



# MODERN POVERTY

What's changed in 20 years and why work is no longer the route out of poverty in the UK

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## Summary

After six disastrous years, the number of children in poverty in the UK at the moment when the Covid-19 pandemic struck in early 2020 had returned to where it was in 1999, when a Labour Prime Minister set the goal of ending child poverty within a generation. But child poverty back at 20th-century levels does not mean that everything else to do with poverty is back there too. This report shows how the conditions associated with poverty now – ‘modern poverty’ – are different from what they were then. While policies to solve poverty must change, they cannot do so until the ‘story’ that is told about what poverty looks like and why it exists changes too.

Although this report starts with child poverty, its focus is on in-work poverty, that is, when households with a working adult have a low-enough income to leave them in poverty. This focus means that the subject of the report should be seen as both child and working-age poverty. The focus on in-work poverty also explains why there is little attention in the report to pensioner poverty, which itself has risen in recent years.

The argument made in this report rests on four sets of facts that describe the conditions of poverty in the UK today and how they differ from poverty 20 years ago:

- Nearly 1 in 5 children in households where all adults are working, and approaching 1 in 2 where some are working, are now in poverty. Rising intermittently since 2005 and steadily since 2010, these in-work ‘poverty rates’ are at record highs. Three quarters of children in poverty are in working households, with half of them in households where all adults are working.
- More than 4 in 10 of all working adults in poverty have a family member who is either disabled or suffering from an illness which limits their day-to-day activities. Two thirds of working-age adults in poverty have either a dependent child in their family or someone (a child or an adult) who is disabled or ill.
- Almost 3 in 10 of all those in poverty have a household income less than half what they would need even to be at the poverty line, up over the last 20 years from just under 2 in 10. More than 6 million children and working-age adults have household incomes at least £100 a week below the poverty line.
- Housing costs for lower-income households have risen over 20 years compared with costs for those on middle incomes. The poorest fifth of the population face the highest average costs, while the second-poorest fifth now face the second highest. The main reason for these high average housing costs is the large number of households living in the high-cost private- or social-rented sectors.

Taken together, these facts paint a picture of modern poverty as a condition likely to be experienced by working households, with family responsibilities that limit paid work, high housing costs and an income that may be far below the poverty line.

The report points to rising 'gross' housing costs (that is, before any housing subsidy provided by social security is taken into account), at all income levels, but going up fastest for households with the lowest incomes, as the likely cause of rising poverty rates among children in working households after 2004. Although reversed by 2010, rising housing costs did lasting damage, slowing progress on child poverty and making progress more expensive. Although the gross housing costs of low-income households stopped rising after 2010, they remained at their new, higher level.

The report argues that the rise in the rate of poverty among children in working households after 2014, to now record levels, has destroyed the credibility of the story that 'work is the route out of poverty'. Even in the best of all possible worlds, which for that story is when every child is in an all-working household, the rates mean that there would still be 2.5 million children in poverty. The strength of the old story is its simplicity. Modern poverty, marked by complexities, cannot be properly understood until that story is set aside.

The practical expression of a new story grounded in these complexities – in particular, how providing care and support, for both children and adults, limits a household's scope for paid work – is a new focus on those parts of the social security system that are not means-tested and which are there to help meet particular needs in specific situations. They include the many benefits which are not universal credit, such as child benefit, carer's allowance and statutory sick pay. They also include the crucial but often technical-sounding parts of universal credit, such as 'work allowances' and the 'limited capability for work component'.

The fact that low-income households face the highest housing costs is an injustice which also makes escaping poverty that much harder, not least because there is little that they can usually do about it themselves. High housing costs, the report argues, now require the kind of concerted attention that worklessness received 20 years ago.

If the story that 'work is the route out of poverty' is set aside, the way is open to make common cause between low-income working households and others, around the themes of affordable housing and social security that is sufficient to meet specific needs. The interests of low-income, working households are likely to be aligned with those of the great majority. Seen this way, poverty can now be addressed through more general movements for social justice in a way that was inconceivable the last time child poverty was at the level it is today.

## Prologue

### The child poverty disaster

In March 1999, a Labour Prime Minister announced the goal of ending child poverty within a generation.

Delivering the annual Beveridge Lecture, Tony Blair's pledge confirmed a sea-change in Labour's attitude to poverty.<sup>1</sup> No such goal had even been hinted at in its manifesto for the general election nearly two years earlier. Far from being a 'New' Labour aberration, the near-absence of 'poverty' from that manifesto was in keeping with its 20th-century 'Old' Labour predecessors.<sup>2</sup> The year before, it was far from clear whether 'poverty', understood as low income, had a place in the still new government's attempts to fashion a set of measurable targets related to what it referred to as 'social exclusion'. In particular, none of the 32 'success measures' contained in a 1998 Green Paper on Welfare Reform related to 'income and what the welfare state should be doing to ensure a "decent income" where work fails to provide it.'<sup>3</sup>

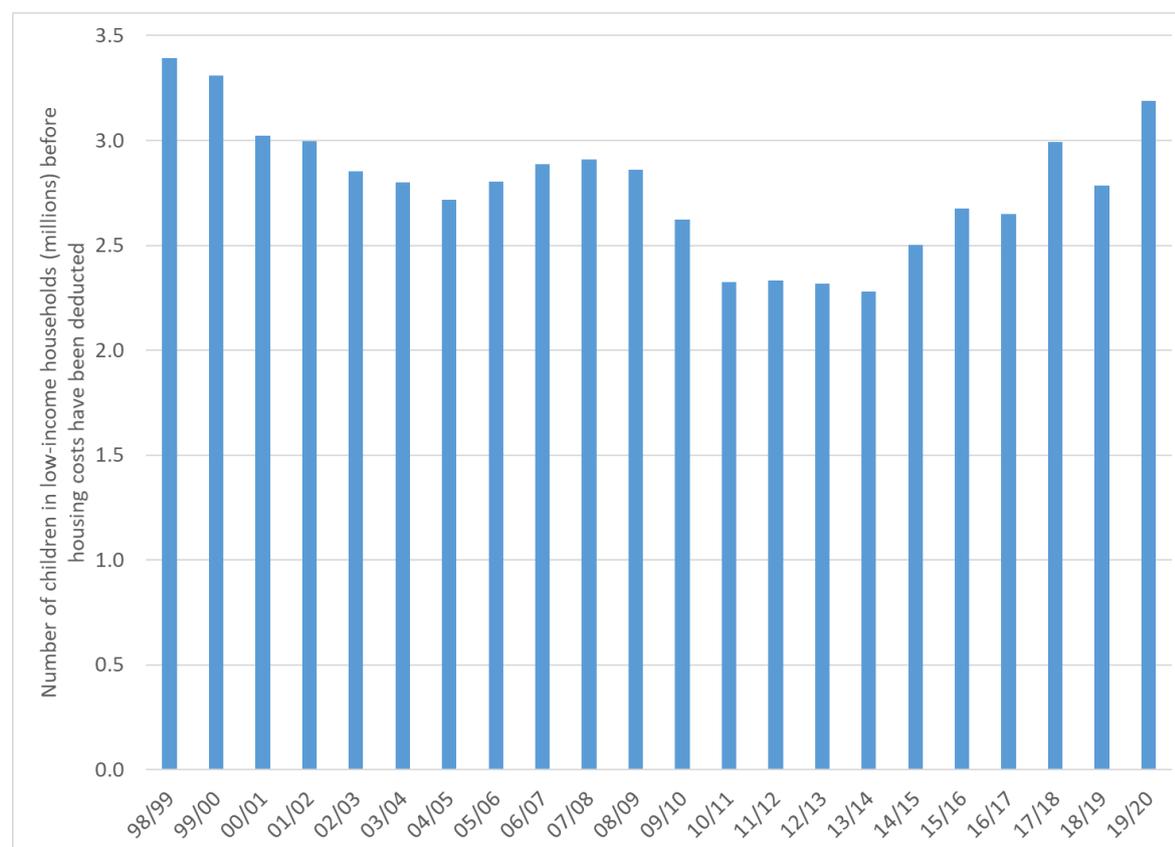
The delivery date for the abolition of child poverty was 2020. The latest child poverty statistics, for the year to March 2020 (at the start of the Covid-19 pandemic in the UK), therefore have a strong claim to be a measure of where child poverty actually stood at the moment when it was supposed, once, to have been abolished.

The latest statistics do indeed contain a powerful message, but it is not a message about progress. Figure 1A shows the number of children in low-income households each year since 1998/99, using income before housing costs have been deducted ('BHC income') as the income measure. The damage that poverty can do to children means that any sustained rise in child poverty is serious, but the rise shown in figure 1A over the six years from 2013/14 to 2019/20 – a further 900,000 children in poverty – is a disaster. The basis for such a judgement lies in the historical context.

First, this rise has taken child poverty to its highest level this century, back to where it was when Labour first targeted child poverty more than 20 years ago.

Second, although child poverty statistics from the 1980s are less reliable, it is necessary to go back to the second half of that decade, now more than 30 years ago, to find the last time child poverty was growing as fast as it has been recently, by 150,000 a year on average.<sup>4</sup>

**Figure 1A: the number of children in low-income households ('child poverty'), measured before housing costs have been deducted (UK<sup>5</sup>)**



Source: Households Below Average Income 1994/95 to 2019/20, tables 4.3tr and 4.17ts.

