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Hard times

Assessing household incomes since 2010

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June 2024

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Acknowledgements

This briefing note is part of the Resolution Foundation's 'Need to Know Election 2024' series, funded by the Nuffield Foundation. We would like to thank Mark Franks and Anvar Sarygulov from the Nuffield Foundation for their support and thoughtful comments throughout.

Contributions and comments from colleagues at the Resolution Foundation are gratefully acknowledged, particularly from Mike Brewer, Alex Clegg and Simon Pittaway. All views and errors remain those of the authors.

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A. Corlett & L. Try , *Hard times: Assessing household incomes since 2010* , Resolution Foundation, June 2024

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Summary

This note examines progress made on income growth, poverty and inequality over the last Parliament and since 2010.

The last Parliament is likely to be one of the worst in history for income growth

Overall income growth since the last election has been non-existent, with real household disposable income (RHDI) being 0.6 per cent lower in Q1 2024 than it was in Q4 2019, at the time of the last General Election. Although there is still more data to be released before we can conclusively assess progress up to the election, it is likely that the 2019-2024 Parliament will have been the worst for income growth since at least the 1950s.

To assess what this means for households at different points of the income distribution, we use a combination of the DWP's Family Resources Survey and our own 'nowcast' of household incomes, poverty and inequality. Over the last Parliament, the typical non-pensioner income has fallen. In 2023-24, it was 2 per cent, or £600 lower in real-terms than it was in 2019-20 – perhaps unsurprising given the pandemic and the cost of living crisis, but very unusual compared to progress made in most historic parliaments. Taking a longer view, typical non-pensioner incomes have grown since 2009-10, by £1,900, or 7 per cent. But again, this level of income growth – equivalent to an average annual real-terms change of 0.5 per cent, or £140 a year – is unusually low by historical standards: in contrast, incomes grew by 38 per cent in the previous 14 years between 1995-96 and 2009-10. And had we experienced the same level of growth in median incomes between 2007 and 2022 as the

Netherlands, France and Germany, the UK's median income in 2022-23 would be £2,700 higher than actually observed.

Policy benefitted lower-income households last Parliament – and they have also had the most income growth

Only the lowest-income non-pensioner households have seen their incomes grow in the last Parliament, although some of this reflects the temporary boost to incomes from the Cost of Living Payments made in 2023-24. Middle and higher-income households have seen falling incomes, due to earnings growth that has not kept up with prices, elevated inflation and rising housing costs. This lacklustre record on income change is despite a set of personal tax and benefit policy changes that pushed up incomes for all but the highest-income households. In addition to the temporary boost from Cost of Living Payments in 2022-23 and 2023-24, cuts in the taper of Universal Credit and the increase to housing support have supported lower-income households, and cuts to National Insurance contributions (NICs) have helped middle- to high- income households.

If we zoom out and look at the picture since 2010, though, then the permanent policy changes to personal taxes and benefit changes have reduced whole-population incomes at the bottom end of the income distribution, but increased them across the rest of the distribution, especially at the top. Low-income households have been hit by policies such as the two-child limit and benefit cap, and decisions to uprate benefits by less than inflation at various points over the last 14 years, or on occasion, not at all. Taxpayers have benefitted from increases to the personal tax allowance and cuts to NICs; but high-income households have benefitted most of all, from the cut to the additional tax rate.

Overall, non-pensioner disposable incomes have grown across the board since 2009-10, and this growth has been stronger at the bottom than at the top: the poorest fifth of households saw their incomes grow by 13 per cent, while incomes for the richest fifth only grew by 2 per cent. Again, part of this represents the temporary boost to incomes from the Cost of Living Payments made in 2023-24: excluding the Cost of Living payments, incomes in the lowest fifth of the non-pensioner income distribution grew by 7 per cent between 2009-10 and 2023-24. But it is changes in the labour market since 2010 that have really driven the income growth for low-income households: employment gains since 2010 have been concentrated at the bottom of the income distribution, making increases in pre-tax employment income between 2009-10 and 2022-23 equivalent to a 20 per cent income boost among the bottom 30 per cent of the income distribution. Moreover, pay inequality has fallen, with the incidence of low pay considerably reduced by the introduction of the NLW (National Living Wage). But poor wage growth overall has limited income growth for middle- and higher-income households: average wages are now only £16 a week higher in real terms than they were at the time of the 2010 election. But working against this, housing costs have fallen: typical housing cost to income ratios across the whole population have fallen from 18 per cent in 2009-10 to 16 per cent in 2022-23, and there has been a rise in the proportion of outright owners in the bottom third of the non-pensioner income distribution, from 11 per cent to 15 per cent.

Little progress has been made on reducing poverty over the last 14 years

Over the last 14 years, absolute poverty (where the poverty line is fixed in real terms at 60 per cent of the median income in 2010-11) has fallen for all age groups, by 3.9 percentage points (230,000 people) for children, 3.9 percentage points (730,000) for working-age adults, and by 2.8 percentage points (280,000) for pensioners. But this is very slow progress by historical standards. Over the slightly shorter period of 13 years when the Labour Party was last in power (1997 to 2010), absolute poverty (using a threshold fixed at 60 per cent of the real median income in 1997-98) fell by 14 percentage points overall (or 7 million people), 20 percentage points for children (or 2.5 million people), and a staggering 24 percentage points for pensioners (2.3 million).

The picture concerning relative poverty is mixed: working-age relative poverty has fallen since 2009-10, but this has been partially offset by slightly higher relative poverty rates for children and pensioners. This increase in child poverty has been driven by the rapidly rising number of children in large families living in poverty: since 2009-10, the number of children in poverty in families with three or more children has risen by 840,000, while over the same time period, the number of children in one and two child families has fallen by 270,000 and 120,000 respectively.

These findings reinforce previous Resolution Foundation research on the UK's stagnating economic growth and high inequality and underline that whichever party forms the next government must be willing to take big steps to boost living standards and share the gains from growth, so all families in the UK can experience shared prosperity.

The last Parliament is likely to have been one of the worst on record for living standards growth

