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Poverty

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June 15th, 2012

Defining poverty

- HBAI focuses on material living standards of households
- 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 1996-97)
- Can be measured before housing costs (BHC) or after housing costs (AHC)
- Headcount measure: no account of depth of poverty

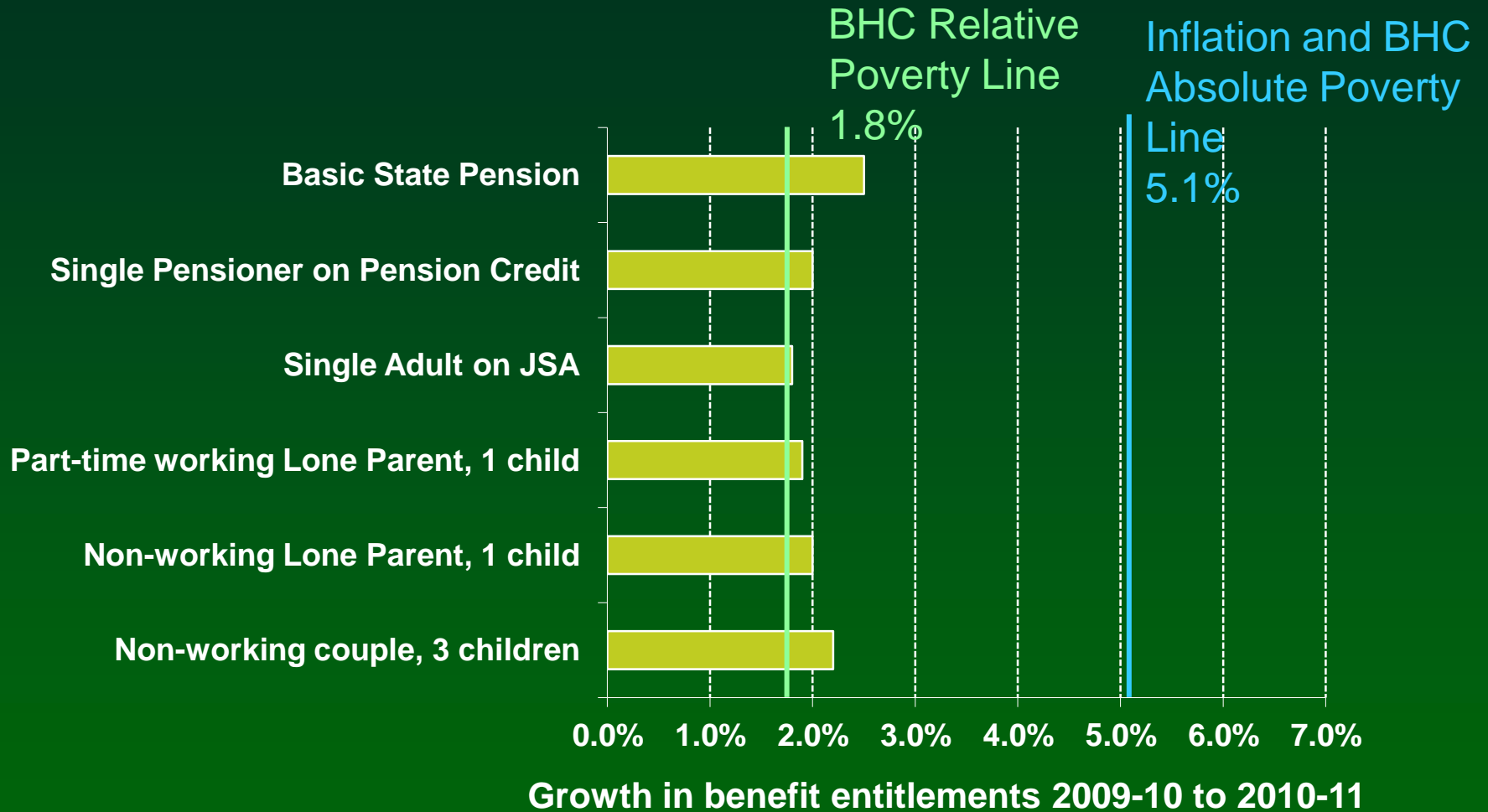
Poverty: key figures

- Relative poverty fell substantially In 2010-11
 - 500,000 BHC and AHC
 - Incomes towards the bottom of the income distribution fell, but by less than median income
- Falls in income of poorer households mean absolute poverty increased in 2010-11
 - 200,000 BHC
 - 300,000 AHC

Poverty: relative or absolute?

