

## Poverty of ambition: why we need a new approach to tackling child poverty

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### Executive Summary

In 1999, Tony Blair committed the Government to abolishing child poverty by 2020. In 2006, the Conservative opposition endorsed this aim, and in 2009 the Government introduced a Child Poverty Bill which requires all future governments to meet four child poverty targets.

It is difficult to criticise these targets, for nobody wants to object to policies intended to rescue children from poverty. But the way the Government is defining and measuring poverty is badly flawed, and the new Bill has more to do with redistributing incomes and increasing welfare payments than with tackling the underlying causes of child poverty.

**This Research Note recommends that the current child poverty targets should be replaced and the Child Poverty Bill withdrawn. We are not, however, arguing that the Government should abandon its broader concern to improve child wellbeing and the causes of poverty.**

We now have a reasonable understanding of the factors that tend to blight children's lives like growing up in a jobless household, growing up in care, teenage pregnancy, illicit substance abuse, a broken home and a bad truancy record at school. The Government acknowledges the importance of many of these factors. Until 2007, the Department of Work and Pensions (DWP) collated and published statistics on many of them, and the new Child Poverty Bill requires the Government to develop a child poverty strategy plan every 3 years that will hopefully reduce their incidence. But having acknowledged the importance of these underlying, causal factors, the only targets laid down in the Child Poverty Bill are to do with the distribution of income between households. This is a mistake. **The Government should collate and publish a series of measures focused on child wellbeing and the causes of poverty, and policies should continue to be developed to improve outcomes where appropriate.**

The preoccupation with income distribution reflects the way the Government thinks about poverty. Most people think of poverty as lacking the basic necessities of life. The Government, however, defines poverty in relative terms. It says you are poor if you cannot afford to buy the things that most other people can afford. This approach confuses poverty with inequality. Having less than other people does not make an individual poor – it simply means resources are unequally distributed.

The Bill wants to tie all future governments to meeting four income distribution targets. Governments will be required to reduce:

- Relative poverty, defined as an income less than 60% of the current median income;
- Absolute poverty (which is actually a 'fixed' rather than an 'absolute' measure), defined as income below 60% of the median income as it was in 1998, after adjusting for inflation since then;
- Deprivation, a composite measure combining low income (below 70% of the median) with a high score on a material deprivation index of household possessions and activities;
- Persistent poverty, defined as an income below 60% of the median in 3 out of 4 successive years.

Even on a very narrow, materialist view of child poverty, these targets are hopelessly flawed, for they do not measure hardship accurately or reliably:

- The poverty line has been drawn in an arbitrary way, as an income below 60% of the median income. A slightly different but equally plausible poverty level would create very different results.
- The income data used to measure child poverty are incomplete and misleading, particularly at the bottom end of the distribution, yet these are the data on which progress in meeting the poverty targets is to be assessed. One-third of the money handed out to lower income households in welfare benefits and tax credits is not even reported in the income statistics.
- Incomes don't include the value of services in kind that people receive, like health care and schooling, yet these have a big impact on their living standards and are particularly important for poorer households.
- The poverty statistics are based on people's incomes at one point in time, yet these incomes fluctuate. More than half of the people in the bottom income decile one year are no longer there the next. The Government is trying to hit a moving target.
- Measuring child poverty is especially arbitrary because the 'incomes' allocated to children in the official statistics are fictitious and will vary according to which equivalence scale is used. The poverty statistics also change dramatically according to whether incomes are measured before or after housing costs, but there is no clear rationale for either.
- Using multiple indicators of child poverty (the Bill identifies four) does not resolve these problems but compounds them. On some measures, child poverty has fallen significantly since Labour came to power; on others, it hasn't fallen at all.

The Government's child poverty agenda has been built on a methodological quicksand. The 2010 and 2020 targets to which politicians of both main parties have bound themselves, and which the Child Poverty Bill seeks to enshrine in law, are artificial constructs which don't drive policy in a sensible direction.