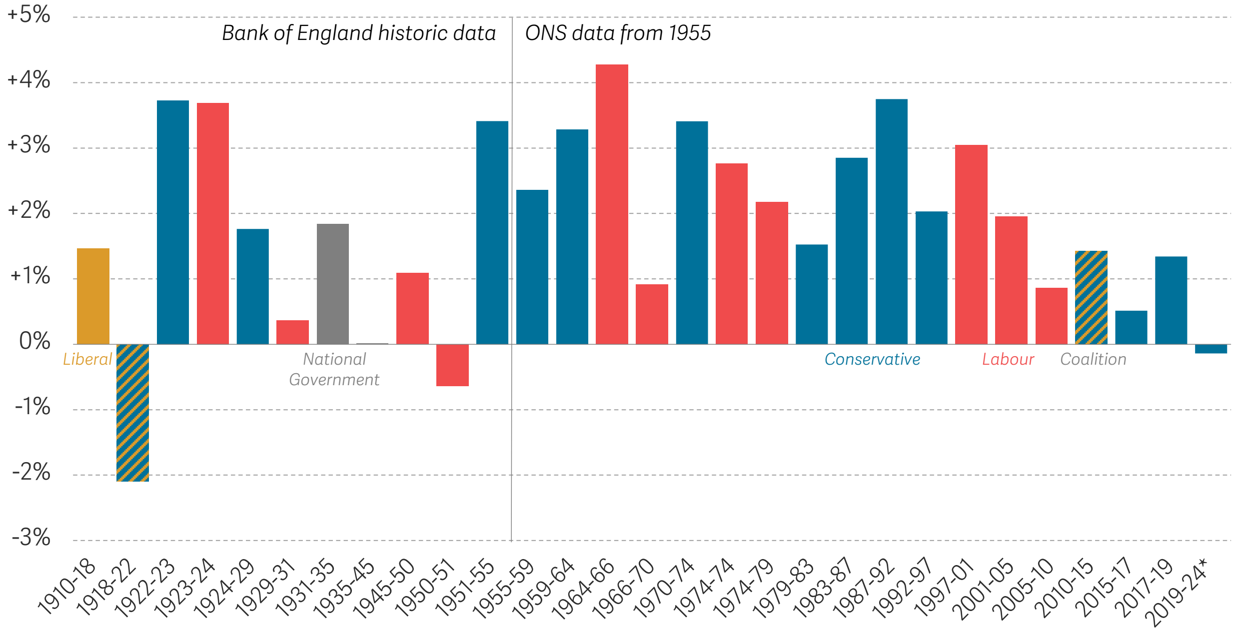
As we head into the 2024 General Election, improving economic growth and living standards are central to all the main parties' election rhetoric and policy offerings.[1] To take the two main parties as an example, the Conservative Party talks about building a stronger economy through investment and have proposed tax cuts for working people;[2] and central to Labour Party's offer is increasing economic growth as a route to improving living standards.[3] This is not surprising given the dire need for sustained living standards improvements in the UK. Earnings growth has stagnated following the financial crisis, leaving the average worker over £14,000 worse off than if pre-financial crisis wage growth had continued;[4] had the UK matched the pay growth of Germany and US over this period, average wages in Britain today would be £3,600 a year higher.[5]

Since the 2019 election, progress on incomes overall has been non-existent. In the latest data available at the time of writing, Real Household Disposable Income (RHDI) per person was 0.6 per cent *lower* in Q1 2024 than at the previous election in Q4 2019. Although the definitive picture will not be available until later this year, it looks very likely that the last Parliament was the worst for living standards growth since the start of official ONS data in 1955. Figure 1 shows each Parliament's average annual growth rate, also including estimates going back to 1910. Real income growth since Q4 2019 has averaged -0.1 per cent a year, with the only other falls during the timespan shown in Figure 1 being in 1951 (when inflation surged following the Korean War),[6] and the Parliament following the First World War (which included a recession, a pandemic, and large reductions in working hours).

1 For a discussion of how the main parties' manifesto policies might affect living standards, see: C Aref-Adib et al., The narrow path to NICs cuts: Analysing the tax and spend package of the 2024 Conservative Manifesto, Resolution Foundation, June 2024; and: M Broome et al., Growing for gold? Analysing the tax and spend package of the 2024 Labour Manifesto, Resolution Foundation, June 2024.
2 Conservative Party, The Conservative and Unionist Party Manifesto 2024, accessed 14 June 2024.
3 Labour Party, Change: The Labour Party Manifesto 2024, accessed 14 June 2024.
4 E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024.
5 N Cominetti & H Slaughter, Job done? Assessing the labour market since 2010 and the challenges for the next government, Resolution Foundation, June 2024.
6 T Weston, The UK economy in the 1950s, House of Lords Library, December 2023.

FIGURE 1: **Living standards in the last Parliament flatlined**

Average annual growth in Real Household Disposable Income per person, by parliament: UK



NOTES: Data for the latest parliament currently goes up to Q1 2024. Based on election dates and either quarterly data (ONS) or annual data (Bank of England). Excludes non-profit institutions serving households (NPISH).
SOURCE: RF analysis of ONS, UK Economic Accounts; Bank of England, A millennium of macroeconomic data.

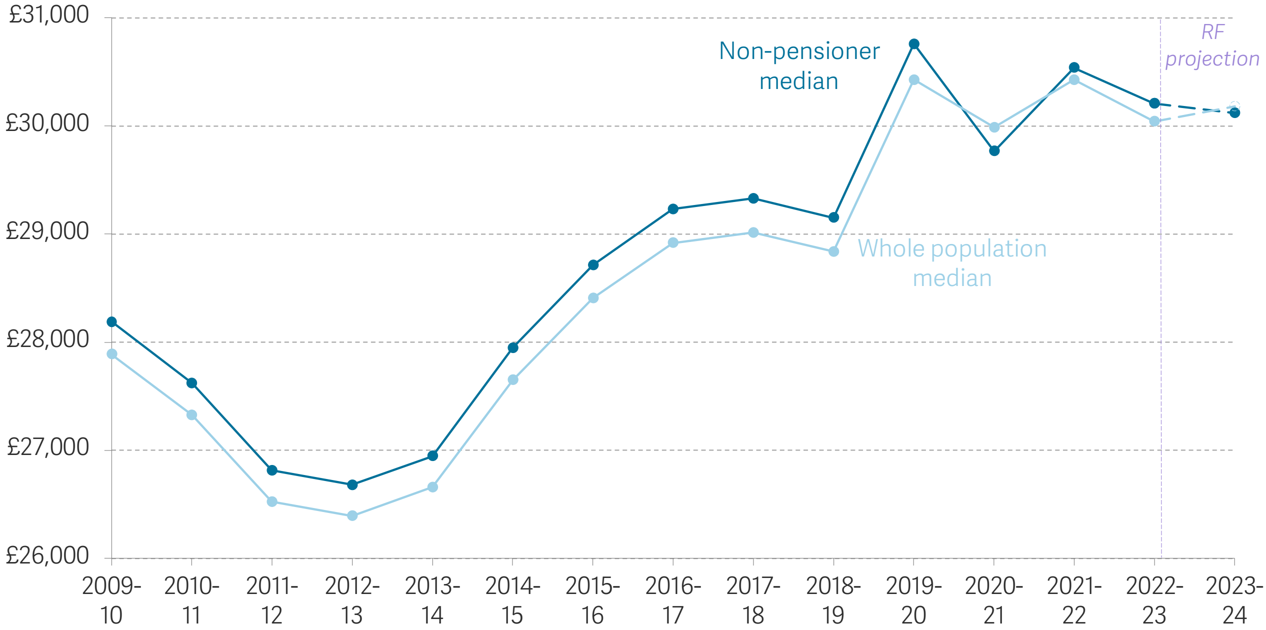
The per capita RHDI measure tells us what has happened to average incomes, but what about income changes across the income distribution? To explore this, we make use of the DWP's Family Resources Survey (which includes data up to 2022-23), as well as our own 'nowcasts' of household incomes, poverty and inequality in 2023-24, taking us up to just before the end of the last Parliament.[7]

Figure 2 shows how the typical incomes, both for the whole population and for non-pensioners, have grown in real terms since 2009-10. Focusing first on the most recent year (2023-24), we project that incomes stagnated (a fall of 0.3 per cent, or £90), following a decline in 2022-23. Although wage growth was strong last year (with nominal total pay growing by 7 per cent between 2022-23 and 2023-24), inflation was still high in 2023-24, at 5.7 per cent. Housing costs also rose for many, with housing cost to income ratios (HCIRs) rising from 8 per cent in 2022-23 to 11 per cent in 2023-24 for mortgagors, and 34 to 35 per cent for private renters. A 2p cut to NI was introduced in January 2024, but this only affected the final quarter of the year; the impact of this and further cuts to both employee and self-employed NI will not be felt fully until 2024-25.