Third, the rise of 900,000 children in poverty since 2013/14 has all but wiped out the reduction of 1 million achieved between 1999/00 and 2010/11.

The political significance of this reversal lies in its timing.

As child poverty diverged after 2004 ever further from the path towards abolition, bringing it down by a million became the one milestone that sounded like success and was feasible to reach. By declaring in their 2015 election manifesto that 'child poverty is down, with 300,000 fewer children living in poverty' (Conservative Party, 2015, p 35), the Conservatives took some credit for getting there – thereby implicitly endorsing both the measure and milestone. The manifesto's commitment to child poverty reduction was also not confined to past achievements.<sup>6</sup> Meanwhile, in Scotland, reducing the 'scandal' of in-work poverty was described as a priority by the new First Minister, in what was her first Programme for Government published in the autumn of 2014, just after the referendum on Scottish independence.<sup>7</sup>

At this moment of apparent political consensus, child poverty in the UK began to rise.

## Introduction

### Purpose and scope

This report has two purposes. The first is to understand why reducing child poverty has been so difficult whereas pushing it back up has been so easy. The second is to identify what must change if progress on poverty is once more to be made.

The evidence on which the argument is based is contained in four presentations of different aspects of poverty, both as they are now and how they have changed over 20 years. The four are: child poverty and its connection with work; housing costs and the changing mix of housing tenure (that is, whether a home is owned or rented); the working-age population and the incidence of disability within the family; and 'deep' poverty and household size.

One question underlying all four presentations is: if child poverty is back where it was 20 years ago, are other aspects of poverty more or less the same now as they were then too? To the extent they are not, how they are now is what we mean by 'modern poverty'. With no analysis of differences in poverty between men and women, ethnic groups or countries, this is a picture of some, not all, aspects of modern poverty.

This is not a policy report, looking neither backward to account for what has happened nor forward to what should be done. Policy has been important but what we are interested in is the changing context in which it has played out, and the high-level narrative, or 'story', about why there is poverty and what, at a level above policy, needs to be done about it. It is this story which itself then guides policy.

The evidence of the presentations is brought together to build a three-part conclusion. The first discusses why the progress made was lost so easily. The second identifies what has changed and why the story that is told about poverty now needs to change too. The third sets out, in the broadest terms, what the practical expressions of a proper understanding of modern poverty might look like.

### Measuring poverty

This report uses data and statistics from the 2021 edition of *Households Below Average Income (HBAI)*, which has been published annually by the government since 1994/95.<sup>8</sup> HBAI provides a detailed, representative picture of household incomes across the entire income range, as well as data on a small number of crucial items of household expenditure – above all, housing.

By convention, 'poverty' is identified in HBAI as a household income that is below 60% of the median equivalised household income. All the terms used here are described in appendix 1 but the essentials are as follows.

'Income' is income from all sources, including social security benefits, net of taxes (including council tax) and national insurance. It is 'equivalised' to reflect the fact that a given sum of money delivers a higher standard of living for a smaller household than for a larger one.

A 'household' is (usually) everyone living behind a single front door. A 'family' is an adult, or a couple living together, plus any dependent children. A child over the age of 16 who has left full-time education counts as a separate family. In 2019/20, there were some 28 million households and 35 million families in the UK.

HBAI reports income both 'before housing costs' (BHC) have been deducted and 'after housing costs' (AHC) have been deducted. Housing costs include rent, mortgage interest and water charges – but not repayment of the mortgage principal.

The absence of mortgage repayments from housing costs reflects the fact that such repayments are really forced savings. Although a homeowner paying £100 a week to their mortgage lender is in the same cash position as a tenant paying £100 a week to their landlord, the owner has the consolation of knowing that about £70 of that £100 (over the lifetime of a 25-year mortgage at 3%) still belongs to them as their mortgage debt falls and their net assets (tied up in the value of their home) rise.

## Poverty rates after housing costs

Figure 1A is drawn using BHC income because this is what UK governments have preferred, but most research uses AHC income. One reason for using the latter is the importance of housing and the fact that housing costs cannot usually be reduced without moving home. Another is that BHC income is misleading when rents rise because if rising rent leads to higher housing benefit, BHC income rises. By contrast, once the higher rent is deducted, AHC income will remain (at best) unchanged. Apart from figure 1A, all graphs in this report use the AHC income measure of low income.

To put some numbers on this, the median equivalised household income AHC in 2019/20 was £476 a week. 60% of that (£285) is therefore the poverty threshold for a couple with no children. A single adult is below the threshold if their weekly income (before equivalisation) is below £166 a week. Meanwhile, a couple with two children is below it if their weekly income (before equivalisation) is below £462 a week.<sup>9</sup>

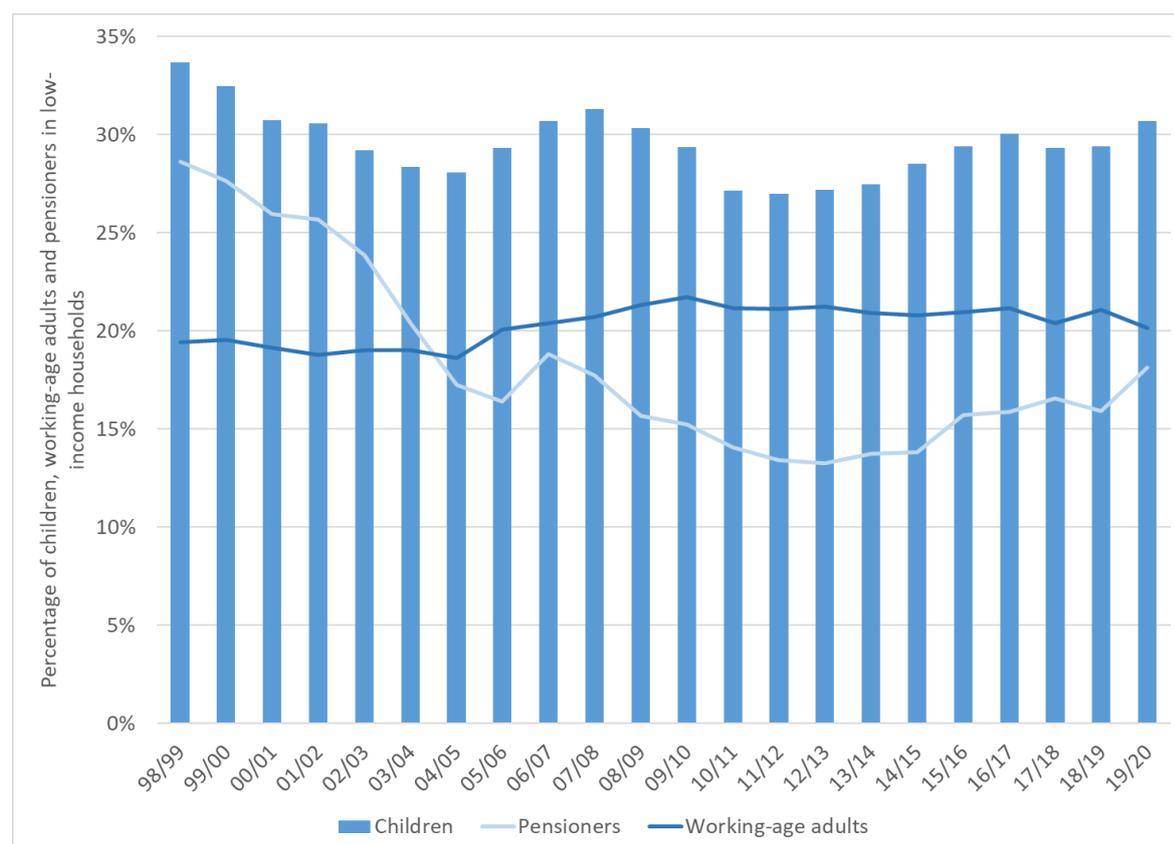
Using AHC income, the number of children in poverty was 4.3 million in both 1998/99 and 2019/20 – unambiguously now back where it was at the end of the 1990s. It was at its lowest, between 3.6 and 3.7 million, from 2010/11 to 2013/14.

Figure 1B shows the annual 'poverty rates', for children, working-age adults and pensioners, using the AHC income measure. A poverty rate is the number of people in low-income households as a percentage of the whole population group: for

example, in 2019/20, 31% of all children were living in low-income households. This rate is slightly below the 1999/00 rate, even though the number of children is the same (4.3 million) because the child population grew (by 6%) over the period.

The main difference between the pictures of child poverty presented in figures 1A and 1B is that while the pattern in both is similar, the ups and downs are usually more subdued on the AHC basis.

**Figure 1B: the percentages of children, working-age adults and pensioners in low-income households (child, working-age and pensioner ‘poverty rates’)**



Source: Households Below Average Income 1994/95 to 2019/20, tables 4.1tr, 5.1tr and 6.1tr.

The two other poverty rates in figure 1B follow different patterns from that for child poverty. The working-age rate barely moves from 20% throughout. As with child poverty, however, this is far from a sign that nothing has changed.

The pensioner poverty rate fell by more than half, from 28% at the start, to a low of 13% in 2012/13. Since then, it has risen to 18%. This report does not look into this, except to note that the rise is concentrated among single pensioners. Obvious explanations, for example to do with the value of Pension Credit, do not seem to apply. Pensioner poverty rates are still lower than they were, but the recent rise means that what was the biggest victory in the fight against poverty is now under threat.

