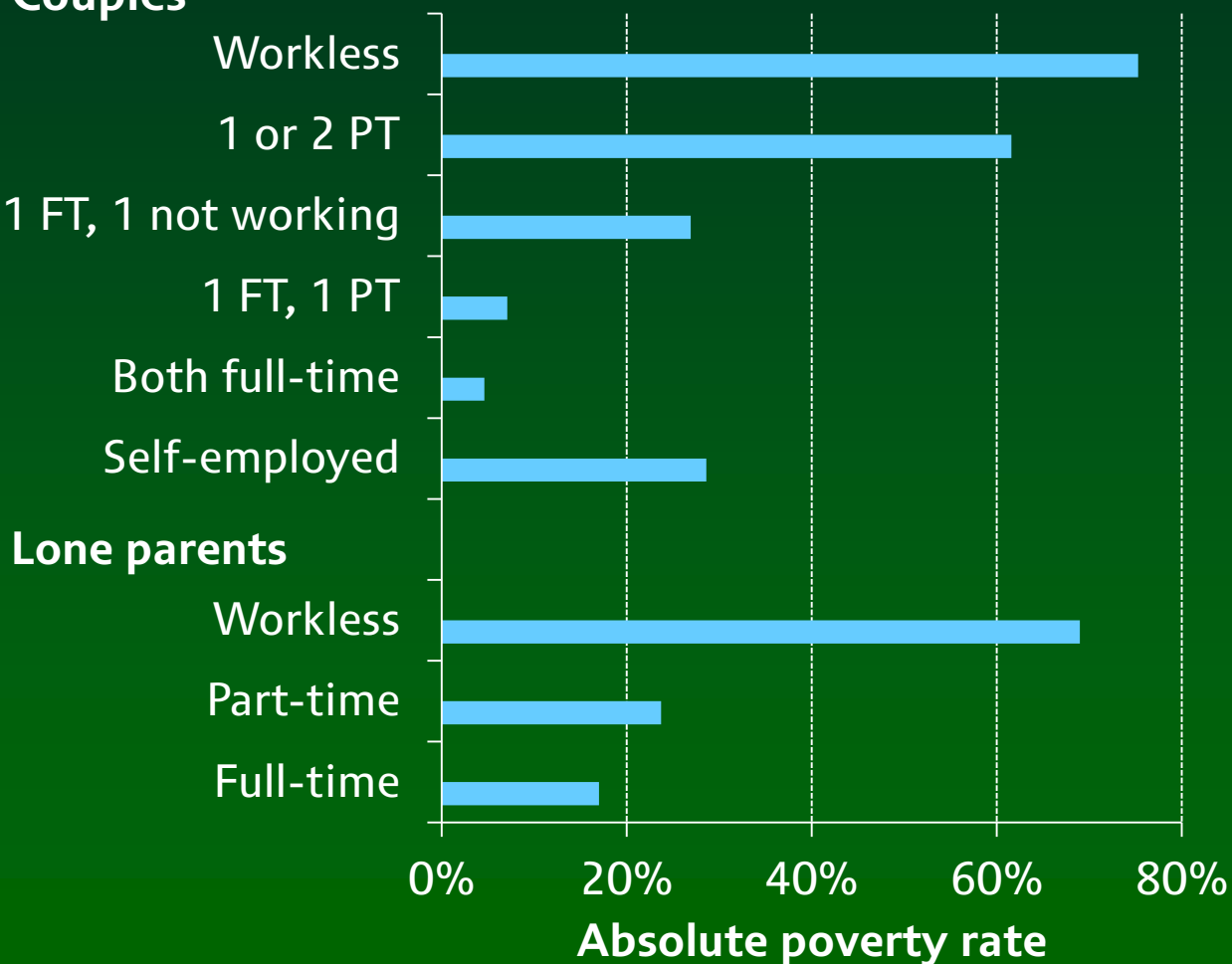




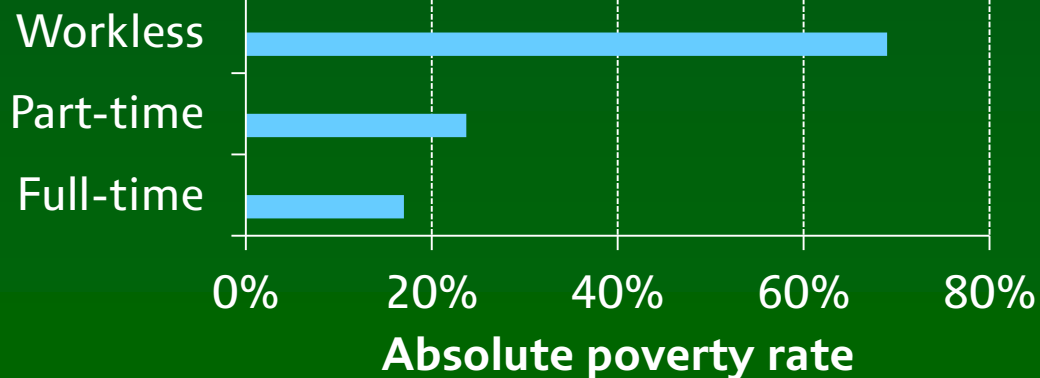
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## Couples



## Lone parents



■ 2013-14 ■ 2009-10

Proportion of child population in 2009-10	Change between 2009-10 and 2013-14
6.9%	-1.2ppt
4.7%	-0.4ppt
16.9%	-0.6ppt
20.8%	+0.1ppt
15.8%	+1.2ppt
11.6%	+0.6ppt
11.4%	-0.8ppt
6.1%	+0.9ppt
5.7%	+0.2ppt



