



HOUSE OF LORDS

Library Note

Debate on 11th March: The National Minimum Wage and Poverty

This Library Note aims to provide background reading for the debate to be held on 11th March:

“The impact of the National Minimum Wage on household and individual poverty”

This Note examines the history and development of the National Minimum Wage since its introduction in 1999, and its effect on earnings, the economy, and groups within society. The Note then examines levels and trends in poverty since the election of the Labour Government and the subsequent introduction of the National Minimum Wage.

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Table of Contents

1. Introduction	1
2. The History and Evolution of the National Minimum Wage.....	1
2.1 The Low Pay Commission and the rates of the National Minimum Wage.....	2
2.2 The Impact of the National Minimum Wage	3
2.3 The Impact of the National Minimum Wage on Pay/Earnings	5
2.4 The Impact of the National Minimum Wage on the Economy	5
2.5 The Impact of the National Minimum Wage: By Gender, Age and Ethnicity	7
3. Measuring Poverty	10
3.1 Cycles of poverty, unemployment and low pay—report from the Joseph Rowntree Foundation.....	15

1. Introduction

2009 saw the 10 year anniversary of the introduction of the National Minimum Wage. Established by the National Minimum Wage Act 1998, and introduced in April the following year, the National Minimum Wage was the first UK wide initiative to establish a statutory entitlement for all employees to receive a minimum rate of pay (expressed at hourly rate and as defined by the Government). According to the then (and now interim) Chairman of the Low Pay Commission Professor Sir George Bain, the introduction of the National Minimum Wage heralded:

A fundamental change to the labour market in the UK. There will be a floor to wages in the first time in this country, eradicating the worst cases of exploitation.¹

This Note examines the development of the National Minimum Wage with regard to the forthcoming debate in the House of Lords on 'the impact of the National Minimum Wage on household and individual poverty'. Accordingly, the contents of this paper are effectively divided into two main sections. The first examines the history and evolution of the National Minimum Wage since its introduction, including the work of the Low Pay Commission and changes to the National Minimum Wage which have taken place since that time. It also examines the effect of the National Minimum Wage on the economy, earnings and different groups within society, with particular regard to comparative rates of pay and equality.

The second section of this paper examines measurements and trends in poverty since the introduction of the National Minimum Wage in 1999. It is worth noting here however that, as pointed out below, the causes of poverty are both multiple and complex. Therefore this Note does not attempt to draw or infer any conclusions on the impact of the National Minimum Wage on household and individual poverty, merely to highlight trends which have taken place over this period according to recognised poverty indicators.

2. The History and Evolution of the National Minimum Wage

The National Minimum Wage was introduced to the United Kingdom by the Labour Government in April 1999, fulfilling a pledge made in its 1997 General Election Manifesto. With regard to introducing a "sensibly set national minimum wage" the Manifesto stated:

There should be a statutory level beneath which pay should not fall—with the minimum wage decided not on the basis of a rigid formula but according to the economic circumstances of the time and with the advice of an independent low pay commission, whose membership will include representatives of employers, including small business, and employees.

Every modern industrial country has a minimum wage, including the US and Japan. Britain used to have minimum wages through the Wage Councils. Introduced sensibly, the minimum wage will remove the worst excesses of low pay (and be of particular benefit to women), while cutting down some of the

¹ Low Pay Commission Press Release (1st April 1999):
http://www.lowpay.gov.uk/lowpay/press/news01_04_99.shtml.

massive £4 billion benefits bill by which the taxpayer subsidises companies that pay very low wages.²

Introducing the Second Reading of the Minimum Wage Bill in the House of Commons on 16th December 1997, the then Secretary of State for Trade and Industry, Margaret Beckett, said:

I am proud to be able to stand before the House today moving the Second Reading of the National Minimum Wage Bill. The Bill will introduce, for the first time in the United Kingdom, minimum wage protection for all workers and will begin to end the scandal of poverty pay.³

2.1 The Low Pay Commission and the rates of the National Minimum Wage

The levels at which the National Minimum Wage is set are decided upon by the Government, following recommendations made by the Low Pay Commission (LPC)—an independent statutory non-departmental public body set up under the National Minimum Wage Act 1998. The remit of the LPC is set each year by Government, but its core role is to provide advice and make recommendations on the NMW, taking into account the impact of the minimum wage on the economy.⁴

The current levels of the National Minimum wage are £5.73 for those 22 and over, £4.77 for those aged 18 to 21, and £3.53 for those aged 16 and 17. The rate of the NMW has been increased every year since its introduction, and the most recent report from the Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2009*, provides the following illustration of how these rates have changed over time:

The Evolution of the National Minimum Wage

	Age 22 and over		Age 18–21		Age 16–17	
	NMW	Change (%)	NMW	Change (%)	NMW	Change (%)
Apr 1999–May 2000	£3.60		£3.00			
Jun 2000–Sep 2000	£3.60	0.0	£3.20	6.7		
Oct 2000–Sep 2001	£3.70	2.8	£3.20	0.0		
Oct 2001–Sep 2002	£4.10	10.8	£3.50	9.4		
Oct 2002–Sep 2003	£4.20	2.4	£3.60	2.9		
Oct 2003–Sep 2004	£4.50	7.1	£3.80	5.6		
Oct 2004–Sep 2005	£4.85	7.8	£4.10	7.9	£3.00	
Oct 2005–Sep 2006	£5.05	4.1	£4.25	3.7	£3.00	0.0
Oct 2006–Sep 2007	£5.35	5.9	£4.45	4.7	£3.30	10.0
Oct 2007–Sep 2008	£5.52	3.2	£4.60	3.4	£3.40	3.0
Oct 2008–	£5.73	3.8	£4.77	3.7	£3.53	3.8

Source: Low Pay Commission

² I Dale (ed), *Labour Party General Election Manifestos 1900–1997* (2000).

