



What has Happened to ‘Severe Poverty’ Under Labour

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Summary

- Between 1996–97 and 2007–08, the fraction of the population living in households with an income less than 40% of median income increased. It rose from 4.3% to 6.0% using incomes measured before housing costs, and from 8.8% to 9.6% using incomes measured after housing costs. The Conservative Party, amongst others, uses this fact to claim that ‘severe poverty’ has increased under Labour.
- A closer look at this rise suggests that it is difficult to argue convincingly that severe poverty has increased since 1996–97. However, there is considerably stronger evidence that severe poverty has risen since 2004–05, mirroring an increase in the government’s preferred measure of poverty. In particular, the first phase of the increase (between 1996–97 and 2000–01) is explained mainly by an increase in the fraction of people with an income measured as zero or between zero and 20% of median income. Households with an income below 20% of the median income are less deprived, on average, than those households with an income between 40% and 60% of the median (who would not be labelled as severely poor under the 40% of median income). The second phase of the increase (between 2004–05 and 2007–08) is concentrated very much amongst those households with an income between 20% and 40% of median income, who do appear to be very deprived, as well as having very low incomes.
- Some households with zero or very low incomes are making large payments (such as student loan repayments and contributions to private pensions) that are subtracted from their gross incomes to give their final net household income. About one-third of the rise in the fraction of households with an income less than 40% of median income between 1996–97 and 2004–05 is due to implausibly high student loan repayments (first taken into account in the construction of income in 1997–98). However, student loan repayments cannot explain any of the rise in the fraction of households with an income less than 40% of median income between 2004–05 and 2007–08 .
- Reference to a wider selection of possible measures of severe poverty (based on expenditure, material deprivation, absolute poverty and persistent poverty) show that trends depend on the measure chosen. Since 2004–05, however, measures based on relative income poverty (that used by the Conservative Party), absolute income poverty and material deprivation have all showed a meaningful increase in severe poverty, although persistent poverty (i.e. being in poverty for an extended period) fell until 2007 and expenditure-based measures of severe poverty have not increased since 2004–05.

1. Introduction¹

Despite a rise since 2004–05, the current Government can still point to a fall in its preferred definition of poverty (the proportion of the population living in households with an income less than 60% of median income) since 1996–97.² However, less clear is progress in reducing the numbers of people with the very lowest living standards, or tackling what many commentators call ‘severe poverty’. This is a potentially important political issue in the run up to the election, with all three main UK political parties aiming to proclaim themselves the best party to tackle poverty and disadvantage.³

This note surveys a range of data sources and definitions. It finds strong evidence of an increase in the rate of severe poverty since 2004–05, mirroring a rise in the official poverty rate, although the rate of persistent poverty (i.e. where people remain poor for a number of years) does seem to have fallen under Labour, at least until 2007. But the evidence is less conclusive about whether severe poverty is now higher than when Labour came to power.

This election briefing note is arranged as follows. We first show that the number of individuals with an income below 40% of median income has increased in recent years (Section 2). We then assess the relevance of this measure, first by examining the levels of material deprivation amongst those on very low incomes (Section 2.1), and then by examining in more detail what has caused this rise (Section 2.2). Finally, in Section 3 we look at alternative measures of severe poverty, considering: a measure based on relative income poverty and material deprivation (Section 3.1); an expenditure based measure of ‘40% poverty’ (Section 3.2); an ‘absolute’ poverty line i.e. the fraction living in households with real income below a fixed amount (Section 3.3); and a measure of persistent poverty i.e. being in poverty for an extended period (Section 3.4). By looking at alternative measures we can address both concerns about whether low income is a good measure (in a statistical sense) of poverty, and whether a measure of relative income is reasonable conceptually when thinking about severe poverty. Section 4 concludes.

2. How sensible is it to measure severe poverty by counting individuals with incomes below 40% of median income?

The claim that severe poverty has gone up under Labour is frequently made by the Conservative Party, and justified with reference to the number of individuals in households with an income below 40% of the median.⁴ This section assesses the relevance of this measure, first by examining levels of material

¹ The corresponding author is David Phillips (david_p@ifs.org.uk). This series of Election Briefing Notes has been funded by the Nuffield Foundation, grant OPD/36607. The Nuffield Foundation is a charitable trust established by Lord Nuffield. Its widest charitable objective is ‘the advancement of social well-being’. The Foundation has long had an interest in social welfare and has supported this project to stimulate public discussion and policy development. The authors would also like to acknowledge ongoing financial support from the ESRC Centre for the Microeconomic Analysis of Public Policy at IFS (grant number RES-544-28-5001) for the analysis on which this briefing note is based. The Family Resources Survey and Households Below Average Income Series was made available by the Department for Work and Pensions, which bears no responsibility for the interpretation of the data in this Briefing Note. Expenditure and Food Survey data are collected by the Office for National Statistics and distributed by the Economic and Social Data Service. Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen’s Printer for Scotland. The authors would like to thank Alistair Muriel and the Department for Work and Pensions’ Income Monitoring team for useful comments on earlier drafts and to Helen Miller and Robert Joyce for copy-editing. Any errors and omissions are the responsibility of the authors.

² The median income is the household income of the individual in the middle of the income distribution such that 50% of households have a higher income, and 50% a lower income.