## Introduction

In 1999, Tony Blair made a last-minute addition to a lecture commemorating the founder of the post-war welfare state, William Beveridge. To the surprise of his speech writers, and with little apparent forethought, he announced: “Our historic aim will be for ours to be the first generation to end child poverty. It is a 20-year mission, but I believe it can be done.”<sup>1</sup>

This off-the-cuff commitment to end child poverty has since come to dominate British social policy:

- Explicit targets have been formulated: a 25% reduction in child poverty by 2005; a halving by 2010; complete elimination by 2020.
- Measures and indicators of ‘child poverty’ have been devised, applied, then re-thought, revised and re-applied.
- £20 billion per year are being spent on Child Tax Credits, the principal means of delivering the Prime Minister’s pledge.<sup>2</sup>
- And now a new law (the Child Poverty Bill) has been drawn up which aims to commit this and all future governments to meeting the 2020 child poverty target.

In 2006, the Conservative opposition signed up to Tony Blair’s agenda, and it has indicated it will support the main provisions of the Child Poverty Bill as it goes through Parliament later this year.<sup>3</sup> No matter which party wins the next election, therefore, this agenda is set to continue dominating social policy long into the future.

Abolishing child poverty is one of those motherhood-and-apple-pie policy commitments that no politician feels able to oppose. But the new Child Poverty Bill has as much to do with income redistribution as with alleviation of child poverty. The Minister in charge of the Bill has said as much stating that “Labour’s child poverty targets have never been just about poverty; they have always been about narrowing the unfair inequalities”.<sup>4</sup> This Bill aims to tie future governments, Conservative as well as Labour, to this egalitarian agenda by enshrining a deeply-flawed set of poverty targets into law and holding all future governments to account if they fail to achieve them.<sup>5</sup>

This legislation, and the child poverty targets which it promulgates, is badly misconceived:

- The concept of poverty which informs the targets is flawed;
- The measurement of child poverty is arbitrary, and estimates swell or shrink according to how definitions get tweaked;
- The data on people’s incomes on which estimates of child poverty are based are unreliable (particularly towards the lower-end of the income distribution) and do not correspond with people’s actual living standards;
- The policies which these targets encourage are expensive, focused on addressing symptoms rather than causes, counter-productive, and almost bound to fail.

We believe both Government and Opposition should have a re-think about the current approach to tackling child poverty before nodding this Bill into law.

## The child poverty targets

Childhood deprivation entails a lot more than just a low income, and the Government acknowledges this. In its annual *Opportunity for All* reports (published until 2007) it charted progress (or the lack of it) on a range of indicators that affect young people’s life chances – low income was only one of them. Others included:

- living in a jobless household;
- teenage pregnancy;

- low educational attainment and erratic school attendance;
- school-leavers not in education, employment or training ('NEETs')
- living in sub-standard housing or temporary accommodation;
- infant mortality rates, serious childhood injuries and registration on the Child Protection Register;
- teenage smoking and obesity.

This list included many (though not all) of the risk factors that are known to be associated with childhood deprivation.<sup>6</sup> But in 2007, the DWP stopped collating, updating and publishing these indicators,<sup>7</sup> and none of them are included as targets in the new Child Poverty Bill. Rather, the requirement on future governments to eradicate child poverty by 2020 will be judged purely on income levels.

The Bill does require the Government to develop a Child Poverty Strategy which will be revised every 3 years, and will include policies on health, education, family, employment, adult skills, housing and neighbourhoods as well as on financial support.<sup>8</sup> But the targets that are being given the force of law focus only on income (the first three were developed for the 2010 target of halving child poverty, and the fourth has been newly added in this legislation):

- Fewer than 10% of children to be in 'relative income poverty' by 2020;
- Fewer than 5% of children to be in 'absolute income poverty' by 2020;
- Fewer than 5% of children to be suffering 'material deprivation' due to a low income by 2020;
- A target (yet to be determined) for the proportion of children in 'persistent income poverty in 2020'.

#### The magic number: an equivalised income above 60% of the median

In common with the EU and many academic researchers, the UK government defines 'poverty' as an 'equivalised income' (i.e. a household's per capita income after adjusting for the number of household members) below 60% of the median. The child poverty targets require the number of children with an equivalised income below 60% of the median to be reduced by 25% in 2005, 50% in 2010, and 100% by 2020.