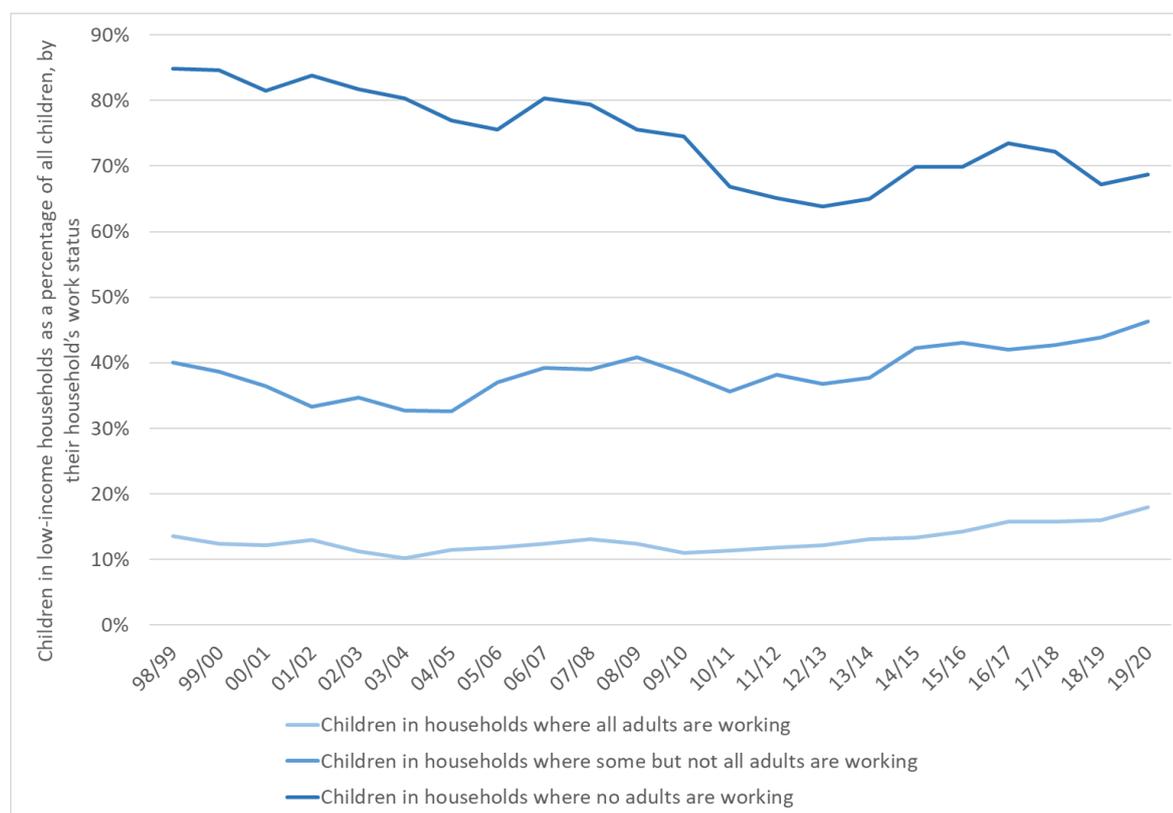
## Analysis: modern poverty

### Child poverty and working households

The first of the four aspects of poverty to be examined here is the connection between child poverty and the paid work status of the household. A household's work status can be workless (no adults are doing paid work), part-working (some adults are working and some are not) or all-working.

Figure 2A shows the child poverty rates by household work status for each year between 1998/99 and 2019/20. Taking 1999/00 as an example, it shows that in that year, 85% of children in workless households were in poverty, compared with 39% of children in part-working households and 12% of children in all-working households.

**Figure 2A: the percentage of children in low-income households, by household work status ('in-work poverty rates')**



Source: Households Below Average Income 1994/95 to 2019/20, table 4.7ts

Thinking about it from the point of view of these rates, there are two ways to reduce child poverty. One is to move a household from a group with a higher rate to one with a lower one, whether by getting workless households to work or getting all adults to work instead of just some. Over the 20-year period, the percentage of

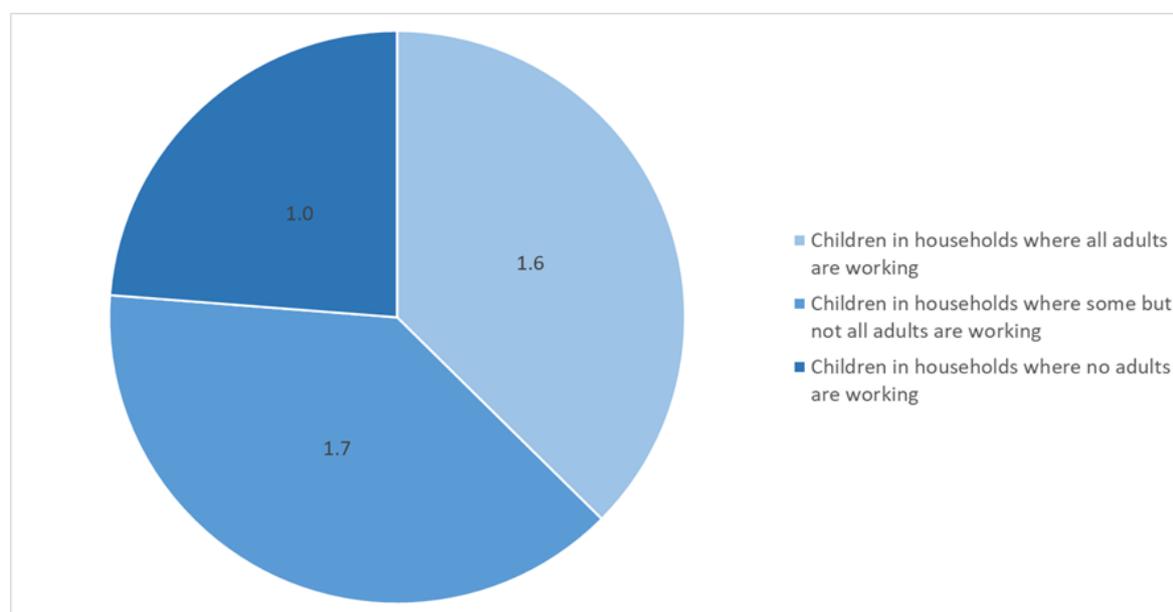
children in workless households did indeed fall, from 20% in 1999/00 to 11% in 2019/20. Progress was steady, with worklessness falling in 14 of the 20 years.<sup>10</sup>

The other way to reduce child poverty is to reduce the poverty rate within each household work status. Here, as figure 2A shows, the picture is mixed. To begin with, rates did fall, until 2004 or 2005. After that, they rose, and then fell again by 2010. Since then, the in-work poverty rates have been rising, gently but usually steadily. The rise in the all-working poverty rate, from 11% in 2009/10 to 18% in 2019/20, is especially important because of the large size of that group.

Putting the two parts of the story together shows the contrast either side of 2010. Child poverty was lower in 2009/10 than in 1999/00 because a fall in worklessness was coupled with in-work poverty rates no higher at the end of the period than at the start. By contrast, child poverty was higher in 2019/20 than in 2009/10 because a further (and indeed larger) fall in worklessness was more than offset by in-work poverty rates that were higher at the start than at the end.

Figure 2B shows that this has led to a situation where three quarters of children in poverty are now in working households (3.3 out of 4.3 million children). 1.6 million children in poverty – nearly 40% of all children in poverty – are in households where *all* adults are working. In the modern world, most child poverty is in-work poverty.

**Figure 2B: the 4.3 million children in low-income households, by the work status of adults in the household, 2019/20**



Source: Households Below Average Income 1994/95 to 2019/20, tables 4.7ts and 4.2ts

We draw two conclusions. First, a 20-year effort to reduce child poverty by getting workless households to work has been undone by rising rates of poverty among *working* households with children, from as long ago as 2005. The policy of getting

households with children into work has succeeded but the impact of that success on child poverty has been weakening.

Second, the high rates of in-work poverty – approaching 1 in 5 children in all-working households and 1 in 2 children in part-working ones – show that it is no longer possible to assert that work is either a good guarantee against poverty for the individual household or a good basis for policy against poverty in general.

Among all the numbers shown here, the most telling are those relating to child poverty in all-working households – an 18% poverty rate, accounting for 1.6 million of the 4.3 million children in poverty. When in-work poverty began to be recognised, around 2006, the focus turned to part-working households with the aim of getting the non-working adults in them to enter work. When the bulk of in-work poverty was in such households, ‘more work’ made some sense. Now that so many children in all-working households are in poverty, ‘more work’ itself now lacks a solid basis.