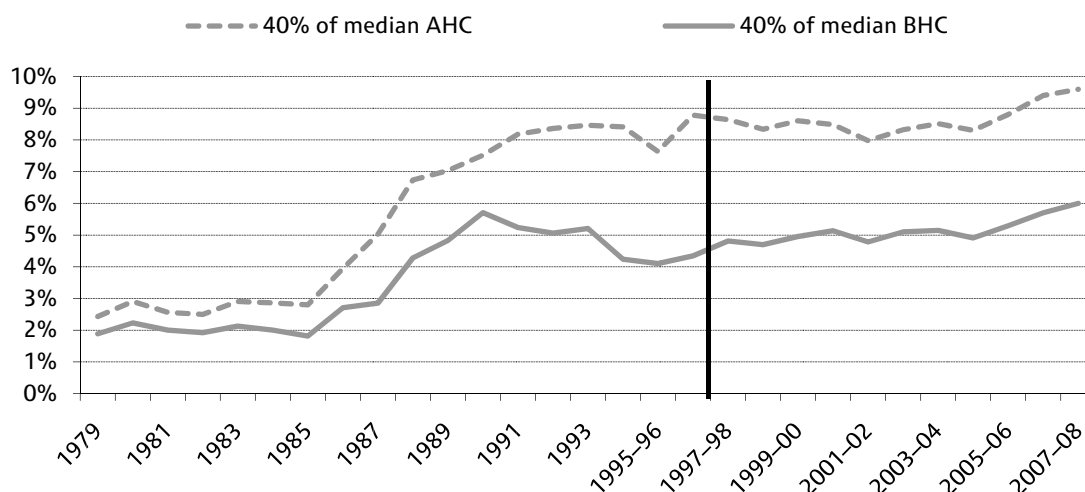
³ For claims by the current opposition parties see the speech by Nick Bourne (Conservatives) and Steve Webb (Liberal Democrats) available at http://www.conservatives.com/News/Speeches/2009/09/Nick_Bourne_Putting_Communities_First.aspx and http://www.libdems.org.uk/news_detail.aspx?title=Ministers_have_run_out_of_ideas_on_child_poverty_says_Webb_&pPK=c05702a0-c023-46d3-b1db-908716eaa515, respectively.

⁴ Conservative Party (2010), *Mending our Broken Society*, Chapter 2, Draft Manifesto 2010, The Conservative Party.

deprivation for those on very low incomes, and then by examining in more detail what has caused the rise in the number of people with very low incomes between 1996–97 and 2007–08.

Figure 2.1 shows the fraction of individuals living in households with incomes less than 40% of the median household income between 1979 and 2007–08 (the latest year for which data are available at the time of writing) using the official Households Below Average Income (HBAI) definitions of net income before (BHC) and after (AHC) housing cost. Since 1996–97 (just before the Labour government came to power), the fraction has increased from 4.3% to 6.0% when incomes are measured BHC and somewhat less (but by a statistically significant amount) from 8.8% to 9.6% when using incomes measured AHC. However, the rise in the number of people with incomes less than 40% of the median between 1996–97 and 2007–08 was substantially smaller and less rapid than that which occurred in the second half of the 1980s.

Figure 2.1. Proportion of the population with less than 40% of the median household income



Notes: Income is net of taxes and benefits and is equivalised to account for differences in household size and composition using the modified OECD equivalence scale.

Source: HBAI datasets from 1979 to 2007–08, and authors' calculations

2.1 Deprivation among households with incomes below 40% of the median

Amongst both academics and wider society there are different views on what poverty is and how it should be measured.⁵ An important question is whether poverty measures should be based on income alone, or should attempt to measure other features of a household's living conditions that might indicate poverty. A plausible and appealing view is that we should think about living standards (and hence poverty) in terms of how much people can afford to buy and consume, and the services and lifestyle they enjoy, as opposed to defining it based on the amount of income coming in during any particular (short) period. Incomes may be volatile, and someone's income may only be low temporarily (for instance, someone between jobs, or a self employed person whose business is in a rough patch), and they may be able to borrow and save and make use of any durable goods or housing they already own in order to

⁵ See Brewer, M., A. Goodman and A. Leicester (2006), *Household Spending in the UK: what can it teach us about poverty?*, The Joseph Rowntree Foundation (<http://www.jrf.org.uk/sites/files/jrf/9781861348555.pdf>) and Perry, B. (2002), *The mismatch between income measures and direct outcome measures of poverty*, *Social Policy Journal of New Zealand*, 19, pp 101–127 for details.

smooth their consumption over time. For this reason we might want a more direct measure of what people say they can and cannot afford to provide for their families.

Since 2004–05, respondents to the Family Resources Survey (FRS) have been asked questions about whether they lack various goods or services, or are unable to undertake various activities because they cannot afford to do so (it is common to call these questions measures of “material deprivation”). Brewer, O’Dea, Paull and Sibieta (2009)⁶ describe in detail the construction of the government’s measure of material deprivation for families with children, which is one of several measures the government is using as part of its child poverty targets. They also show that the level of material deprivation faced by families with children with the lowest incomes is actually *lower* (in other words, they are less deprived) than that faced by those a bit further up the income distribution, as shown in Figure 2.2. This graph shows the median, mean and 25th and 75th percentiles of material deprivation scores for each £25-per-week income band between £0 and £750 per week. For instance, in 2006–07, those families with children with an equivalised⁷ income of less than £150 per week (40% of the median) had, on average, lower levels of material deprivation than those families with incomes between £150 and £226 per week (60% of median). Families with an income below 40% of the median can be broken into two contrasting groups. Those with an income of less than 20% of the median (£75), who are on average not particularly deprived, and those with an income between 20% and 40% who are on average amongst the most deprived.⁸ Brewer, Goodman and Leicester (2006) find a similar disparity between expenditure and income for those with very low income using a sample containing families with and without children.

It is notable that the number and proportions of the population with an income below 40% of median income are not National Statistics, perhaps because it is considered to be an “unreliable measure of poverty”. The government cites IFS research and its own findings on the link between expenditure and income in order to back up this view. They suggest that households with very low recorded incomes partly consist of those who have omitted some income sources when responding to the survey, and those who may have only temporarily low incomes, as well as those with genuinely low incomes (who may nonetheless be drawing down savings to support their expenditure).⁹

This clearly casts doubt on the wisdom of classifying all those with incomes below 40% of median income as severely poor: those with the lowest measured incomes are less deprived, on average, than those with slightly higher incomes. However we cannot rule out the possibility that the measure of material deprivation is also inaccurate or measured incorrectly in ways which are correlated with income.