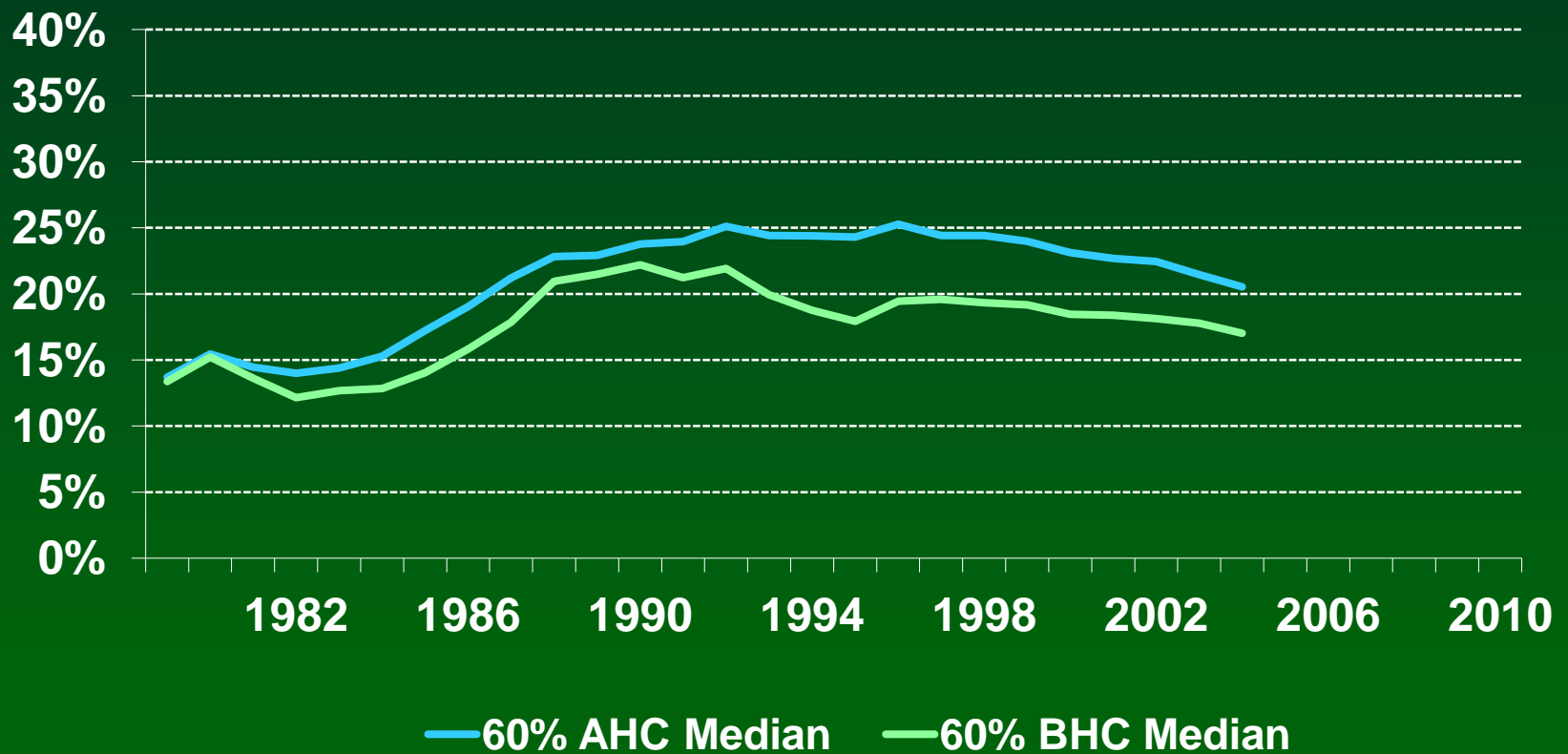
- Obviously care about absolute living standards of poorer households
 - Falling poverty when incomes of poor fall seems ‘strange’
- But may also care about relative living standards of the poor
 - Are they keeping up with the rest of society
- Sensible to consider both relative and absolute measures

Benefits rose by more than median income but by less than inflation in 2010-11



Source: HBAI data and authors' calculations

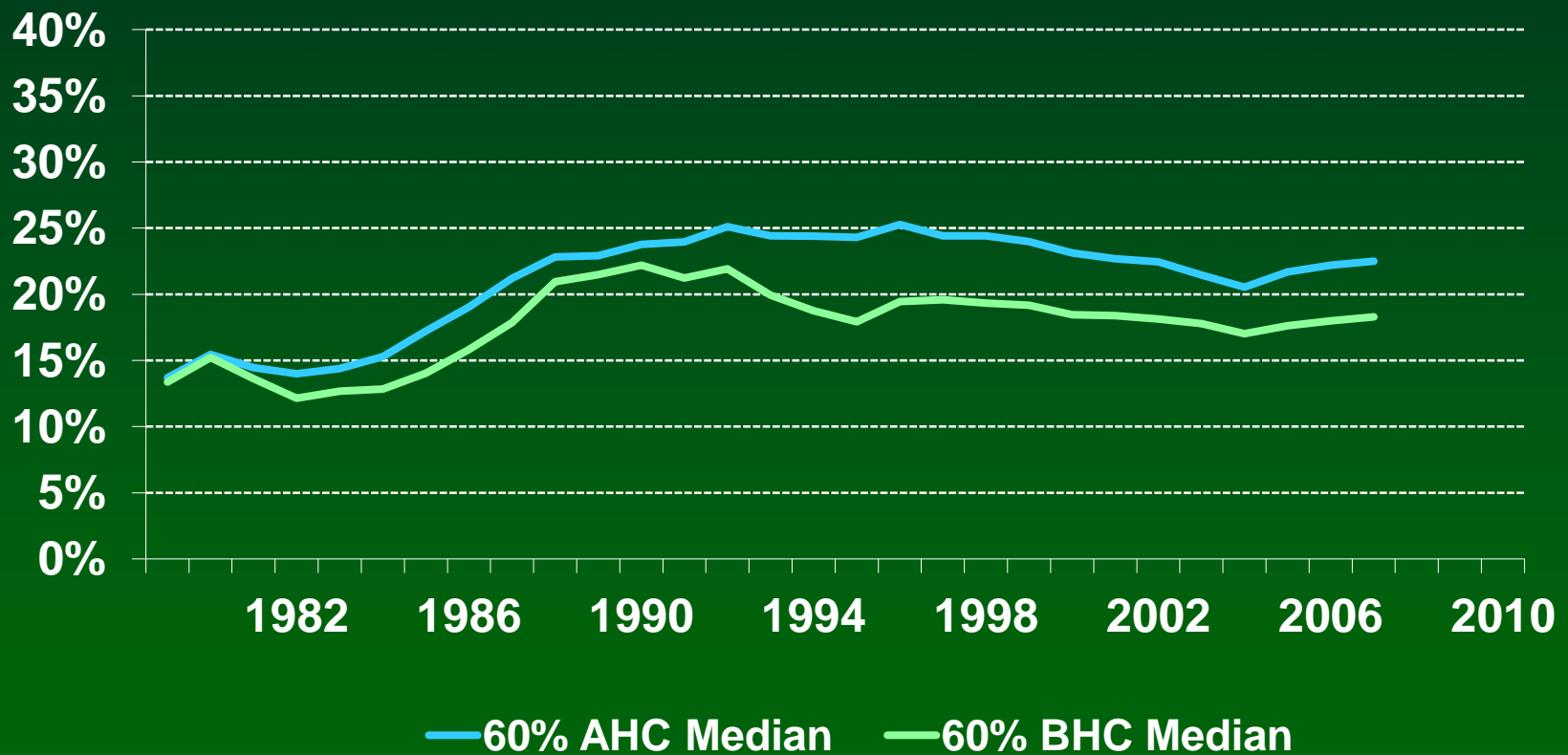
Relative poverty fell in late 90s and early 00s..



