

Institute for
Fiscal Studies



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)

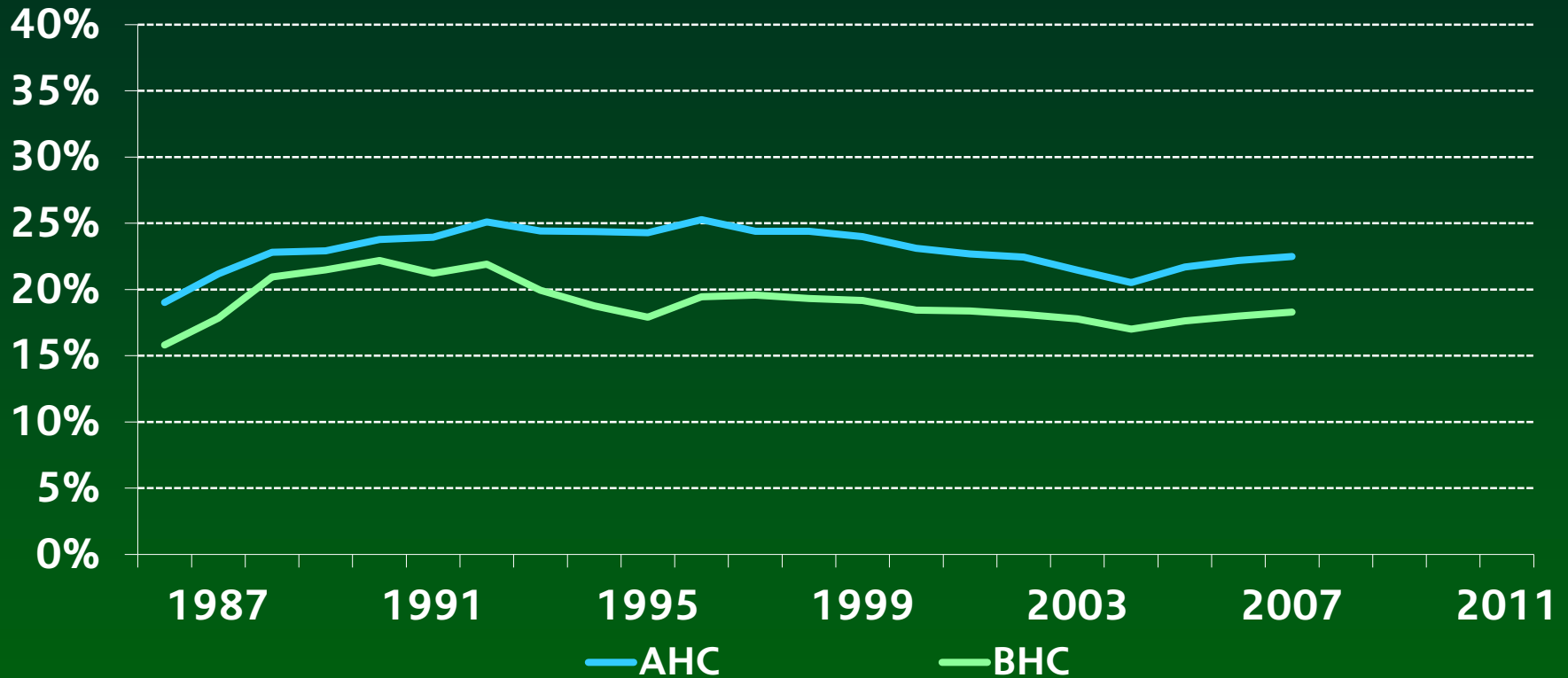
Outline

- 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

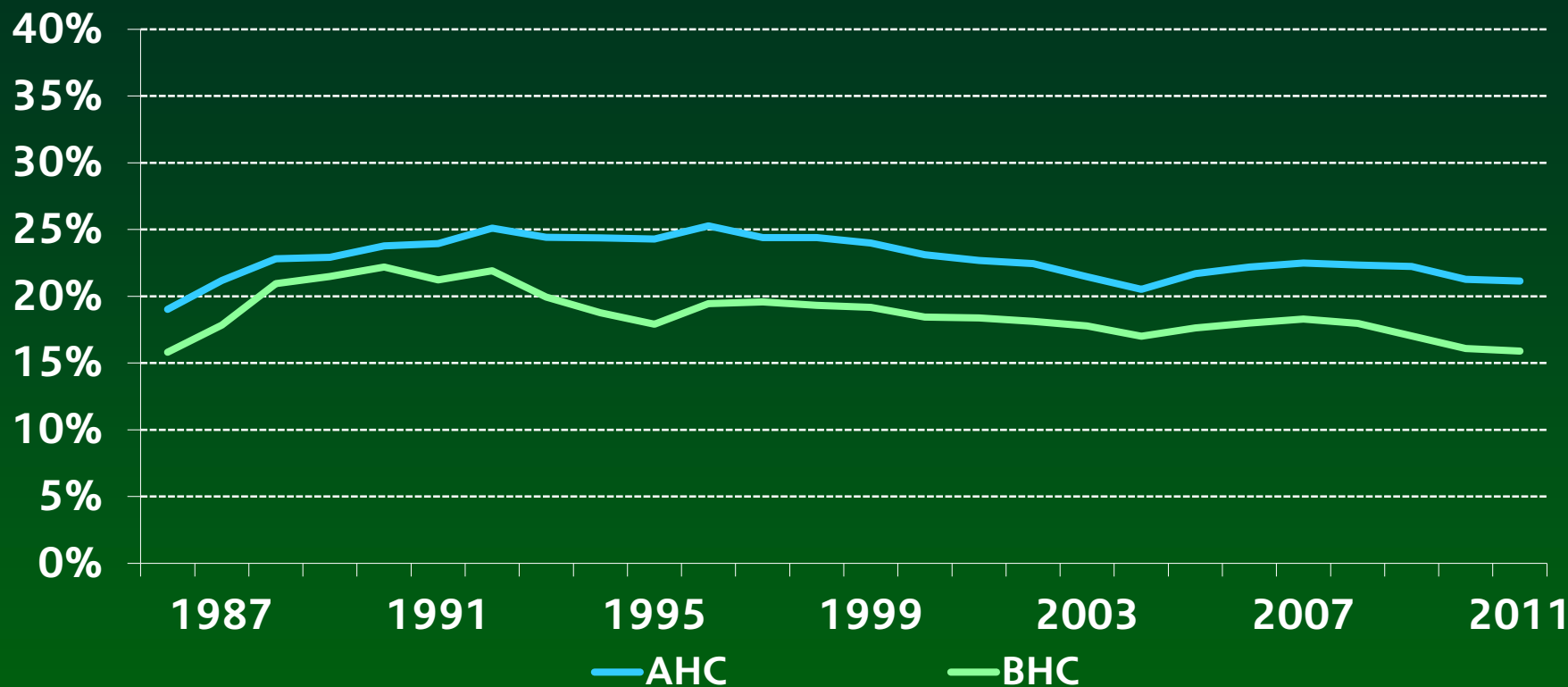