7 For more information on how we produce our income nowcasts, see Annex 1 in M Brewer, E Fry & L Try, The Living Standards Outlook 2023, Resolution Foundation, January 2023.

FIGURE 2: **Incomes have grown since the financial crisis – but stagnated during the most recent Parliament**

Real median equivalised household disposable income, after housing costs, 2023-24 prices: UK



NOTES: Income for 2023-24 is projected.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

Echoing the overall picture given by RHDI statistics, the real median income for non-pensioners was lower in 2023-24 than at the start of the most recent Parliament in 2019-20 – by 2 per cent, or around £600 a year. This is unsurprising given the context of the Covid-19 pandemic and cost of living crisis, but is nonetheless a major difference from the historic norm of rising incomes.

Taking a longer view of the 14 years the Conservatives have been in power, non-pensioner incomes have grown by 7 per cent (by £1,900 in today's prices) since 2009-10, or an annual average growth rate of 0.5 per cent. Again, this compares poorly to typical historical growth: incomes grew by 38 per cent over the previous 14 years, for example (from 1995-96 to 2009-10).

The period since 2009-10 has, of course, seen some major global shocks – the financial crisis, Covid-19 and the energy crisis – but there is evidence that the UK has fared particularly poorly. As can be seen in Figure 3, typical household incomes in the UK grew slower between 2007 and 2022 than in the Netherlands, Germany or France, and this echoes trends in GDP per capita.[8] This is in stark contrast to the growth prior to 2007, which was in many cases faster in the UK. But the end result is still that we are poorer

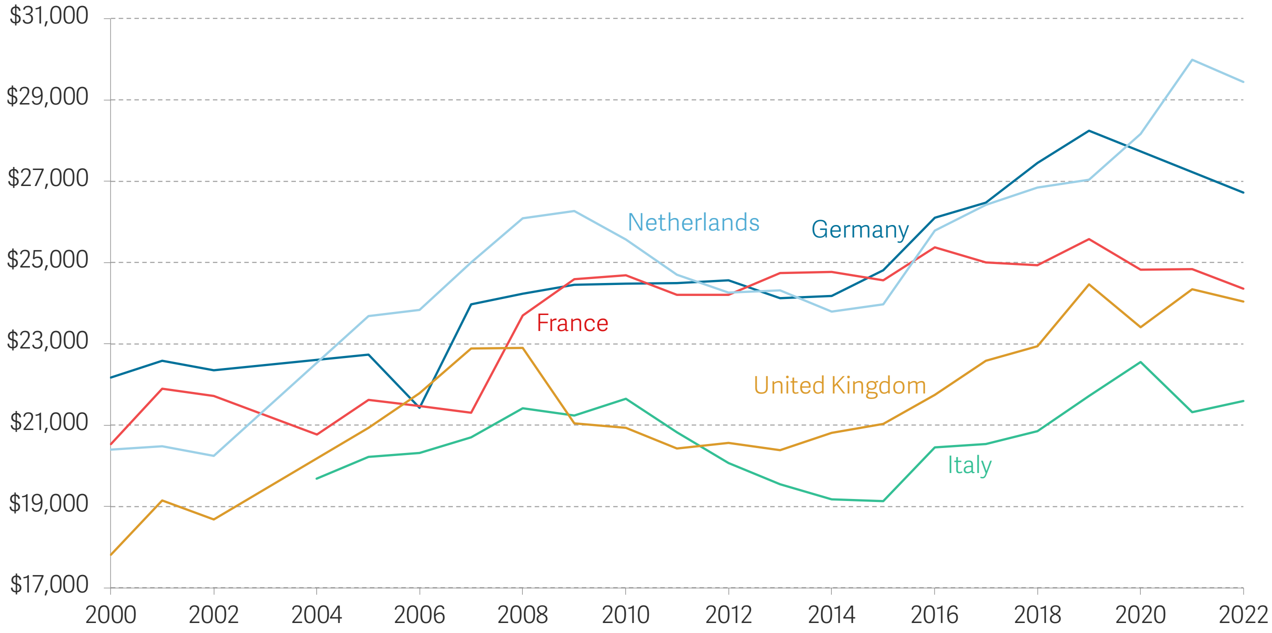
8 E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024.

than many of our peers: typical households in the UK are 9 per cent poorer than those in France, and our low-income households are 27 per cent poorer.[9]

Had we experienced the same level of growth to median incomes between 2007 and 2022 as the Netherlands, France and Germany, then median income in 2022-23 in the UK would be £2,700 higher.

FIGURE 3: **UK income growth since 2007 has been weaker than in peer countries like the Netherlands, Germany and France**

Median PPP-adjusted real incomes in selected European countries



NOTES: The chart uses current OECD PPPs. German data for 2020 and 2021 is not shown.
SOURCE: Eurostat, EU-SILC Distribution of income by quantiles; DWP, Households Below Average Income.

Income growth in the last Parliament, and since 2009-10, has been strongest for lower-income households

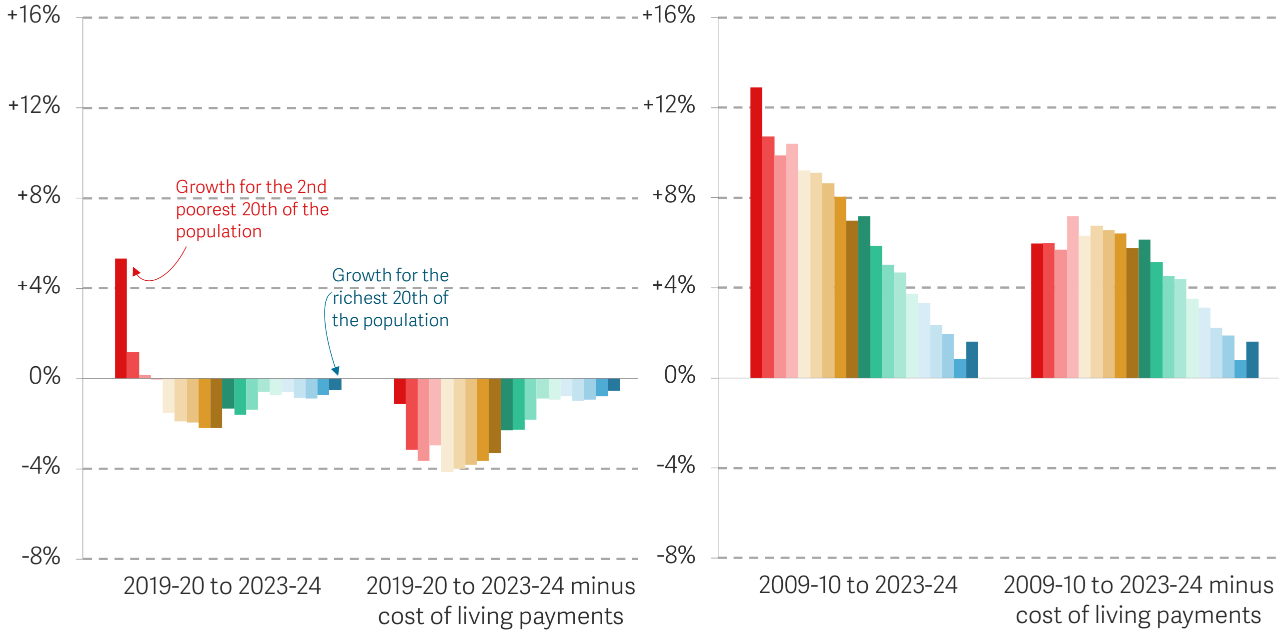
In Figure 4, we show income growth across the distribution over the most recent Parliament and the overall change since 2009-10. The left-hand panel of Figure 4 shows estimated real income growth for non-pensioner households across the income distribution over the most recent Parliament. Since 2019-20, only the lowest-income households have seen growing incomes. Although there is a degree of survey data uncertainty here, low-income households are more likely to have benefitted from the temporary Cost of Living Payments (which we discuss below), as well as permanent policy changes such as the cut to the Universal Credit (UC) taper rate and increase