Success in meeting the 2010 target is being assessed against three criteria:

- The number of children with an equivalised income below 60% of the median in 2010 ('relative poverty');
- The number of children with an equivalised income below 60% of the median as it was in 1998-99, after adjusting for price inflation (relative poverty with a fixed base year, or what the government calls 'absolute poverty');
- The number of children with an equivalised income below 70% of the median in 2010 *and* scoring highly on an index of material deprivation (a combination of relative poverty and material deprivation measures).

All three measures have been retained for 2020 in the Child Poverty Bill, and a fourth has been added:

- The number of children with an equivalised income below 60% of the median for a period of 3 out of 4 years ('persistent poverty').

The Bill requires future governments to meet all four of these targets.

Realistically, these targets will only be met if welfare benefits are raised. International comparisons confirm that a country's relative poverty rate (defined as the number of people on incomes below an arbitrary poverty line) simply reflects how much it redistributes incomes through high welfare benefits.<sup>9</sup> This is because most families at the bottom end of the income distribution are living on welfare. If welfare benefits are worth less

than 60% of median income, and if you draw the poverty line at 60% of median income, you are almost guaranteed to define anyone below retirement age who is living on Income Support as poor.<sup>10</sup>

A legal requirement to raise the incomes of poor families thus translates into a requirement to make government transfer payments more generous. This is why, despite its desire to move more people off welfare and into employment, New Labour has massively increased spending on state benefits in an attempt to meet its 2005 and 2010 child poverty targets. It is now legislating to ensure that any future government continues down the same path. But if we seriously want to improve children's lives, the answer does not lie in constantly increasing the attractiveness of welfare payments. We should be focusing on tackling the causes of deprivation in families, rather than the symptoms.

**Table 1: Proportion of UK children in poverty, based on the three measures being used to assess the 2010 child poverty target<sup>11</sup>**

	1998	2007
<i>Relative poverty:</i>		
Equivalised income below 60% of the median, before housing costs	26%	23%
<i>Absolute poverty (i.e. relative poverty fixed at a 1997 baseline):</i>		
Equivalised income below 60% of the 1997 median, before housing costs	26%	13%
<i>Combined relative poverty and material deprivation measure:</i>		
Equivalised income below 70% of the median, plus deprivation score above 25	21%	17%

### How poverty got confused with inequality

Nobody wants children to grow up in poverty. But what the Government means when it talks about poverty is not what most people in Britain think of as poverty.

Most of us think of poverty as an inability to meet basic needs, like a reasonable diet or adequate housing. If children are going without these basics, most people would want to do something about it. But this is not how the Government is defining poverty. It instead says you are poor if you can't afford the things that the majority of people have. This is known as relative poverty, and is the concept that underpins the current child poverty targets.

This definition of poverty does not accord with popular sentiment. Less than a quarter of the British population believes that somebody is poor if they have enough money to buy the things they need, but not enough to buy things that most other people can afford.<sup>12</sup> They are right to be sceptical, for the idea that poverty is relative – that you are poor if most other people can buy things you cannot afford – confuses *poverty* with *inequality*. Having less than other people have does not necessarily mean you are poor; it rather indicates unequal shares.

The Oxford English Dictionary defines poverty as “*the condition of having little or no wealth or material possessions; indigence, destitution, want (in various degrees)....Deficiency, lack, scantiness, dearth, scarcity, smallness of amount*”. Inequality, on the other hand, is defined as “*the state or condition of being unequal; want of equality between persons or things; disparity in dignity, rank or circumstances: social disparity; the fact of occupying a more or less advantageous position*”. The two terms are – or should be – quite distinct. But in the Government's poverty targets, they have become hopelessly intertwined.

Poverty, in the sense that most of the public (and the OECD) understands it, has largely disappeared in affluent countries like Britain. Consider, for example, the World Bank's depiction of what it means to be poor: "*Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water.*"<sup>13</sup>

Understood in this way, very few people in modern Britain can be said to be poor. But in the 1960s, sociologists like Peter Townsend wanted to argue that poverty was still a major problem in Britain, and they did it by developing the concept of relative poverty.<sup>14</sup>

Unlike the sort of poverty the World Bank identifies, relative poverty has nothing to do with hunger, homelessness, illiteracy, sickness or dirty drinking water. Nor does it reduce as the economy grows and people get better off. Indeed, in a market economy, relative poverty is unlikely ever to disappear, no matter how rich the country becomes, for if food, housing, healthcare and schooling become universally available, the definition of being poor simply shifts to other things.