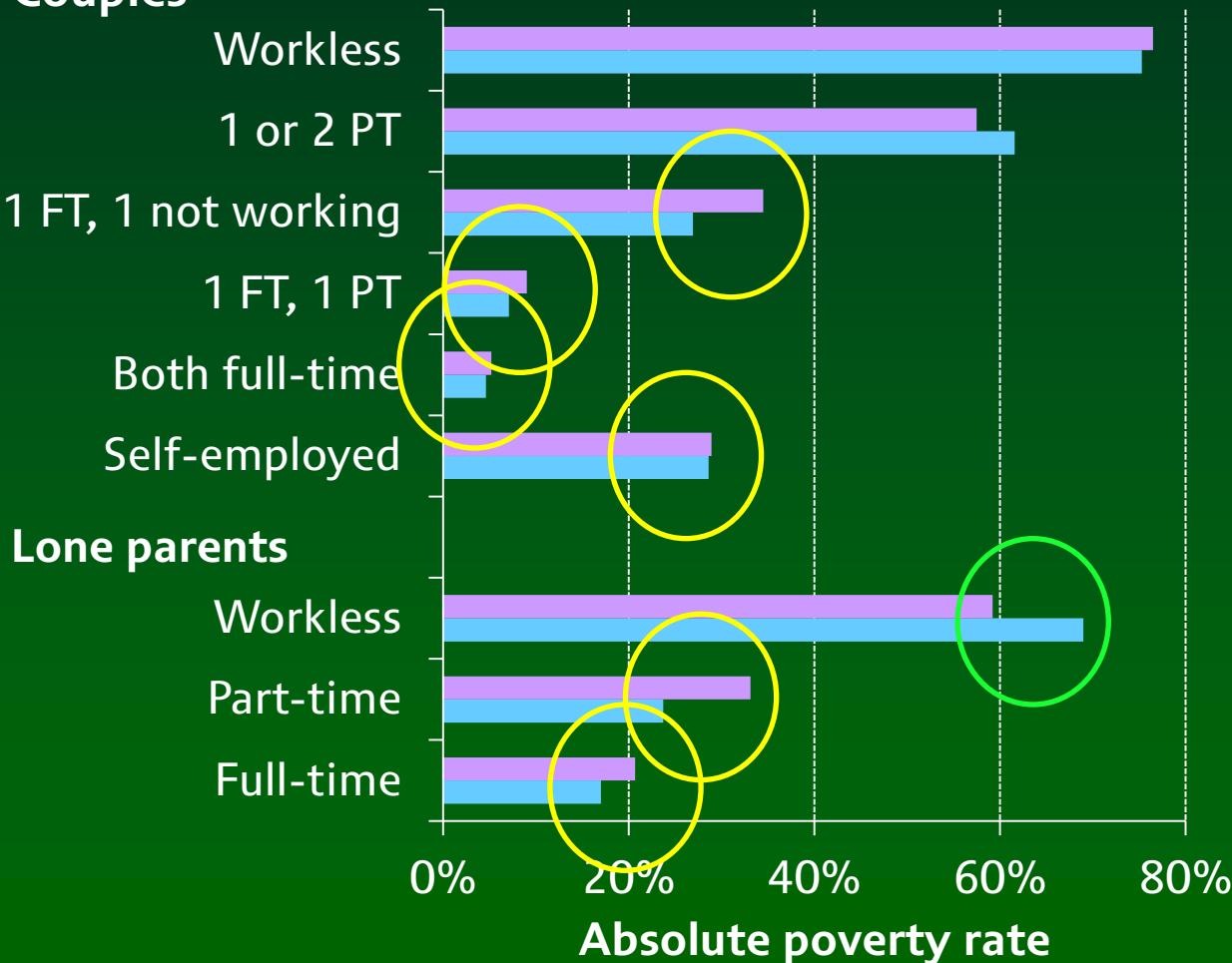
# Child poverty by parental work status

- These changes acted to reduce the child poverty rate by more the 1ppt
- However at the same time there were increases in the poverty rate in working families

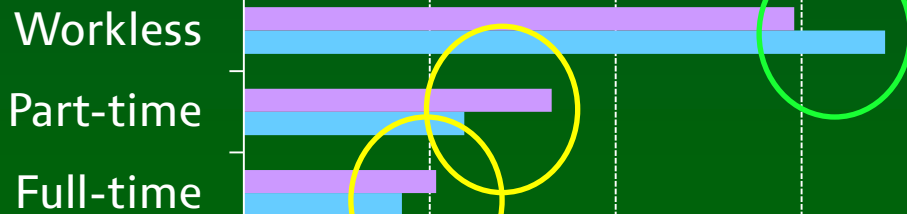
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## Couples



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11.6%	+0.6ppt
11.4%	-0.8ppt
6.1%	+0.9ppt
5.7%	+0.2ppt