Source: HBAI Data (FES and FRS)



..before rising in the run up to recession..

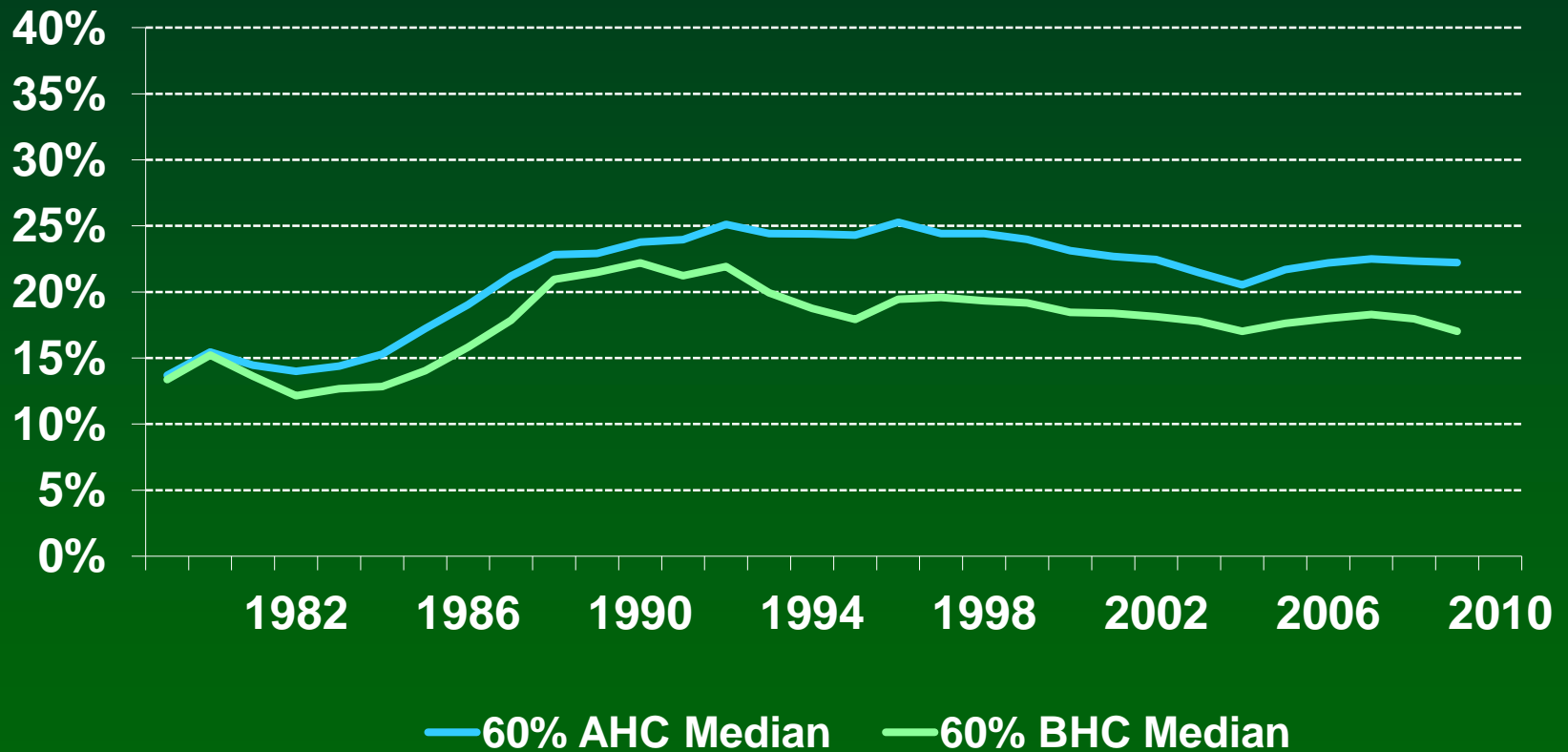


Source: HBAI Data (FES and FRS)



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... it fell in 2008-09 and 2009-10...