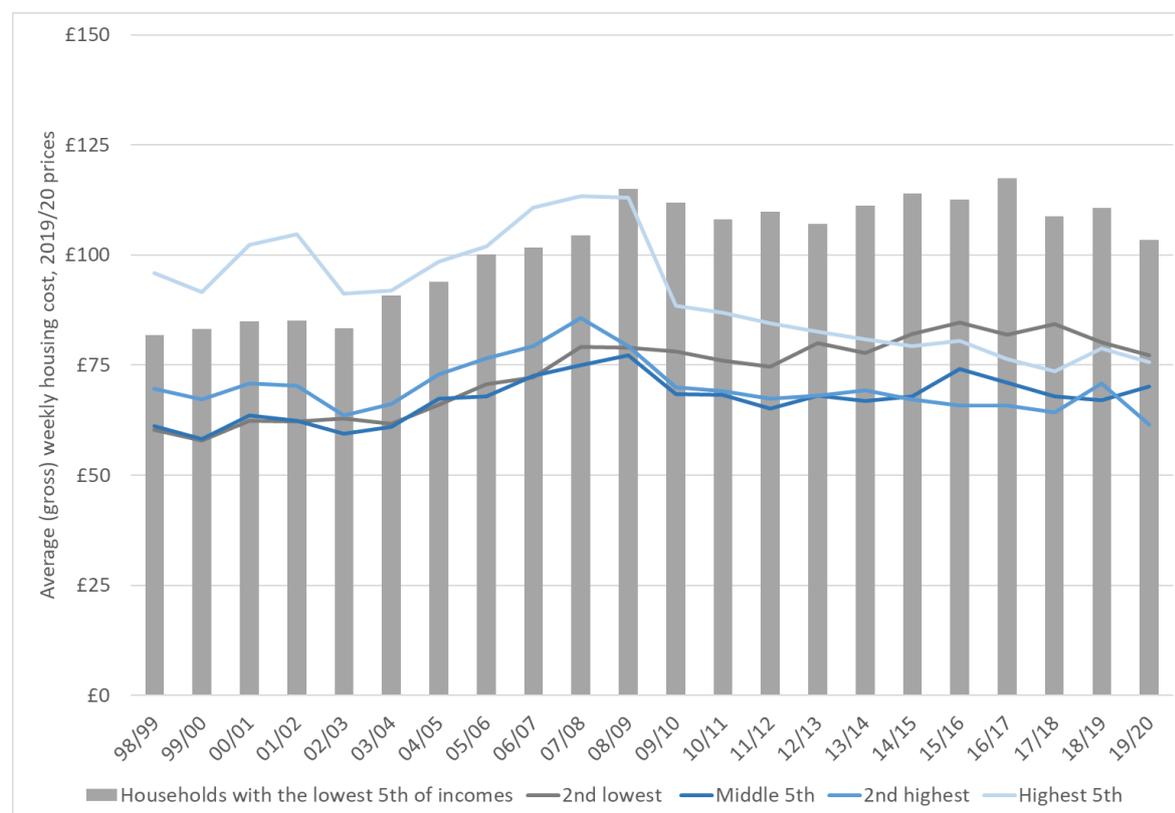
## Housing costs and housing tenure

A new, wide-ranging report on in-work poverty by the Institute for Public Policy Research (IPPR) (McNeil and Parkes, 2021) looks in detail at the housing costs of low-income households. Our research here echoes some of the IPPR’s points, the main difference lying in what we choose to emphasise in the extraordinary relationship that now exists between housing costs and household income.

Figure 3A shows the average gross weekly equivalised housing cost per household, for the nearly 28 million UK households, put into five groups (called ‘quintiles’) according to their level of AHC income, year by year since 1998/99. Costs for all years are expressed in 2019/20 prices. Rent and mortgage interest are the main elements of housing cost. Costs are ‘gross’ because no account has been taken of any help to meet them from housing benefit or universal credit (UC).

The numbers in figure 3A do have a specific meaning but what matters most is the pattern,<sup>11</sup> especially the order of the quintiles (which has the highest costs, which the second, etc), the size of differences between them, and changes over time. There are several points to note here. First, households with the lowest incomes have never (at least over the period under study) had the lowest housing costs. Although this may seem surprising, when income is measured AHC, households with higher housing costs are necessarily pushed down the income scale at every level, including into the lowest quintile. Twenty years ago, housing costs for the lowest quintile were £23 a week higher than for those in the middle quintile and £11 a week less than for those in the top quintile.<sup>12</sup> But apart from the lowest quintile, higher income quintiles tended to have higher housing costs, and vice versa.

**Figure 3A: average gross weekly equivalised housing cost per household, by household income quintile**



Source: NPI analysis of Households Below Average Income 1994/95 to 2019/20

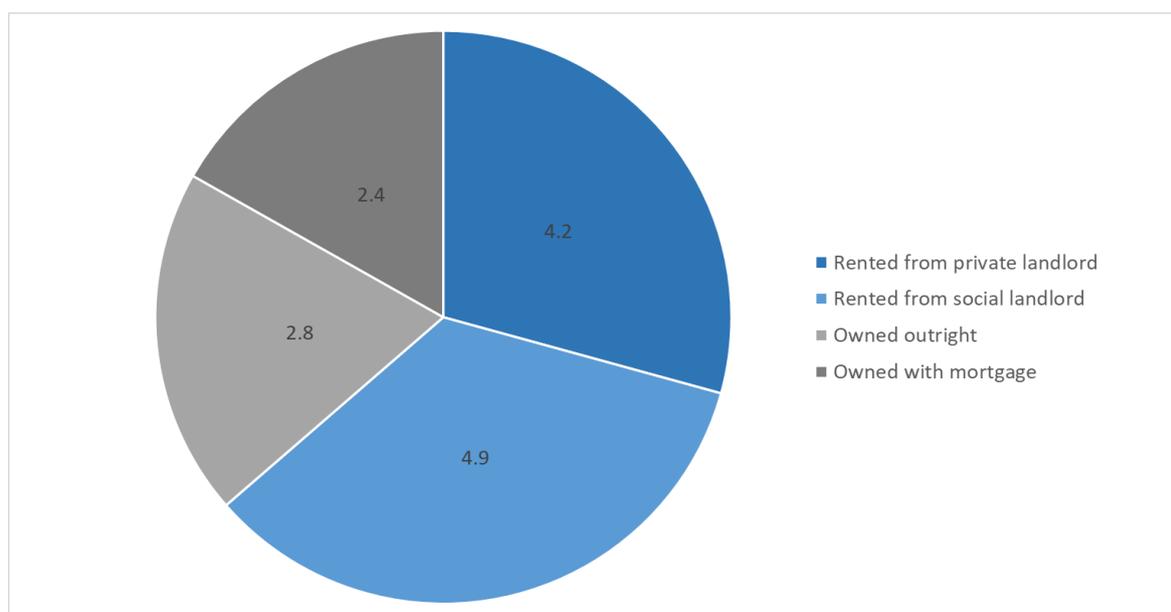
Second, starting in about 2002, housing costs began to rise steadily at all levels of income. When mortgage rates fell in the 2008 recession, housing costs fell at all levels of income too but those in the higher income groups benefitted much more than those in the lower income ones. Comparing the start and the end of the 10-year period to 2009/10, housing costs for both the lowest and second-lowest income quintiles rose by around a third, compared with a rise of a fifth for the middle quintile and virtually no change for those at the top.<sup>13</sup> After 2009/10, housing costs either held steady or drifted down, including (since 2014/15) for those with the lowest incomes. Even so, despite the clear contrast between the two periods either side of 2009/10, there was little reduction in the extent to which housing costs for those in the lowest quintile exceeded costs for those in the middle.

As a result, by the end of the whole period, not only did those with the lowest incomes have the highest housing costs (£103 a week) but those with the second-lowest incomes now had the second-highest housing costs (£77), just above those for households with the highest incomes.

The factors driving the change in housing costs over time shown in figure 3A are rising rents and falling mortgage rates, coupled with growing numbers of households

in the most expensive housing tenure (renting from a private landlord) and in the least expensive (outright ownership). The impact is shown in figure 3B, which presents the people in low-income households in 2019/20 by their housing tenure. 9.2 million rent their home, slightly more from a social landlord (34%) than a private landlord (29%). 2.8 million own their home with a mortgage – at 17%, the smallest of the four groups. Twenty years ago, 44% of those in low-income households rented from a social landlord, 15% rented privately and 24% owned with a mortgage.

**Figure 3B: the 14.4 million people in low-income households, by housing tenure, 2019/20<sup>14</sup>**



Source: NPI analysis of Households Below Average Income 1994/95 to 2019/20

Although the links between housing costs and poverty are complicated, the evidence here shows that as worklessness has retreated, high housing costs have become a bigger problem, both for low-income households and those in the second-lowest income quintile. High housing costs constrain public policy by making housing subsidies more expensive. If it was right to target worklessness in the name of poverty 20 years ago, it is right to target housing costs now.

The reason why low-income households have higher overall housing costs is a combination of: their higher costs in each tenure (see appendix 2); and a greater proportion of low-income households living in the higher-cost tenures. As noted above, the first effect is partly a consequence of measuring income AHC. We estimate that the latter, tenure-mix effect, accounts for two thirds of the difference in average housing costs between the lowest and middle quintiles.<sup>15</sup>

If housing costs are higher for tenants, why don't more tenants try to buy a home with the help of a mortgage instead of renting? The answer is that housing cost in

the form of mortgage interest is only one of the barriers to home ownership, alongside the capital that is needed, both for the deposit at the start of a mortgage and that needed to fully repay the mortgage principal by its end. Repayment of principal is a form of forced saving, not a cost, but that does not make it any less of a barrier, especially when housing costs are low and house prices high.

