

Poverty rises for the first time since 1997

Revised: 04 September 2007

Relative poverty has risen across the whole population for the first time since Labour came to power, with child poverty also rising for the first time in six years, according to official statistics released today on the distribution of income in 2005/06.¹

Most measures of income poverty and inequality increased in 2005/06, with the exception of pensioner poverty, which remained largely constant.. The rise in poverty will be of particular concern to the Government given the impact of the tight spending squeeze announced in last week's Budget on its ability to pay more generous benefit and tax credit payments.

Poverty has probably risen in part because benefit and tax credit payments for some of the groups most vulnerable to poverty were increased less quickly than average incomes in 2005/06, in marked contrast to the relative generosity of the previous five years. Increases were also relatively modest in 2006/07 and are set to be so again in 2007/08, suggesting that poverty may get worse before it gets better.

The annual *Households Below Average Income* report from the Department for Work and Pensions describes the pattern of household incomes after deducting direct taxes and adding tax credit and benefit payments, and adjusted for family size. Incomes can be compared both before housing costs (BHC) and after housing costs (AHC).

The main developments in 2005/06 were:

- **Relative poverty has risen for the first time under Labour, ending the longest sustained improvement since comparable data began in 1961.**

The most widely used measure of relative poverty is the number of people living in households with income below 60% of the median. (If individuals were lined up from richest to poorest, adjusted for family size, the median income would be that of the person in the middle.) On this basis:

- The number of people in poverty AHC rose from 12.1m in 2004/05 to 12.8m in 2005/06. Having fallen from 25.3% of the population in 1996/97 to 20.5% in 2004/05, this measure rose to 22% in 2005/06. This is the first such increase since 1996/97.
- The number of people in poverty BHC rose from 10.0m in 2004/05 to 10.4m in 2005/06. Having fallen from 19.4% of the population in 1996/97 to 17.0% in 2004/05, this measure rose to 18% in 2005/06. This is the first such increase since 1997/98.

The rise in relative poverty in the latest year appears statistically significant: in other words, it is unlikely that the survey of 28,000 households from which the figures are derived drew an unrepresentative picture of the whole population.

- **The number of children in relative poverty rose for the first time in six years, taking it further away from the Government's targets.**

The increases in child poverty of 100,000 to 2.8 million BHC and 200,000 to 3.8 million AHC in 2005/06 are probably not statistically significant, but they take the Government further both from the target that it has already missed for 2004/05 and from the one at which it is now aiming in 2010/11. However, child poverty remains much lower than the level Labour inherited in 1996/97.

The Government's 2010/11 target is to halve child poverty BHC from its level in 1998-99. But having cut child poverty by less than 100,000 a year in the first seven years, it now needs to cut it by more than 200,000 a year over the next five to meet the target. The measures announced in last week's Budget were probably sufficient to lift 200,000 children out of poverty, but on existing policies it is still likely to fall 800,000 short of the target in 2010/11. We estimate that the Government would have to spend a further £4 billion on help for poorer families by 2010/11 to have a 50/50 chance of success.

- **Measuring incomes AHC, absolute poverty has increased across the whole population for the first time since 1994-95 and among children for the first time since 1995-96.**

The number of people in households with incomes below 60% of the 1998/99 median (adjusted for inflation) increased by 500,000 AHC in 2005/06, compared to average declines of 900,000 over the previous eight years. The increase in absolute child poverty in 2005/06 was much smaller and is unlikely to be statistically significant, but it is very rare for poverty to show any increase when judged against a fixed measure of living standards rather than one that rises in line with the prosperity of the population in general. Measuring incomes BHC, there was little change in these measures of absolute poverty in 2005/06.

- **The number of pensioners in relative poverty fell slightly with pensioners at less risk of poverty than the rest of the population.**

Relative pensioner poverty has fallen by a third AHC and a sixth BHC since 1996/97.

- **The number of working-age adults without children in relative poverty is at its highest level since comparable records began in 1961.**

The risk of poverty among this group is lower than among children, pensioners and working-age parents at 13% BHC and 18% AHC, but has risen significantly in recent years. This reflects the fact that this group has not been favoured in Labour's tax and benefit reforms.

- **Income inequality has edged up in the last year and is once again higher than Labour inherited by a statistically significant amount.**

The Gini Coefficient – a commonly used measure of inequality – rose from 0.34 in 2004/05 to 0.35 in 2005/06, an increase that in itself is not statistically significant. This increase is consistent with the fact that as you move from the poorest to the richest quintile of the income distribution, growth in income during 2005/06 becomes progressively stronger. The “90/10” ratio, a measure of the gap between the ‘rich’ and the ‘poor’, also rose between 2004/05 and 2005/06, but remains lower than when Labour came to power. This points towards the fact that the rise in inequality to date under Labour reflects what is going on at extremes of the income distribution rather than the broad range of incomes in the middle.

- **Average incomes once again rose only modestly. This may help explain the lack of “feel good factor” identified by some commentators.**

Median income rose by just 1% and mean income by 1.4% in 2005/06, a rate similar to the previous three years but well below the 2% plus recorded in Labour's first five years in office. This underlines the fact that the increases in poverty seen during 2005/06 reflect weak income growth towards the bottom of the income distribution rather than rapid income growth in the middle.

“The latest poverty and inequality figures will have made grim reading for the Chancellor. His redistributive tax and benefit reforms have helped lift many families out of poverty in recent years, even though inequality has been pretty stable thanks to the rapid growth of incomes at the top. But today's figures suggest that if the squeeze on public spending announced last week limits Mr Brown's capacity to play Robin Hood over the next few years, poverty and inequality may return to an upward trend and his child poverty target will drift further out of reach”, says Luke Sibieta, Research Economist.

Further detail about the changes to income inequality and poverty will be provided at an IFS Briefing on Wednesday 28th March 2007.¹²

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Notes to editors:

1. Households Below Average Income can be found on the Department for Work and Pensions website at <http://www.dwp.gov.uk/asd/hbai.asp>
 2. Further analysis of the data underlying the official statistics will be available in *Poverty and Inequality in Britain: 2007* by Mike Brewer, Alissa Goodman, Alastair Muriel and Luke Sibieta.
 3. This report will be launched at IFS on Wednesday 28th March 2007. The briefing will start at 11am and is expected to conclude by 12.30pm. If you would like to attend, please contact Bonnie Brimstone (020 7291 4800 or bonnie_b@ifs.org.uk).
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