



The (changing) face of poverty in the UK

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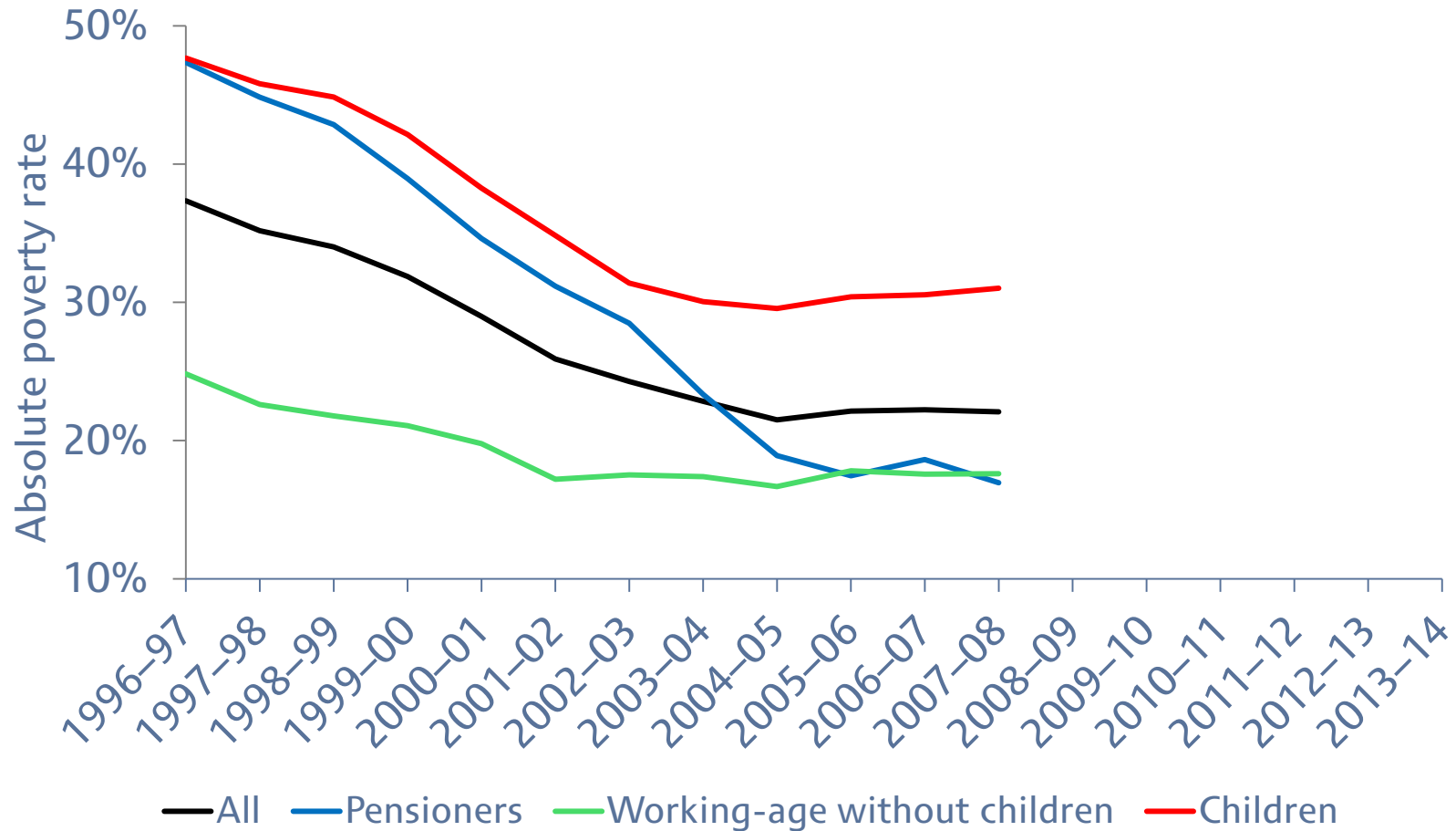
20th November 2015