The picture of rising housing costs for low-income households in the years before 2010, compared with housing costs for those on middle incomes (see appendix 2) can also account for one aspect of the rising rates of in-work poverty in figure 2A. The idea that child poverty started to rise simply because the UK government put less effort into reducing child poverty after 2004 is not enough: to explain the change, there also had to be some force – a ‘headwind’ – acting to push up child poverty. Rising housing costs were that headwind against which the efforts to reduce poverty had to battle. This is in line with Hick and Lanau (2017), who see housing costs as the main factor behind change in the in-work poverty rates over time. Meanwhile, Innes (2020, p 11) shows rising housing costs to be the biggest drag on the incomes of those in the poorest fifth of the population after 2004.

Importantly, the fact that this headwind had stopped blowing after 2010 means it cannot be used as an explanation for the rise in child poverty in the past few years.

## The working-age population and ‘disability’

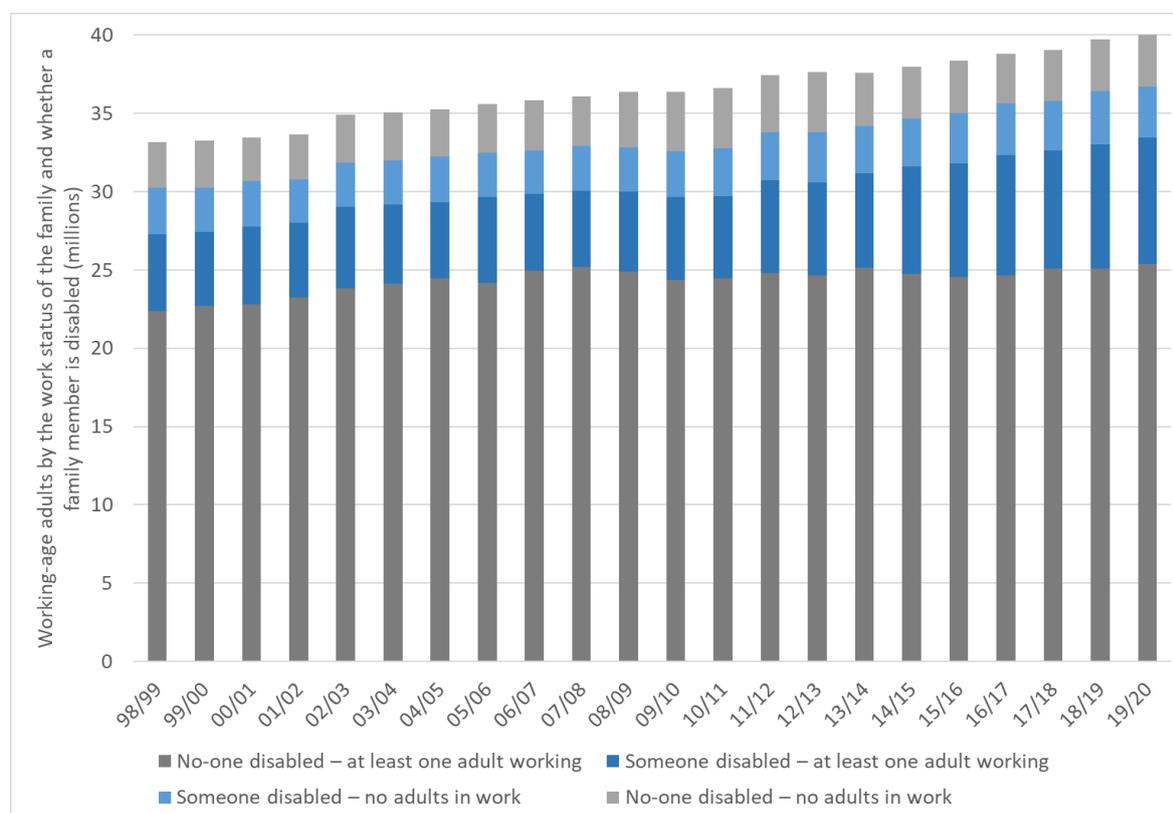
Another aspect of modern poverty is the strength of the connection between poverty and what HBAI calls ‘disability’. The way HBAI defines it – a ‘physical or mental health condition, or illness, lasting or expected to last at least a year, which limits the ability to carry out day-to-day activities’ – means that the term is to be understood as ‘disability or long-term illness’. Following HBAI, we use ‘disability’ for short, while emphasising that disability and long-term illness are not at all the same.

Figure 4A shows the total number of people of working age (not just those in poverty), split into four groups according to the work status of their family and whether their family has a disabled member or not. Across the UK, this total grew by 17% over the period, from 34 million in 1999/00 to 40 million in 2019/20. This is much bigger than the rise in the number of children (up 6%) and about the same as that for pensioners (up 16%).<sup>16</sup>

Within this total, the number of people of working age whose family includes one or more people who are disabled grew by around 50%, to reach 11.3 million in 2019/20. Most of that growth took place in the 10 years up to 2019/20, the vast majority of it (2.8 million out of a total 10-year growth of 3.1 million) being made up of working-age adults in working families.

As a result, nearly 3 in 10 working-age adults now have a family member who is disabled, up from around 2 in 10 a decade ago. Among working-age adults in working families, almost 1 in 4 have a disabled family member, up from around 1 in 6 a decade ago. These are large and rapid shifts, with implications across society.<sup>17</sup>

**Figure 4A: the number of working-age adults, by family work status and disability status (millions)**



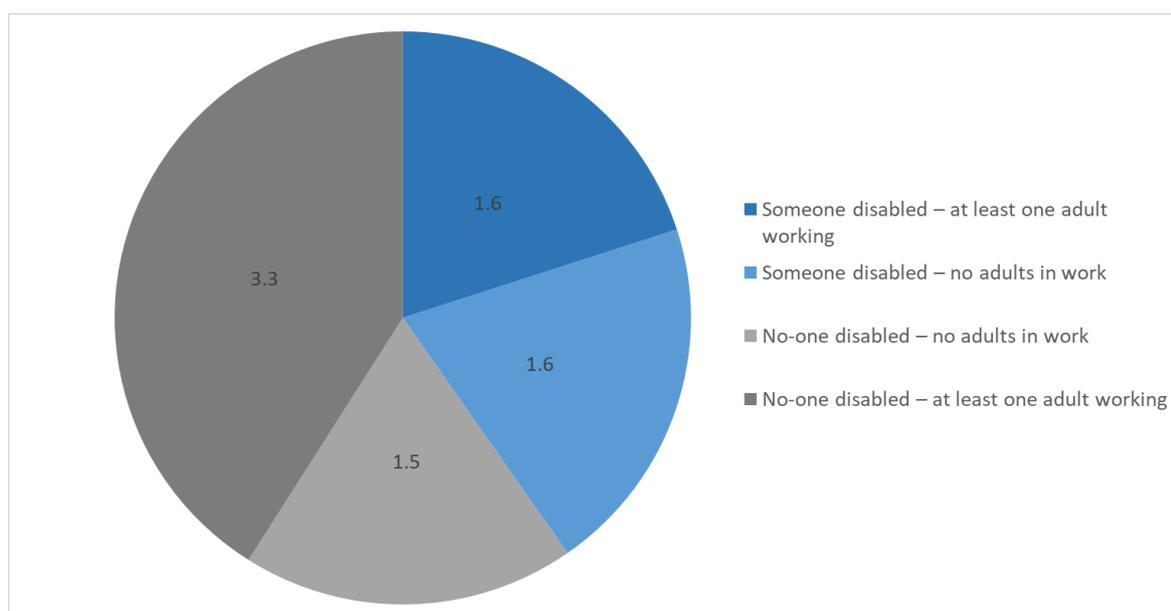
Source: NPI analysis of Households Below Average Income 1994/95 to 2019/20

It is against that background that the in-work poverty rate for those of working age with a disabled family member should be seen. Over 20 years, these rates, like the in-work poverty rates for children in figure 2A, have drifted up, from 15% to 19% for working-age adults with a disabled family member, and from 11% to 14% for those without. Coupled with a rising proportion in the sub-group with the higher rate (those with a disabled family member), these rising rates by disability status have led to an even faster rate of growth of in-work poverty overall.

Figure 4B shows that 4.9 million working-age adults in poverty in 2019/20 were in working families (61% of all working-age adults in poverty) of whom 1.6 million had a disabled family member. Meanwhile, 3.2 million working-age adults in poverty in 2019/20 had a disabled family member – almost 4 in 10 of all working-age adults in poverty.

This is an underestimate of the extent of poverty among those with a disabled family member because the mainstream poverty statistics treat the benefits paid to help meet the extra cost of disability (attendance allowance, personal independence payment and disability living allowance) as income.<sup>18</sup> Supporting statistics which exclude these benefits push up the poverty *rate* for those with a disabled family member by four percentage points.<sup>19</sup> With this adjustment, those with a disabled family member would account for more than 4 in 10 of all those of working age in poverty.<sup>20</sup>

**Figure 4B: the 8.1 million working-age adults in low-income households, by family work status and disability status, 2019/20<sup>21</sup>**



Source: NPI analysis of Households Below Average Income 1994/95 to 2019/20

The finding that so many working-age adults in low-income households have a family member with a long-term condition limiting daily activities is as important as any in this report. Counting those with either dependent children and/or a disabled family member together, we estimate that two thirds of working-age adults in low-income households face pressures on their time which may restrict the amount of paid work that they can do. The assumption behind the idea that work is the route out of poverty – that, children aside, few people of working age face real barriers to doing as much paid work as is needed to avoid poverty – is false. This in turn has implications for those parts of the social security system that are not means-tested and which are there to help meet particular needs in specific situations.