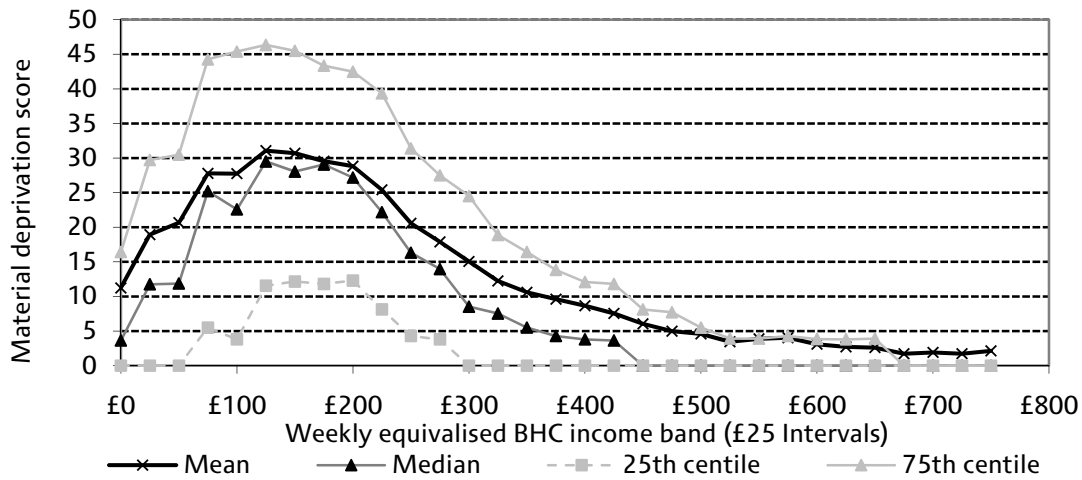
⁶ Brewer, M., C. O’Dea, G. Paull and L. Sibieta (2009), *The Living Standards of Families Reporting Low Incomes*, Department for Work and Pensions Research Report 577 (<http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep577.pdf>)

⁷ This means adjusted for household size and composition.

⁸ This result is from Brewer, M., A. Muriel, D. Phillips and L. Sibieta (2008), *Poverty and Inequality in the United Kingdom 2008*, IFS Commentary 105, The Institute for Fiscal Studies (<http://www.ifs.org.uk/comms/comm105.pdf>). The highest levels of deprivation are found amongst families with children with incomes of about £100 to £200 per week or between about 26% and 53% of median income. The 1% of children living in households with an income less than £50 per week had levels of deprivation similar to those with incomes between £250 and £500 per week.

⁹ This is a summary of the response of a minister to a question regarding severe pensioner poverty. Available at http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080722/text/80722w0049.htm#80722w0049.htm_wqn0

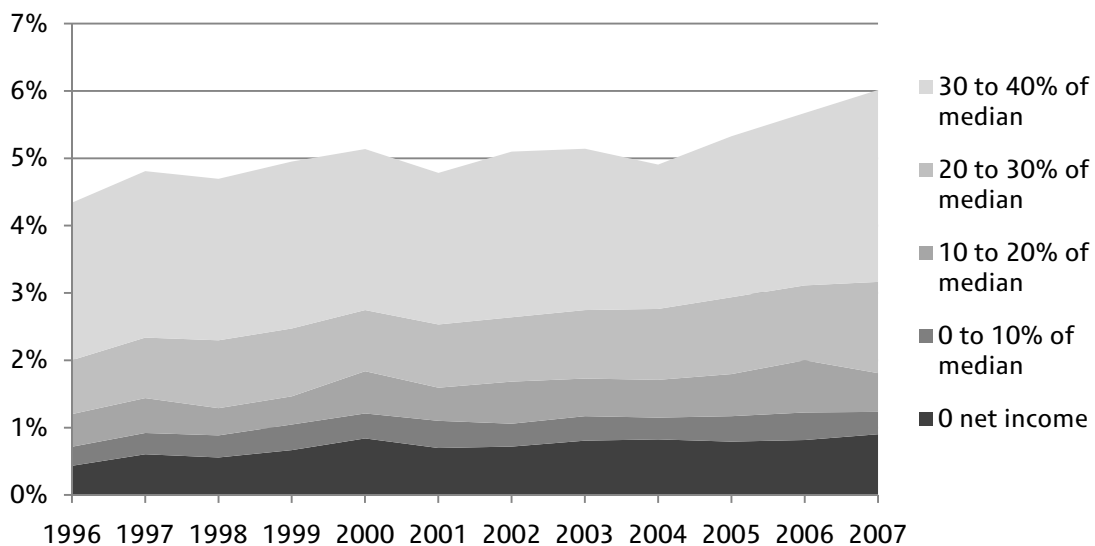
Figure 2.2. Relationship between material deprivation and net household income (for families with children)



Notes: Uses the FRS waves 2004–05 to 2006–07. See notes to figure 1 for income definition. 20% of the median income is about £75 per week.
Source: Brewer, O’Dea, Paull and Sibieta (2009).

But can we go further than this and examine why the number of people with incomes below 40% of median income increased? Figure 2.3 splits those people with incomes less than 40% of the median into five groups: those with zero or negative incomes, those with an income between 0 and 10% of the median, those with an income 10 to 20% of the median, etc.¹⁰

Figure 2.3. Relative Poverty (BHC): Looking amongst households with income less than 40% of median income



Notes: See note to figure 2.1 for income definition. Note that any negative incomes (BHC) are recorded as zero for the purpose of HBAI statistics.
Source: HBAI datasets from 1996–97 to 2007–08, and authors’ calculations.

¹⁰ This sub-section considers poverty with incomes measured BHC only.

Over the period as a whole, about three-tenths of the *growth* in the proportion of individuals living in households with incomes less than 40% of the median is accounted for by an increase in the number of households with zero measured incomes, with a further three-tenths from each of 20% to 30%, and 30% to 40%. The remainder are accounted for by those with incomes of between 0% to 20% of the median.

Earlier, we cited research which showed that those with the lowest reported incomes (and particularly zero reported income) seem to have higher living standards than those further up the income distribution. This might, therefore, suggest that the rise in the fraction of the population with zero measured incomes does not reflect an increase in those with very low living standards, but instead reflects some other reason (e.g. a rise in the number of people with temporarily low income but high average incomes, or a rise in the mismeasurement of incomes).

It is notable that the increase in the proportion of individuals living in households with less than 40% of the median income occurred in two phases: 1996–97 to 2000–01, and 2004–05 to 2007–08, with roughly no change between 2000–01 and 2004–05.¹¹ In the first period, over half the growth (51%) was due to a rise in the number of households reporting zero incomes, 29% was due to a rise in the number of households with an income of 0 to 20% of the median (who are also not particularly deprived, on average, according to measures of material deprivation), and the remaining 20% of the increase was down to those with an income of between 20% and 40% of median income. Therefore, most of the growth in the number of people with income below 40% of median income between 1996–97 and 2000–01 was driven by a rise in the number of people with incomes that are associated with higher average living standards than those whose incomes are between 40% and 60% of median income.¹²

The story is different for the rise in the number of people with incomes below 40% of median that occurred between 2004–05 and 2007–08: only 7% of that rise was due to a rise in the number of people with zero incomes, and only a further 2% due to those with incomes between 0% and 20% of the median. Instead, most of the growth is due to a rise in the number of people with an income between 20% and 30% of the median (27% of the growth) or between 30% and 40% of the median (64%). The growth in the number of people with income below 40% of median income since 2004–05, therefore, was concentrated amongst those with incomes in the range that is associated with the highest levels of material deprivation.