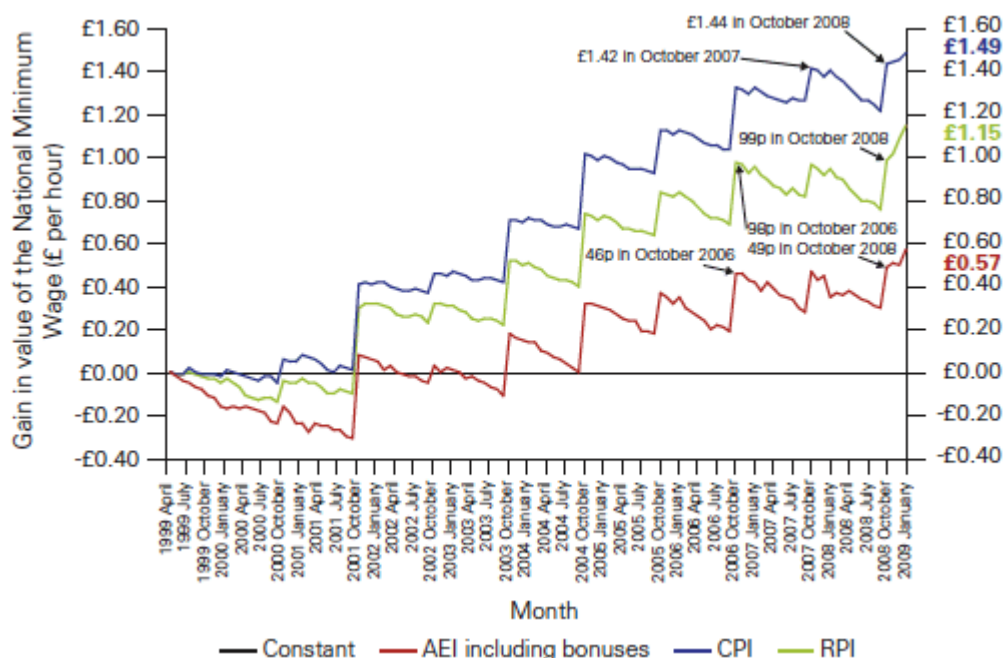
³ HC *Hansard*, 16th December 1997, cols 162–239:

<http://hansard.millbanksystems.com/commons/1997/dec/16/national-minimum-wage-bill>.

⁴ <http://www.berr.gov.uk/deliverypartners/delivering/page41859.html>.

When compared to both average earnings and prices (both according to the Retail Price Index and the Consumer Price Index), the NMW has increased substantially faster than either measure since its introduction, and particularly since 2001.⁵ This growth trend is exemplified by the following illustration from the Low Pay Commission report 2009:

Increases in the Real and Relative Value of the Adult National Minimum Wage, 1999–2009



Source: LPC estimates based on ONS data, AEI including bonuses (LNMQ), RPIX (CHMK), RPI (CHAW) and CPI (D7BT), monthly, seasonally adjusted (not seasonally adjusted for RPI and CPI), UK (GB for AEI), 1999–2009.

However, the Government evidence cited above also pointed out:

Reflecting a cautious approach, the NMW was initially set at a relatively low level and therefore increases above inflation and average earnings may have been expected in its early years.⁶

2.2 The Impact of the National Minimum Wage

Upon its introduction the Government estimated that the National Minimum Wage would benefit 1.2 million workers.⁷ In December 2009, Business, Innovation and Skills Minister Pat McFadden provided the following figures on how many job holders had benefited from increases in the NMW in comparison to that estimate:

⁵ Department for Business, Innovation and Skills, *Government Evidence to the Low Pay Commission on the Economic Effects of the National Minimum Wage* (January 2010), p 16.

⁶ *ibid*, p 16.

⁷ House of Commons Library, *National Minimum Wage Statistics* (1st October 2008), SN/EP/4145.

Table 1: Job holders benefiting from the annual October increases in the national minimum wage

	Number (million)
1999 ⁽¹⁾	1
2001 ⁽²⁾	1.3
2003	0.9
2004	1.1
2005	0.9
2006	1.2
2007	0.9
2008	1.0
2009 ⁽³⁾	1.0

- (1) Figures for 1999, take earnings inflation into account, those earning between £3.50 and £2.90 in spring 1998 would benefit from the NMW introduction in April 1999.
 (2) Figures for 2001, take earnings inflation into account, those earning beneath £3.40/£4.00 and £3.50/£4.10 in spring 2001 would benefit from the October 2001 increase.
 (3) Figures between 2003 and 2009 take into account earnings inflation. *Source:* BIS estimates using Annual Survey of Hours and Earnings (ASHE) and Annual Earnings Index (AEI); Office for National Statistics

Source: HC Hansard, 8th December 2009, cols 341–43W

With regard to how many occupations are currently paid the NMW (following the October 2009 uprating), the number of occupations paying under the NMW, and how those trends have changed over time, the 2009 Low Pay Commission report provides the following data:

Jobs Held by Adults (Aged 22 and Over) Paying Below the Existing National Minimum Wage and the Forthcoming National Minimum Wage, UK, 1999–2008

Data year (April)	Adult minimum wage rate (in April) (£)	Number of jobs held by adults paying less than the adult rate in April (000s)	Percentage of jobs held by adults paying less than the adult rate in April	Number of jobs held by adults paying the adult rate (ten pence band) in April (000s)	Percentage of jobs held by adults paying the adult rate (ten pence band) in April	Forthcoming October adult minimum wage rate (£)	Number of jobs held by adults in April paying less than the forthcoming October rate (000s)	Percentage of jobs held by adults in April paying less than the forthcoming October rate
1999	3.60	460	2.1	723	3.3	3.60	458	2.1
2000	3.60	190	0.9	551	2.5	3.70	746	3.3
2001	3.70	210	0.9	394	1.8	4.10	1,326	5.9
2002	4.10	290	1.3	630	2.8	4.20	920	4.1
2003	4.20	210	0.9	445	2.0	4.50	1,022	4.5
2004	4.50	230	1.0	558	2.5	4.85	1,399	6.2
2004	4.50	233	1.0	408	1.8	4.85	1,209	5.3
2005	4.85	233	1.0	484	2.1	5.05	1,147	5.0
2006	5.05	239	1.0	544	2.4	5.35	1,289	5.6
2006	5.05	238	1.0	544	2.4	5.35	1,289	5.6
2007	5.35	231	1.0	696	2.9	5.52	1,215	5.1
2008	5.52	224	0.9	734	3.1	5.73	1,263	5.3