This is an infinitely elastic understanding of poverty which is immune to disconfirmation, for as people become more affluent, the poverty line gets raised to compensate. Yet despite this obvious flaw, the idea that poverty is about having less than other people has moved into the mainstream of political thinking in the last 40 years. Both the UK and EU Governments are now committed to it, as are all three major UK political parties.

The problem at the core of the idea of relative poverty is that, for as long as incomes and assets are unequally distributed, there will *always* be people who have less. Defined in relative terms, the poor will always be with us, no matter how much overall living standards improve.

Despite its inherent problems however, the idea of relative poverty commands a broad consensus today among most academics and policy advisers. This means it is rarely challenged. Yet the concept of relative poverty has resulted in some bizarre outcomes when it has been put into practice:

- Because strong economic growth since 1999 has pushed the UK median income upwards, our relative poverty line has got higher as well. Ensuring that no child will be in poverty in 2020 thus requires not only that the living standards of families at the lower end of the income distribution increase as the economy grows, but also that they rise *faster* than the living standards of the people above them (those on the median income). Given that many of the people at the bottom of the income ladder are on welfare, this means benefits have to increase faster than the wages earned by middle income workers, potentially further increasing the poverty trap by reducing work incentives.<sup>15</sup> For a while, the Blair Government pursued precisely this strategy as it struggled to meet its 2005 child poverty target, but eventually officials realised this was costly and counterproductive. In 2009, the promise to *eliminate* child poverty by 2020 was therefore quietly redefined as *reducing* child poverty to a level below 10%.<sup>16</sup> Even though it remains wedded to the concept, the Government now accepts that abolishing relative poverty is impossible to achieve;
- The EU, too, gets itself into tangles when it compares poverty rates across its member states, for it also uses a relative measure. Like the UK Government, it defines people as poor if they have an income less than 60% of the median income in their country. This leads to the surprising finding that there is more child poverty in Britain than there is in, say, Poland. Because the income distribution is more spread-out in the UK than in Poland, there are more families below 60% of median income here than there, so

Britain comes out worse on the EU's poverty statistics. Yet the people in Britain who get defined as poor actually enjoy a standard of living far higher than that of most Poles.<sup>17</sup> Polish workers move to Britain in search of a higher standard of living, but according to the EU, they make themselves poorer when they do so.

### Drawing the poverty line

Once poverty is equated with income inequality, the next question that arises is where to draw the line? How far up the income distribution should we go before we decide that people are no longer relatively poor?

There is no correct answer to this. Wherever the poverty line gets drawn, it will always involve an arbitrary divide between those deemed to be poor and the rest. In recent years a consensus has emerged around a definition of poverty as an income below 60% of the median. This means that if everyone in the country is ranked from the poorest to the richest, and a line is drawn at the point where incomes are less than 60% of what the middle-ranking person is getting, then everyone below this line is classified as poor.

**Table 2: UK relative poverty estimates (whole population) using 40%, 50%, 60% and 70% of median income as the poverty line<sup>18</sup>**

	1979	1997	2007
Below 40% of median, before housing costs	2%	5%	6%
after housing costs	3%	8%	10%
Below 50% of median, before housing costs	6%	11%	11%
after housing costs	6%	17%	16%
Below 60% of median, before housing costs	13%	20%	18%
after housing costs	14%	25%	23%
Below 70% of median, before housing costs	22%	28%	27%
after housing costs	23%	32%	30%

So why choose 60% of median income as the cut-off? The answer is that there is no scientific reason, except that most academics and policy experts are happy to accept such a definition. They appear to have settled on 60% because it produces the sorts of poverty numbers they regard as plausible.

If they drew the poverty line at, say, 40% of median income, they would find 'too few' people living in poverty, which would imply there is not a serious problem for government policy to address. Draw it at 80%, and there would be so many poor people that few of us would take the numbers seriously.<sup>19</sup> The experts have thus proceeded like Goldilocks. A poverty definition based on 60% of median income is neither too hot, nor too cold, but 'just right.' This is the intellectual foundation on which the Government is now legislating child poverty targets.