Poverty: changes in 2011-12

- 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...

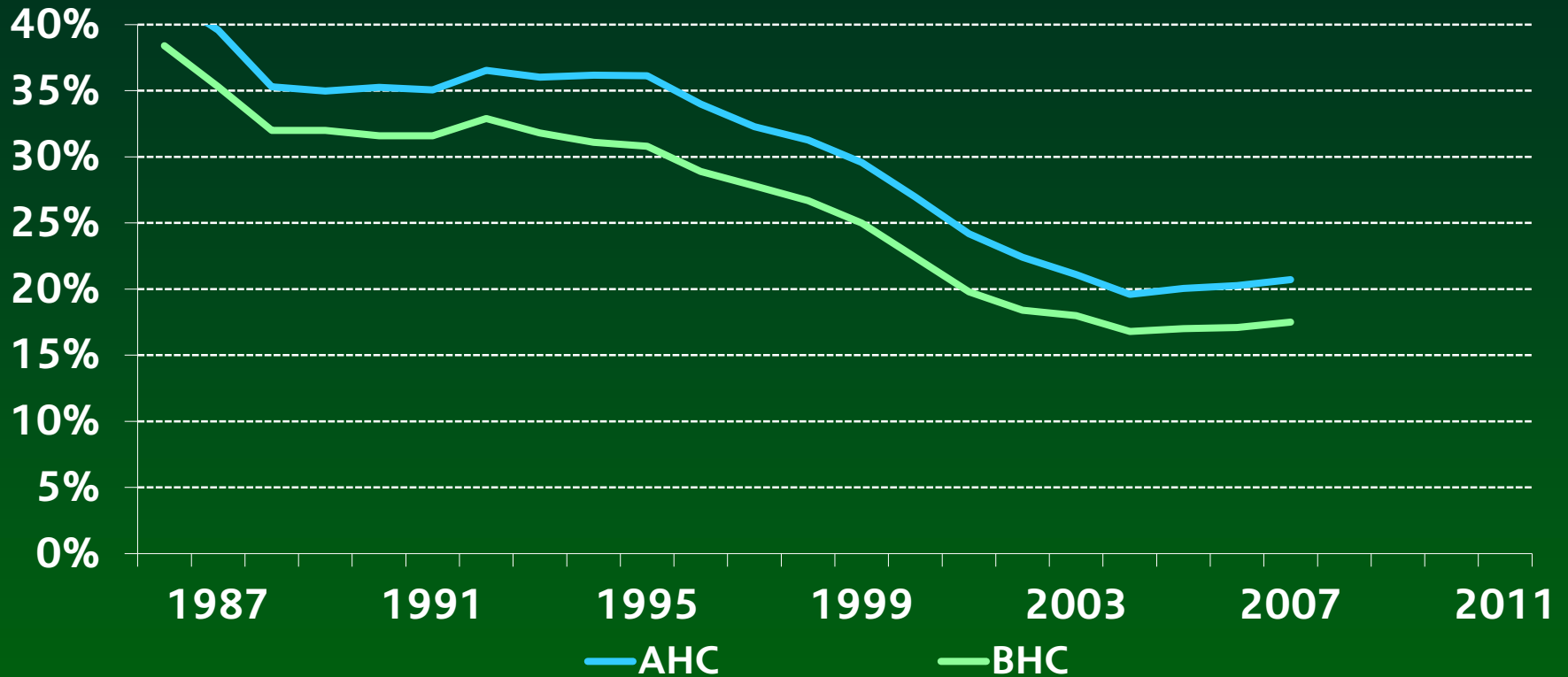


... But it fell between 2007-08 and 2011-12 to levels last seen consistently in the 1980s..