Source: ONS central estimates using ASHE without supplementary information and LFS, UK, 1999–2004; LPC estimates using ASHE with supplementary information, low-pay weights, UK, 2004–2006; and ASHE 2007 methodology, low-pay weights, UK, April 2006–2008. Note: Prior to 2004, all our analyses were conducted in ten pence pay bands using the ONS central estimate methodology. In contrast to elsewhere in this report, where five pence pay bands are used, we use ten pence pay bands in this table.⁸

⁸Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2009* (2009), p 25: <http://www.lowpay.gov.uk/lowpay/report/pdf/7997-BERR-Low%20Pay%20Commission-WEB.pdf>.

2.3 The Impact of the National Minimum Wage on Pay/Earnings

Expanding upon the figures cited above regarding the rises which have taken place in the NMW since 1999, and in comparison with the consumer and retail price indices, Government evidence to the Low Pay Commission from January 2010 gives the following assessment of the impact of the NMW on pay and earnings:

Average earnings have consistently risen faster than prices since 1999 and the NMW has increased faster than average earnings. In real terms the value of the adult NMW has risen by a third when deflated by consumer prices, and by around a quarter when deflated by retail prices.

Over the last year the adult NMW has increased in nominal terms by around 1.2 per cent. As prices have been falling, this represents a real rise of 2.0 per cent, when deflated by retail prices, but a real fall of 0.3 per cent when deflated by consumer prices.

The NMW as a percentage of the median wage—known as the ‘bite’—is now around 50.8 per cent, an increase of around five percentage points since 1999. As the NMW wage has risen, an increasing proportion of the working population are earning wages near the statutory minimum.⁹

The evidence provided by the Government also argues that the NMW has not only benefited the bottom few per cent of employees, but through an ‘upward ripple’ effect it has also influenced the pay scales above the NMW, with employees in lower income brackets receiving larger percentage pay increases than those at the middle or top end.¹⁰ This is echoed in research undertaken by Dickens, Riley and Wilkinson (2009) which found that the strongest wage growth in the period 2001–2006 was in the lower percentiles the wage distribution.¹¹

2.4 The Impact of the National Minimum Wage on the Economy

When the NMW was first introduced some observers, including the former Shadow Secretary of State for the Department of Trade and Industry, John Redwood, suggested that it could have a detrimental impact upon the economy, particularly in terms of rates of employment (as smaller employers in particular struggled to pay the NMW for example and thus laid off or recruited fewer staff) and number of hours worked by employees, particularly in part-time occupations (as the numbers of hours available to work were cut by employers).¹² More recently Conservative MP Christopher Chope tabled a Private Member’s Bill in the House of Commons in February 2009 proposing the amendment of National Minimum Wage legislation in light of the current economic climate, which would allow for workers to be able to ‘opt out’ and accept a wage less than the national minimum. Introducing the Bill on the floor of the House, Christopher Chope (who represents the Christchurch parliamentary constituency) said:

⁹Department for Business, Innovation and Skills, *Government evidence to the Low Pay Commission on the economic effects of the National Minimum Wage* (January 2010), p 4.

¹⁰*ibid*, p 23.

¹¹R Dickens, R Riley and D Wilkinson, *The Employment and Hours of Work Effects of the Changing National Minimum Wage*, Research Report for the Low Pay Commission, Centre for Economic Performance, London School of Economics, University of Sussex and National Institute of Economic and Social Research, (2009).

¹²HC *Hansard*, 16th December 1997, cols 162–239:

<http://hansard.millbanksystems.com/commons/1997/dec/16/national-minimum-wage-bill>.

In Christchurch, unemployment has more than doubled in one year, with very few job vacancies now available. Few would dispute that everything that possibly can be done must be done to create new job opportunities for our fellow citizens. My Bill, by restoring rights to work that have been taken away by this Government, would boost employment.

Giving people the freedom to opt out of the minimum wage would help not only those who are out of work but those in the hard-pressed retail and hospitality sectors where businesses are going down like ninepins.¹³

The Low Pay Commission asserts however that over the period of the NMW the labour market has largely “fared well”, with employment rising from 27.04 million in April 1999, to 29.50 million in April 2008, an annual rate of growth of approximately one per cent. The report’s authors do acknowledge however that this has been affected by the recent economic climate and recession, with a fall in employment of 0.5 per cent between May 2008 and January 2009 (29.54 million to 29.38 million).¹⁴ According to the most recent figures available from the Office of National Statistics—published on the 17th February 2010—the number of people currently in employment is 28.91 million.¹⁵ However, Government evidence to the Commission from January this year asserts that even in the recent economic climate the NMW has not adversely affected employment rates:

UK academic research to date has not found evidence that the adult NMW has had a significant adverse effect on employment. There has been a slight decline in the share of UK employment in low-paying sectors since 1999 but there is no evidence that this is the result of the NMW and the trend actually predates its introduction. In addition, there is also no evidence that the NMW has hindered low paying sectors in coping with the economic downturn. Jobs have fallen by less in the low paying sectors than in the economy as a whole.¹⁶

The Low Pay Commission also suggests that there was little evidence to suggest that increases in the minimum wage had led to a reduction in hours worked, or to changes in productivity, though the Commission did suggest that there was some evidence that profits may have been “squeezed”.¹⁷ Overall however, the report’s authors conclude that the minimum wage has and continues to exert a “benign influence” on the economy, despite recent economic conditions.¹⁸

¹³HC *Hansard*, 10th February 2009, col 1256:

<http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090210/debtext/90210-0004.htm>.

¹⁴Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2009* (2009), p 38.

¹⁵Office of National Statistics, *Unemployment Rates* (17th February 2010): <http://www.statistics.gov.uk/cci/nugget.asp?ID=12>.