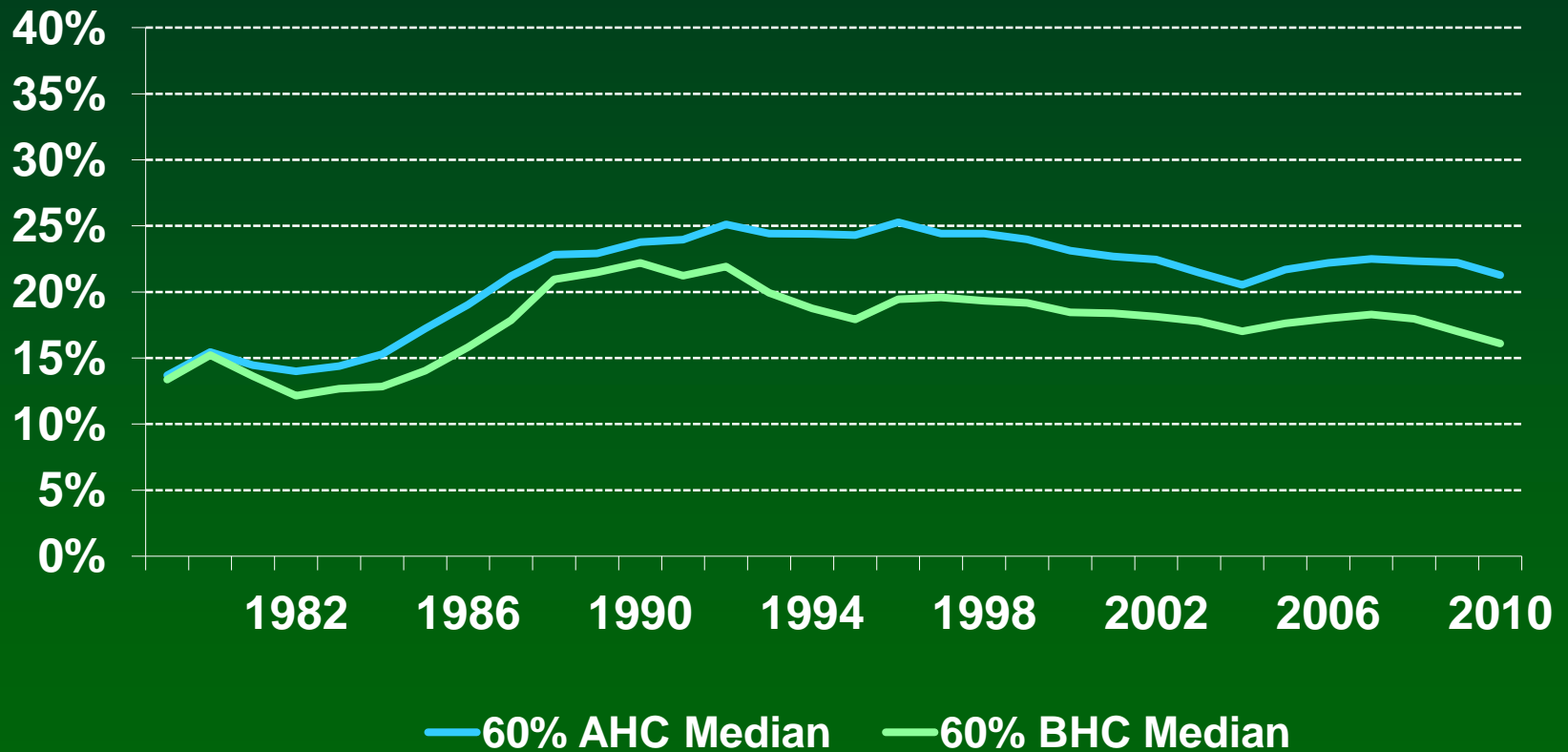


Source: HBAI Data (FES and FRS)



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... and continued to fall in 2010-11



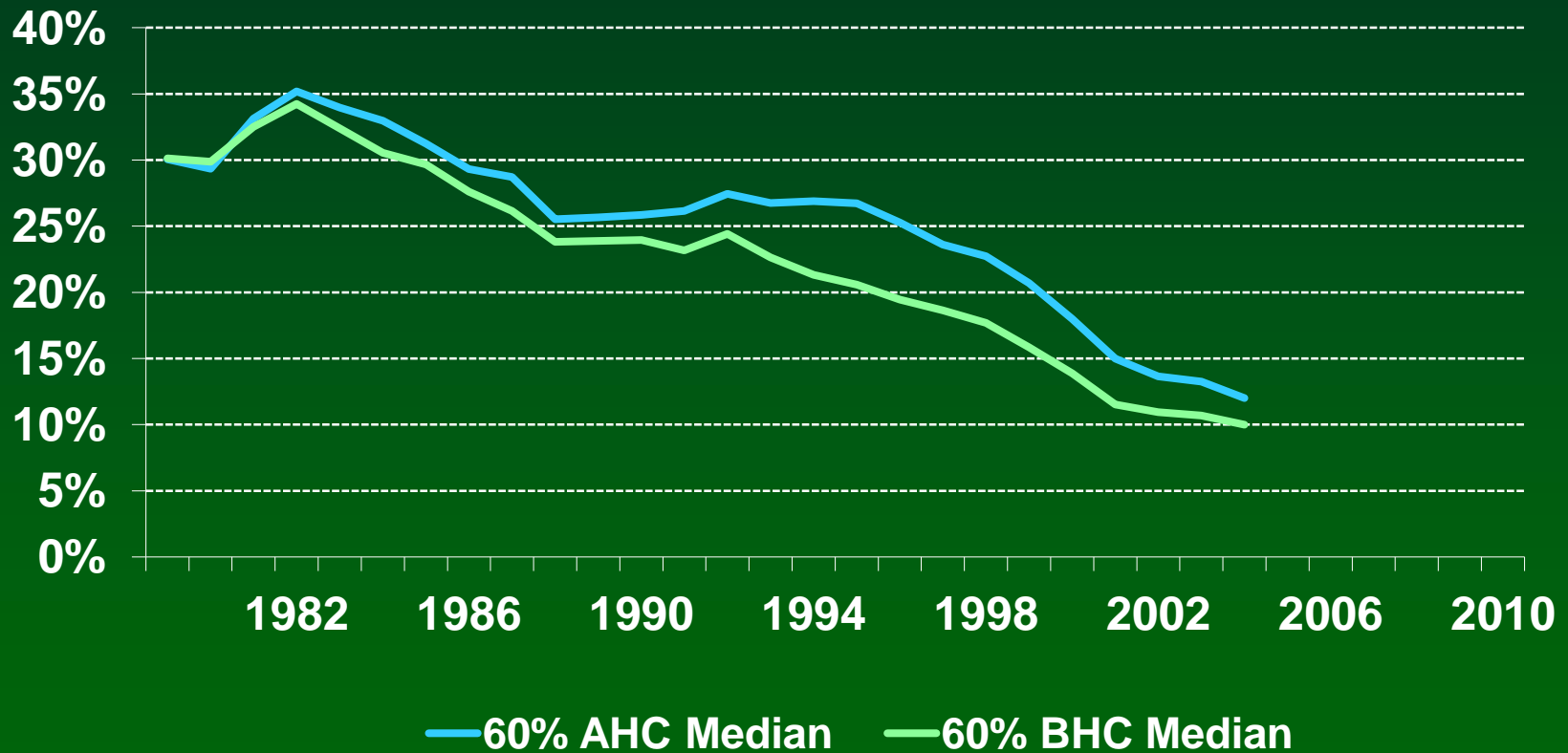
Source: HBAI Data (FES and FRS)



Relative Poverty: summary

- Falls in relative poverty in late 1990s and early 2000s against backdrop of strong growth in median income
 - Large increase in absolute incomes of the poor
 - Not the case when relative poverty fell between 2007-08 and 2010-11
- Relative poverty is at its lowest since...
 - 1987 BHC
 - 2004-05 AHC

Absolute poverty fell rapidly until 2002...