Based on a 60% of median income poverty line, 2.9 million children – 22.5% of all the children in the UK – were living in 'poverty' in 2007-08.<sup>20</sup> Table 1 (see p.5) shows that this figure is lower than when New Labour came to power in 1997, when 26.1% of children were below this line. However, poverty would not have fallen at all had the poverty line been drawn at 50% of median income, and at 40%, poverty would actually have risen during this period (see Table 2 above).

Between 1979 and 1997, the number of people below the 60% line almost doubled. While living standards improved for most families during that period, they improved faster for those on higher incomes than for

those lower down, and the widening of the income gap drove up the relative poverty rate. Following Blair's commitment to end child poverty, this trend has been reversed, although the figures are still high by historic standards, and Britain remains towards the bottom of the EU relative poverty league table.

In the 9 years following Tony Blair's speech, billions of pounds have been spent in an effort to meet the child poverty targets. Spending on tax credits alone has increased from less than £3 billion to more than £20 billion annually.<sup>21</sup> Yet the official estimates of the number of children in poverty have fallen by only 500,000 and the total would have to fall by another 1.2 million for the 2010 target to be achieved.<sup>22</sup> To reduce the numbers by this amount, the child element of the child tax credit would have to be increased by another £12.50 per week on top of the increases already introduced and in the pipeline. This would add another £4 billion a year to the tax credit budget.<sup>23</sup>

#### Hitting and missing the target

The government missed its 2005 child poverty target (a 25% reduction) by around 100,000. Most commentators saw this as a creditable effort. Since then, however, the figures have been getting worse. By 2008, the shortfall on the 2005 target had increased to 300,000, and the 2010 target (to halve the 2000 rate) was looking hopelessly out of reach.

It is important to note that the fall in the actual numbers of children in poverty after 1997 tells us little about *how much* impact government policies have had on people on low incomes because the poverty line cannot tell us how far below the line people fall (the depth of poverty). Because many incomes cluster just above and just below the poverty line, it would be possible to cut the headline poverty numbers quite substantially by giving those who are just below the line a tiny increase in cash sufficient to get them across it. Such a policy would have a significant effect on poverty targets yet would have almost no impact on people's actual living standards.<sup>24</sup>

### Measuring child poverty

Given that most children have no income of their own, how do researchers come up with the claim that nearly 3 million children have an income below the poverty line? The answer is that they give children a notional income based on that of their parents – but this creates another source of bias in the data.

Poverty researchers want to count the number of individuals who are poor, but most of us live in shared households and, to a greater or lesser extent, we pool our resources. Researchers assume that every individual member of a household shares equally in the household's total income, irrespective of who actually receives the money. Wives and husbands, for example, are assumed to share their incomes equally. Similarly, children are assumed to receive the same amount as their parents. In this way, every individual in the country – including children and even babies – can be given a notional income of their own (even though, in reality, most of them don't have one).

But there is still a problem. If all individuals were allocated an income based on an equal share of their total household income, the living standards of those in larger households would be under-estimated relative to people living alone. This is because people living together can share their expenses and therefore live more cheaply than people who live alone. Furthermore, it costs less to maintain a child than an adult, so simple averaging across all household members would inflate the estimated living standards of childless households when compared with families with children.

Rather than adding together all the money coming into each household and dividing it by the number of household members, researchers therefore adjust people's incomes by applying what are called equivalence



scales. But after making these adjustments, people's actual incomes cease to bear much resemblance to the equivalised incomes they are credited with in the official statistics. Moreover, the 'income' they end up with varies according to which equivalence scale the researcher decides to use.