9 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

in work allowances.[10] The rest of the income distribution has seen falling incomes, as earnings have not kept up with the very high rates of inflation, and rising mortgage and rental costs have weighed down on incomes.

FIGURE 4: **Only low-income households have had income growth since 2019-20, and income growth since 2009-10 has been progressive**

Real growth in average equivalised household disposable income for non-pensioners, after housing costs, by income vigintile: UK



NOTES: Income for 2023-24 is projected.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

Figure 4 also shows how important the Cost of Living Payments were in ensuring income growth for the lowest income households in 2023-24. These payments were relatively high in 2023-24 (£900 for those on means-tested benefits, an additional £300 for pensioners, and an additional £150 for disabled people), and therefore significantly boosted incomes at the bottom of the distribution. Without the Cost of Living Payments, income growth over the parliament would have been negative across the income distribution.[11]

Turning to look at income growth since 2009-10, Figure 4 highlights that incomes have grown across the distribution, and that growth has been very weak but progressive.[12]

10 M Brewer, K Handscomb & L Try, Taper cut: Analysis of the Autumn Budget changes to Universal Credit, Resolution Foundation, November 2021.

11 Based on current economic forecasts, income growth in 2024-25 is likely to be more positive, given the large nominal rise in the rates of most social security benefits, rapidly falling inflation, and large National Insurance cuts. We will explore this in a report later this year.

12 It should be noted that there were very large changes to incomes across the distribution between 2009-10 and 2010-11 (especially among top incomes), so measuring changes to incomes between 2010-11 and 2023-24 would produce very different results. In particular, the typical income in the top 5 per cent in the income distribution fell by 15 per cent between 2009-10 and 2010-11, so the change between 2010-11 and 2023-24 would be a lot less skewed to low-income households than that shown in Figure 4.

Again, part of the stronger income growth among low-income households represents the temporary Cost of Living Payments in 2023-24 (as can be seen by comparing the two charts), but the main driver of the income growth for low-income households over this period has been labour market changes: for example, the introduction of the National Living Wage (NMW and NLW) boosted wage growth for low-paid workers, and employment growth over the 2010s has been concentrated at the bottom of the income distribution.[13]

At the other end of the distribution, household income growth has been very limited given weak wage growth: average wages are now only £16 a week higher in real terms than they were at the time of the 2010 election. Box 1 provides more detail on how different sources of household income have contributed to household income changes since 2009-10.

BOX 1: **Changes in sources of income for non-pensioner households between 2009-10 and 2022-23**

Figure 5 shows how different components of income have contributed to changes to household incomes among non-pensioners between 2009-10 and 2022-23.[14] At the bottom of the income distribution, employment and self-employment income boosted incomes significantly: with employment and self-employment income together acting to increase total income by over 20 per cent in the bottom three income deciles. This increase has outweighed benefit income falls at the lower end of the distribution: as Figure 8 shows, tax and benefit policies announced and implemented since 2010 have pushed incomes of the poorest 20 per cent down by £1,900.

13 N Cominetti & H Slaughter, Job done? Assessing the labour market since 2010 and the challenges for the next government, Resolution Foundation, June 2024.
14 This analysis does not use our 'nowcast' estimates of incomes in 2023-24.

FIGURE 5: **Increased employment income boosted incomes for low-income households**

Contribution to real non-pensioner household income change between 2009-10 and 2022-23 by income source: UK

SOURCE: RF analysis of DWP, Households Below Average Income.

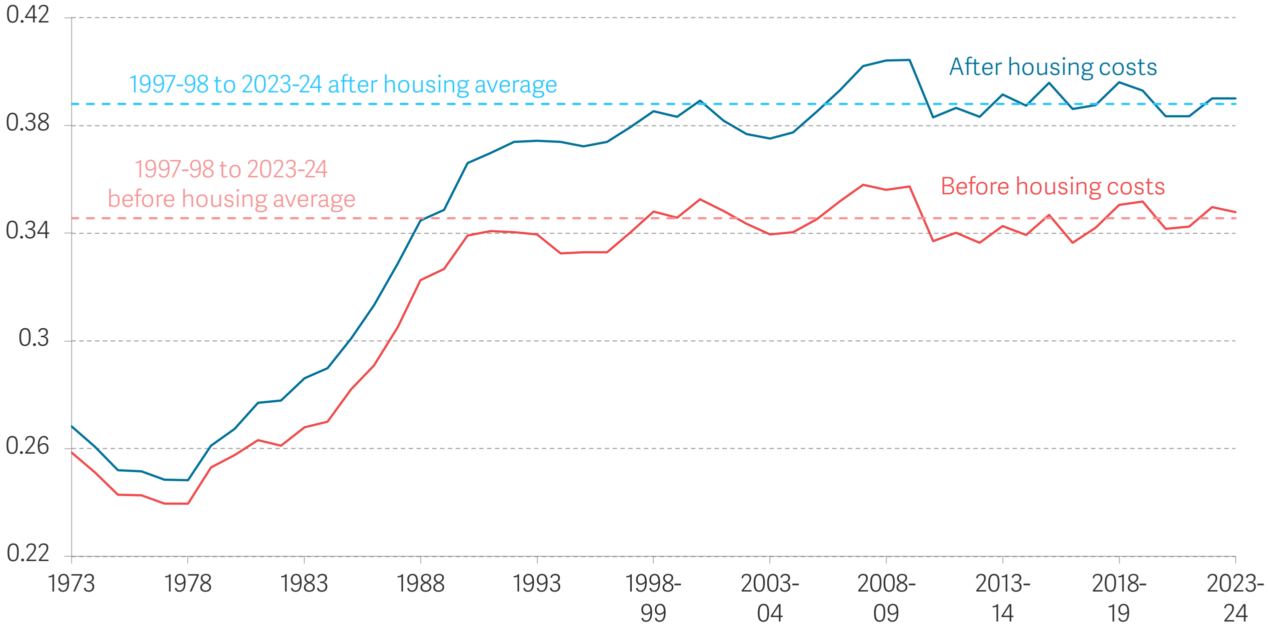
Tax changes also dragged down on incomes across the distribution (especially at the top); but note that this analysis only extends to 2022-23, meaning it does not reflect the very recent NI cuts, or other income source changes since then. Housing costs also fell across the income distribution, therefore boosting after housing cost incomes. Whole-population housing cost to income ratios (HCIRs) fell overall from 18 to 16 per cent, from 15 to 10 percent for mortgagors from 2009-10 to 2022-23, and fell for private renters from 36 to 33 per cent.[15] [16] Changes in housing tenure over this time period also helped low-income households' income growth: the proportion of outright owners in the bottom third of the non-pensioner income distribution rose from 11 to 15 per cent.