¹⁶Department for Business, Innovation and Skills, *Government Evidence to the Low Pay Commission on the Economic Effects of the National Minimum Wage* (January 2010), p 4.

¹⁷Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2009*, (2009), p xiii.

¹⁸*ibid*, p 17.

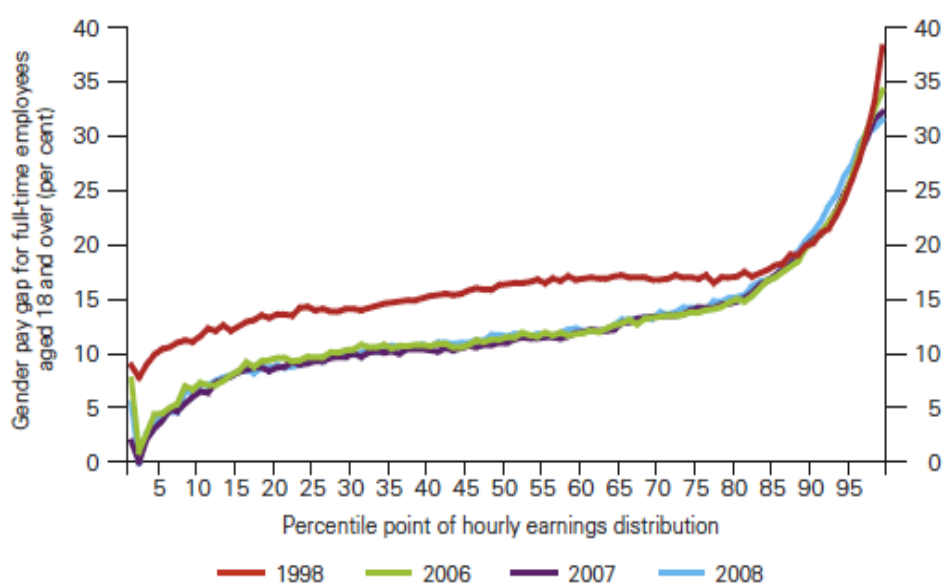
2.5 The Impact of the National Minimum Wage: By Gender, Age and Ethnicity

The following section briefly examines the effect of the National Minimum Wage on different groups within society, according to gender, age, and ethnicity.

Gender

Women are more likely to be low-paid than men, and more likely to work in low paying sectors.¹⁹ However, both the Low Pay Commission report and the Government evidence to the Commission from this year claim that the NMW has helped to reduce the gender inequality gap, arguing that more women than men have been lifted onto a higher wage rate since the introduction of the National Minimum Wage in 1999. This is demonstrated by the chart below from the 2009 Low Pay Commission Report:

Hourly Gender Pay Gap, by Percentile, Full-time Workers Aged 18 Years and Over, UK, 1998 and 2006–2008



Source: LPC estimates based on ASHE without supplementary information, April 1998, and ASHE 2007 methodology, April 2006–2008, low-pay weights, UK. Note: Direct comparisons before and after 2004 and those before and after 2006, should be made with care due to changes in the data series.

The Low Pay Commission report further highlights that, as a result of the prevalence of women in part-time roles as well as low-paying sectors, the NMW arguably plays a more important role and has a greater impact upon raising women's earnings in comparison to those of men.²⁰

¹⁹ *Ibid*, p 98.

²⁰ Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2009*, (2009), p102.

Ethnic Minorities

The Low Pay Commission point out that the earnings of workers from ethnic minority backgrounds are, on average, lower than the earnings of white workers. However the Commission suggests that the NMW has helped to significantly reduce the pay gap amongst the lowest income groups since its introduction, as exemplified in the chart below:

Pay Gap between White and Ethnic Minority Workers, UK, 1998 and 2008



Source: LPC estimates based on LFS Microdata, not seasonally adjusted, UK, spring seasonal quarter 1998 and Q2 calendar quarter 2008.

In its evidence to the Low Pay Commission, the Equality and Human Rights Commission (EHRC) also concluded that the ethnic minority pay gap has improved since the introduction of the NMW.²¹ However, the relative earnings of different ethnic minority groups remains distinctly different, with those from the Pakistani or Bangladeshi communities for example more likely to be unemployed or in jobs paying less than the adult minimum wage compared to those from Indian or Black ethnic groups.²² The Low Pay Commission also recognises that though ethnic minorities have seen faster improvements than their white counterparts, the employment and unemployment gaps had been closing since before the introduction of the NMW.²³

Age

The Low Pay Commission suggests that age is “arguably the most important distinguishing factor” with regard to the minimum wage.²⁴ Not only is it the only factor by which the NMW varies (in terms of the rate paid), but both young people and older workers each face distinctive challenges in the labour market, and are likely to be more vulnerable as a result.²⁵

The Low Pay Commission asserts that the minimum wage has had a positive impact on the earnings of older workers, with no evidence of an adverse effect on their employment prospects. They point to the rise in employment rates for those over state retirement age, as exemplified by the chart below:

²¹ *ibid*, p 102.

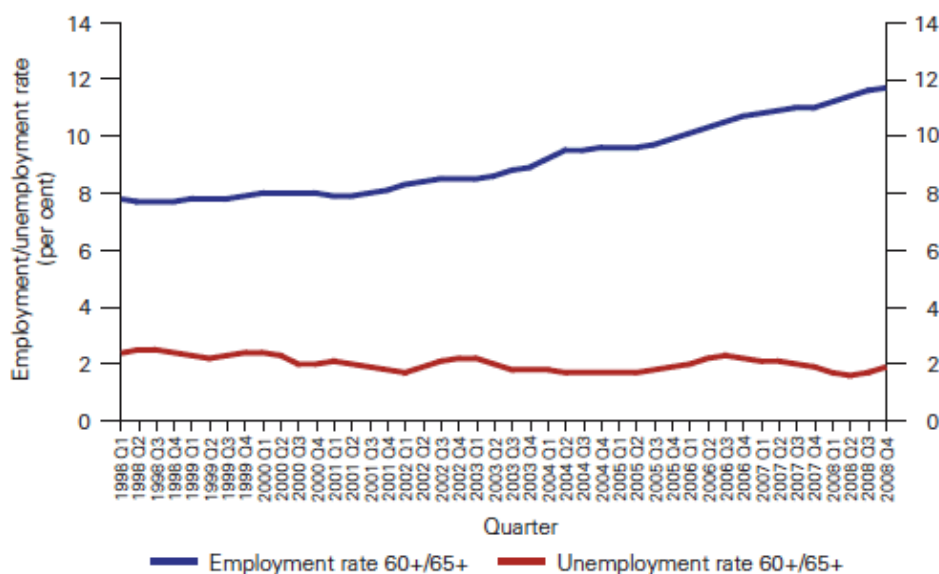
²² *ibid*, p 104.