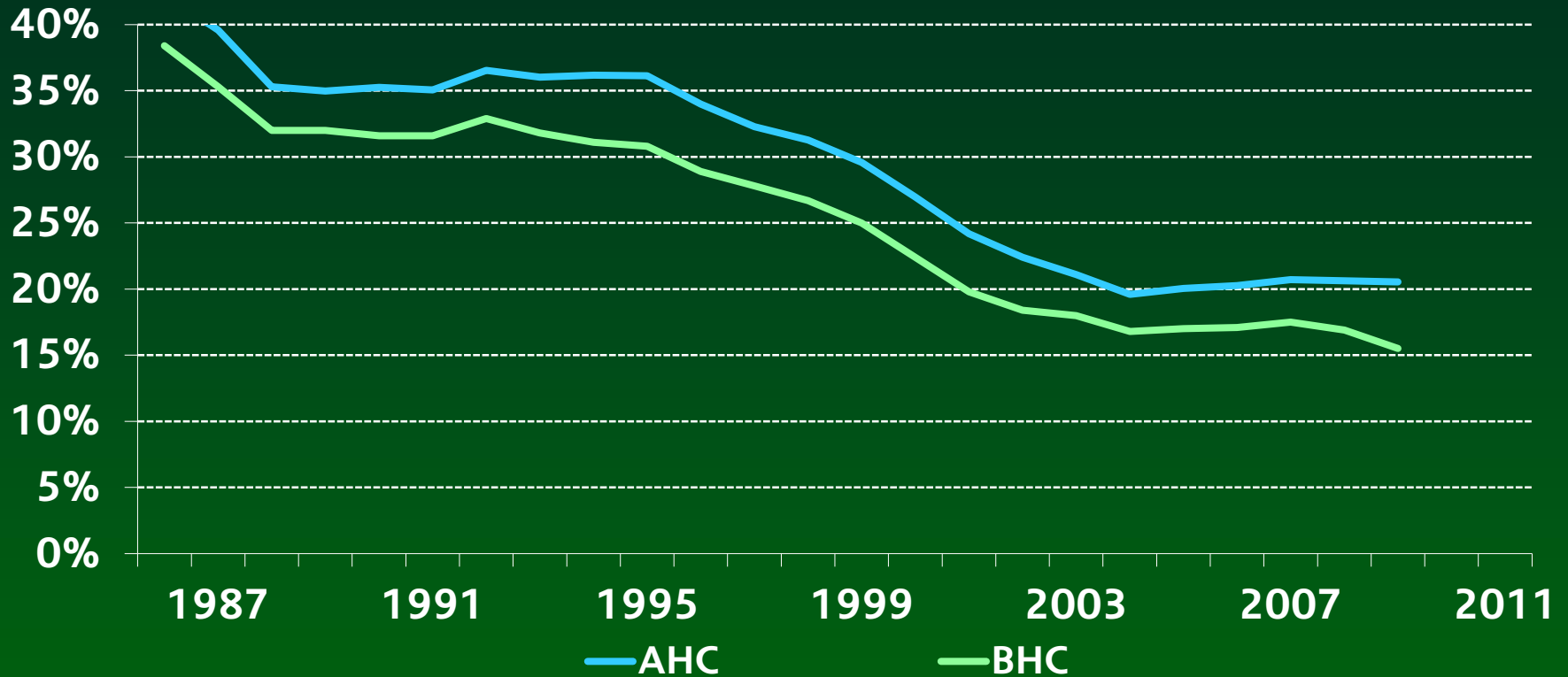


- By 1,200,000 BHC (2.4 percentage points)
- By 400,000 AHC (1.4 percentage points)

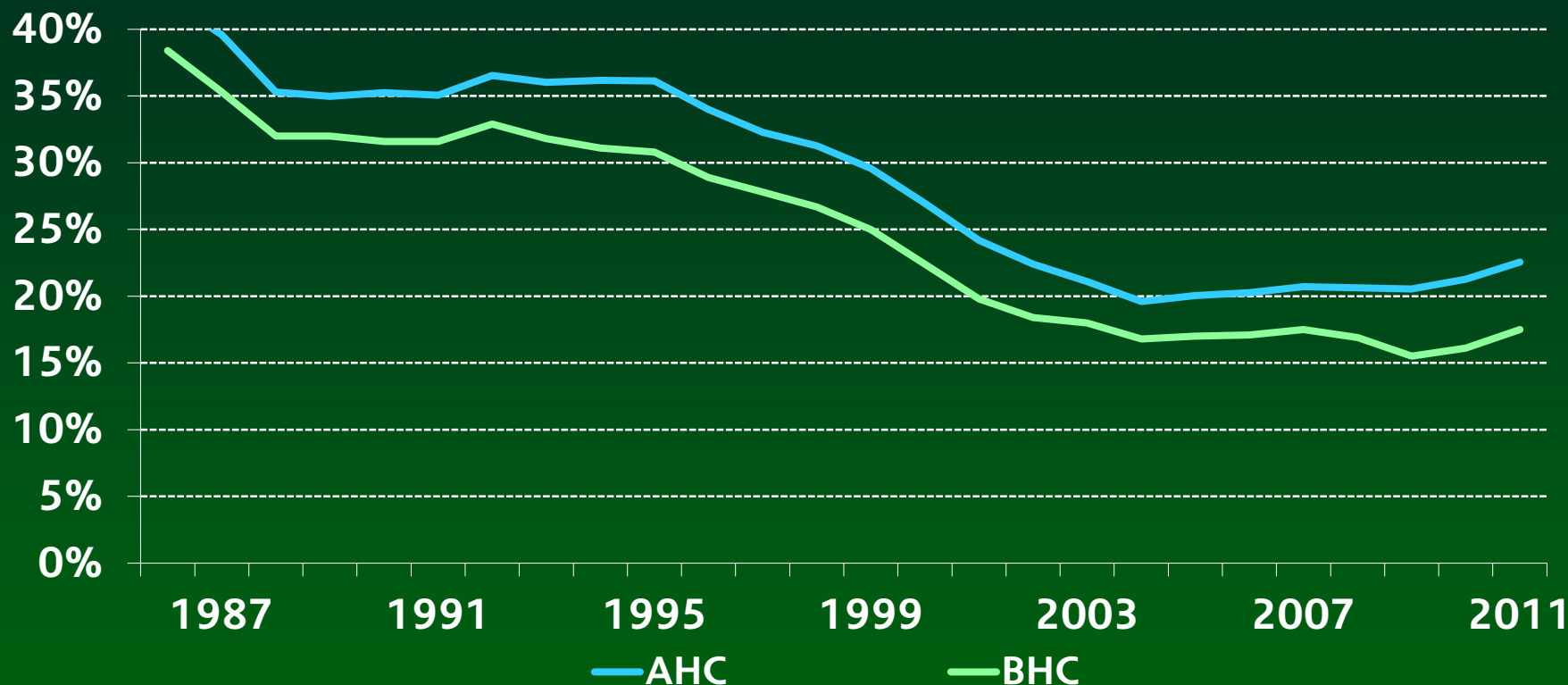
Absolute poverty fell a lot in the two decades before the most recent recession