As a result of the progressive (as in, skewed-to-the-poor) income growth since 2009-10, overall income inequality has fallen since 2009-10 (see Figure 6). However, 2009-10 was an historic high-point for inequality, and the big picture is that the inequality in the UK has hardly changed since the late 1990s: the Gini coefficient in 2023-24 is expected to be essentially at the post-1997 average.

15 RF analysis of DWP, Households Below Average Income.
16 While HCIRs for private renters fell, average housing costs per square metre rose for private renters between 2010-11 and 2021-22. See C Aref-Adib, Home truths: Putting housing policy in context for the 2024 general election, Resolution Foundation June 2024.

FIGURE 6: **The Gini measure of income inequality is lower than in 2009, but has remained relatively flat over the last 15 years**

Gini coefficient for equivalised household disposable income, actual and projected: GB/UK



NOTES: Data source changes in 1994-95. GB from 1994-95 to 2001-02. Data up to 2022-23 is actual; 2023-24 is an RF projection.
SOURCE: RF analysis of IFS, Living Standards, Inequality and Poverty; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

Tax and benefit changes last Parliament pushed up incomes for all but the highest-income, but overall changes since 2010 have been regressive

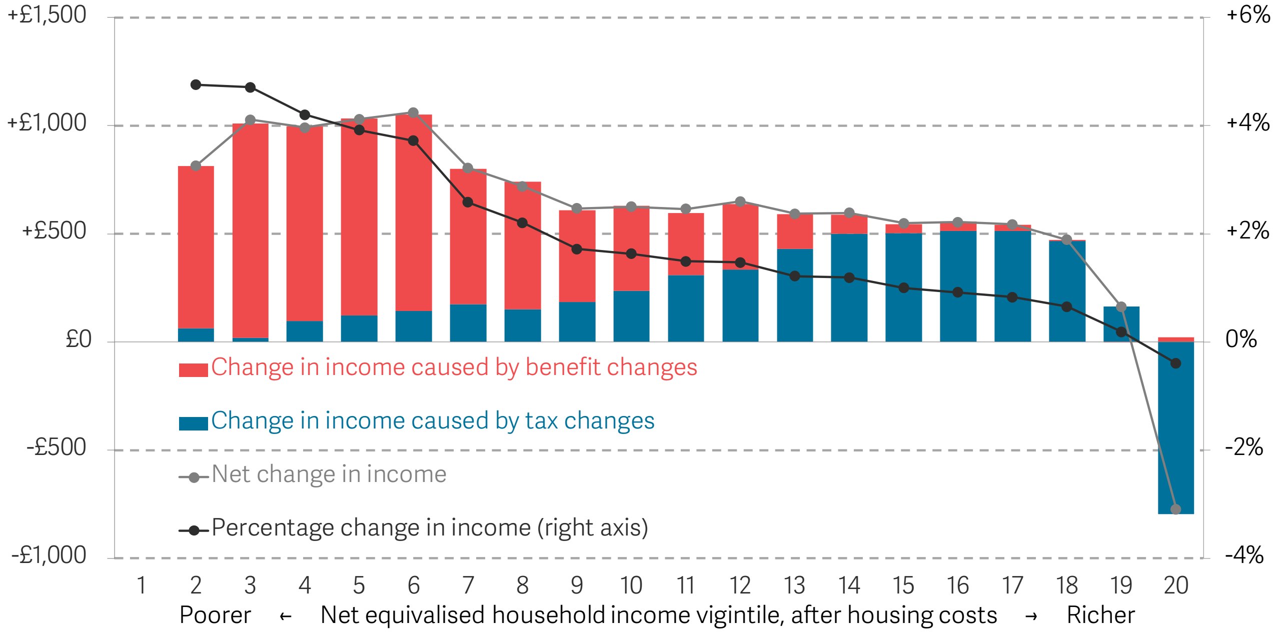
Figure 7 shows the impact of personal tax and benefit changes that took place within the last Parliament on household incomes across the distribution (note that Figures 7 and 8 show the impact on incomes of the whole population, while earlier figures looked at non-pensioner household incomes).[17] Personal tax and benefit changes announced and implemented since 2019 have resulted in higher incomes for all but the highest-income households. Welfare changes such as the cut to the UC taper rate and work allowances boost incomes at the bottom of the distribution,[18] as does the increase in support available for childcare costs under UC, the uprating of the benefit cap and re-pegging

17 See the Annex at the end of this report for more information on the modelling process and policies included. The tax changes analysis also features in A Corlett, Hiding in plain sight: The Government's record on tax and the challenges ahead, Resolution Foundation, June 2024. Similar analysis to the benefits changes analysis features in M Brewer & A Clegg, Ratchets, retrenchment and reform: The social security system since 2010, Resolution Foundation, June 2024; the methodologies can be compared by looking at the annex of this paper and Box 3 in the social security paper.
18 M Brewer, K Handscomb & L Try, Taper cut: Analysis of the Autumn Budget changes to Universal Credit, Resolution Foundation, November 2021.

Local Housing Allowance rates to the 30th percentile.[19] Tax changes – most notably the NI cuts – have boosted incomes towards the top of the distribution, but reduced them at the very top, with personal tax threshold freezes, and reduction in the additional rate of income tax threshold, and reducing the dividend allowance all weighing down on top incomes.

FIGURE 7: **Personal tax and benefit changes last Parliament boosted income for all except those on the highest incomes**

Impact of personal tax and benefit changes since 2019 on whole-population household incomes: UK, 2024-25



NOTES: The UK tax system has been applied to Scotland in this analysis.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