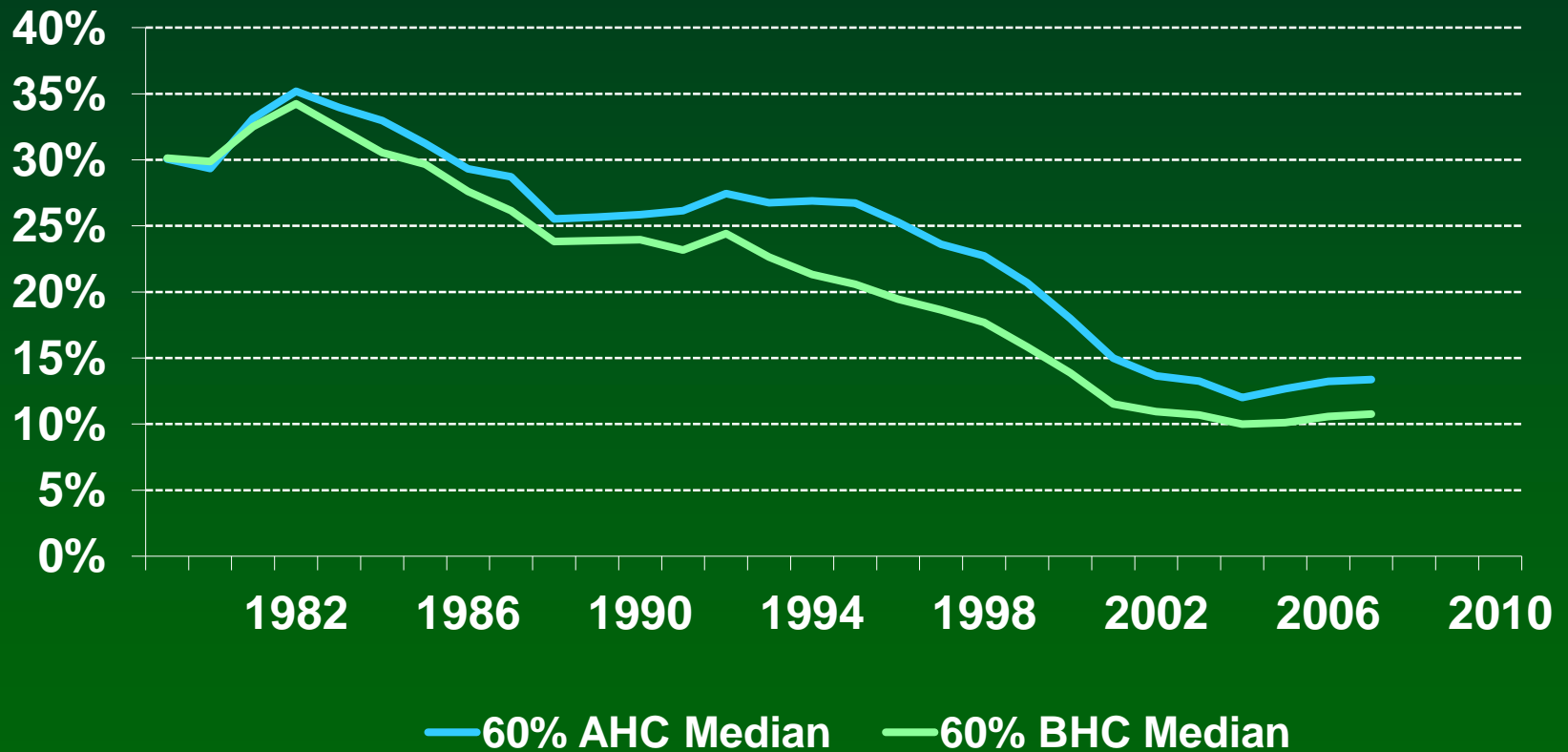


Source: HBAI Data (FES and FRS)



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... increased for three years to 2007-08 ...