Overall, then, this provides suggestive (but not conclusive) evidence that the rise in the number of people with income below 40% of median income in the last few years does indeed reflect an increase in the numbers with very low living standards, but that the rise between 1996–97 and 2000–01 does not. Doubts about the increase between 1996–97 and 2000–01 suggest one should also be careful about concluding that there was a rise in severe poverty over Labour's period of office as a whole.

2.2 What leads to very low incomes in the HBAI dataset?

This sub-section looks in more detail at the construction of the HBAI measure of net household income.

One possible cause of the rise in the number of households with very low incomes between 1996–97 and 2000–01 is that incomes became more volatile. Perhaps, for instance, the fraction of individuals with losses from self-employment in any one year increased as competition increased. For the population as a whole, 4.9% of people lived in households where there was negative net self-employment income in

¹¹ Note that the precise figures do vary depending on exactly how one splits Labour's term of government into separate periods but, qualitatively, the results described in the following two paragraphs are very robust.

¹² For the period 1996–97 to 2004–05, over two thirds (68%) of the growth in the numbers in severe poverty was due to a rise in the number of households with zero incomes, a further 22% was due to a rise in the number with an income of 0 to 20% of median income, with the remaining 10% being due to those between 20 and 40%.

2000–01 as opposed to 4.7% in 1996–97. However, amongst those with an income of less than 40% of the median, the fraction fell from 16% to 14%, and amongst those with zero measured incomes the fraction fell from 59% to 36%. Hence, self-employment losses could not have driven much (if any) of the rise. There was strong growth in earnings and investment income amongst households with incomes less than 40% of the median, suggesting also that these income sources are unlikely to be the cause of the rise in the number of households with very low incomes.¹³

Between 1996–97 and 2000–01, however, there was a notable increase in the value of those items which are subtracted from income to get the final measure of disposable household income: these are known as “payments”, and include council tax liabilities, student loan repayments, private pension contributions, maintenance payments, and contributions to children studying at university. For instance, in 1996–97, 5% of individuals living in households with income below 40% median income had levels of payments greater than or equal to their income (and therefore would have a zero measured income for this reason). A further 6% had payments less than their income but at least £50 per week (in 2007–08 terms). In 2000–01 these figures had risen to 11% and 9% respectively (and in 2007–08, the last year for which we have data, they were 9% and 8%).

Table 2.1 shows the median, 75th, 90th, 95th and 99th percentile of the distributions of payment values in 1996–97, 2000–01 and 2007–08 (all in 2008–09 prices) for those with an income of less than 40% of median (top panel) and those with zero income (bottom panel).

Table 2.1. Distribution of payment amounts in very low income households

Distribution of Payment Values	£s per week (2008–09 prices)		
	1996–97	2000–01	2007–08
Income less than 40% of median			
50 th percentile (median)	14	17	21
75 th percentile	21	27	33
90 th percentile	44	81	71
95 th percentile	75	694	211
99 th percentile	301	4,240	5,286
Zero measured income			
50 th percentile (median)	27	58	48
75 th percentile	75	1,174	373
90 th percentile	207	2,769	2,992
95 th percentile	418	5,618	6,211
99 th percentile	4,127	17,414	9,801

Notes: The amounts reported in this table are weighted so that the number of individuals matches population totals. They are not adjusted for household size or composition as individual income components are not equalised as part of the HBAI methodology and, in any case, doing so would not alter the results shown above substantively. The sample sizes are 1,399 and 142 for households with an income less than 40% of median income and zero measured income in 1996–97, respectively. The corresponding figures are 1,501 and 248 for 2000–01, and 1,896 and 288 for 2007–08. Includes households making zero payments.

Source: HBAI datasets from 1996–97 to 2007–08, and authors’ calculations.

¹³ The fraction of individuals living in households with an income less than 40% of median income with earnings increased from 26% to 27%, and with investment income was 48% in each year. The median amounts for those with positive values increased (in real terms) from £97 to £116 per week, and from £1.58 to £1.79 per week, respectively. The amounts at the 75th percentile and above increased more rapidly. For instance, the 90th percentile of the earnings distribution increased from £232 to £497 per week.

It shows that, of those individuals with a household income measured as zero in 2000–01, 75% lived in a household with payments of £1,174 or less per week; the equivalent amount in 1996–97 was much lower at just £75 or less per week. This pattern is repeated at the 90th percentile and above (and to a lesser extent at the 50th percentile). Appendix A investigates this issue in more depth, and finds that the inclusion of student loan repayments as a payment deducted from income from 1997–98 is an important (but not the only) factor underlying this increase in payments. In particular, some student loan repayment values seem to be implausibly large, and these very large values account for about one-third of the rise in the number of individuals with incomes below 40% of median income between 1996–97 and 2004–05. However, student loan repayments do not account for any of the rise in the number of individuals in households with incomes below 40% of median income between 2004–05 and 2007–08. Like the analysis in the previous sub-section, this suggests that it is easier to argue convincingly that severe poverty has genuinely risen since 2004–05 than it is to argue that it is now definitely higher than in 1996–97 (because there are some doubts about just what the rise before 2004–05 is actually telling us) when measuring severe poverty with the fraction of individuals in households with incomes below 40% of median income

3. Alternative measures of severe poverty

This section looks at alternative measures of severe poverty in order to address both concerns about whether low income is a good measure (in a statistical sense) of poverty, and whether a measure of relative income poverty is conceptually reasonable when thinking about severe poverty.

We consider the following: a measure based on relative income poverty and material deprivation; an expenditure based measure of ‘40% poverty’; an ‘absolute’ poverty line (i.e. the fraction living in households with a real income below a fixed amount); and a measure of persistent poverty (i.e. being in poverty for an extended period).