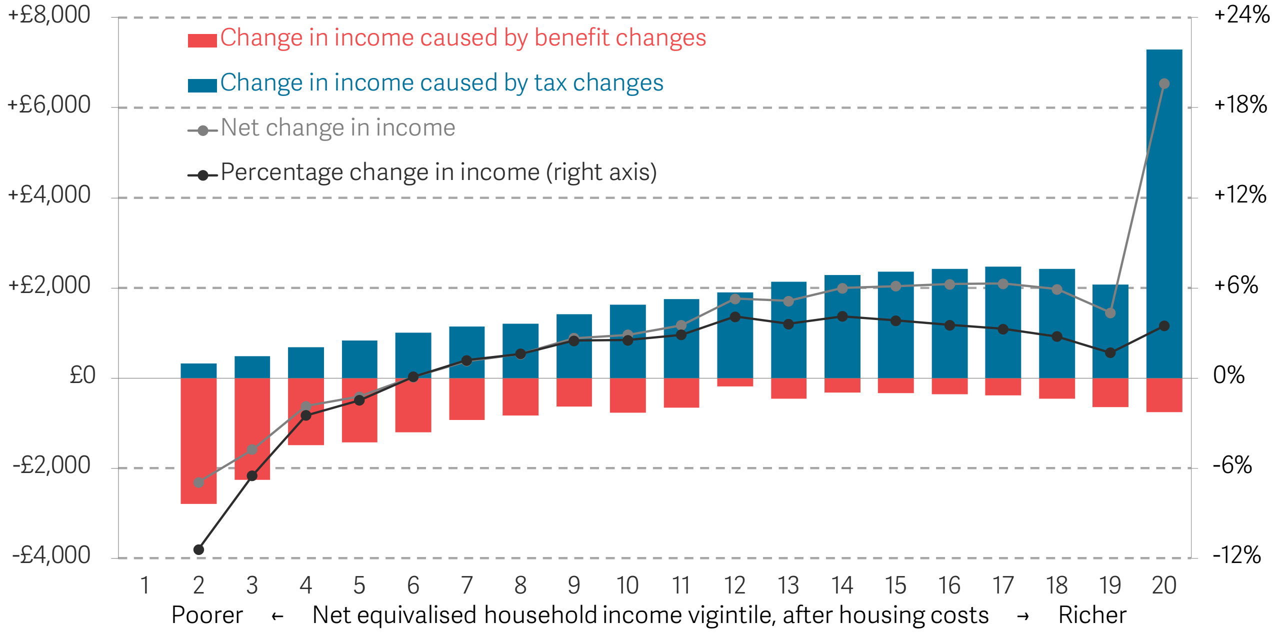
Figure 8 shows how the personal tax and benefit changes announced and implemented since 2010 have affected household incomes across the distribution. The overall impact of changes to taxes and benefits is positive for most households due to tax cuts but negative for low-income households given benefit cuts.

Benefit changes since 2010 have weighed down on incomes across the distribution, through policies including the uprating of benefits by less than inflation, or not at all during the 2010s for seven years, as well as the benefit cap and two-child limit. The introduction of the High Income Child Benefit Charge also cut incomes for higher-income families. Although benefit policies since 2019-20, such as reducing the UC taper rate and re-pegging LHA rates to the 30th percentile have boosted incomes, this has not been enough to undo the impact of benefit policies from the 2010s.[20]

19 A Clegg, A temporary thaw: An analysis of Local Housing Allowance uprating over time, Resolution Foundation, December 2023.
20 For more information on how benefit changes since 2010 have affected household incomes, see M Brewer & A Clegg, Ratchets, retrenchment and reform: The social security system since 2010, Resolution Foundation, June 2024.

FIGURE 8: **Personal tax and benefit changes since 2010 have been regressive**

Impact of personal tax and benefit changes since 2010 on whole-population household incomes: UK, 2024-25



NOTES: The UK tax system has been applied to Scotland in this analysis. The switch from RPI to CPI default uprating for many tax and benefit parameters is not included.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

Across the income distribution, explicit personal tax choices have had a net positive impact on household incomes. Working-age households across the distribution have benefitted from successive increases in the Income Tax personal allowance (and the increase of the NI allowance to the same level): the personal allowance is now £2,900 higher in real-terms than it was in 2010-11 (but the abolition of age-related tax allowances means pensioners now have a lower tax-free allowance).[21] Workers have also benefitted from NI rate cuts (a 4p cut to employee NI, a 3p cut to self-employed NI, and the abolition of compulsory Class 2 self-employed NI); these cuts have boosted incomes across the distribution, but have boosted them the most for higher-income households.[22] The very highest-income households have benefitted the most from tax changes, primarily due to the cut to the additional rate of income tax from 50p to 45p in 2013. On the other hand, this is still a tax rate rise relative to 2009, and has been accompanied by significant fiscal drag for high earners as a result of both explicit temporary freezes, some permanently-fixed thresholds and earnings growth.[23]

21 For more information on how tax changes since 2010 have affected household incomes, see A Corlett, Hiding in plain sight: The Government's record on tax and the challenges ahead, Resolution Foundation, June 2024.
22 C Aref-Adib et al., Back for more? Putting the 2024 Spring Budget in context, Resolution Foundation, March 2024.
23 High-income households have also been affected by reductions to tax relief on pension savings, which we do not model here. We have not modelled the nominal freeze of the £100,000 point at which the personal allowance is withdrawn as a tax rise nor the freeze in threshold for paying additional rate of tax, although their real values are much lower now than when introduced.

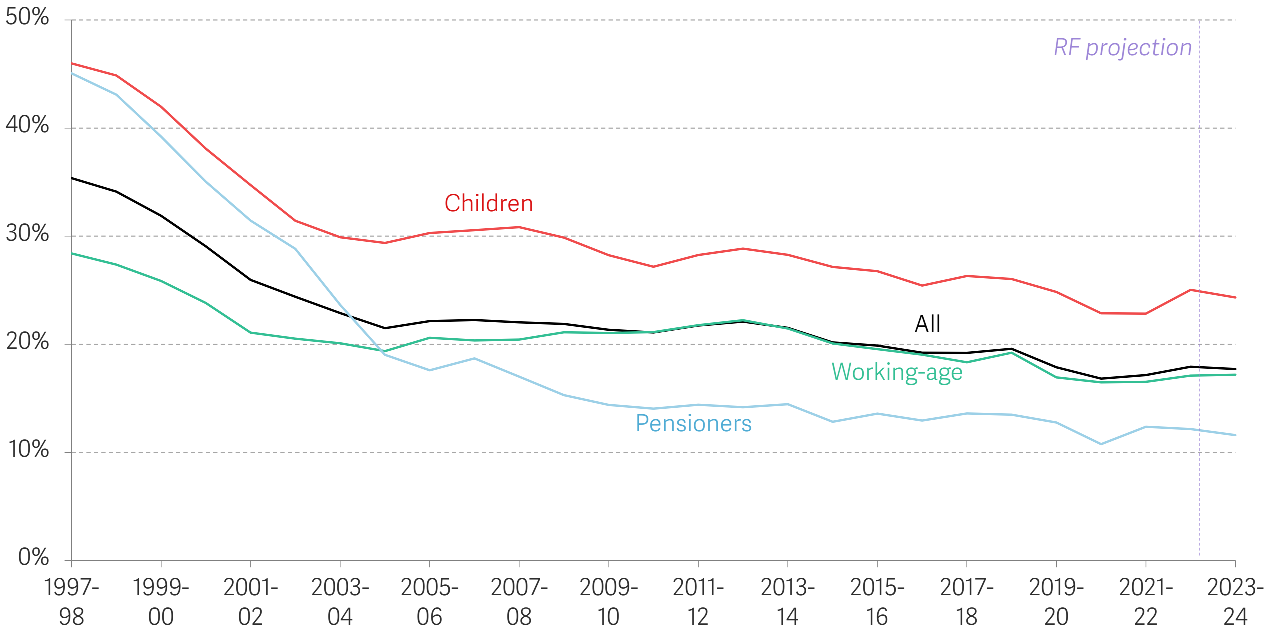
Both relative and absolute poverty have fallen since 2009-10, but by less than they have historically

Figure 9 shows the proportion of people living in absolute poverty (a measure of poverty where the threshold is fixed at 60 per cent of the real median income in 2010-11) by broad age group, including our 'nowcast' for 2023-24.[24] In normal times, we would expect absolute poverty to fall, as incomes grow and society becomes richer. After housing costs, absolute poverty has fallen for all age groups between 2009-10 and 2023-24, falling by 3.6 percentage points (1.3 million people), 3.9 percentage points (230,000) for children, 3.9 percentage points (730,000) for working-age adults, and by 2.8 percentage points (280,000) for pensioners, although progress in 2023-24 will be flattered by the temporary Cost of Living Payments.[25]

However, as with income growth trends, this is very slow progress by recent historic standards. Over the shorter period of 13 years from 1996-97 to 2009-10 when Labour was in power, absolute poverty (using a threshold fixed at 60 per cent of the real median income in 1997-98) fell by 14 percentage points overall (7 million people), 20 percentage points for children (2.5 million), and a staggering 24 percentage points for pensioners (2.3 million).