#### Equivalence scales

Some equivalence scales are very simple; others are much more complicated.<sup>25</sup>

- A common scale divides total household income by *the square root* of the number of people in the household. This assumes, for example, that a household of 4 people needs twice the income of a single person to achieve a comparable standard of living.
- Until recently, the UK government used the *McClements scale*. This gives an adult couple a weight of 1 (0.61 for the first partner, and 0.39 for the second), and then allocates further weights to additional household members according to their age (e.g. a third adult scores 0.42, an infant scores 0.09, a child aged 2 to 4 scores 0.18, and so on).
- The *OECD equivalence scale* (also called the '*Oxford scale*') assigns a value of 1 to the first household member, 0.7 to each additional adult, and 0.5 to each child.
- The EU uses a *modified OECD scale* which assigns a value of 1 to the household head, 0.5 to each additional adult member, and 0.3 to each child.

As with the choice of 60% of median income as the poverty line, so too with the choice of equivalence scales, there is no correct or incorrect way of making these adjustments. It comes down to personal judgement and what other researchers regard as reasonable. Yet different equivalence scales will generate quite different poverty estimates.

This becomes a particular problem if you are interested in *child* poverty, as the Government is, for different scales weight the costs of children differently (some also adjust for different ages of children), and therefore produce different results. The Blair Government discovered this in 2006 when it switched from the *McClements scale* to the *modified OECD scale* to make the British poverty statistics comparable with EU data. Because the new scale applies more weight to younger children than the old scale did, the child poverty rate in Britain rose by more than 100,000 as a result of the switch.<sup>26</sup>

An additional problem with equivalence scales is knowing which cost factors to include, and which to exclude. Families with disabled children, for example, generally incur higher costs than other families do, yet none of the equivalence scales currently take this into account. These families therefore appear better off in the official statistics because they receive higher welfare benefits, even though this additional income actually disappears in meeting their higher expenses.

Nor do the problems end there, for having chosen which equivalence scale to use, a decision has to be made as to how to deal with people's housing costs. The Government's poverty targets are based on people's incomes before they pay for their housing. This seems to make sense, for if rent or mortgage costs were deducted from people's incomes before gauging whether or not they are poor, those who choose to spend a bigger proportion of their income on better housing would appear to be poorer than those who choose to spend the same amount of money in other ways.

However, ignoring housing costs also distorts the poverty statistics. In particular, older people who have paid off their mortgages may be defined as poor because they are living on relatively low incomes, but the fact that they have no housing costs means they may be enjoying a higher standard of living than people on higher incomes who are still having to pay rent or mortgages.

So which option should be used? Most poverty campaigners prefer to measure poverty after deducting housing costs, for this generates higher poverty estimates (a 31.1% child poverty rate in 2007-08, as compared with a 22.5% rate before housing costs).<sup>27</sup> The Government, however, prefers to measure poverty before housing costs.

Again, there is no 'correct' solution to this divergence in views, but whichever option is adopted will have a substantial effect on the resultant poverty estimates (see Table 2 on p.7).

### The problems with income data

Adjustments to people's incomes can only be applied once their actual incomes are known. This, however, opens up another huge can of worms.

The income data on which poverty estimates rely are derived from the government's *Family Resources Survey* which quizzes about 25,000 households each year about their income (another 10,000 or so refuse to take part). But there is a question over the reliability of their answers.

One problem is that, even if everyone knows what their income is and is willing to share this information truthfully with government researchers, a survey of this nature only records an individual's income at one point in time, yet their circumstances can change quite rapidly. Somebody who is temporarily between jobs, for example, may report that they have received no income at all in the week they are interviewed, in which case they will be counted as poor, but it would be extremely misleading to take their nil return as an accurate indicator of their living standards.

Tony Blair's promise to eradicate child poverty seemed to assume that there was a clearly-defined section of the population which could be targeted by government policies. Give these poor households more money, and the problem is solved. But in reality, the people below the poverty line keep changing, which means the Government has been trying to hit a moving target.

More than half of the poorest 10% of households move out of the bottom income decile within 12 months. Some fall back again in later years, but the *British Household Panel Study* found that only four in ten households in the poorest income quintile in 1991 were still there in 2001.<sup>28</sup> A quarter of them had moved into the upper half of the income distribution over that period.<sup>29</sup> Of the 18% of households that had incomes below the poverty line in 1991, only 2% were persistently poor in every one of the next ten years.<sup>30</sup>

The problem with the income data is not just that people's incomes fluctuate. It is also that survey respondents may be reluctant to tell researchers how much their income actually is. Indeed in many cases, they may not even know themselves.