Defining poverty

- **Absolute income poverty (fixed poverty line in real terms)**
 - In 2013-14 poverty line for childless couple was £235 per week
 - This is 60% of 2010-11 median income in real terms (CPI-adjusted)
- **Relative income poverty (moving poverty line)**
 - Poverty line is 60% of the contemporary median income
 - In 2013-14 was £232 for childless couple
- I will use absolute measure, except when looking over long periods
- Incomes can be measured before deducting housing costs (BHC) or after deducting housing costs (AHC)
 - I will use AHC throughout this presentation
 - BHC poverty trends likely to be misleading in recent years

Absolute poverty since mid-1990s



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

Why did poverty fall in late 90s / early 2000s?

- Labour's extra spending on benefits / tax credits were major factor
 - By 2010, their reforms amounted to increase in spending on benefits of £18bn for families with children and £11bn for pensioners
 - Those reforms much less focused on those of working age without children, and slowed down in mid 2000s
- Labour market changes also played (smaller) role
 - e.g. increases in lone parent employment rate
- For pensioners, continuation of longer term trends also important
 - Successive cohorts with better private pension provision than last

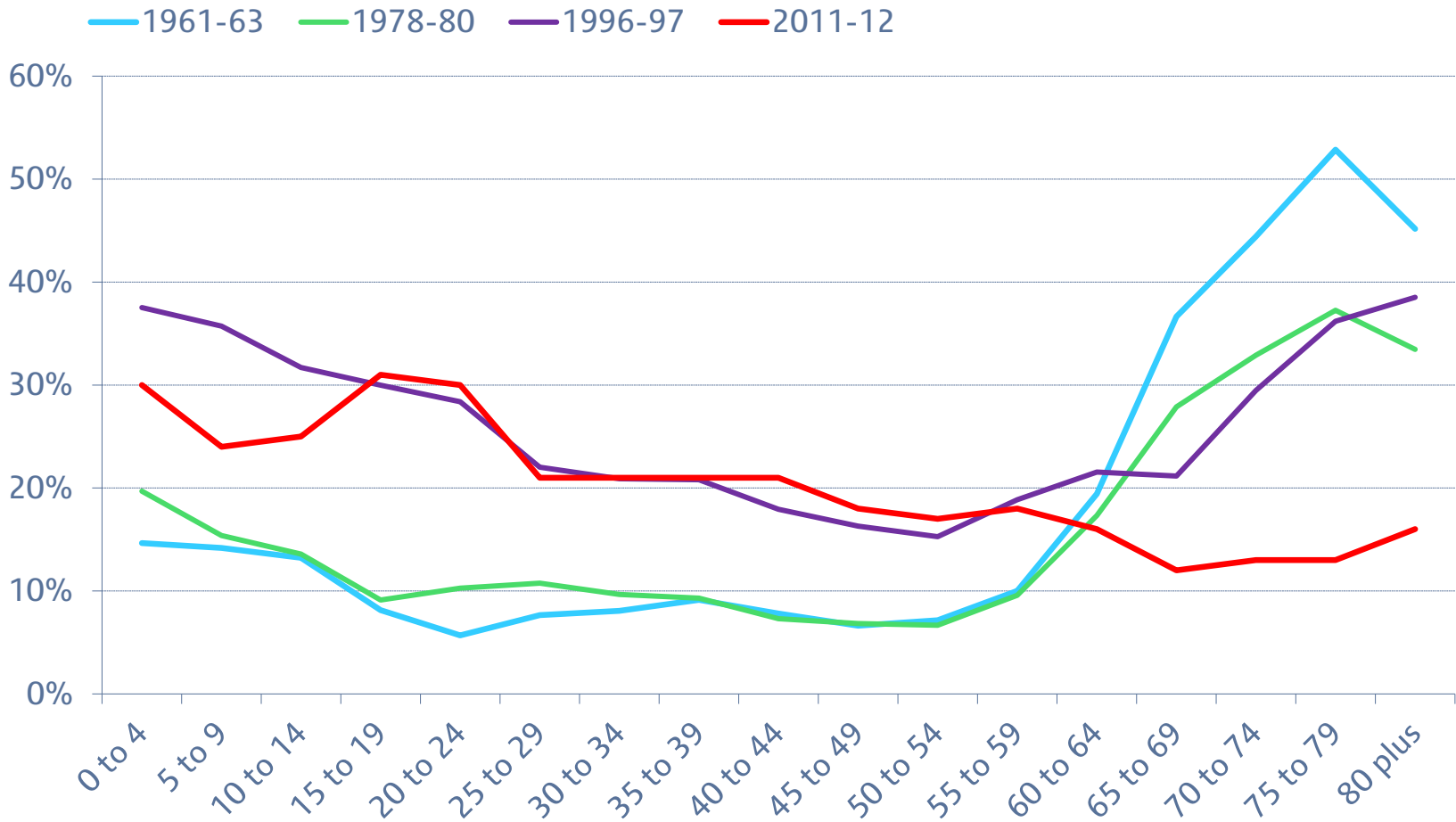
Real weekly benefit / tax credit entitlements