FIGURE 9: **Absolute poverty has fallen slightly since 2009-10, but there has been little progress made in recent years**

Proportion of people living in absolute poverty, after housing costs: UK



NOTES: GB before 2002-03. 2023-24 data is projected. This chart uses a measure of absolute poverty where the threshold is fixed at 60 per cent of the real equivalised median household income in 2010-11.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

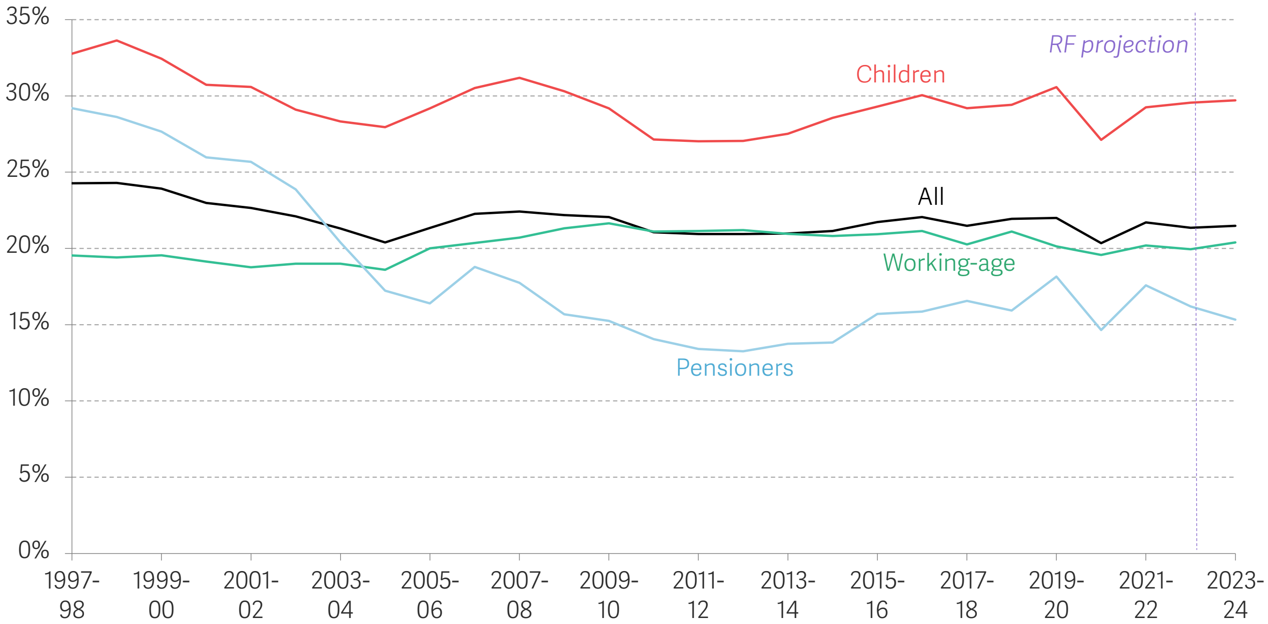
24 Note that recent years of the DWP's Households Below Average Income data are set to be revised in 2025 or beyond. This will likely alter a range of income data, including poverty statistics, but for now we must take the data as it stands. For more information see A Corlett & L Try, Five takeaways from new living standards data, Resolution Foundation, March 2024.
25 Absolute poverty before housing costs fell between 2009-10 and 2022-23 by 2.1 percentage points, or 460,000 people.

Figure 10 shows the proportion of people living in relative poverty (a poverty measure where the threshold is set at 60 per cent of median income for the year specified). There has been mixed progress on reducing relative poverty since 2009-10: the overall rate of relative poverty has fallen by 0.6 percentage points (780,000 people), driven by a 1.3 percentage points (1.7 million) fall in the working-age poverty rate. But poverty rates for children and pensioners have risen slightly since 2009-10, by 0.5 percentage points (390,000) and 0.1 percentage points (70,000) respectively.[26] This is the opposite of what happened under the last period of Labour government: between 1996-97 and 2009-10, relative poverty rates for pensioners and children fell the most, by 13.9 percentage points (1.1 million) and 4.4 percentage points (420,000) respectively, while the proportion of working-age people in relative poverty increased.

Since 2019-20, relative poverty rates have fallen overall by 0.5ppts (130,000 people), and relative poverty rates have also fallen for children and pensioners specifically (but risen slightly for working-age people). This is likely due to a combination of incomes falling at the median since 2019-20, meaning the relative poverty threshold in 2023-24 is lower than the one in 2019-20, and incomes below the median either rising or falling by less than at the median, as Figure 4 shows.

FIGURE 10: **Overall relative poverty has remained fairly stable since 2009-10**

Proportion of people living in relative poverty, after housing costs: UK



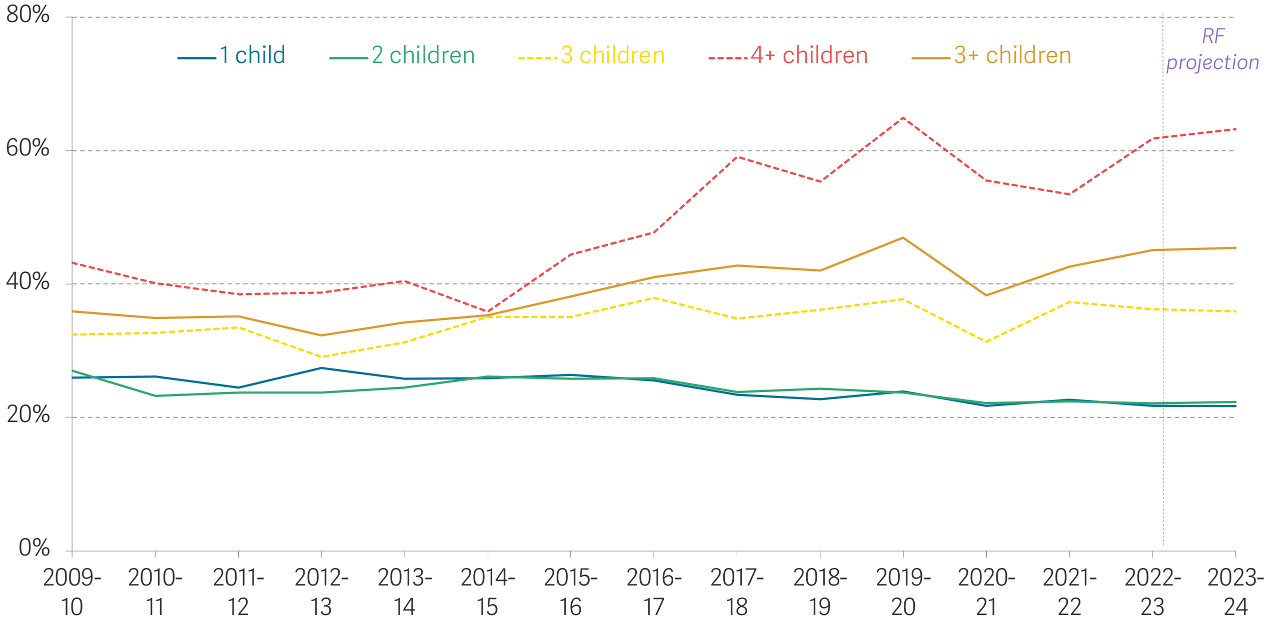
NOTES: GB before 2002-03. 2023-24 data is projected. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

26 Relative poverty before housing costs rose between 2009-10 and 2022-23 by 0.1 percentage points, or 1.1 million people.