²³ *ibid*, p 105.

²⁴ *ibid*, p 115.

²⁵ *ibid*, p 116.

Employment and Unemployment Rates for Workers Over State Pension Age, UK, 1998–2008.



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2008.

The relationship between the NMW and younger workers is perhaps more complicated. As the Low Pay Commission points out, young people often lack experience in the workplace and are therefore more likely to be on lower earnings than older workers, and they are also more likely to gain employment in low-paying sectors than their older counterparts. The result, the Commission reports, is that high proportions of young people in employment are paid at the youth and adult minimum wage rates.²⁶

The labour market position of young people has worsened in recent years. However both the Low Pay Commission and the Government argue that this is not the result of a detrimental impact of the NMW. The Commission suggest that is difficult to distinguish between a possible impact from the minimum wage and that from the recession, and that younger workers are particularly vulnerable in an economic downturn. The Commission concludes that lower National Minimum Wage rates for young people are still justified, in order to protect employment and at the same time reflect the training element attached to younger workers.²⁷

²⁶ *ibid*, p 148.

²⁷ In its 2009 report, the Commission also recommended that the starting age for the adult NMW should be 21 (in comparison with 22 currently). This has been accepted by the Government, who have committed to moving 21 year olds onto the adult rate in October 2010; Department for Business, Innovation and Skills, *Government evidence to the Low Pay Commission on the economic effects of the National Minimum Wage* (January 2010), p 33.

3. Measuring Poverty

As stated at the beginning of this paper, the causes of poverty are multiple and complex, therefore this section is an examination of levels and trends in poverty over the period during which the National Minimum Wage has been in force, but intentionally draws or infers no conclusions regarding the impact of the NMW on either individual or household poverty.

A month before the NMW came into force, in his Beveridge Lecture in March 1999, the then Prime Minister, Tony Blair said that tackling poverty, particularly amongst families with children, would be a key element of the Labour Government's policy agenda.²⁸ In *Poverty and Inequality in the UK: 2009*, commentators from the Institute for Fiscal Studies examine how the extent and levels of poverty have changed since that announcement, and the election of the Labour Government in 1997. It provides the following summary of current levels of poverty in the UK (according to the most recently available figures), and how it has changed over different periods of the Labour administration:

In the UK in 2007–08, there were 13.5 million individuals in relative poverty measuring incomes after housing costs (AHC) and 11.0 million measuring them before housing costs (BHC), using a poverty line equal to 60% of median income. On this indicator, between 1998–99 and 2004–05, Labour oversaw the longest decline in poverty since the start of our consistent time series in 1961. However, this decline in poverty came to an end in 2004–05, and poverty has now risen for three consecutive years.

Between 2006–07 and 2007–08, poverty rose by 300,000 measuring incomes BHC and 200,000 measuring incomes AHC, or both by 0.3 percentage points. Combining these with rises in the two previous years means that since 2004–05, poverty has risen by 1.0 million or 1.3 percentage points (BHC) and by 1.4 million or 2.0 percentage points (AHC).²⁹

These trends are further exemplified in the charts below, also taken from the IFS report.³⁰

²⁸Tony Blair, Beveridge Lecture, Toynbee Hall, London, 18th March 1999:

<http://www.independent.co.uk/news/pledge-by-pm-to-end-child-poverty-1081256.html>

²⁹Bevan, M., Muriel A., Phillips, D. and Sibieta, L. (2009) *Poverty and Inequality in the UK: 2009*, Institute for Fiscal Studies.

³⁰*ibid*, p 23.

Figure 4.1a. Relative poverty: percentage of individuals in households with incomes below various fractions of median income (AHC)