Excludes housing benefit and council tax benefit

Family type	April 1997	April 2010	1997–2010
Unemployed couple, 2 children	£210	£277	+32%
Couple, one with median full-time earnings, 2 children	£29	£84	+191%
Pensioner with no private income or state pension entitlement	£104	£154	+49%
Single unemployed person, no children	£71	£74	+4%

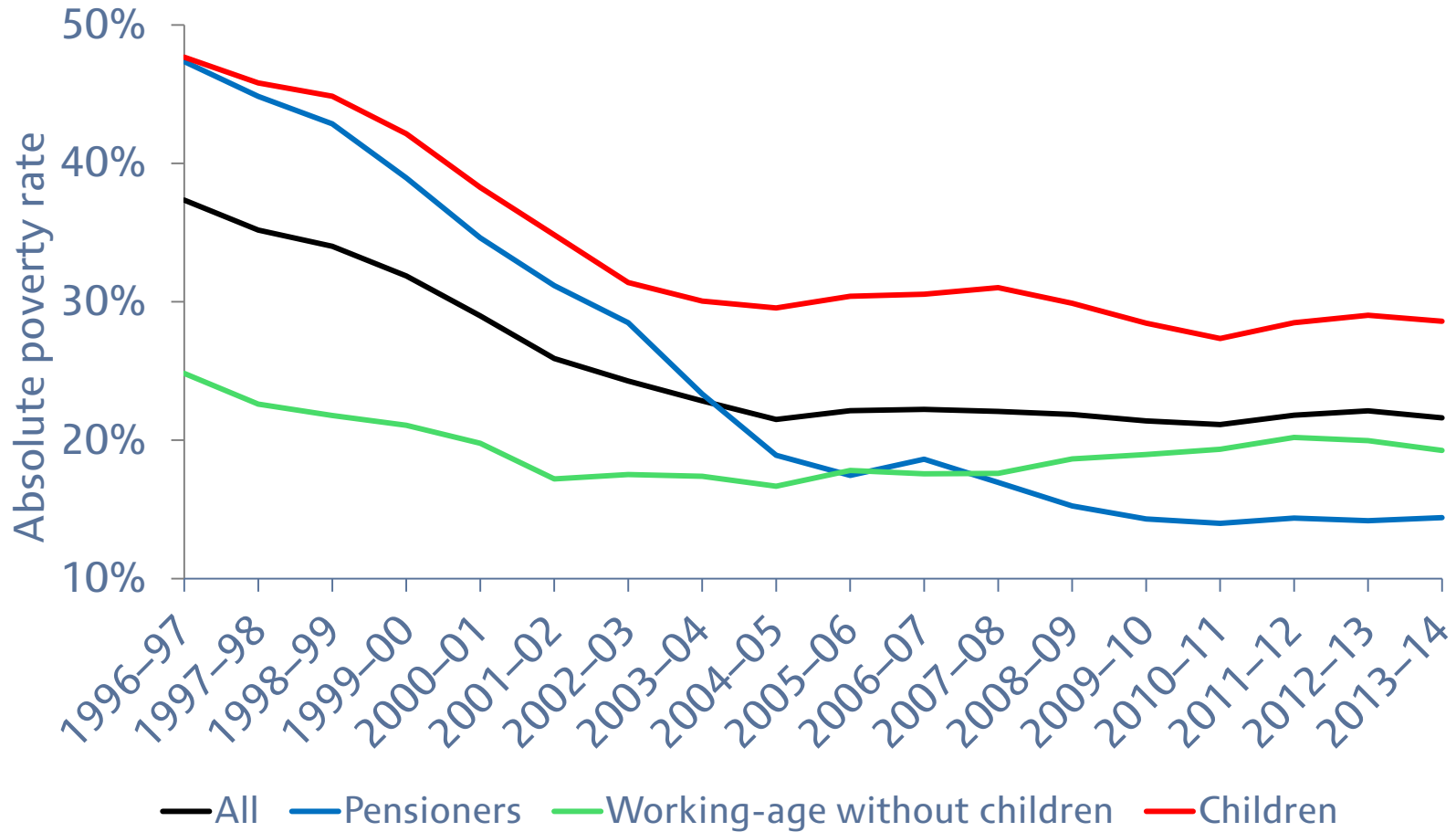
Longer run: even more dramatic changes by age