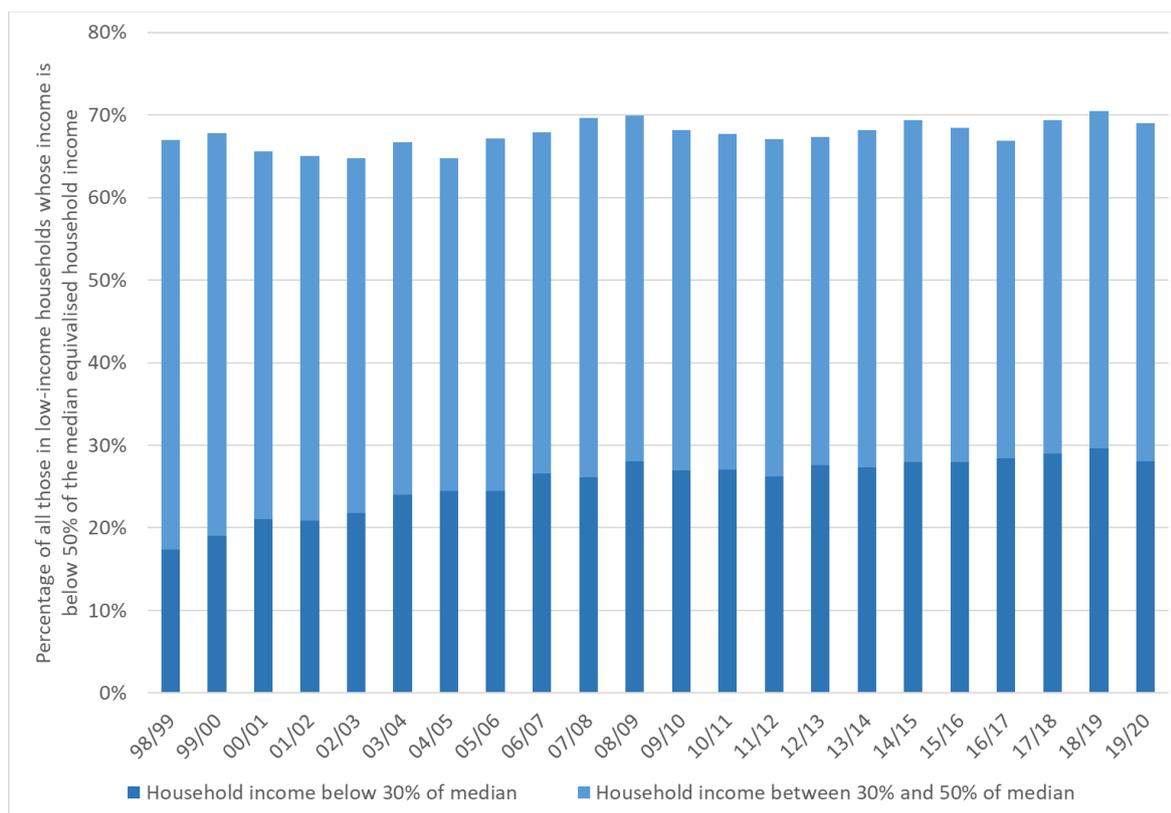
All of this before the pandemic’s toll of long-term illness is taken into account.

## ‘Deep’ poverty and household size

Measuring poverty by counting the number of people in low-income households misses the ‘depth’ of poverty, that is, the *amount* by which a household’s income lies below the poverty line. One problem with this is that changes in income which continue to leave a household below the line do not show up in the poverty count. And the deeper poverty is, the bigger the step up in income is needed to escape it.

Figure 5A shows the percentage of all those (including pensioners) in low-income households whose income is less than 50% of the median household income. We refer to this as ‘deep’ poverty. Within that total, those whose income is below 30% of the median – ‘very deep’ poverty – are shown separately. Measured like this, a household in ‘very deep’ poverty has an income less than half of that at the poverty line.

**Figure 5A: the proportion of people in low-income households in ‘deep’ poverty**



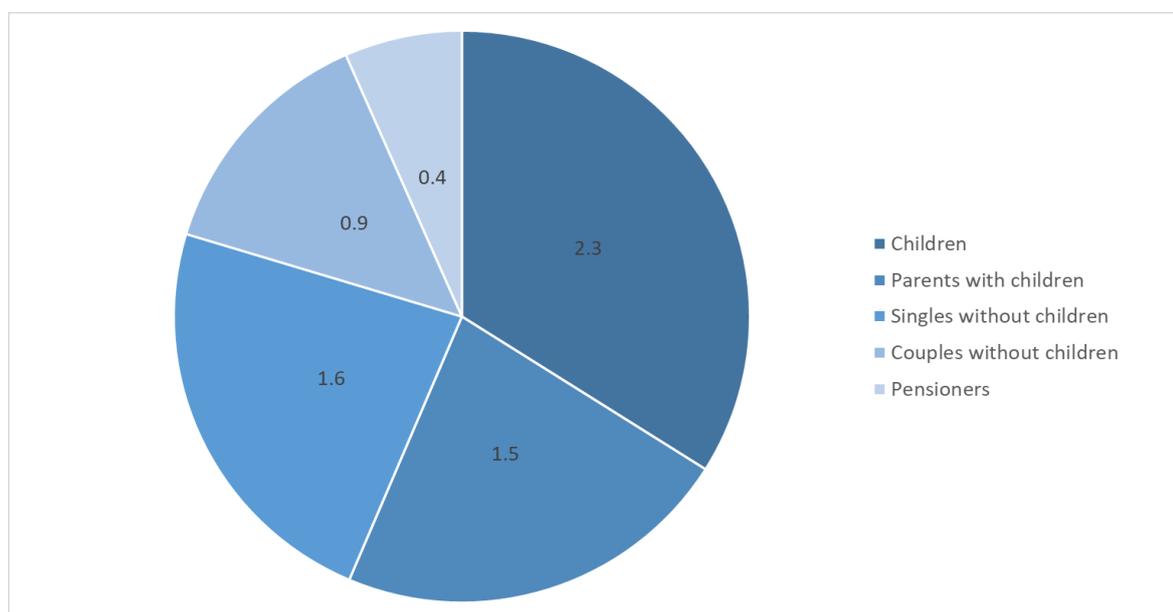
Source: NPI analysis of Households Below Average Income 1994/95 to 2019/20

Fluctuations aside, figure 5A shows almost no change in deep poverty (10.2 million people in 2019/20). This is a routinely published, and therefore visible, statistic.<sup>22</sup> But as figure 5A also shows, it is a different story beneath this threshold – the proportion of those in poverty with an income less than half that at the poverty line having

grown from just under 20% of all those in poverty to just below 30% over the period. Most of this rise had happened by 2009/10.

To convey a sense of what this means in monetary terms, figure 5B shows the 6.7 million people in deep poverty whose household income (before equivalisation) was £100 a week or more below the poverty line. That is a weekly income AHC of less than £185 for a couple with no children, £66 for a single adult and £362 for a couple with two children. Of the total, 4 million are of working age, 2.3 million are children and 0.4 million are pensioners. This is about half of all children and working-age adults in poverty but only about a fifth of pensioners in poverty.

**Figure 5B: the 6.7 million people in ‘deep’ poverty with a household income at least £100 a week below the poverty line, by family type, 2019/20**



Source: NPI analysis of Households Below Average Income 1994/95 to 2019/20

There are two conclusions. First, although ‘deep’ poverty has changed little over the years, ‘very deep’ poverty has worsened. Most of that deterioration had taken place by 2010. Second, with nearly 7 million people with a household income at least £100 a week below the poverty line, it is not enough to focus on the headline ‘people in poverty’ statistic. This ‘very deep’ poverty is largely confined to working-age families and households of all sizes, singles and couples, with or without children.

## Conclusion

### Why was the progress on child poverty lost so easily?

The two purposes of this report are to understand why progress on child poverty was slow and difficult whereas regress was quick, and to identify what must change if progress is once more to be made. While much of the report has been directly about child poverty, the centrality of in-work poverty to the argument means that its subject is really poverty in working-age households, for both children and adults.

The key to understanding why all the progress made on child poverty was so easily lost lies in what went wrong after 2004 to cause the in-work poverty rates (figure 2A) to start rising. These rates, which had received little attention until the study by Hick and Lanau (2017), are the all-important diagnostic statistics for any approach to poverty reduction that promotes work as the route to achieving that goal.

If these in-work rates are much above zero – say an average of the two rates above 7% – then even in a world where all children are in working households, the number in poverty cannot fall below a million. Back in 2000, the average was above 20%, meriting a yellow flag, which signalled that the in-work rates needed to come down substantially if the 20-year goal to end child poverty was to be realised. Figure 2A shows that, to begin with, that is what they did, coming down gently until about 2004 – at which point they began to go up again. This upturn merited a red flag.

We assume that the falling rates up to 2004, and the fall which took place after 2008, are due to policy, probably helped in 2008 by some effects of the recession. But what caused the upturn? The government ‘taking its foot off the accelerator’ on child poverty (as is sometimes said) is not enough to explain why things started going backwards. For that to happen, there needed to be a sort of ‘headwind’ blowing. Our candidate for this is rising gross housing costs, beginning in 2002, at all income levels, but rising fastest for households with the lowest incomes.