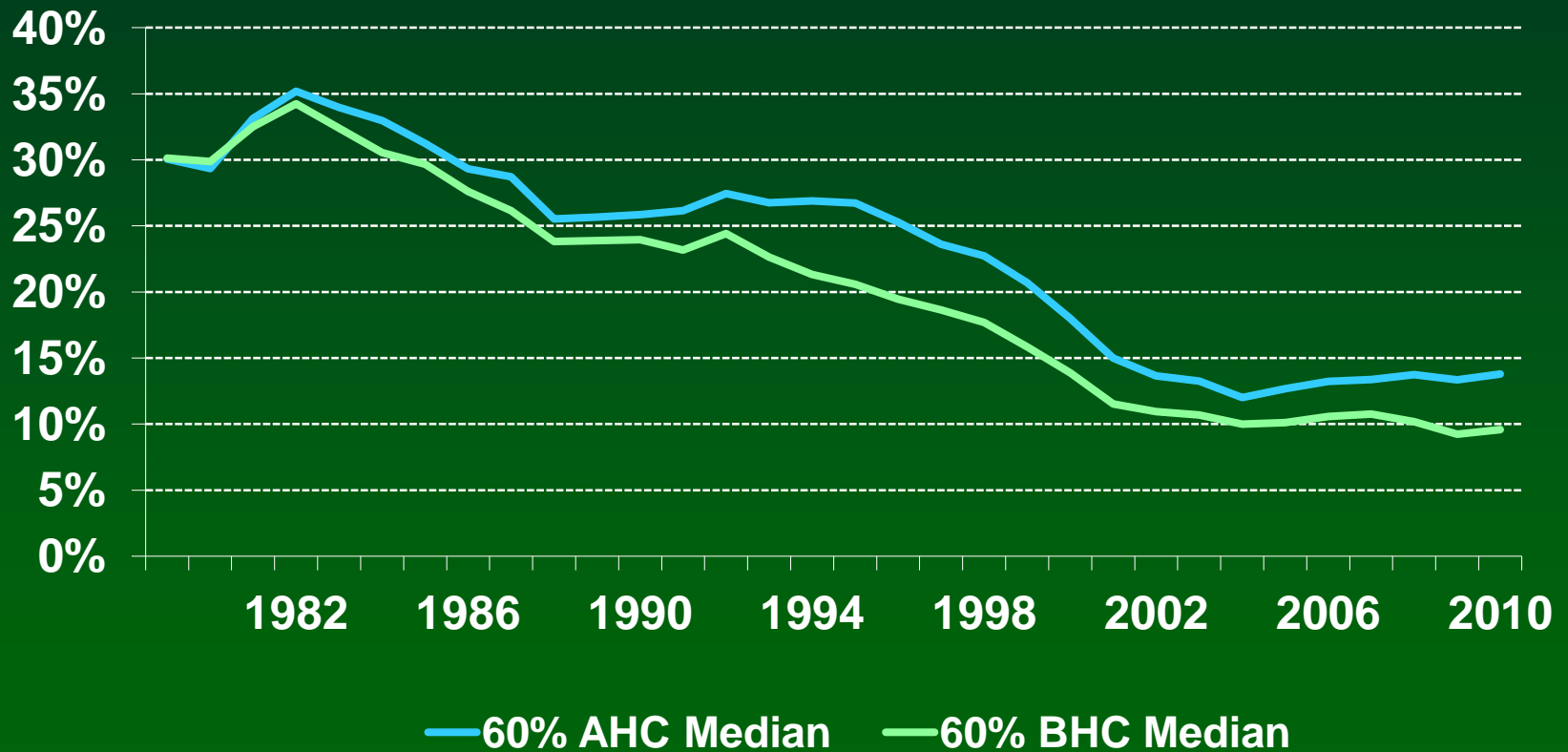


Source: HBAI Data (FES and FRS)



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... broadly unchanged since...



Source: HBAI Data (FES and FRS)