Relative poverty rates by age group



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

Absolute poverty since mid-1990s

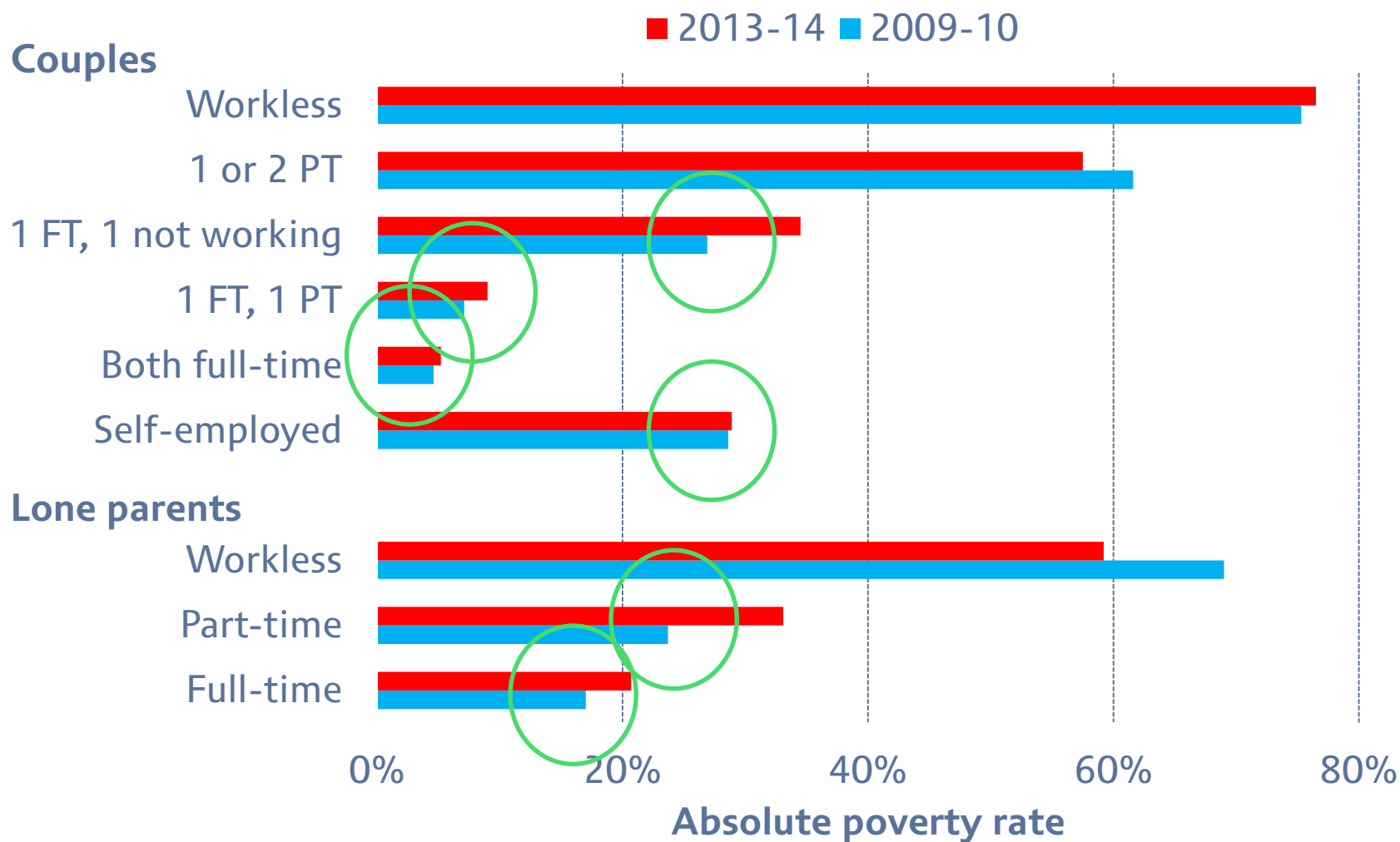


Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2015*

Nature of poverty changing quickly in last few years too

- In 2009–10, 54% of children in poverty lived in working families; by 2013–14 this had risen to 63%
- Why?
- Big falls in real pay among those in work
 - Poverty rates among working families have increased