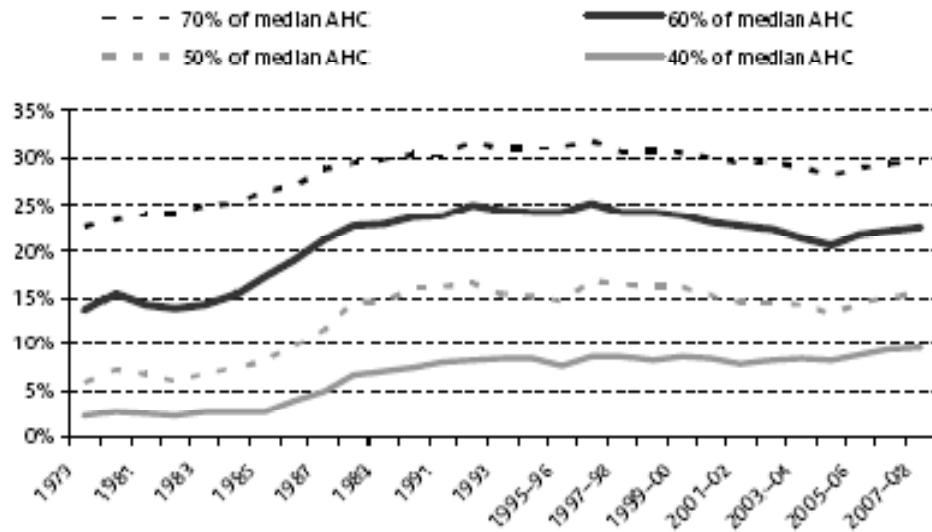
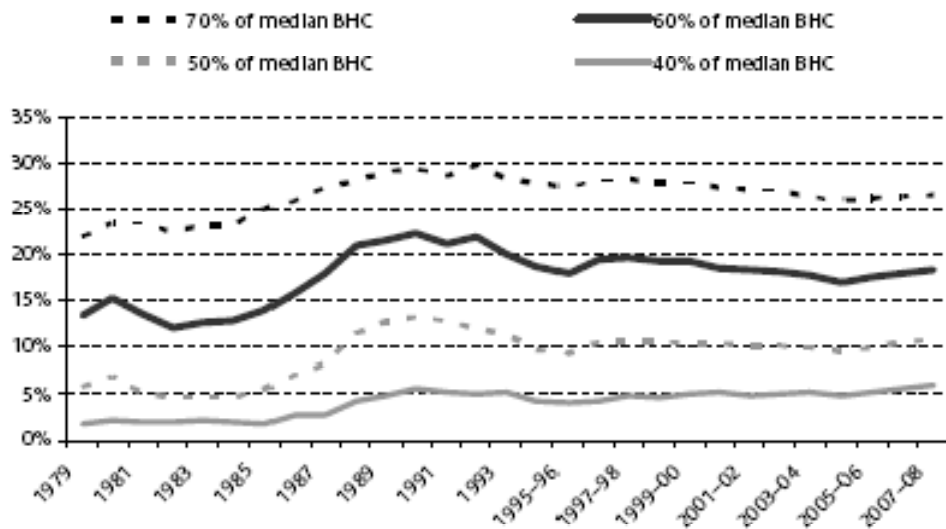


Figure 4.1b. Relative poverty: percentage of individuals in households with incomes below various fractions of median income (BHC)



Note: Figures are presented for GB up until 2001-02 and for the whole of the UK from 2002-03 onwards.
 Source: Authors' calculations based on Family Expenditure Survey and Family Resources Survey, various years.

Relative poverty among different groups

The following tables, again taken from the IFS Poverty and Inequality 2009 report, use the same measures to illustrate the relative levels of poverty between different groups within society, including those of working age with and without children.³¹

³¹M Bevan, A Muriel, D Phillips and L Sibieta, *Poverty and Inequality in the UK: 2009*, Institute for Fiscal Studies (2009), p 35.

Table 4.1. Relative poverty: percentage and number of individuals in households with incomes below 60% of median AHC income

	Children		Pensioners		Working-age parents		Working-age non-parents		All	
	%	Million	%	Million	%	Million	%	Million	%	Million
1996–97 (GB)	34.1	4.3	29.1	2.9	26.6	3.3	17.2	3.5	25.3	14.0
1997–98 (GB)	33.2	4.2	29.1	2.9	25.9	3.2	15.9	3.3	24.4	13.6
1998–99 (GB)	33.9	4.3	28.6	2.9	26.3	3.2	15.5	3.2	24.4	13.6
1999–00 (GB)	32.7	4.2	27.6	2.8	25.5	3.1	16.1	3.4	24.0	13.4
2000–01 (GB)	31.1	3.9	25.9	2.6	24.7	3.0	16.2	3.4	23.1	13.0
2001–02 (GB)	30.8	3.9	25.6	2.6	24.5	3.0	15.6	3.4	22.7	12.8
2002–03 (UK)	29.8	3.9	24.2	2.5	24.1	3.0	16.5	3.7	22.4	13.1
2003–04 (UK)	28.7	3.7	20.6	2.2	23.5	2.9	16.6	3.7	21.5	12.6
2004–05 (UK)	28.4	3.6	17.6	1.9	23.0	2.9	16.1	3.6	20.5	12.1
2005–06 (UK)	29.8	3.8	17.0	1.8	24.9	3.1	17.6	4.0	21.7	12.8
2006–07 (UK)	30.5	3.9	18.9	2.1	25.2	3.2	17.6	4.0	22.2	13.2
2007–08 (UK)	31.1	4.0	18.1	2.0	25.6	3.3	18.1	4.2	22.5	13.5
Changes										
1996–97 to 2000–01	-3.0		-3.2		-1.9		-1.0		-2.1	
2000–01 to 2004–05	-2.8		-8.3		-1.6		-0.1		-2.6	
2004–05 to 2007–08	2.7	0.3	(0.5)	(0.1)	2.6	0.4	2.0	0.5	2.0	1.4
2006–07 to 2007–08	(0.6)	(0.1)	(-0.8)	(-0.1)	(0.4)	(0.1)	(0.5)	(0.1)	(0.3)	(0.2)

Notes: Reported changes may not equal the differences between the corresponding numbers due to rounding. Changes in parentheses are not significantly different from zero at the 5% level. Because of the discontinuity in the series due to the inclusion of Northern Ireland from 2002–03, changes in the number of people in poverty since 1996–97 are not available. However, due to Northern Ireland's small population and similar poverty rates, the changes in poverty rate reported should be accurate. All figures are presented using the modified OECD equivalence scale.

Source: Authors' calculations based on Family Resources Survey, various years.