...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

Changes in relative poverty differ across the population

	All	Pensioners
BHC		
2007-08	18.3%	22.7%
2011-12	15.9%	16.4%
AHC		
2007-08	22.5%	18.1%
2011-12	21.1%	13.5%

- Relative pensioner poverty fell by over a quarter between 2007-08 and 2011-12

Changes in relative poverty differ across the population

	All	Pensioners	Children
BHC			
2007-08	18.3%	22.7%	22.5%
2011-12	15.9%	16.4%	17.4%
AHC			
2007-08	22.5%	18.1%	31.1%
2011-12	21.1%	13.5%	27.0%

- Relative pensioner poverty fell by over a quarter between 2007-08 and 2011-12
- Also down substantially for children

Changes in relative poverty differ across the population

	All	Pensioners	Children	Working age adults without children
BHC				
2007-08	18.3%	22.7%	22.5%	14.0%
2011-12	15.9%	16.4%	17.4%	15.2%
AHC				
2007-08	22.5%	18.1%	31.1%	18.1%
2011-12	21.1%	13.5%	27.0%	20.2%

- 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

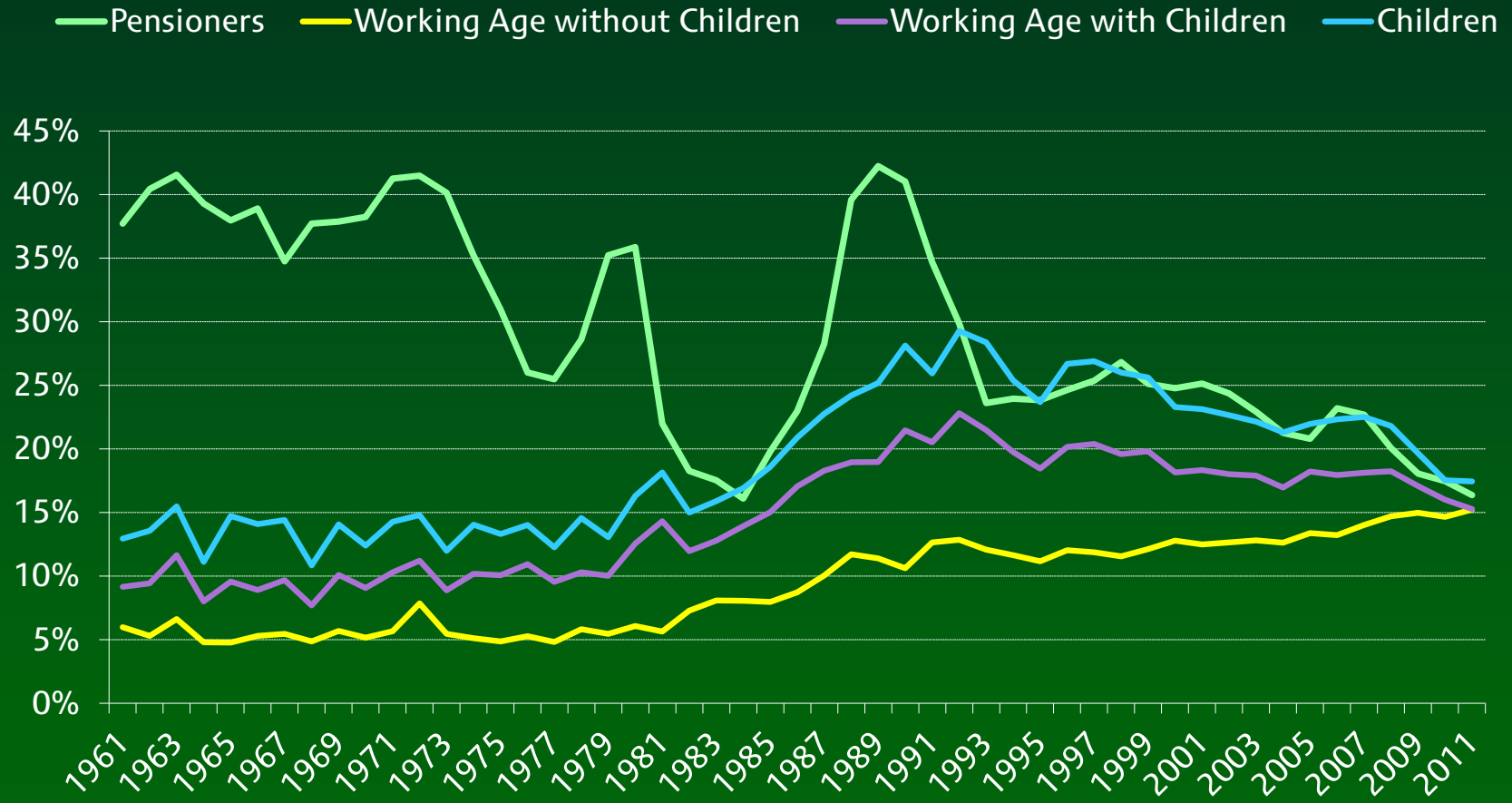
Changes in absolute poverty also differ

	All	Pensioners	Children	Working age adults without children
BHC				
2007-08	17.5%	21.6%	21.3%	13.5%
2011-12	17.5%	17.9%	19.5%	16.4%
AHC				
2007-08	20.7%	15.3%	28.7%	17.1%
2011-12	22.6%	15.4%	29.2%	21.0%

- 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

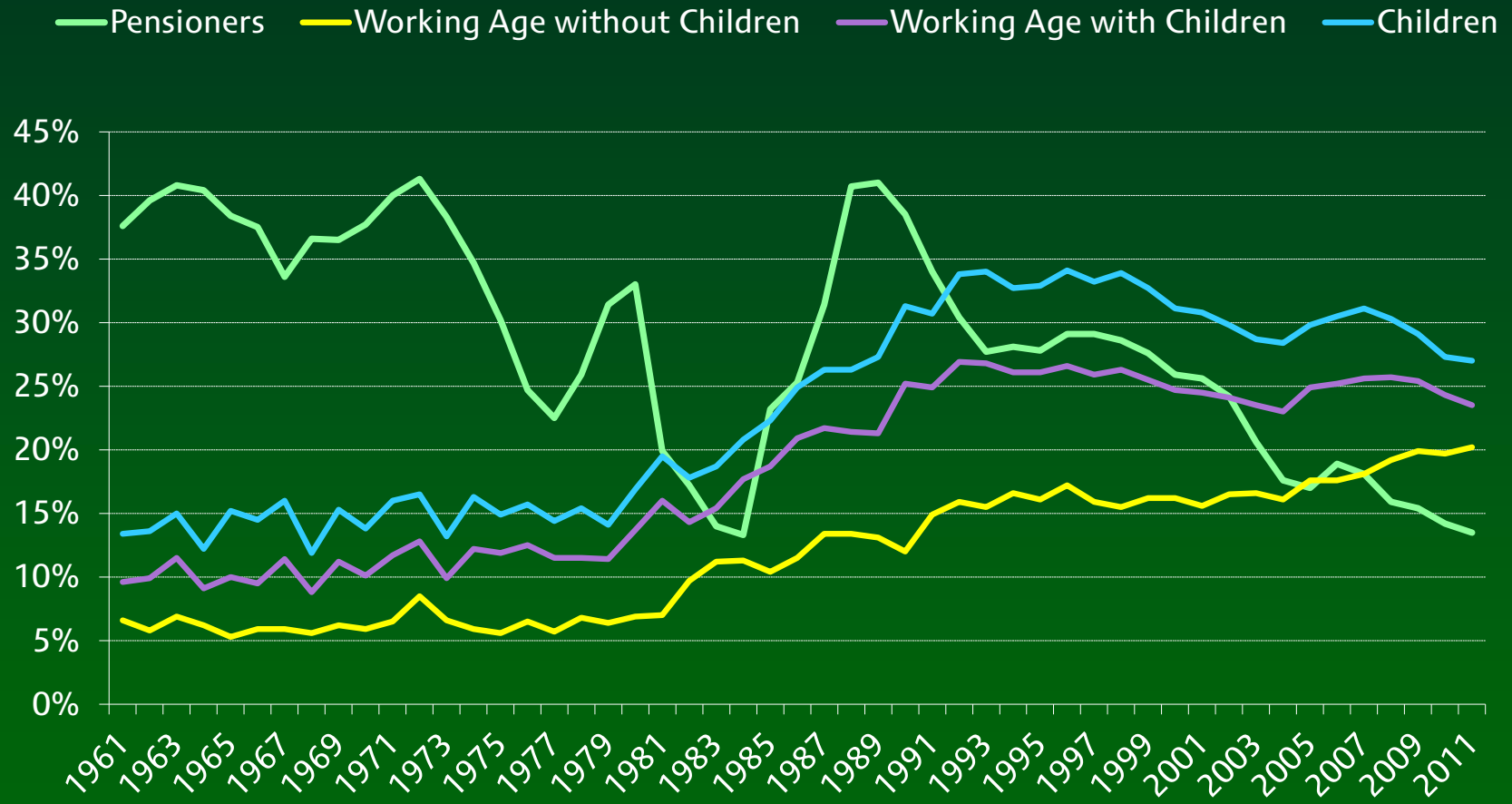
Long-run changes by demographic and age groups