Child poverty by parental work status



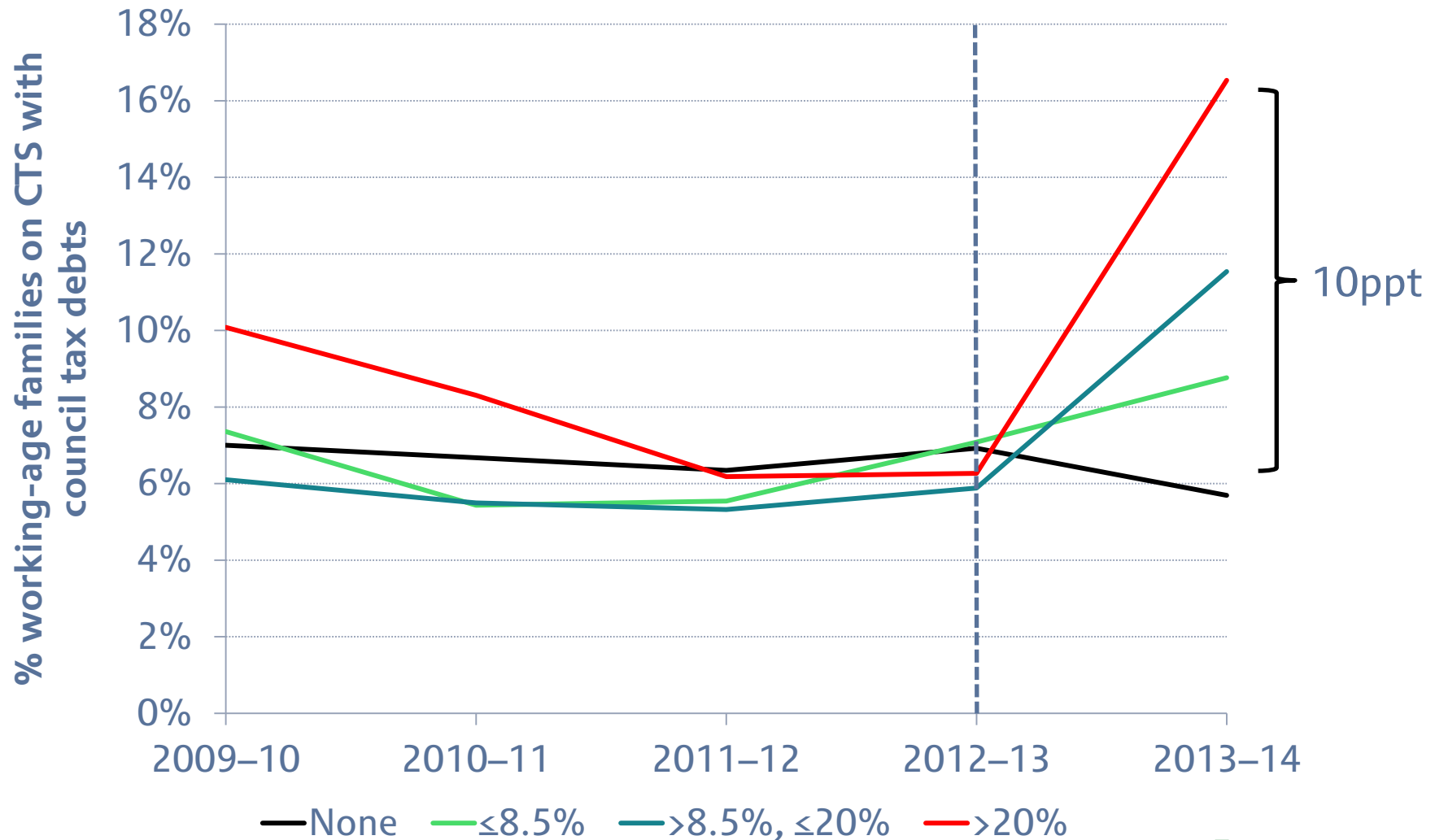
Source: Table 4.5 of *Living Standards, Inequality and Poverty in the UK: 2015*

Nature of poverty changing quickly in last few years too

- In 2009–10, 54% of children in poverty lived in working families; by 2013–14 this had risen to 63%
- Why?
- Big falls in real pay among those in work
 - Poverty rates among working families have increased
- But more people in work, and fewer workless households
 - e.g. % of children with no working parent fell from 18% to 16% between 2009-10 and 2013-14

Effects of welfare changes are visible too

Council tax arrears by size of minimum payment in local authority (England)



Prospects for poverty

- Lots of cuts to benefits and tax credits coming in, affecting broad group of low-income working-age households
- Higher minimum wage not targeted nearly as closely on low-income households; and gains much smaller in aggregate than benefit cuts
- Many of the big cuts involve allowing inflation to erode benefits' value over time, or bringing in changes only for new claimants
 - Fewer 'overnight shocks', which might be particularly hard to adjust to?
 - More so if transitional protection extended to more tax credit cuts
- But the wider labour market will continue to be very important too
 - Huge uncertainty

Distributional impact of tax, benefit and minimum wage changes between now and 2019