Table 4.2. Relative poverty: percentage and number of individuals in households with incomes below 60% of median BHC income

	Children		Pensioners		Working-age parents		Working-age non-parents		All	
	%	Million	%	Million	%	Million	%	Million	%	Million
1996–97 (GB)	26.7	3.4	24.6	2.4	20.2	2.5	12.0	2.5	19.4	10.8
1997–98 (GB)	26.9	3.4	25.3	2.5	20.4	2.5	11.9	2.5	19.6	10.9
1998–99 (GB)	26.0	3.3	26.8	2.7	19.6	2.4	11.5	2.4	19.3	10.8
1999–00 (GB)	25.6	3.3	25.1	2.5	19.8	2.4	12.1	2.6	19.2	10.7
2000–01 (GB)	23.3	3.0	24.8	2.5	18.1	2.2	12.8	2.7	18.4	10.4
2001–02 (GB)	23.1	2.9	25.1	2.5	18.3	2.2	12.5	2.7	18.4	10.4
2002–03 (UK)	22.6	2.9	24.4	2.5	18.0	2.2	12.7	2.8	18.1	10.6
2003–04 (UK)	22.1	2.9	22.9	2.4	17.9	2.2	12.8	2.9	17.8	10.4
2004–05 (UK)	21.3	2.7	21.3	2.3	16.9	2.1	12.6	2.9	17.0	10.0
2005–06 (UK)	22.0	2.8	20.8	2.2	18.2	2.3	13.4	3.1	17.6	10.4
2006–07 (UK)	22.3	2.9	23.2	2.5	17.9	2.3	13.2	3.0	18.0	10.7
2007–08 (UK)	22.5	2.9	22.7	2.5	18.1	2.3	14.0	3.2	18.3	11.0
Changes										
1996–97 to 2000–01	-3.4		0.1		-2.0		0.7		-1.0	
2000–01 to 2004–05	-2.0		-3.5		-1.2		-0.2		-1.4	
2004–05 to 2007–08	(1.2)	(0.2)	(1.4)	(0.2)	(1.2)	(0.2)	1.4	0.4	1.3	1.0
2006–07 to 2007–08	(0.2)	(0.0)	(-0.5)	(0.0)	(0.2)	(0.0)	(0.8)	(0.2)	(0.3)	(0.3)

Notes: Reported changes may not equal the differences between the corresponding numbers due to rounding. Changes in parentheses are not significantly different from zero at the 5% level. Because of the discontinuity in the series due to the inclusion of Northern Ireland from 2002–03, changes in the number of people in poverty since 1996–97 are not available. However, due to Northern Ireland's small population and similar poverty rates, the changes in poverty rate reported should be accurate. All figures are presented using the modified OECD equivalence scale.

Source: Authors' calculations based on Family Resources Survey, various years.

Absolute Poverty

The data cited above are all measurements of *relative* poverty. The *IFS Poverty and Inequality report 2009* also provides the following illustrations of how *absolute* levels of poverty have changed since the Labour Government came to power.³²

Table 4.7. Absolute poverty: percentage and number of individuals in households with incomes below 60% of 1996–97 median AHC income

	Children		Pensioners		Working-age parents		Working-age non-parents		All	
	%	Million	%	Million	%	Million	%	Million	%	Million
1996–97 (GB)	34.1	4.3	29.1	2.9	26.6	3.3	17.2	3.5	25.3	14.0
1997–98 (GB)	32.4	4.1	27.7	2.8	25.1	3.1	15.4	3.2	23.6	13.2
1998–99 (GB)	31.7	4.0	26.0	2.6	24.4	3.0	14.8	3.1	22.7	12.7
1999–00 (GB)	29.0	3.7	21.1	2.1	22.6	2.8	14.4	3.0	20.7	11.6
2000–01 (GB)	24.6	3.1	16.2	1.6	19.6	2.4	14.0	3.0	18.0	10.1
2001–02 (GB)	20.7	2.6	11.6	1.2	17.1	2.1	12.1	2.6	15.0	8.5
2002–03 (UK)	18.2	2.4	9.7	1.0	15.4	1.9	11.9	2.7	13.6	8.0
2003–04 (UK)	17.4	2.3	8.6	0.9	14.9	1.9	12.2	2.7	13.3	7.8
2004–05 (UK)	15.9	2.0	6.8	0.7	13.6	1.7	11.3	2.6	12.0	7.1
2005–06 (UK)	16.4	2.1	7.0	0.8	14.5	1.8	12.3	2.8	12.7	7.5
2006–07 (UK)	17.2	2.2	8.8	1.0	14.9	1.9	12.2	2.8	13.2	7.9
2007–08 (UK)	17.5	2.2	8.3	0.9	14.9	1.9	12.6	2.9	13.4	8.0
Changes										
1996–97 to 2000–01	-9.5		-12.9		-7.0		-3.2		-7.3	
2000–01 to 2004–05	-8.7		-9.3		-6.0		-2.7		-6.0	
2004–05 to 2007–08	1.5	0.2	1.4	0.2	1.3	0.2	1.3	0.4	1.3	0.9
2006–07 to 2007–08	(0.2)	(0.0)	(-0.5)	(0.0)	(0.0)	(0.0)	(0.5)	(0.1)	(0.1)	(0.1)

Notes: Reported changes may not equal differences between the corresponding numbers due to rounding. Changes in parentheses are not significantly different from zero at the 5% level. Because of the discontinuity in the series due to the inclusion of Northern Ireland from 2002–03, changes in the number of people in poverty since 1996–97 are not available. However, due to Northern Ireland's small population and similar poverty rates, the changes in poverty rate reported should be accurate. All figures are presented using the modified OECD equivalence scale.

Source: Authors' calculations based on Family Resources Survey, various years.

Table 4.8. Absolute poverty: percentage and number of individuals in households with incomes below 60% of 1996–97 median BHC income