Figure 11 shows the proportion of children in relative poverty by the number of children in their family. The proportion of children in larger families (with three or more children), who are the group affected by the two-child limit, has increased by nearly 10 percentage points from 36 per cent in 2009-10 to 45 per cent in 2023-24, putting another 840,000 children in large families into poverty. In comparison, children living in families with one or two children have actually become less likely to be in poverty over the same time period (with poverty rates falling by 4 percentage points for families with one child and 5 percentage points for those with two children).

Figure 11: The increase in child poverty is entirely driven by rising poverty in families with three or more children

Proportion of children living in relative poverty by number of children in family, after housing costs: UK



NOTES: 2023-24 data is projected. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

It is undeniable that policies such as the two-child limit and the benefit cap, which delink entitlement and need for some families, are responsible for this disparity.[27] And the effect of these policies will only worsen over time: given that the two-child limit only applies to those born from 2017 onwards, it will not cover all children until the mid-2030s. As of April 2023, 57 per cent of families claiming UC or Child Tax Credits (CTC) that have three or more children were affected by the two-child limit,[28] and it is set to affect nearly one in five of all children when fully rolled-out.[29]

27 L Try, Catastrophic caps: An analysis of the impact of the two-child limit and the benefit cap, Resolution Foundation, January 2024.
28 DWP & HMRC, Universal Credit and Child Tax Credit claimants: statistics related to the policy to provide support for a maximum of two children, April 2023.
29 E Latimer & T Waters, The two-child limit: poverty, incentives and cost, Institute for Fiscal Studies, June 2024.

Conclusion: the UK is in desperate need of some strong income growth

After reviewing progress on income growth within the most recent Parliament and since 2009-10, it is clear that the progress that has been made has left much to be desired. The combination of the Covid-19 pandemic and the cost of living crisis were not ideal circumstances to grow the economy and living standards. But these events cannot take all the blame for our stagnating living standards. Poor productivity growth in the UK means economic growth has also been very weak over the same time period. Had we experienced the same level of growth to median incomes between 2007 and 2022 as the Netherlands, France and Germany, then median income in 2022-23 in the UK would have been £2,700 higher. As part of our work on the Economy 2030 Inquiry, the Resolution Foundation has come up with a strategy to end this stagnation, involving boosting economic growth through investment, making work better for workers, and creating shared prosperity by reforming taxes and benefits.[30] Whichever party forms the next government must be willing to take big steps to boost living standards and share the gains from growth, so all families in the UK can experience shared prosperity.

30 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

Annex: Microsimulation modelling of the tax and benefit system since 2010-11 and 2019-20

The distributional analysis of income changes due to social security changes since 2010-11 and 2019-20 was carried out using the DWP's Family Resources Survey (2022-23 version) and the IPPR tax-benefit model. We took the tax and benefit systems that existed in 2010-11 and 2019-20 and uprated to 2024-25 prices, with the aim of representing each iteration of the system as if no further policy changes had been made. This involves a number of assumptions to be made as to how best to represent 'no change':

- Tax and benefit parameters were uprated based on standard uprating conventions (e.g. the previous September's CPI for most non-pensioner benefits and tax thresholds; average earnings for pensions in the 2010-11 system; and the triple lock for pensions in the 2019-20 system). This means that all threshold-changes, rate changes, freezes and below-inflation uprating of tax and benefit parameters between each period are accounted for in each model.
- The savings threshold of £16,000 was not uprated, as it never has been since its introduction. Similarly, the benefit cap was held at its nominal rate in each period as, although the cap has changed in value a few times during the period, inflation-linked uprating is not standard practice.
- For consistency, income vigintiles represent individual people (including children) organised into vigintiles based on equivalised household income under the 2024-25 benefit system.
- Changes to tax and social security in Scotland are not modelled.

The following policy changes since 2019 are modelled (in addition to the various rate and threshold changes captured in the uprating of each model)

Social security:

- Reducing the Universal Credit taper rate from 63 per cent to 55 per cent and increasing the work allowances.
- Increasing the Universal Credit childcare caps in 2023-24.
- Resetting the Local Housing Allowance to the 30th percentile of local rents.
- Uprating the benefit cap by CPI in 2023-24.

Tax:

- Reducing employee National Insurance contributions from 12 per cent to 8 per cent.
- Reducing Class 4 National Insurance contributions for the self-employed from 9 per cent to 6 per cent.
- Abolishing compulsory Class 2 National Insurance contributions for the self-employed.
- Increasing the National Insurance Primary Threshold and Lower Profit Limit to £12,570.
- Freezing the Income Tax and National Insurance personal allowance and higher rate threshold at 2021-22 levels.
- Reducing the Income Tax additional rate threshold to £125,140.
- Reducing the Income Tax dividend allowance from £2,000 to £500.

The following changes since 2010 are modelled (in addition to the above changes since 2019)

Social security:

- Reducing the Local Housing Allowance from the 50th to the 30th percentile of local rents.
- Aligning the Tax Credits second income threshold with the standard threshold.
- Increasing the Tax Credits withdrawal rate from 39 per cent to 41 per cent and removing the second withdrawal rate.
- Tapering the family element of Child Tax Credit immediately after the child element.
- Removing the Child Tax Credit baby element and 50-plus element.
- Reducing the Tax Credits income change disregard from £25,000 to £2,500.
- Freezing Child Benefit for three years from 2011-12.
- Introducing the triple lock to uprate the State Pension from 2011-12.
- Introducing the new State Pension.
- Introducing the benefit cap.

- Reducing expenditure on Council Tax Benefit by 10 per cent, as a part of localisation to Council Tax Support.
- Introducing the High-Income Child Benefit Charge.
- Increasing the Working Tax Credit working hours requirement for couples with children to 24 hours per week.
- Introducing Universal Credit.
- Introducing the two-child limit in Universal Credit, Tax Credits and Housing Benefit.
- Removing the family element in Tax Credits and Universal Credit, and the family premium in Housing Benefit, for new claims.
- Removing the cash component of the Work-Related Activity Group in Employment and Support Allowance and the Limited Capability for Work element in Universal Credit.
- Reducing the Universal Credit withdrawal rate from 65 per cent to 63 per cent.

Tax:

- Successive increases to the Income Tax personal allowance.
- Reducing the additional rate of Income Tax to 45 per cent.
- Removing the Income Tax age-related personal allowance.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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