Figure 1. Personal tax and benefit measures

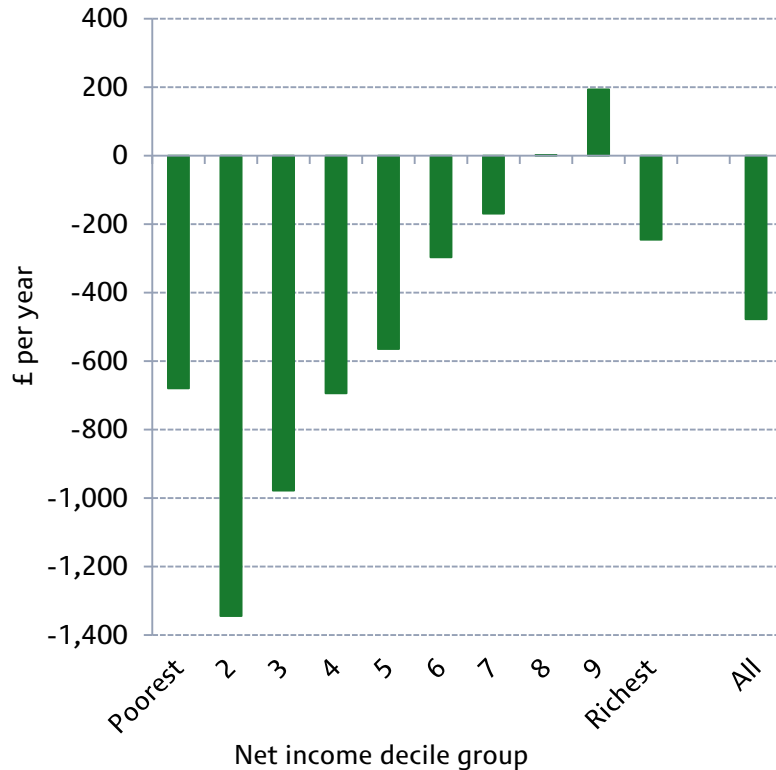
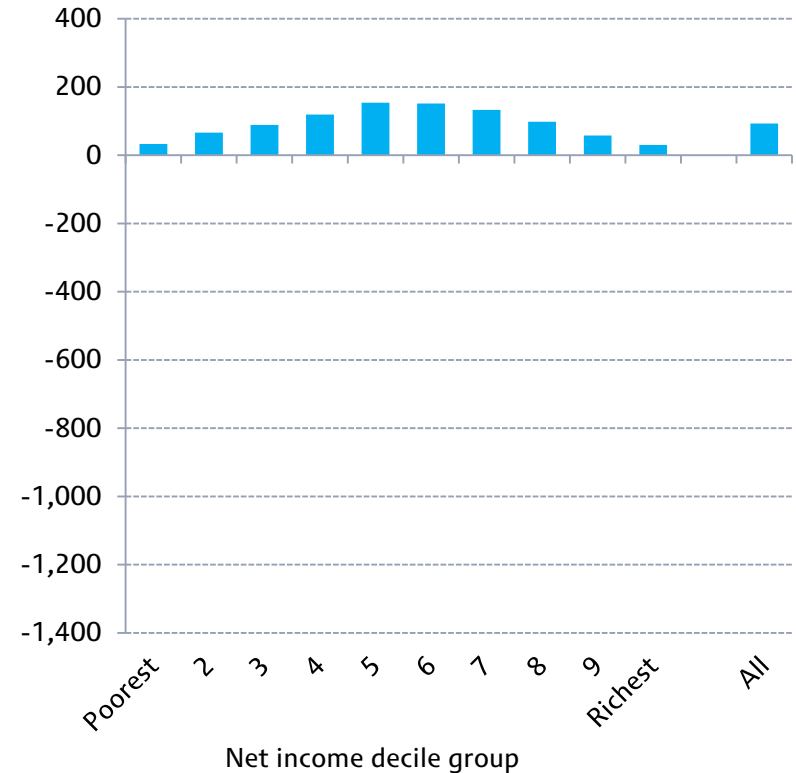
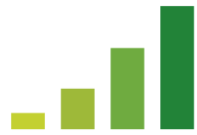


Figure 2. 'National Living Wage'



Summary

- Nature of poverty in UK has been changing very quickly
- Used to be concentrated among older population
 - Increasingly about younger people in (low paid) work
- Wider labour market story since recession – high employment, low earnings – has accelerated the changes in who is in poverty
- Labour market trends will continue to be very important
 - Against background where benefit and tax credit cuts will put more pressure on incomes of working-age poor, including those in paid work



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