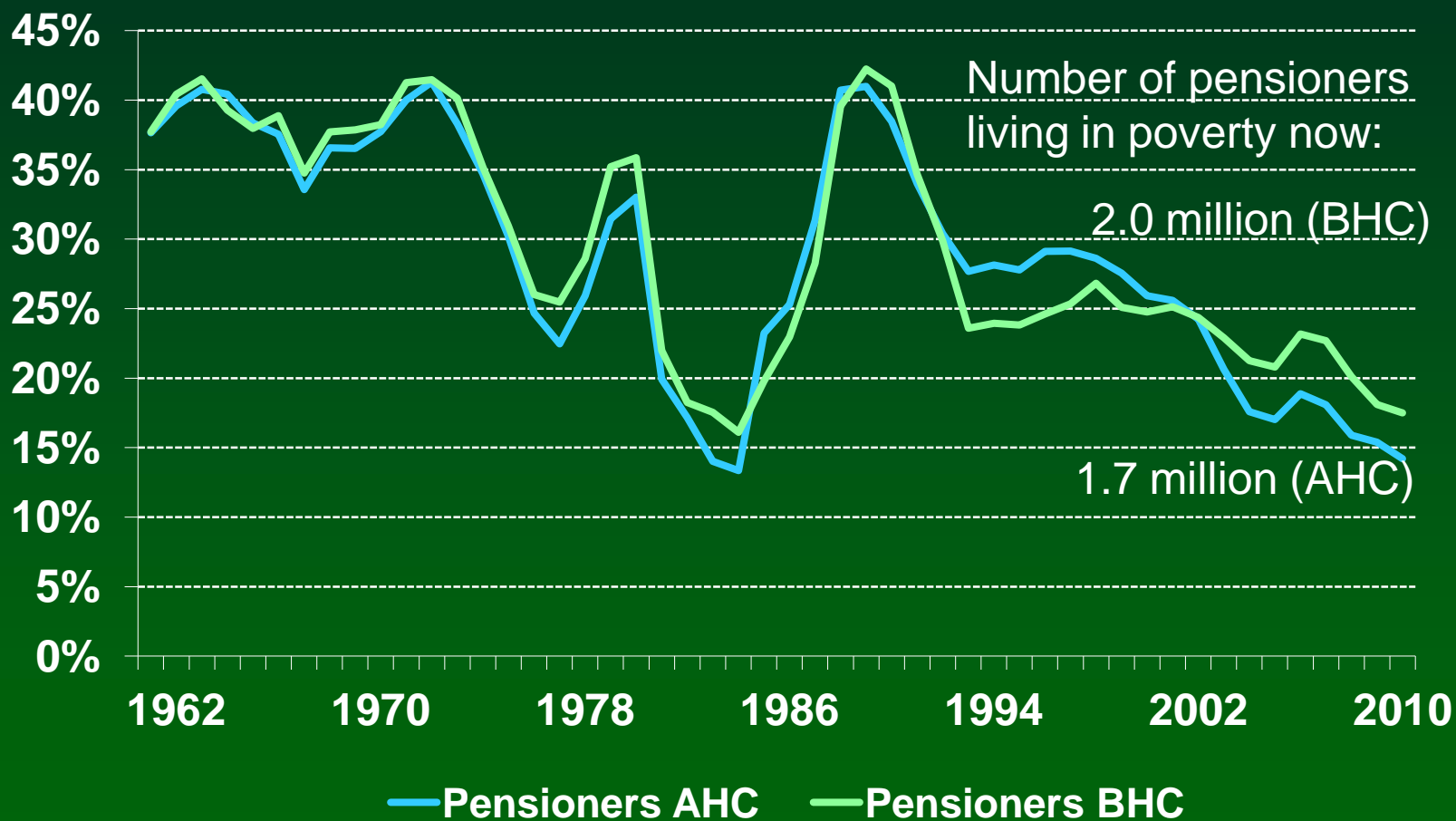


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Absolute poverty: summary

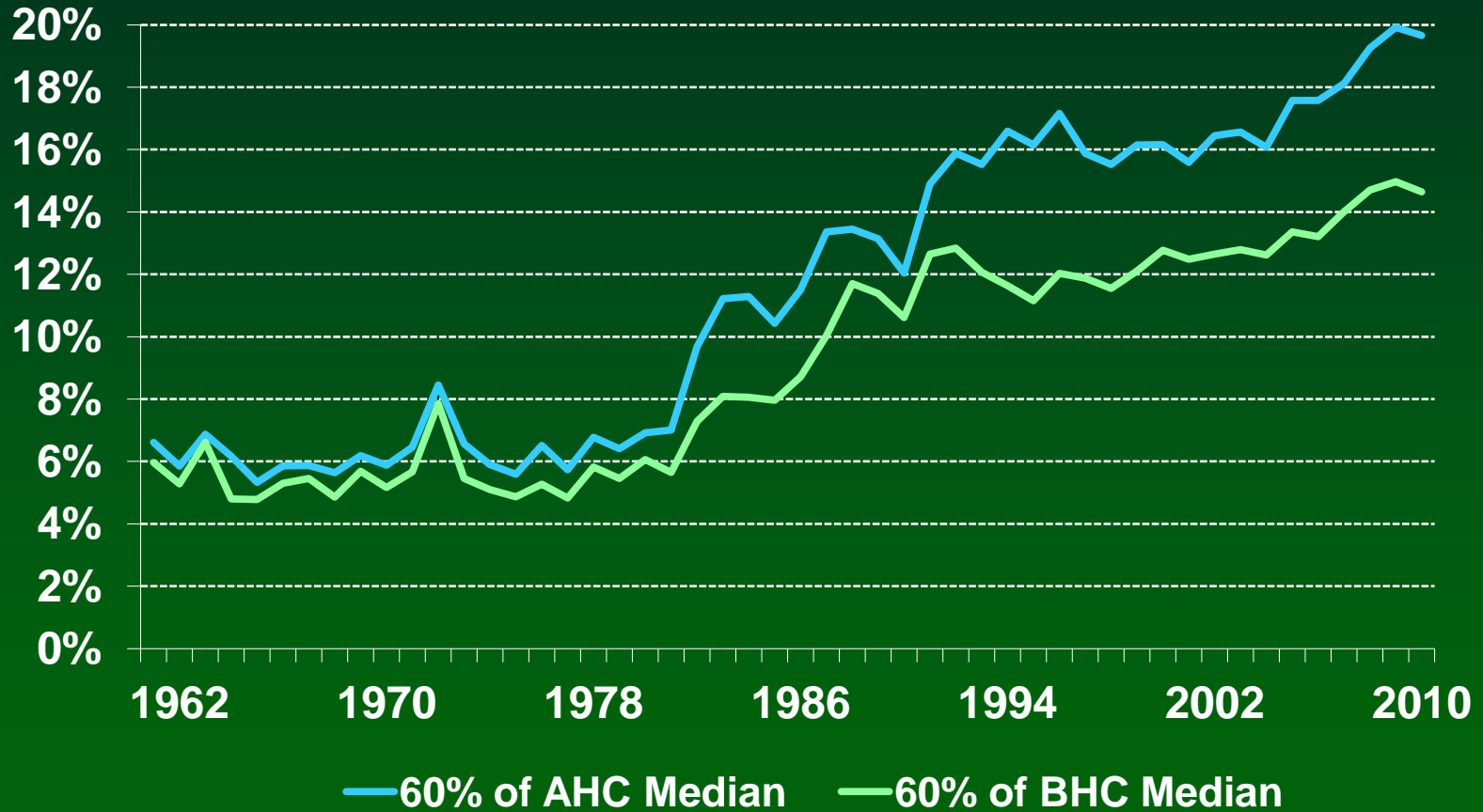
- Absolute poverty fell considerably between mid 1990s and 2002-03 as real incomes of poor rose rapidly
 - Also fell during mid-to-late 1980s when relative poverty increasing
- Changed much less since 2002-03 as real income growth slowed
 - Absolute AHC poverty no lower in 2010-11 than 2002-03

Relative pensioner poverty fell and at its lowest since 1984



Source: HBAI Data (FES and FRS)

Relative poverty among working-age adults without children fell slightly...



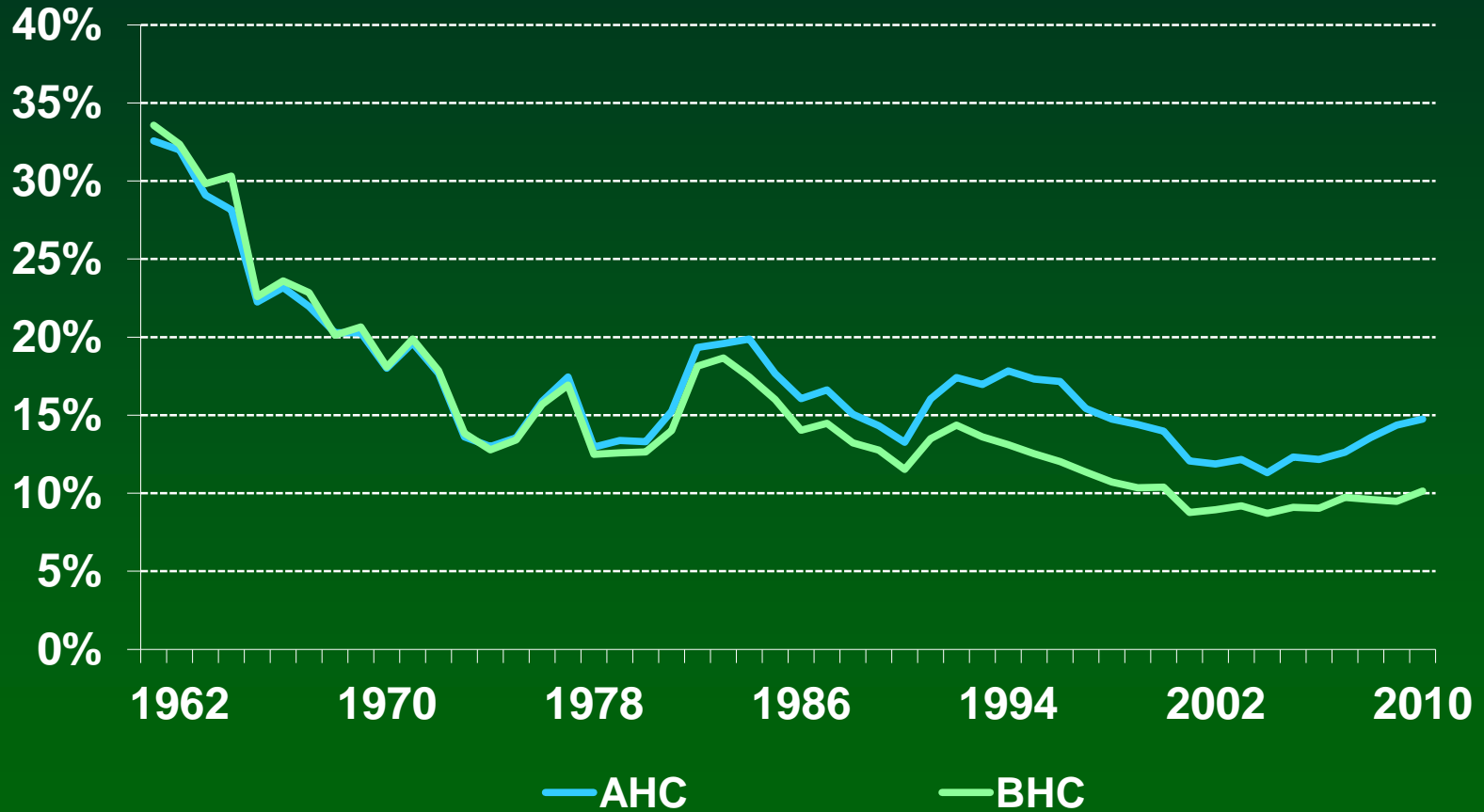
Source: HBAI Data (FES and FRS)



The under 25s...