3.1 A combined relative income and material deprivation measure of severe poverty

It is possible to combine a measure of relative poverty with an indicator of material deprivation to obtain an estimate of severe poverty, in a manner similar to the Government’s use of a combined indicator as part of its child poverty targets.¹⁴ Save the Children, in joint work with the New Policy Institute and the Centre for Research in Social Policy, define a family with children as in severe poverty if their household income is less than 50% of the median and their families lack at least two ‘necessities’ for either adults or children, and a least one necessity for each.¹⁵ They choose a 50% of median threshold because of worries about the reliability of data for the lowest part of the income distribution (see Section 2). Using this definition, the proportion of children in severe poverty has risen from 11% to 13% of all children between 2004–05 and 2007–08.

So, although this measure is available only for families with children, it provides further evidence that severe poverty did genuinely rise in the period 2004–05 to 2007–08, a period during which we know that overall poverty (based on the Government’s 60% of median income measure) has been rising (after generally falling between 1996–97 and 2004–05).

¹⁴ The Government uses a relative income limit of 70% of median household income (BHC) and a weighted deprivation score of greater than 25 as its definition.

¹⁵ See Magadi, M. and S. Middleton (2007), *Severe Child Poverty in the UK*, Save the Children (<http://www.savethechildren.org.uk/en/docs/sevchildpovuk.pdf>) and Save the Children (2010), *Measuring Severe Child Poverty in the UK*, Save the Children (http://www.savethechildren.org.uk/en/docs/Severe_Child_Poverty_In_The_UK.pdf) for more details.

3.2 An expenditure-based poverty line

A number of writers have argued that rather than using the amount of income a household has coming in at any one time to define and measure poverty, we should instead try to assess more directly a household's living standards by measuring the goods and services they consume.¹⁶ Such a consumption-based measure of living standards would allow us to account for the fact that whilst income is volatile, most households can borrow and save to smooth their consumption, and to maintain their living standards in the face of temporary income shocks.

Unfortunately we do not have accurate data on consumption (which includes, for instance, the flow of services from durable goods owned), but we do have data on household expenditure, from which we can construct a measure of severe poverty as the number of people in households whose expenditure is less than 40% of the median.

We then come to the choice of which expenditure measure to use. Previous work by IFS researchers (Brewer, Goodman and Leicester (2006)) used a measure of expenditure which excluded expenditure on housing but included all other spending (including spending on durable goods). Figure 3.1 shows the number of people in households whose expenditure is less than 40% of the median with the black dashed line. With this measure of expenditure, the fraction of people living in households spending less than 40% of the median rose from about 8% in the years 1996 and 1997 to 9% in the years 2006 and 2007.

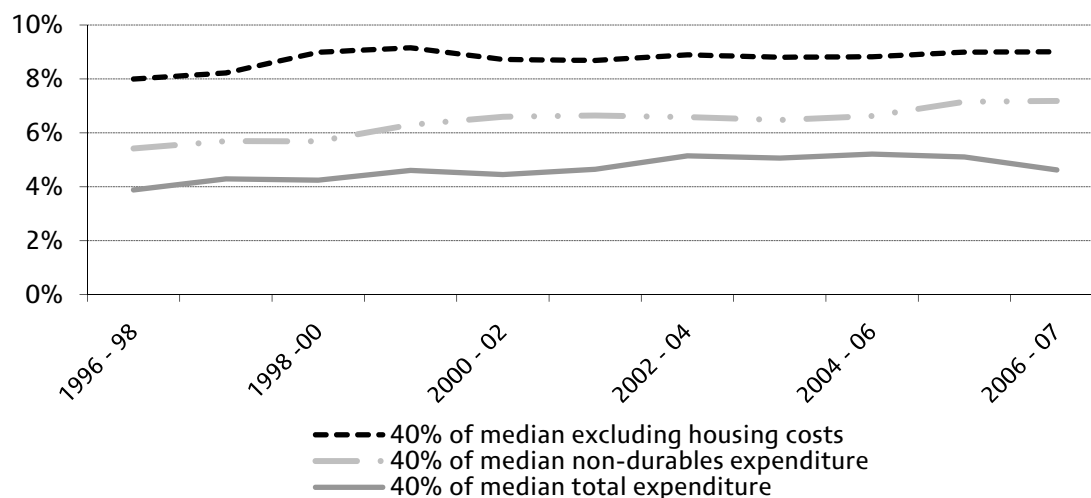
However, one might object to this measure on at least two grounds:

- First, spending on durable goods (such as cars or white goods) is very 'lumpy' (or volatile) and a measure of consumption that includes this might be as unrepresentative of underlying living standards as income. If we exclude spending on durable goods (and housing) we find that the poverty rate has increased from 5.4% to 7.2% over the same period. Excluding durable goods is problematic, however. If we have two households spending the same amount in total, but one buys a car, and the other buys higher quality food, then we may classify the first household as poor but the second household as not poor. The expenditure data show that the share of spending devoted to durables has increased for those households with lower expenditure (i.e. poorer households) relative to those households with higher expenditure (although we are not sure of the reason for this). Hence, the rise in poverty on the expenditure measure that excludes durable goods may be misleading. In particular, it would not reflect changes in relative living standards, but instead, changes in what people in different parts of the expenditure distribution have chosen to buy.
- Second, spending on housing is not fixed and (in the private sector, at least) reflects actual or perceived differences in the quality of the housing (whether in terms of amenities, style or location). If two households have the same total expenditure, but one chooses to spend more on housing and the other on motoring, it seems strange that the first one may be considered as poor and the second as not poor. If we include spending on housing in our measure (to get 'total expenditure'), the number of people in households spending less than 40% of the median has increased slightly from about 3.9% in 1996–97 to about 4.6%.¹⁷ This is shown as the solid grey line.

¹⁶ See, for example, Brewer, M., A. Goodman and A. Leicester (2006) and references therein.

¹⁷ It should be noted that what we really care about is housing consumption – not expenditure. Those who own their homes outright have finished paying for their homes but still get the benefit of living in them. Such people (often pensioners) may be recorded as in expenditure poverty once we add on everyone else's housing costs, even though their living standards might be comparable to, or even higher than, people with higher total spending who are renting, for instance. Brewer, Goodman and Leicester (2006) attempt to impute what owner occupiers would pay to rent their homes to get a better estimate of total consumption. Doing this sees a more favourable trend in total expenditure poverty than when using 'raw' housing costs and, if this were to hold after 2002–03 (when their analysis ends), the trends in Figure 3.1 may look somewhat more favourable.