Rising housing costs did lasting damage. Although the rise in the in-work poverty rates from 2004 had been reversed by 2010, the progress in reducing child poverty by 2010 was less, and the cost to public expenditure more, than would otherwise have been the case. Although the headwind dropped after 2010, that did not bring gross housing costs down for low-income households, which remained at their new, higher level.

After 2010, with gross housing costs steady, this report has nothing to offer to disturb the assumption that the rise in the in-work poverty rates since 2014 has been due to policy choices made in the name of austerity (including housing benefit restrictions, which push up net housing costs even if gross costs are steady). Yet, even if policy

is entirely to blame for wiping out all previous progress, the fact that it could happen so easily partly reflects how that progress was less robust than it could have been.

The weakness before 2010 pales beside the rise in the in-work poverty rates from 2014 – a rise so large that the increase in child poverty since then is more than accounted for by children in working families. A rise this big and to levels approaching 20% where all adults are working and 50% where only some are, leaves the story that work is the route out of poverty lacking all credibility. Even in the best of all possible worlds, which in this story is when every child is in an all-working household, these rates would mean 2.5 million children still in poverty.

## What has changed and what needs to change?

This report has painted a picture of modern poverty as it touches children and working-age adults, and how it differs from the poverty 20 years ago. Taking its four parts together, it depicts modern poverty as a condition that is most likely to be experienced by working households, burdened by high housing costs, with family responsibilities that limit the amount of paid work they can do, and at times experiencing poverty to a depth far below the poverty line.

Of course, nothing here is wholly new: there has always been plenty of in-work poverty; low-income households have long faced higher housing costs; and long-term illness, disability and the needs of children have always been risk factors for poverty. Yet the sheer extent among those in poverty both of work (three quarters of children in poverty being in working households) and of family circumstances that may limit work (two thirds of working-age adults in poverty having a dependent child or a disabled or ill family member) means that both should now be seen as normal conditions of poverty, to be taken into account from the outset. Following the pandemic, the extent of limiting illness and disability has surely only increased.

The issue with housing costs for low-income households is more complicated because it is part of something larger, through its impact on households with higher incomes too, and because it is connected with barriers to home ownership that are not themselves costs. The fact that low-income households face the highest housing costs is an injustice. Not only do those higher costs make escaping poverty that much harder but exceptional circumstances aside, households in this situation can do little about it themselves. High housing costs now require the kind of concerted attention that worklessness received more than 20 years ago.

How can this focus, on high housing costs, illness and disability, in-work poverty and deep poverty, be achieved? Can these issues just be added to the list of things to take into consideration, or be given a higher priority? The trouble with such an approach is that the old story of 'work being the route out of poverty' is the lens

through which politicians and civil servants understand poverty and what to do about it – and yet the key features of modern poverty cannot be seen through that lens.

The problem is not just that the premise on which the story rests – that poverty is mainly a condition of workless households – is wrong. Like any successful story or ‘big’ idea, it also clarifies how a subject should be seen, picking out the things that matter from its point of view and ignoring those that don’t. As well as poverty understood as worklessness, adults in low-income households are seen as unemployed workers while social security is an instrument of employment policy.<sup>23</sup>

Modern poverty is so at odds with the old story that the exceptional and the normal have changed places. Worklessness is the exception. An adult in a low-income household who has no reason not to work full-time is the exception. The part of the social security system that does play a labour market role, universal credit, is – despite its name – but one element of it. Simplicity gives the old story an advantage. If modern poverty, marked by complexity, is to be understood, the old story must be set aside.

## **A new story told about affordable housing, social security and the complexity of modern life**

The practical expression of a new story grounded in the complexities of modern poverty is a new focus on those parts of the social security system that are not based on a means-test. These ‘other’ benefits, to help meet particular needs in specific situations, include: child benefit; personal independence payment and disability living allowance; contributory employment and support allowance; statutory maternity, adoption, paternity and sick pay; carer’s allowance; and health, industrial injury and bereavement benefits.

These benefits, the subject of no fewer than 17 chapters stretching across more than 300 pages of the Child Poverty Action Group’s inestimable *Welfare Benefits and Tax Credits* handbook, have a fair claim to being seen as the heart of *social security*. They acknowledge what the preoccupation with work does not, that we are different not just among ourselves at a point in time, but also within ourselves over time. These benefits have not been wholly ignored, but the focus on work, expressed first through tax credits and later universal credit, has long left their status diminished.

A restoration of ‘need’ in the design of benefits would also help raise the status of those often technical-sounding elements of the means-tested universal credit that also provide extra for those with particular needs. They include the disability work allowances, the limited capability for work component and the child elements.<sup>24</sup>

Two new reports from the Fabian Society (Harrop and Abey, 2021a, 2021b), which draw on the deliberations of a citizens' jury, show that increases in certain benefits can command public support, including payments for disabled people, young adults, lone parents in work, lone parents without work caring for babies and toddlers, and carers of disabled people. The reports also show how detail matters, for example, with support for the welfare state's founding principle of 'benefit in return for contribution'.<sup>25</sup> The ('real') Living Wage, based on the Minimum Income Standard (MIS), shows that sustained research reflecting public attitudes (on which the MIS is based) can exert pressure on politicians. In Scotland, where control over many of these benefits is devolved, the potential even for rapid change is considerable.

Shifting to a story about housing costs and social security creates opportunities both to press for changes which do not just benefit people in poverty and to support other, general changes which will also benefit people in poverty. One problem with 'poverty' as a concept is that however much it is said that people in poverty and out are on a continuum, the very notion of 'poverty' itself creates a binary division. A focus on social security based on need can transcend that.

So too can a focus on housing costs. Those with the lowest incomes are hit hardest by high housing costs but we are far from a world where most others are content. That is because the greater barrier to home ownership, whatever someone's income, is not the interest paid (housing cost) but access to capital, for the deposit and to pay back the sum borrowed by the end of the mortgage. With capital the problem, it is not just those with low incomes who need new forms of social ownership of housing.

One thing that does not need to be set aside is the effort to reduce in-work poverty by raising pay or improving the quality of jobs – itself an anomaly within the old story that had to be grafted on once the extent of in-work poverty was acknowledged. The discomfort that some employers feel at the realisation that some of their employees may be in poverty – in-work poverty – is a vulnerability upon which considerable pressure can be placed. A key point, though, is that in-work poverty may be a sign of a problem which does not wholly, or perhaps even mainly, lie with work itself.

With the story that work is the route out of poverty set aside, the way is open to make common cause between low-income working households and others, around the themes of affordable housing and social security sufficient to meet specific needs. We have long believed that the interests of 'working households in poverty' are the interests of the great majority. Seen this way, poverty can now be addressed through more general movements for social justice in a manner that was inconceivable the last time child poverty was at the level it is today.

## Appendix 1: Technical terms

The following is an abridged version of the 'key terminology' section of the latest Quality and Methodology Information report for HBAI (DWP, 2021b).

The identification of **disability** has changed over time. Up until 2001/02, all those who reported having a long-standing limiting illness were identified as having a disability. For the next 10 years from 2002/03, statistics were based on responses to eight, and later, nine questions about difficulties across a number of areas of life. From 2012/13, disability questions were revised, with disabled people identified as those who report any physical or mental health condition(s) or illness(es) that last or are expected to last 12 months or more, and which limit their ability to carry out day-to-day activities a little, or a lot.

**Equivalisation** adjusts incomes for household size and composition, taking an adult couple with no children as the reference point. For example, the process of equivalisation would adjust the income of a single person upwards, so their income can be compared directly to the standard of living for a couple.

A **family** is a single adult or couple living as married, and any dependent children. A couple living with their young children and an elderly parent (or an adult son or daughter who had left full-time education) would be one household but two families.

A **household** is one person living alone or a group of people (not necessarily related) living at the same address who share cooking facilities and share a living room, sitting room or dining area. A household consists of one or more families.

**Housing costs** include rent, water rates, mortgage interest payments, buildings insurance payments and ground rent and service charges.