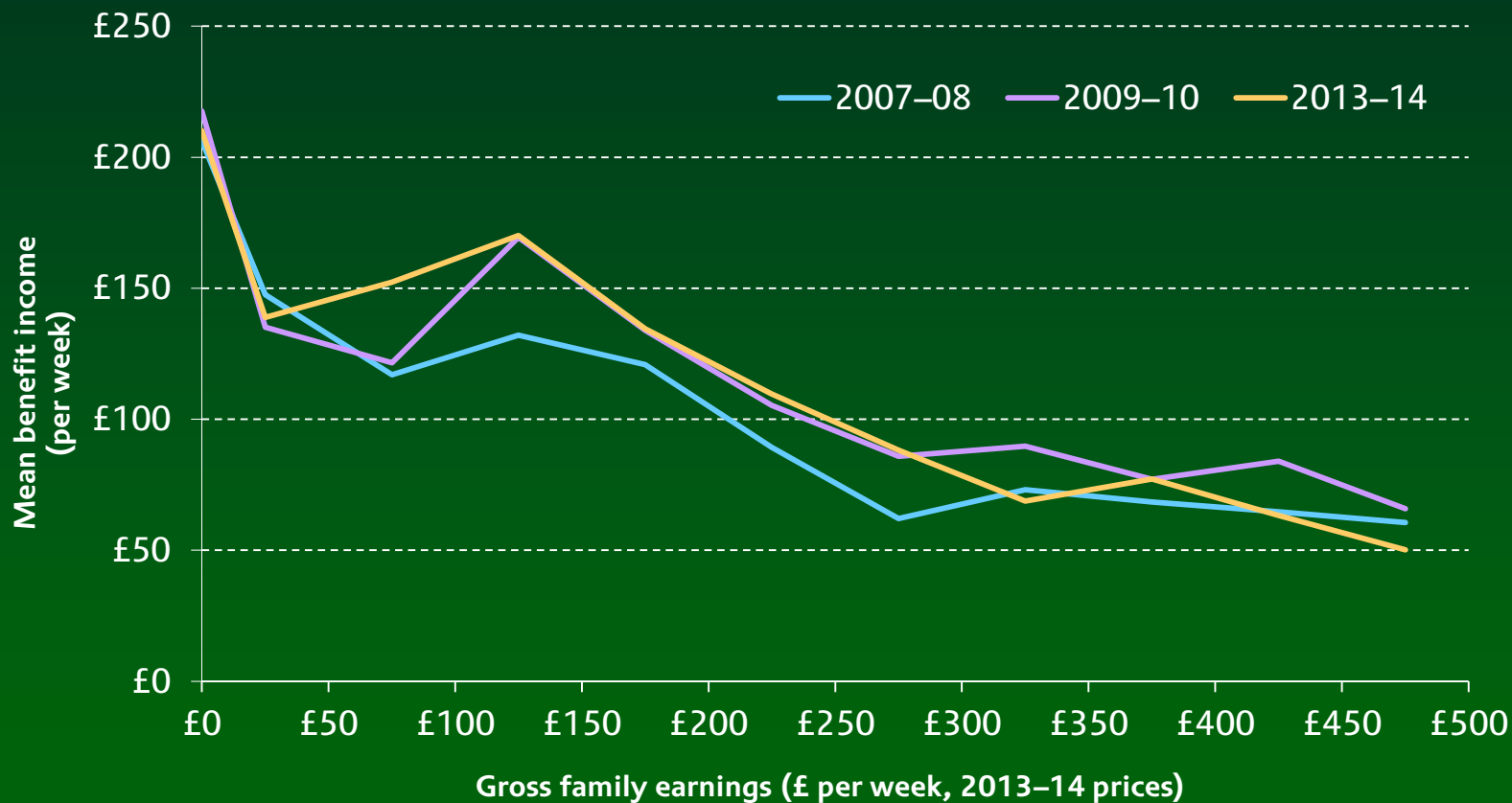
# Why was child poverty flat between 2009–10 and 2013–14?

1. Employment growth reduced the proportion of children living in workless families
  2. Fall in child poverty rate among workless lone parents
  3. Rise in in-work poverty
- In 2009–10 54% of children in poverty lived in working families, by 2013–14 this had risen to 63%

# Why has in-work poverty risen?

- Two possible answers:
- Cuts to working-age benefits eg:
  - Child benefit and parts of WTC frozen in cash terms
  - Working-age benefits were uprated by 1% in 2013–14
- Falling real earnings

# Benefit and tax credit income at different levels of family earnings



Source: Figure 4.5 of *Living Standards, Inequality and Poverty in the UK: 2015*

# Benefit income at different levels of earnings

- There was little change in benefit income for those on low earnings between 2009–10 and 2013–14
- This may seem surprising given the benefit cuts in 2013–14
- However there were increases in benefits between 2009-10 and 2012-13
  - In 2011–12 there were discretionary increases to child tax credit
  - In 2012-13 benefits were uprated by 2.6% in real terms

# Distribution of family earnings



Source: Figure 4.4 of *Living Standards, Inequality and Poverty in the UK: 2015*

Note: The proportion who live in families with zero (or negative) employment income, and those with earnings of £1,000 or greater, are not reported in this graph.



# Prospects for poverty

- In 2014–15 it is likely that absolute poverty was stable or even fell slightly
  - In 2014-15 CPI inflation was unexpectedly low this preserved the value of benefits in real terms
  - Average earnings and the minimum wage grew faster than inflation
- However looking further ahead future benefit cuts will act to increase absolute poverty
- Cuts to tax credits (and universal credit) are likely to increase in-work poverty
  - higher minimum wage will not compensate low-income working families on average

# Conclusion

- Relatively stable poverty since 2009–10 masks two important trends
  - fall in worklessness
  - increase in the prevalence of in-work poverty
- The government has emphasised a focus on measuring the causes of poverty such as worklessness
- A focus on worklessness is sensible...
- ...but tackling low living standards will be difficult without improvements for working families too