Figure 3.1. Relative Poverty: Proportion of the population with less than 40% of the median household expenditure



Notes: Expenditure equivalised to account for household size and composition differences using the modified OECD scale. Source: Family Expenditure Survey and Expenditure and Food Surveys from 1996 to 2007. Note that years are financial years from 1996-97 to 2005-06 and hence 1996-98 refers to the average of financial years 1996-97 and 1997-98. The data for 2006 are for the period April – December 2006, and the data for 2007 are for the calendar year 2007. Hence 2006-07 is the average for the period April 2006 – December 2007.

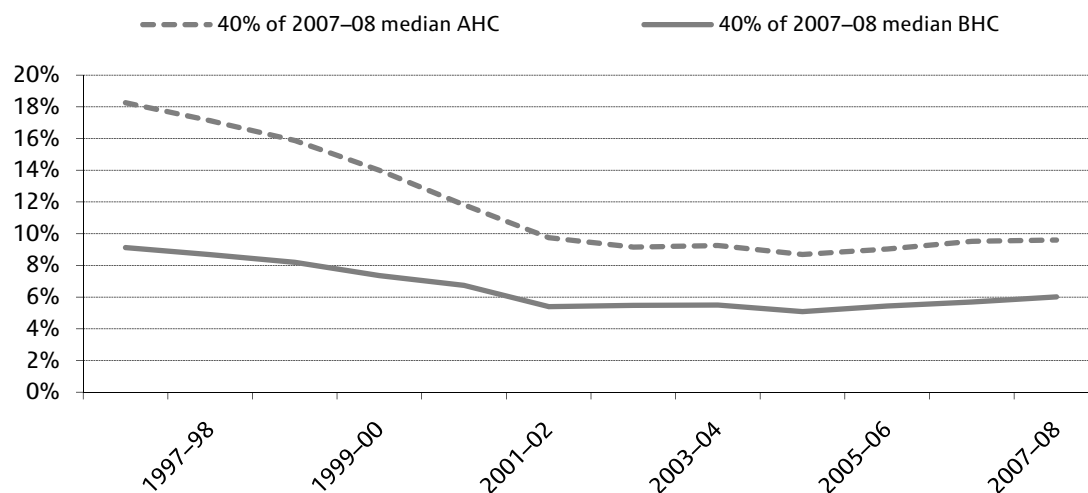
Overall, we think that wider definitions of expenditure are therefore preferable to narrower ones. On these wider measures, the fraction of people living in households spending less than 40% of the median expenditure has risen slightly on the measures considered here, although the results presented may overstate the rise in expenditure poverty, depending on how we impute the flow of services from being an owner occupier (see footnote 17).

3.3 An absolute measure of severe poverty

The government uses a relative poverty measure (i.e. counting someone as poor if their income is low relative to the *current* median), and the Conservative Party has chosen to define severe poverty on a similar basis. But it is possible to think of poverty as severe or not by looking at the absolute living standards of the household concerned. That is, one could define someone as severely poor if they have less than a certain income, fixed in real terms. Suppose we decide that households with an income of less than about 40% of the median household in 2007-08 are severely poor. How has the fraction of people with income less than this in real terms changed since Labour came to power?

Figure 3.2 shows that in 1996-97, the year before Labour came to power, the fraction of people with an income less than 40% of the median in 2007-08 was 18.3% (AHC) or 9.1% (BHC). By 2007-08, this had fallen to 9.6% and 6.0%, respectively. It is notable, however, that this fall took place entirely between 1996-97 and 2001-02, since when there has been approximately no change in the number of people below this fixed poverty line, measuring incomes AHC, and a slight rise, measuring incomes BHC. Before 2001-02, therefore, the living standards of the poorest appear to have been rising in real terms (if not relative to those with higher incomes), but since then there has been no improvement, or perhaps even a slight deterioration, depending on the income measure (AHC or BHC).

Figure 3.2. Absolute Poverty: Proportion of the population with less than 40% of the 2007–08 median household income



Notes: See notes to figure 2.1 for income definition.

Source: HBAI datasets from 1996–97 to 2007–08, and authors' calculations.

3.4 Persistent poverty as severe poverty

It is highly likely that people who have persistently low incomes have lower living standards than those who have a temporarily low income at a particular point in time.¹⁸ Perhaps a better way of thinking about severe poverty is, therefore, to think about the persistence of low income.

The current Government defines persistent poverty as having an income less than 60% of the median income for 3 out of the last 4 years. Unfortunately, the latest available data are for the four years to 2007, since when things may have changed. Table 3.1, shows the fraction of individuals who were in persistent poverty in the years 1995 – 1998 (around the time the Labour government came to power) and in 2004 – 2007, for all individuals and separately by population sub-group. This shows that there was a moderate fall in the proportion of the population in persistent poverty in the twelve years to 2007 from 11% to 8%, driven by large falls in the risk of persistent poverty amongst children (from 17% to 10%) and pensioners (20% to 14%).¹⁹

¹⁸ Chapter 7 of Brewer, O'Dea, Paull and Sibieta (2009) shows this to be the case amongst families with children.

¹⁹ It is notable that persistent poverty is higher for pensioners than for children, whilst children are more likely to be poor than pensioners at any particular moment. This reflects the fact that pensioners incomes come mainly from private pensions, the state pension and other benefits, which are relatively stable, whilst the income of families with children is largely made up of earnings from employment and self-employment, which can be volatile.

Table 3.1. Persistent Poverty: Proportion of the population with less than 60% of median household income for three out of four years

	1995 – 1998	2004 – 2007
All individuals	11%	8%
Working-age adults	7%	5%
Children	17%	10%
Pensioners	20%	14%

Notes: Income definition is equivalent to that used in the construction of the HBAI dataset using the FRS. Declines were fairly steady across the period considered for all groups.

Source: Department for Work and Pensions (2009), *Households Below Average Income: 2009*, The Department for Work and Pensions and Department for Work and Pensions (2009a), *Low Income Dynamics, 1991-2007 (Great Britain)*, The Department for Work and Pensions, based upon the British Household Panel Survey (BHPS).

4. Conclusion

So, what has happened to ‘severe poverty’ under Labour? To help answer this, we have considered two fundamental questions.