Relative poverty rates (BHC) 1961 to 2011-12



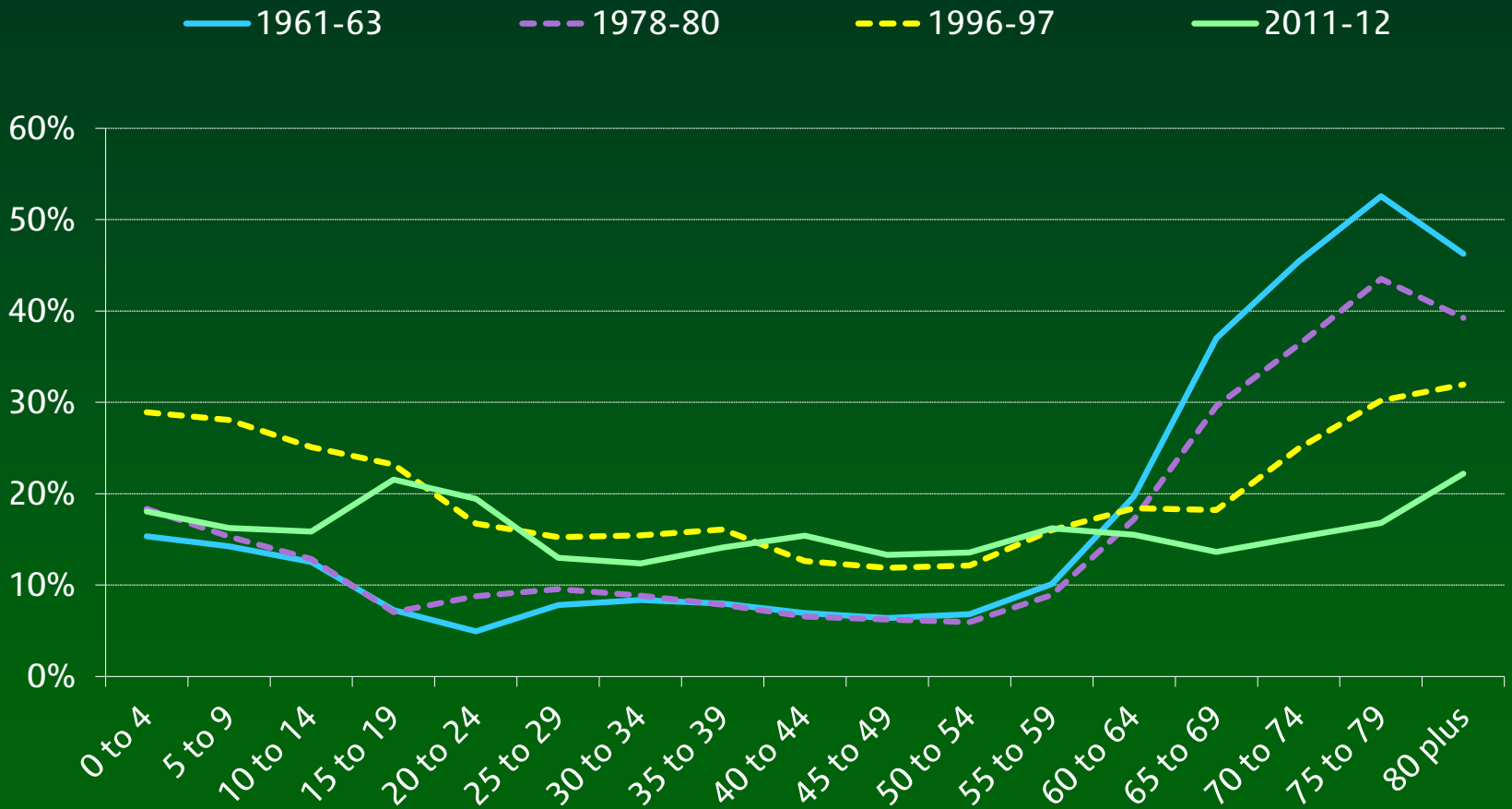
Source: Figure 6.1b of Living Standards, Poverty and Inequality: 2013

