

ESTIMATING POVERTY IMPACTS OF CORONAVIRUS MICROSIMULATION ESTIMATES

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INTRODUCTION

As a result of the pandemic, economic forecasters are expecting a huge surge in unemployment across the UK. And, as with other recessions, some workers may find they are working reduced hours. These economic shocks will have a profound impact on people's livelihoods in the UK as incomes drop, even with the benefit system providing some income replacement in some cases.

This analysis uses a microsimulation approach to estimate potential poverty impacts from these changes in the economy, focusing on the last quarter of 2020 when unemployment is expected to peak and the Job Retention Scheme is due to end.

THE MODELLING

The modelling compares two scenarios:

- A "baseline" scenario where Covid-19 had not happened; there is no sharp increase in unemployment and no emergency changes to benefit policy.
- A coronavirus scenario with significantly higher unemployment and reduced hours for some workers, along with emergency changes to benefit policy.

We focus on the increase in the number of people who are projected to be under the pre-Covid poverty line, comparing the baseline and coronavirus scenarios. The pre-Covid poverty line is defined as having a household income below 60 per cent of equivalised household income (adjusting for the composition of the household as is standard in income analysis), had the pandemic not occurred. We do not report relative poverty in this scenario because changes in relative poverty would be a misleading metric in a situation where median income is falling, whilst prices are still expected to be rising. As a result, the measure we focus on is more likely to capture the additional number of people who may experience hardship through poor labour market outcomes.

We use the IPPR tax-benefit model to estimate the impacts on household incomes in the UK, based on a hypothetical “snapshot” in the last quarter of 2020, using household data from the Family Resources Survey 2018/19. The model factors in the following economic shocks, which at this stage are subject to large uncertainties:

- Rising unemployment: we assume that unemployment rises from 3.9 per cent to 9.8 per cent in line with the Bank of England’s latest forecasts (Bank of England, 2020). We assume job losses occur in the private sector only.
- Reduced hours for some workers as the furlough scheme winds down: the extent to which workers will experience reduced hours is unclear, at least in the short run. We therefore present a range of options to illustrate the impact this could have on our poverty estimates. We reduce hours by 40 per cent in the model for those affected, the equivalent of moving to a three-day week for a typical full-time worker.

It is difficult to establish how unemployment and a reduction in job hours will fall across different income quintiles. We use survey evidence from the Resolution Foundation (Gardiner et al 2020) to inform the relative likelihood of job losses and hourly reductions for differing income quintiles. This evidence suggests that adverse outcomes are likely to be skewed towards lower income groups. Beyond this we do not know who will lose their job or experience reduced hours, and the model assigns these randomly (with higher prevalence in lower income quintiles). To account for this, the model is run many times and averages are taken to assess the most likely outcome given the assumptions.

We also include reforms to the welfare system that were introduced by the chancellor of the exchequer in March:

- Increased generosity of payments in both universal credit and tax credits (HM Treasury, 2020)
- The suspension of the minimum income floor used to calculate universal credit entitlement for the self-employed, assuming this policy remains in place by the end of the year (Turn2Us, 2020).
- The model does not include increases to local housing allowances (LHAs). Due to data limitations in the Family Resources Survey, the model is ‘blind’ to LHAs and in most cases assumes housing benefit covers housing costs. More generous LHAs are likely to mitigate some of the

poverty impact we set out here. Similarly, we do not model the effects of the 2020-21 council tax hardship fund, due to lack of data.

We have modelled a range of scenarios to illustrate the potential poverty impacts.

RESULTS

The key results from the analysis show that it is highly plausible that over 1 million more people will be under the pre-Covid poverty line compared to a situation where the pandemic had not occurred, including 200,000 children, at the end of the year.

TABLE 1 – ESTIMATES OF ADDITIONAL NUMBERS UNDER THE PRE-COVID POVERTY LINE

| | Assumed unemployment rate | Assumed percentage of private sector workers experiencing reduction in hours | Additional children under pre-Covid poverty line | Additional adults under pre-Covid poverty line |
|------------------|---------------------------|--|--|--|
| Low Scenario | 9.8% | 0% | 100,000 | 600,000 |
| Central Scenario | 9.8% | 10% | 200,000 | 1,100,000 |
| High Scenario | 9.8% | 25% | 300,000 | 1,700,000 |

CONCLUSION AND POLICY IMPLICATIONS

Our analysis suggests that the government will need to go further to prevent increases in child poverty - and much further in order to stem the rise in adult poverty – as a result of the crisis.

As a pre-requisite this should include removing the universal credit austerity measures - the two-child limit and benefit cap, which penalise larger families and disproportionately affect those from ethnic minority backgrounds, disabled people and single parents. The emergency increase to the universal credit standard allowance and tax credits should be retained beyond the end of the year and further increases are needed to the universal credit child element and child tax credits.

There should be more help for those in the private rented sector by increasing the local housing allowance to cover 50 per cent of market rates, given that

there are not enough properties at 30 per cent of the market rate for people to move somewhere cheaper. And parents who cannot work because of school and childcare setting closures, as well as those who are shielded, must have the option to work flexibly or receive ongoing financial support through the furlough scheme. IPPR will publish further proposals to reduce financial risk and spread security over the coming year.

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