First, how should we define the concept of severe poverty? Should it be based on very low relative income, very low absolute income, very low expenditure or some measure of persistent poverty? We have been agnostic about the answer to this question, but have shown that, for the period since 1996–97 as a whole, there is disagreement between the different measures, with some showing falls and others increases. However, relative and absolute measures of very low income, and measures of severe material deprivation (for families with children) have all increased since 2004–05, mirroring an increase in the Government’s official measures of relative poverty (based on a poverty line equal to 60% of median income). But, expenditure-based measures of severe poverty have not increased since 2004–05, so it is not absolutely certain that severe poverty has risen under Labour, even in recent years.

Second, does the increase in the fraction of people with very low levels of relative income reflect a genuine increase in those with very low living standards? We found that the rise between 1996–97 and 2000–01 (and, indeed, up to 2004–05) was driven largely by those with either zero measured income or an income below 20% of the median, groups for which we have evidence that living standards are not particularly low, perhaps because their incomes are so low due to misrecording or temporary circumstances. Furthermore, about one-third of the rise in the number of people with income below 40% of median income between 1996–97 and 2004–05 can be explained by the treatment of student loan repayments. Because of these reasons, we feel it is difficult, although not impossible, to support the idea that severe income poverty genuinely rose between 1996–97 and 2004–05.²⁰ However, the rise in number of people with income below 40% of median income since 2004–05 was driven mainly by those with incomes between 20 and 40% of the median, for whom living standards are very low on average, and so this probably does reflect a genuine rise in the fraction of people with very low living standards.

To summarise, claims that severe poverty has risen since 1996–97 are difficult to sustain in a fully convincing manner. However, since 2004–05, severe poverty under a range of possible measures does appear to have risen, mirroring the increase in the government’s official measure of relative poverty amongst pensioners, children and working age adults over the same period.

²⁰ These issues are of far less concern for the Government’s poverty measures (based on 60% of median income), because those with an income between 0 and 20% of the median or affected by the student loans issue make up a far smaller fraction of people with an income less than 60% of the median than of those with an income less than 40% of the median. Subject to the sampling variation that affects all surveys, we remain confident in official statistics based on 60% of median income; it is only when one attempts to look at the very lowest incomes that mismeasurement of incomes becomes a significant concern.

Appendix A. Student loan repayments

Section 2 showed that the increase in severe poverty, particularly up to 2000–01, was driven partly by increases in the values of payments that are deducted from a household's net income to get the HBAI measure of disposable net income. This appendix describes and explains some additional analysis we have undertaken that attempts to address what caused the rise in the number of households with very large values of payments.

There are a number of different classes of payments that are deducted from income to get the HBAI definition of net income. The most common is council tax, but payments also include contributions to private pensions, payments of child maintenance, and, from 1997–98 onwards, parental contributions to children at university and student loan repayments.

There are a significant number of households with zero or very low incomes who are making large contributions to private pensions, and a smaller (but notable) number who are making large child maintenance payments.²¹ As contributions to private pensions are voluntary, it is hard to argue that households who can afford to make large contributions are in severe poverty. The number of people making such payments has increased a bit since 1996–97, but not by enough to explain the increase in the number of people with income below 40% of median income and the rise in the number of people with very high payments values. For instance, the number of people living in a household with an income below 40% of the median and where someone in the household is making contributions to a private pension was virtually unchanged between 1996–97 and 2000–01 at 480,000 and 470,000, respectively (given the rise in the number of people with low incomes, the fraction making private pension contributions fell over this period, from 20% to 16%). In 2007–08 the numbers had increased to 600,000, or 17% of all those with an income less than 40% median. For child maintenance payments, the corresponding figures for 1996–97, 2000–01 and 2007–08 are 61,000 (2.5%), 77,000 (2.7%) and 125,000 (3.5%), respectively. So any increase in the number of individuals with very low incomes making these payments largely occurred since 2000–01, whilst most of the increase in the number of people with very low incomes due to very high payments took place before 2000–01.

This leads us to look at the two categories of payments not included in 1996–97. Student loan repayments were first included in the HBAI definition of income in 1997–98 (with the option of reporting one-off payments added in 1999–00) and, since then, the numbers of people living in households reporting student loan repayments has increased from about 850,000 to 1.6 million in 2000–01, and to 2.7 million in 2007–08, reflecting the growth in the number of people with student loans who would have entered the labour market over this period. Of these, the number with an income less than 40% of the median (no measured income) was 30,000 (10,000), 180,000 (130,000), and 150,000 (110,000) in the same years. There was also an increase in the size of repayments reported, with some values since 1999–00 being particularly, and implausibly, large. Table A.1 shows the distribution of student loan repayment values in 1997–98, 2001–01 and 2007–08 (for those reporting a positive repayment) for those living in households with an income less than 40% of the median income, and those with zero income. There was also a smaller but notable effect from a class of payments categorised as "contributions to study" (which were also not recorded in 1996–97 but have been since 1997–98).²²

²¹ In 2007–08, for instance, almost 60,000 people were living in households with an income less than 40% of the median but making a pension contribution of over £165 per week, and over 12,000 were living in households where maintenance payments of more than £309 a week were made (in 2008–09 prices). These figures correspond to the 90th percentiles of the distributions of payments amongst those households making such payments.

²² It should be noted that there is also a counterpart income source for this (contributions from parents), which may have acted to remove some students from severe poverty.

Table A.1. The distribution of student loan repayment amounts for individuals with income below 40% of median income and individuals with zero measured income

Distribution of Student Loan Repayment Values (if positive)	£s per week (2008–09 prices)		
	1997–98	2000–01	2007–08
Income less than 40% of median			
50 th percentile (median)	30	1,149	1,219
75 th percentile	556	2,236	5,146
90 th percentile	891	5,265	6,175
95 th percentile	1,043	6,832	8,233
99 th percentile	1,043	6,832	9,777
Zero measured income			
50 th percentile (median)	733	1,569	2,367
75 th percentile	891	2,484	6,175
90 th percentile	1,043	5,589	6,175
95 th percentile	1,043	6,832	9,777
99 th percentile	1,043	6,832	9,777

Notes: The amounts reported in this table are not adjusted for household size or composition. Individual income components are not equivalised as part of the HBAI methodology and doing so would not alter the results shown above substantively. The sample sizes are 18 and 7 for households with less than 40% of median income and zero measured incomes, respectively, in 1997–98. The corresponding figures are 83 and 63 in 2000–01, and 58 and 41 in 2007–08.