Relative poverty rates (AHC) 1961 to 2011-12



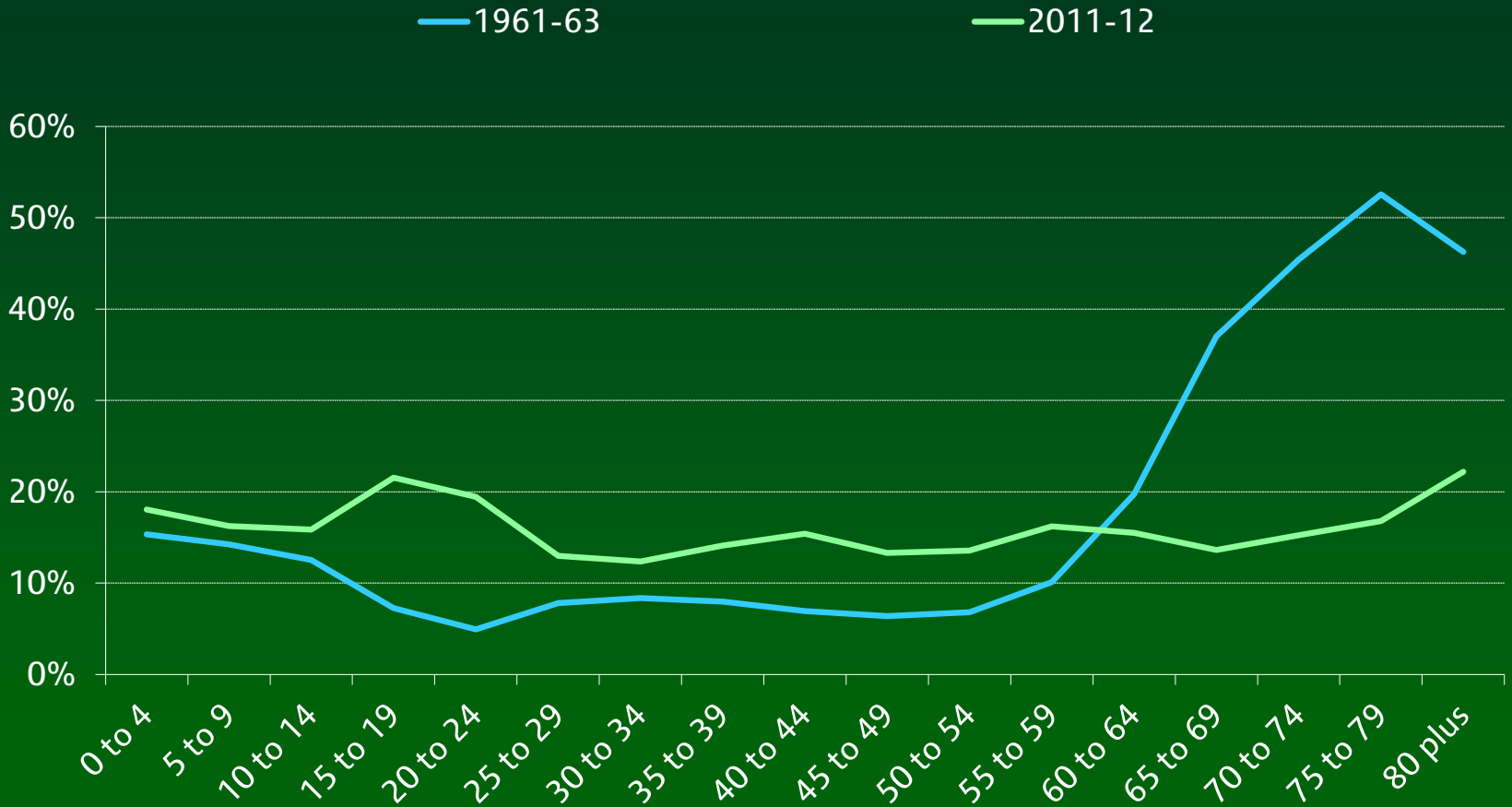
Source: Figure 6.1a of Living Standards, Poverty and Inequality: 2013

Relative poverty rates by age group (BHC)



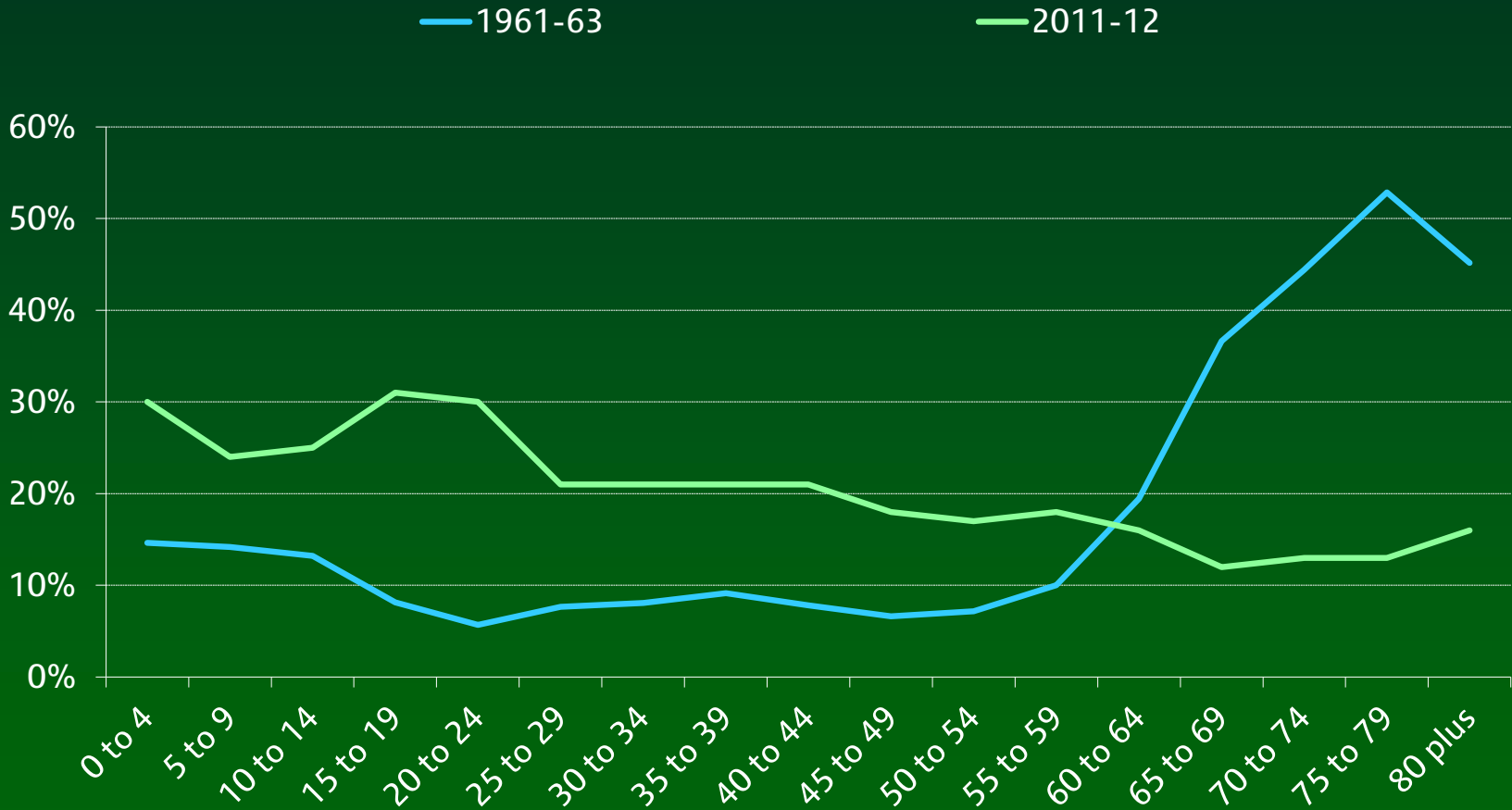
Source: Figure 6.3b of Living Standards, Poverty and Inequality: 2013