	Children		Pensioners		Working-age parents		Working-age non-parents		All	
	%	Million	%	Million	%	Million	%	Million	%	Million
1996–97 (GB)	26.7	3.4	24.6	2.4	20.2	2.5	12.0	2.5	19.4	10.8
1997–98 (GB)	25.8	3.3	23.7	2.4	19.5	2.4	11.4	2.4	18.6	10.4
1998–99 (GB)	24.1	3.1	23.8	2.4	18.0	2.2	10.7	2.2	17.7	9.9
1999–00 (GB)	21.0	2.7	20.2	2.0	16.4	2.0	10.4	2.2	15.8	8.9
2000–01 (GB)	17.2	2.2	17.5	1.8	13.5	1.6	10.4	2.2	13.9	7.8
2001–02 (GB)	13.3	1.7	15.6	1.6	11.1	1.3	8.8	1.9	11.5	6.5
2002–03 (UK)	12.4	1.6	14.1	1.5	10.3	1.3	8.9	2.0	10.9	6.4
2003–04 (UK)	12.0	1.6	13.1	1.4	10.0	1.2	9.2	2.1	10.7	6.2
2004–05 (UK)	11.3	1.5	11.7	1.3	9.5	1.2	8.7	2.0	10.0	5.9
2005–06 (UK)	11.4	1.5	10.9	1.2	9.9	1.3	9.1	2.1	10.1	5.9
2006–07 (UK)	11.8	1.5	13.0	1.4	10.0	1.3	9.0	2.1	10.6	6.3
2007–08 (UK)	11.8	1.5	12.8	1.4	9.8	1.3	9.7	2.2	10.8	6.4
Changes										
1996–97 to 2000–01	-9.5		-7.1		-6.6		-1.7		-5.6	
2000–01 to 2004–05	-5.9		-5.8		-4.1		-1.7		-3.9	
2004–05 to 2007–08	(0.4)	(0.1)	(1.1)	(0.2)	(0.3)	(0.1)	1.0	0.3	0.8	0.6
2006–07 to 2007–08	(0.0)	(0.0)	(-0.2)	(0.0)	(-0.1)	(0.0)	(0.7)	(0.2)	(0.2)	(0.1)

Notes: Reported changes may not equal differences between the corresponding numbers due to rounding. Changes in parentheses are not significantly different from zero at the 5% level. Because of the discontinuity in the series due to the inclusion of Northern Ireland from 2002–03, changes in the number of people in poverty since 1996–97 are not available. However, due to Northern Ireland's small population and similar poverty rates, the changes in poverty rate reported should be accurate. All figures are presented using the modified OECD equivalence scale.

Source: Authors' calculations based on Family Resources Survey, various years.

³²Bevan, M., Muriel A., Phillips, D. and Sibieta, L. (2009) *Poverty and Inequality in the UK: 2009*, Institute for Fiscal Studies, p 46.

Further information on the number and proportion of families living in poverty, which draws together information both before and after housing costs for the period 1996–97 to 2007–08, was given in answer to a Written Parliamentary Question by Department for Work and Pensions Minister Helen Goodman on 25th February 2010:

Total number of families, and number and proportion of families living in households with less than 60 per cent. of contemporary median income, 1996–97 to 2007–08, Great Britain

	Number of families (million)	Proportion living in low income households		Number living in low income households	
		Before housing costs (percentage)	After housing costs (percentage)	Before housing costs (million)	After housing costs (million)
1996-97	28.9	19	25	5.4	7.3
1997-98	29.1	19	24	5.5	7.0
1998-99	29.3	19	24	5.4	7.0
1999-2000	29.4	19	24	5.5	7.0
2000-01	29.5	18	23	5.5	6.8
2001-02	29.7	18	22	5.4	6.6
2002-03	29.8	18	22	5.5	6.7
2003-04	30.1	18	21	5.4	6.4
2004-05	30.3	17	20	5.2	6.1
2005-06	30.7	18	21	5.5	6.5
2006-07	30.9	18	22	5.6	6.7
2007-08	31.1	19	22	5.8	6.8

Notes:

1. These statistics are based on Households Below Average Income, sourced from the Family Resources Survey. Both of these documents are available in the Library.
 2. Small changes should be treated with caution as these will be affected by sampling error and variability in non-response.
 3. The reference period for Households Below Average Income figures are single financial years.
 4. Figures correspond to Great Britain only, because prior to 2002 these are the only figures available and so this shows the full run on a consistent basis.
 5. The income measures used to derive the estimates shown employ the same methodology as the Department for Work and Pensions publication 'Households Below Average Income' (HBAI) series, which uses disposable household income, adjusted (or 'equivalised') for household size and composition, as an income measure as a proxy for standard of living..
 6. For the Households Below Average Income series, incomes have been equivalised using Organisation for Economic Co-operation and Development (OECD) equivalisation factors.
 7. A family is defined as a single adult or couple living as married (including same sex partners from January 2006) and any dependent children.
 8. Number of families in low-income households have been rounded to the nearest hundred thousand families and proportion of families have been rounded to the nearest per cent.
- Source: Households Below Average Income, DWP

Source: HC *Hansard*, 25th February 2010, col 737W:

<http://www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100225/text/100225w0019.htm#100225127001309>

3.1 Cycles of poverty, unemployment and low pay—report from the Joseph Rowntree Foundation

The Joseph Rowntree Foundation has conducted four projects to examine the extent and cycles of poverty, unemployment and low pay, each examining different strands and areas of interest. In February 2010 Chris Goulden from the Joseph Rowntree Foundation outlined the following key conclusions from across those research projects regarding poverty in the UK:

Key points

- Incomes are dynamic, with households moving in and out of poverty over time, and policy and practice needs to reflect this.
- About a fifth of poverty is 'recurrent', where people escape from poverty only temporarily.
- Having a job, and the conditions of that job, relates strongly to recurrent poverty but other important factors included family change, qualifications, occupation, age and how the benefits system works.
- The issue of people moving repeatedly between work and unemployment is an endemic problem in the UK and has risen by 60 per cent since 2006, mostly as a result of the recession.
- Entering work cannot provide a sustainable route out of poverty if job security, low pay and lack of progression are not also addressed.
- Distinctions in effectiveness between employers who used more permanent or more flexible and temporary workforces were hard to detect. Improvements to employment conditions could be made relatively easily if, as it appears, the choice of human resource model is mainly due to differences in ethos.
- There are a number of implications for employers, governments and those providing support to individuals trapped in cycles of poverty. These relate to job security and wage levels:
 - improving rights and conditions for agency workers;
 - raising pay through 'living wage' campaigns or the national minimum wage;
 - addressing the issues within public-sector purchasing decisions;
 - ensuring job and careers advice covers security, pay and progression; and
 - making childcare available and affordable for parents on low incomes.³³

³³ Joseph Rowntree Foundation & Chris Goulden, Cycles of Poverty, Unemployment and Low Pay (February 2010): <http://www.jrf.org.uk/sites/files/jrf/poverty-employment-lowpay-summary.pdf>.