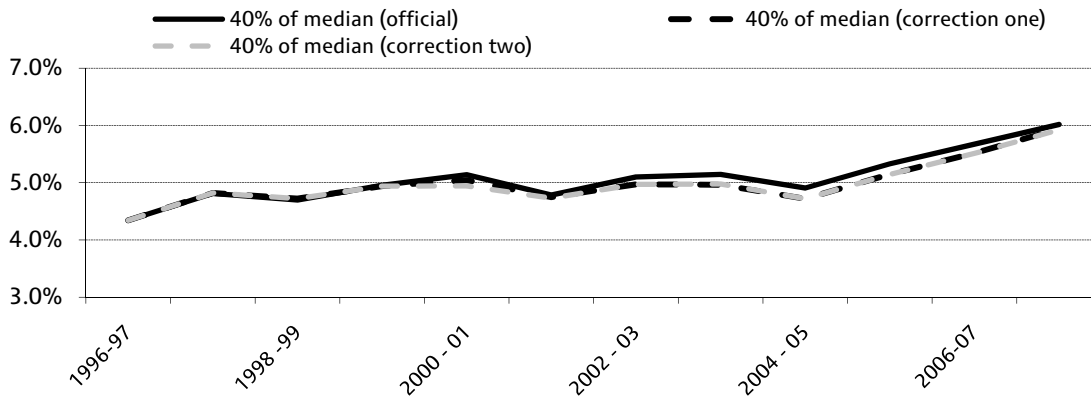
Source: HBAI datasets from 1996–97 to 2007–08, and authors' calculations.

Under the HBAI methodology, all incomes and payments – including one-off payments and one-off sources of income – are usually converted into a weekly amount. However, one-off student loan repayments are not converted to weekly values. An analysis of the 2000–01 raw FRS data shows that the mean amount reported by someone making a one-off repayment was over 20 times that of someone making a monthly repayment (by far the most common type of repayment). The median was over 70 times the size. However, a minority (about 10%) of those reporting monthly repayments report an amount greater than their gross income, which may be deemed implausible, and may result from misreported answers or processing of answers. Respondent error can occur in all surveys, and there is no indication that this is a greater problem in the FRS than in others.

Figure A.1 shows how the fraction of people with an income less than 40% of the median changes when one strips out the impact of implausibly-high values of student loan repayments (with the scale on the Figure chosen so we can clearly see the effect of student loan repayments). The dashed black line shows the impact of weeklyising the one-off payments only, whilst the dashed grey line also strips out the effect of those reporting repayments that are greater than their incomes.

Under the first correction, the rise in the fraction of people with an income less than 40% of the median would have been 0.1 percentage points smaller (or 12% smaller) between 1996–97 and 2000–01, and 0.2 percentage points smaller (or 33% smaller) between 1996–97 and 2004–05, than under the official measure. Under the second correction, the reduction in the rise would be 0.2 percentage points (or 24% and 33%) for both periods. Hence, issues relating to student loan repayments can explain a small part of the rise in the number of people with income below 40% of median income between 1996–97 and 2000–01, and about one-third of the rise to 2004–05. They can explain none of the rise since 2004–05, however, reinforcing our view that the rise since then has firmer foundations.

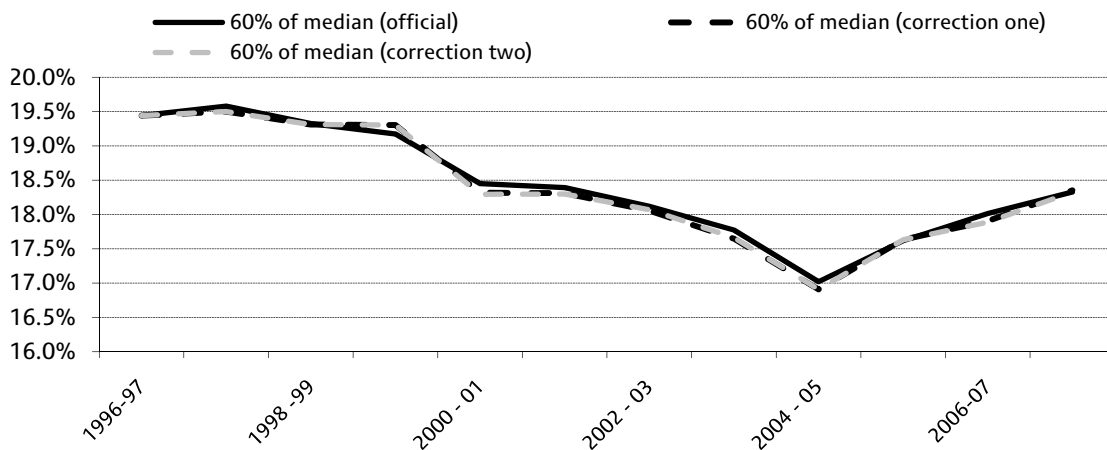
Figure A.1. Relative Poverty: Proportion of the population with less than 40% of the median household income (with corrections for Student Loan repayments)



Notes: See note to Figure 2.1 for income definition.
 Source: HBAI datasets from 1996-97 to 2007-08, and authors' calculations.

Figure A.2 repeats the analysis for the Government's preferred poverty line set at 60% of median income. It shows that the issues regarding student loan repayments make less difference for this measure than they do for a poverty line set at 40% of median income. This is because those affected by the student loans issue represent a far smaller fraction of those with an income less than 60% of the median than those with an income less than 40% of the median. Furthermore, adjusting for student loan repayments leads to a very small increase in median income, meaning a number of households not affected directly by the changes see their incomes fall below 60% of the new median, partly offsetting the impact of those households whose income is above 60% of the median once their student loan repayments are adjusted.²³

Figure A.2. Relative Poverty: Proportion of the population with less than 60% of the median household income (with corrections for student loan repayments)



Notes: See note to Figure 2.1 for income definition.
 Source: HBAI datasets from 1996-97 to 2007-08, and authors' calculations.

²³ This offsetting effect also occurs to some extent for the 40% of median income poverty line, but to a much lesser extent, as there are far fewer households just above this line than just above the poverty line set at 60% of median income (which is at a relatively dense part of the income distribution).