The (changing) face of poverty in the UK

Robert Joyce, Institute for Fiscal Studies
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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*

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

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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

### Couples

<table>
<thead>
<tr>
<th>Status</th>
<th>2013-14</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workless</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 or 2 PT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 FT, 1 not working</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 FT, 1 PT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Both full-time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-employed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Lone parents

<table>
<thead>
<tr>
<th>Status</th>
<th>2013-14</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workless</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part-time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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)

% working-age families on CTS with council tax debts

Source: Figure 5.5 of *Living Standards, Poverty and Inequality: 2015*
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

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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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