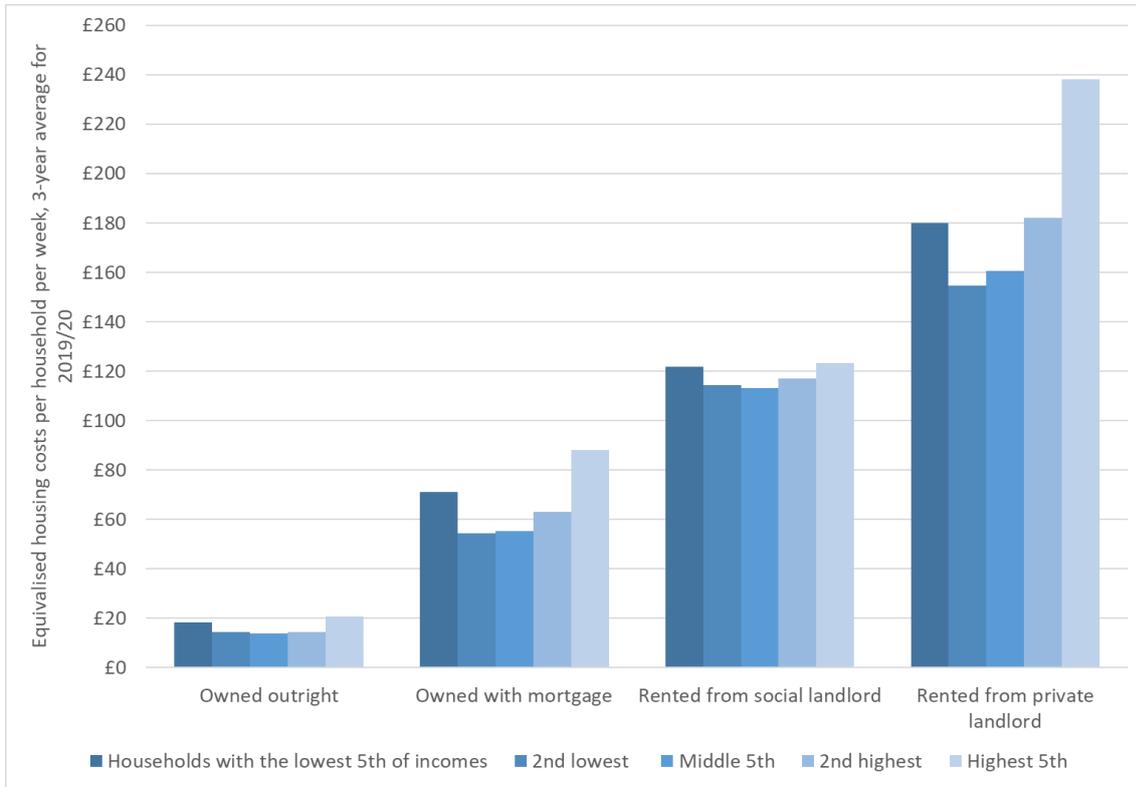
**Income** is measured as total weekly household income from all sources after tax, national insurance and other deductions. Income is 'equivalised' to make it comparable across households of different size and composition.

**Median** household income divides the population, when ranked by equivalised household income, into two equal-sized groups. The median is the value at the very middle of the distribution.

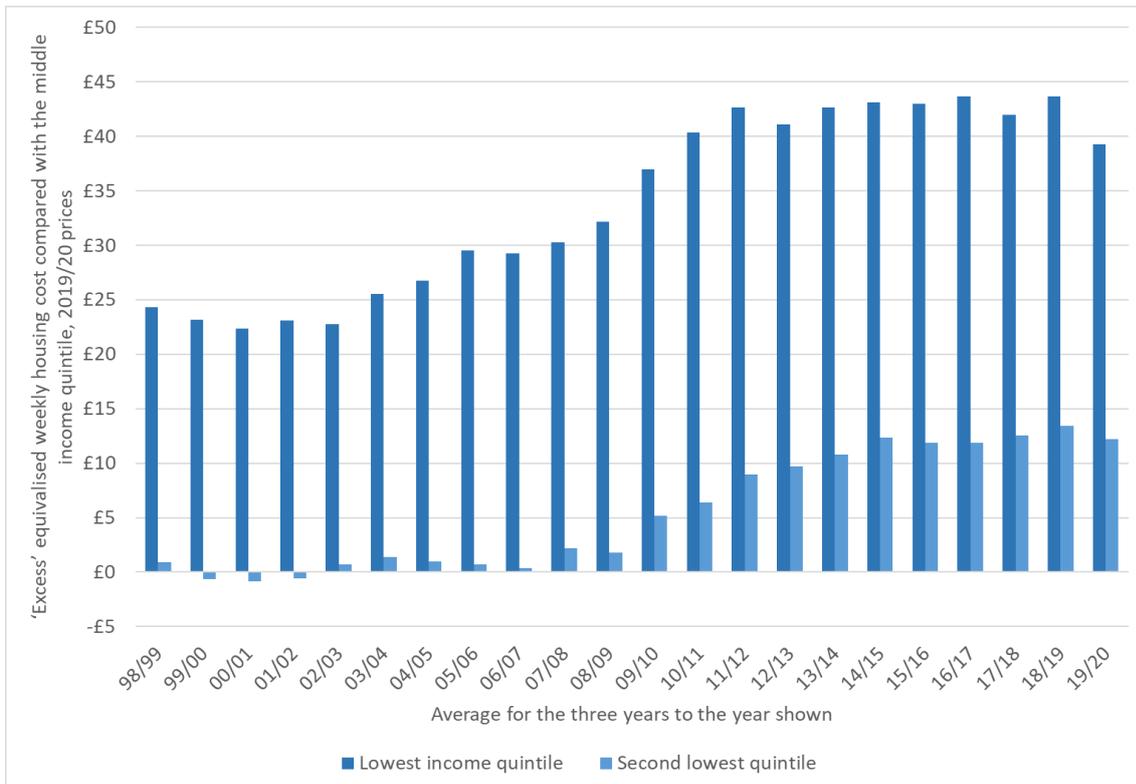
**Quintiles** are income values which divide the whole population, when ranked by household income, into five equal-sized groups. The lowest quintile describes individuals with incomes in the bottom 20 per cent of the income distribution.

## Appendix 2: Supporting graphs on housing costs

Housing costs by income quintile and housing tenure, 2019/20



Difference in housing costs compared with the middle quintile



Sources: as figure 3A

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## Endnotes

- 1 Delivered in Toynbee Hall, London, on 18 March 1999.
- 2 A story in its own right, summed up by the fact that Labour's 2001 general election manifesto (Labour Party, 2001) contained more references to 'poverty' than all of its 20th-century ones put together (as per the index in Dale, 2000).
- 3 New Policy Institute (1998)
- 4 Source: IFS (2021). From 2 million in 1984, the number of children in poverty (below 60% of median income BHC) had topped 3 million by 1990, six years later.
- 5 The numbers in figure 1A up to 2001/02 are the published numbers for Great Britain plus 100,000 for Northern Ireland. By contrast, whenever *rates* are shown in this report, no adjustment is made for the fact that up to 2001/02, the rates are strictly for Great Britain rather than the UK.
- 6 For example, 'we will work to eliminate child poverty and introduce better measures to drive real change in children's lives' (Conservative Party, 2015, p 28).
- 7 [Statement by the First Minister](#) on the Scottish Government's programme for 2014/15, 26 November 2014.
- 8 Source: DWP (2021a). The first four graphs of the report use data taken directly from the published tables. The other eight are based on NPI's own analysis of the dataset. Information on exactly which variables have been used in these eight cases is available on request.
- 9 Source: DWP (2021a, table 2.4ts).
- 10 Source: DWP (2021a, table 4.2ts).
- 11 'Equivalisation' means that the numbers shown apply to a couple household with no children. £70 (the value for the middle quintile in 2019/20) for a couple is equivalent to £47 for a single adult or £107 for a couple with a younger child and a teenager.
- 12 Measured as the average for 1998/99 and 1999/00.
- 13 Based on the two-year averages for: 1998/99 and 1999/00, 2008/09 and 2009/10; 2018/19 and 2019/20.
- 14 The numbers in this graph differ from the totals quoted because of rounding.
- 15 Housing costs were on average 48% higher for those in the lowest income quintile in 2019/20 than for those in the middle quintile. As can be seen in appendix 2, the cost difference by tenure between the bottom and the middle quintiles was much smaller than that (averaging 15%).
- 16 These totals are for the UK whereas 4A is for GB up to 2001/02 and the UK thereafter. Source: DWP (2021a, tables 4.1ts, 5.1ts and 6.1ts, with adjustments for Northern Ireland in 1999/00 from tables 4.3ts, 5.16ts and 6.3ts). The different growth rates for children and those of working age are partly due to the rise in the state pension age for women, from 60 in 2010 to 66 today, which reduced the number of pensioners aged under 65 from 1.9 million in 2009/10 to zero in 2019/20.
- 17 The definition of disability within the Family Resources Survey (the survey source for HBAI) has changed several times over the 20 years, most recently in 2012/13. As it was only after 2014/15 that the *share* of working-age people with a disabled family member started to rise quickly, this change of definition did not, of itself (through a step-change in 2012/13), contribute to the increase.
- 18 We have long believed that these benefits should not be included as income when measuring poverty. See, for example, Maclnnes and others (2013, p 28).
- 19 Source: DWP (2021a), comparing 7.1tr (27%, without the attendance allowance/disability living allowance/personal independence payment adjustment) and 7.3tsn (31% with it).
- 20 The Social Metrics Commission (2020), which measures poverty in a different way, estimates that half of those in poverty live in a family that includes a disabled person.
- 21 The numbers in this graph differ from the totals quoted because of rounding.
- 22 Beyond the 50% threshold, a number of different measures of deep/very deep poverty are in use. For example, Edmiston and Thakkar (2021) use the bottom decile. It is always right to treat deep numbers with caution but we can be confident about slowly moving but stable long-term trends.
- 23 By this logic, a department of social security should be submerged within a department of employment, which is what happened in 2001 when the former Department of Social Security was swallowed up by the new Department for Work and Pensions.
- 24 For example, the Disability Benefits Consortium (2020) provides a wide-ranging view of what is needed here. Stewart and others (2021) highlight the needs of larger families.
- 25 A significant detail in the Fabians report (Harrop and Abey, 2021b) is that the value of this benefit should not be flat-rate (as with 'new-style' Jobseeker's Allowance), but linked to earnings.