

# Poverty and Inequality in the UK: 2007

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## Summary

This Briefing Note provides an update on trends in living standards, income inequality and poverty. It uses the same approach to measuring income and poverty as the government employs in its Households Below Average Income (HBAI) publication.

The analysis is based on the latest HBAI figures (originally published on 27 March 2007, new figures published on 22 May), providing information about incomes up to the year 2005–06.

The measure of income used is net household weekly income, which has been adjusted to take account of family size ('equivalised'). The income amounts provided below are expressed as the equivalent for a couple with no children, and all changes given are in real terms (i.e. after adjusting for inflation).

For the first time in recent years, data are available for the whole of the United Kingdom, not just Great Britain, but data for Northern Ireland are only available from 2002–03. Some comparisons over time are provided for Great Britain only, but others will compare statistics for GB before 2002–03 with those for the UK afterwards.

### Living standards and inequality

Median equivalised disposable income in Great Britain in 2005–06 was £363 per week: half the population have higher incomes than this and half lower. This amount is considerably lower than the average (mean) income of £445 per week.

For the fourth year in a row, both mean and median income grew modestly compared with the growth during Labour's first term: median income was 1.1% higher in 2005–06 than in 2004–05, and mean income 1.4% higher. These represent much smaller rises than the average annual rises since 1996–97, which have been 2.1% for median income and 2.3% for the mean. There is now clear evidence that the rapid growth in household disposable income experienced in the government's first term came to a halt after 2001–02.

Income growth since 2004–05 has tended to be faster the higher are incomes: while median income grew by 1.1%, incomes amongst the poorest fifth in Great Britain fell by 0.5%, and incomes of the richest fifth rose by 1.7%, though it should be noted that none of these changes is significantly different from the others or from zero.

Many measures of income inequality rose slightly between 2004–05 and 2005–06. According to the most common measure, the Gini coefficient, income inequality in 2005–06 has reached its highest level since 2001–02, and is once again statistically significantly higher than that which the Labour government inherited. On the other hand, other measures of inequality that do not take into account incomes at the very

top and very bottom of the income distribution, such as the 90:10 ratio, have fallen since 1996–97.

Without tax and benefit reforms, which have favoured low-income households, the rise in inequality since 1996–97 would have been much greater, however.

### **Relative poverty**

The number of people in relative poverty (living in households with less than 60% of the median income) rose between 2004–05 and 2005–06 from 12.1 million to 12.8 million measuring incomes after housing costs (AHC), and from 10.0 million to 10.4 million measuring incomes before housing costs (BHC). This is the first rise in the rate of relative poverty since 1996–97 (AHC) or 1997–98 (BHC), and it occurred for a range of relative poverty lines and is very unlikely to be due solely to sampling error. The rise is a direct consequence of the weak growth in incomes at the bottom of the income distribution compared with that of the median (the middle).

However, the small rise since 2004–05 in no way offsets the considerable fall in relative poverty since 1996–97: since that time, the risk of relative poverty has fallen from 25.3% to 21.7% (AHC) and from 19.4% to 17.6% (BHC).

Most groups have seen a rise in relative poverty since 2004–05: child poverty rose, and the number of working-age adults in poverty also rose. Amongst the latter group, poverty rates for working-age adults without dependent children rose to their highest levels since 1961 (the first year consistent estimates are available). But the number of pensioners in relative poverty was largely unchanged in 2005–06.

Last year, the government narrowly missed its target for child poverty to fall by a quarter from its level in 1998–99. Although the target does not apply to 2005–06, the government is now further adrift, with child poverty in 2005–06 being only 14% (AHC) or 19% (BHC) lower than it was in 1998–99.

The government's next target is for child poverty in 2010–11 to be half its 1998–99 level. Achieving this requires child poverty to fall by an average of over 200,000 in each of the next five years, after average annual falls of less than 100,000 over the past seven years.

A year ago, researchers predicted that an increase in spending of £4.5 billion a year by 2010–11 would give the government a 50:50 chance of meeting its target. Measures announced in Budget 2007 should have the effect of reducing the child poverty rate. Our revised estimate taking these measures into account is that additional new spending of around £4 billion a year (on the per-child element of the child tax credit) by 2010–11 is still needed for the government to have a 50:50 chance of meeting its target. The state of the public finances suggests that finding a sum of this magnitude will require a very tight settlement on areas of public services such as the NHS, defence, transport and environmental protection in the forthcoming Comprehensive Spending Review, or substantial savings in existing social security programmes, or new tax-raising measures. If the Labour government is committed to achieving the halving of child poverty, it will have until Autumn 2009, when the tax

credits and benefit rates for April 2010 need to be announced, to find the necessary funds.