Relative poverty rates by age group (BHC)



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

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

Work and Poverty (II)

- Low-pay sectors associated with being in in-work poverty

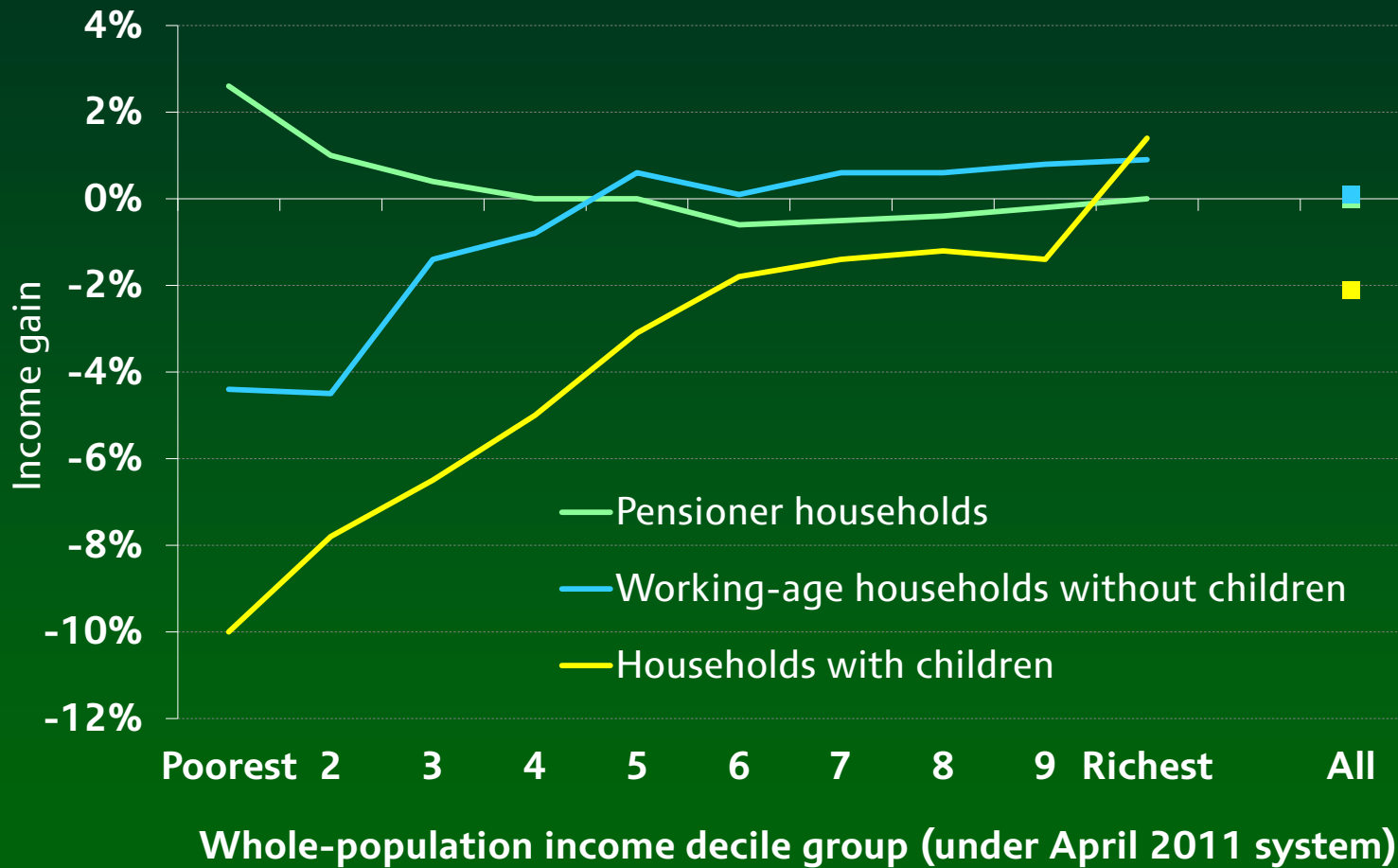
	Working in a low pay sector and family's main earner				All Other Sectors
	Hospitality	Retail	Residential Care	Other personal services	
Poverty rate (AHC) in 2011-12	32.1%	22.6%	19.1%	27.2%	7.9%

- 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



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



Institute for
Fiscal Studies



Poverty (and its changing face)

David Phillips, IFS

June 14th, 2013