- Relative poverty rate among adults without children aged under 25 now very similar to child poverty rate
 - In 1996-97, rates around 10 percentage points lower
 - Reflects falls in child poverty as well as increases in poverty among young adults
- Changing composition of this group
 - More students
 - More living in their parental home

Absolute poverty among working-age adults without children similar to 1970s levels...



Source: HBAI Data (FES and FRS)

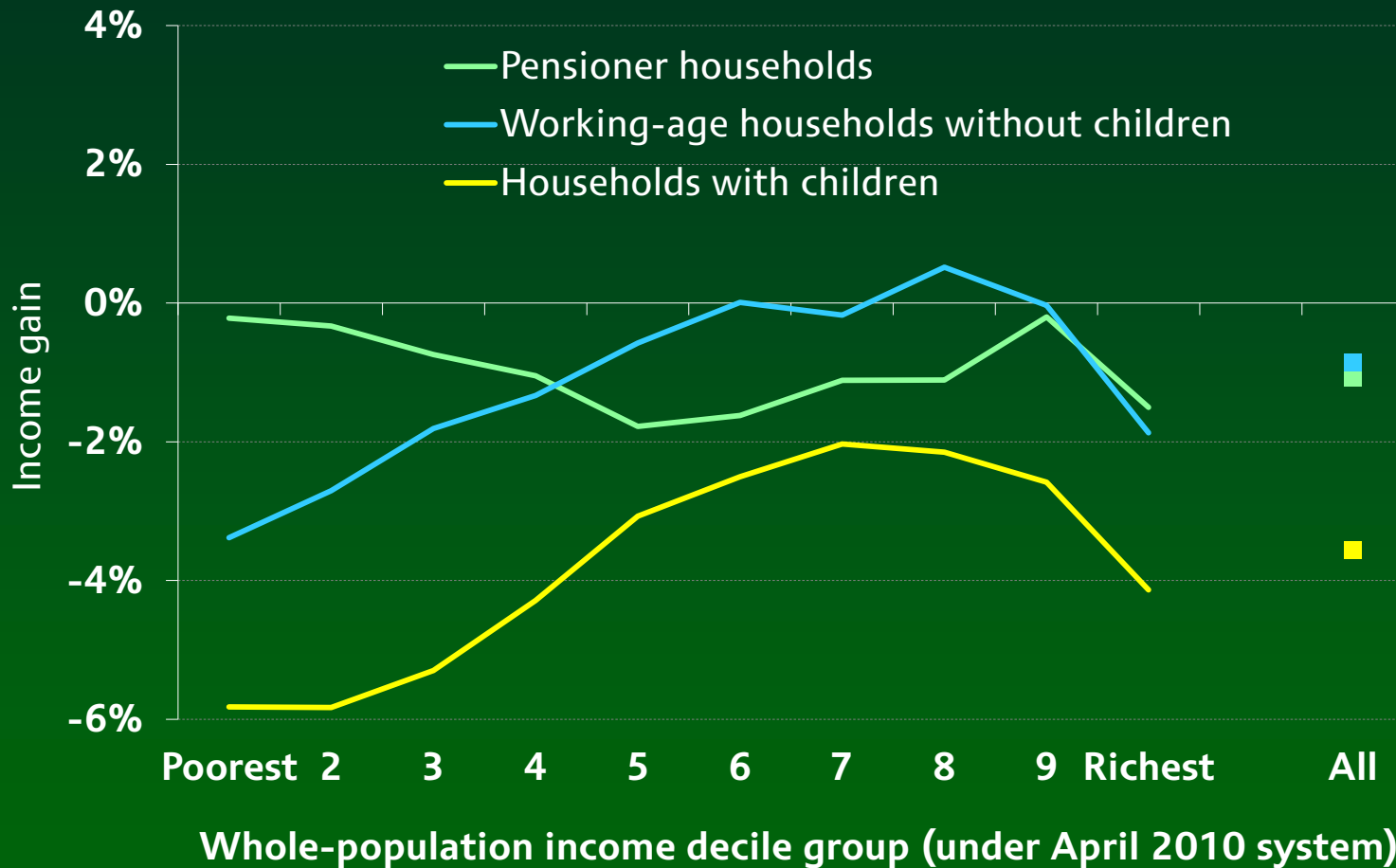
Absolute poverty

- Long run trend very different to the big fall in absolute poverty for the population as a whole
 - Driven by falls among pensioners and children
- What explains bleak picture for working age adults without children? Perhaps:
 - Less favoured by tax and benefit policy
 - Change in composition: more students, more in workless households

Looking ahead..

- Benefit rates increased more than earnings in 2011-12
 - OBR forecasts suggest increase in benefit rates will outpace earnings growth and inflation in 2012-13
- But discretionary cuts to benefits now ramping up
 - e.g. CPI indexation of benefits and tax credits
 - e.g. Cuts to housing benefit, council tax benefit and disability benefits
 - e.g. Freeze in working tax credit and child benefit
- Disproportionately affect poorer households
- But will affect different groups differently

Impact of direct tax and benefit reforms introduced or planned between April 2011 and April 2014



Poverty: summary

- Incomes of poor fell in 2010-11 but by less than median income
 - Reduced relative poverty
 - Increased absolute poverty
- Benefit entitlements grew faster than median income in 2010-11
- In 2011-12 benefit entitlements may again act to support incomes of poorer households
- But discretionary benefit cuts will start to bite and likely to push up poverty in medium term