Some of the answers to the *Family Resources Survey* are clearly not reliable and the DWP admits that "income is often misreported by respondents in surveys."<sup>31</sup> The income data for families at the lower end of the scale are particularly unreliable.<sup>32</sup> Yet these are the data on which the Government's child poverty targets rely. Some respondents report zero – or even negative – incomes which are almost certainly misleading and in some cases are simply wrong. Government analysts arbitrarily re-set the negative answers to zero (even though they have no idea what the actual figure should be), but other implausibly low answers are allowed to stand.

This generates considerable error in the data:

- In the most recent *Family Resources Survey* data, more than 600,000 individuals appear as having an income of less than £10 per week.
- The minimum (unequalised) income available to a single parent with one child in 2007-08 was £145 per week, yet the *Family Resources Survey* records 2% of these families as having incomes of less than £100.<sup>33</sup>
- 6% of single parents with 2 children are recorded by the survey as having incomes below £200, yet the minimum welfare income available to these families was £213 per week.

As highlighted above, one test of the reliability of the income data is to compare the value of the welfare benefits people say they get with the value of benefits government departments actually pay out. When we do this, we find that people answering surveys substantially under-report their income from welfare benefits and from tax credits.

This under-reporting will tend to depress official estimates of the incomes of the less well-off more than of middle-income groups, for the former rely more heavily on welfare for their overall income. In the second and third income deciles – where people are clustering just below or just above the poverty line – people get most of their income from state benefits and tax credits.<sup>34</sup> Yet the Institute for Fiscal Studies (IFS) estimates that *one-third of all the money* the Government pays out in tax credits is not picked up in the survey data.<sup>35</sup> The poor, in other words, are often better off than the official statistics indicate, for they are getting government payments they are not reporting.

In addition it is important to remember that reported incomes take no account of the value of government services like the National Health Service or state schooling, yet families on low incomes rely heavily on these services to boost their living standards. The value of these services averages £4,000 per household per year, and although some of them are used more by affluent people than by poor ones (notably, higher education), individuals near the bottom of the income distribution tend to derive more value overall from them than those near the top.<sup>36</sup>

Ignoring this means the living standards of those on lower incomes appear lower than they really are, in relative as well as absolute terms. It also means that, if the Government tries to tackle poverty by, say, increasing spending on education in deprived areas, rather than by handing out more welfare benefits, there will be no immediate impact on the poverty numbers, even though children's lives may be improved much more as a result.

### Measuring deprivation

The use of income data in child poverty targets assumes that low reported incomes equate with low living standards. In reality, however, reported incomes are very poor predictors of whether or not households are suffering relative to others.

For many years, surveys have tried to measure 'deprivation' by asking people about their lifestyles. Have they had a holiday this year? How many pairs of all-weather shoes do they own? Do they have household contents insurance? Do the children have their own bedrooms? Have the children had their friends round for tea? Where people say they do not have the item in question, they are asked whether this is by choice, or because they cannot afford it. If the latter, they are said to be deprived of that item.

Analysing people's answers across a range of items, researchers give everyone a summary material deprivation score. Each item that somebody lacks is weighted according to how many people in the population as a whole have access to it (for example, 89% of people have two pairs of all-weather shoes, but only 58% have had a holiday away from home, so lacking the shoes carries more weight in the final deprivation score than going without a holiday). Then all the weighted scores are added together and the higher your score, the more deprived you are.<sup>37</sup>

When we compare the income data with the material deprivation data, we find a very poor match. Astonishingly, for those in the bottom 5% of the income distribution, deprivation scores get worse as income rises. Children with equivalised incomes below 40% of the median income are less deprived than those with incomes between 40% and 60% of the median. Children in the bottom 2% of incomes are less deprived than those whose incomes are well above the poverty line.<sup>38</sup>

The divergence between income and deprivation is sharpest at the bottom of the income distribution, but material deprivation scores vary wildly throughout the bottom quarter of reported incomes. Only half of the children with incomes defined as poor come out as deprived.<sup>39</sup> This means there are 1.4 million children who apparently have poverty-level incomes but whose lifestyle does not point to any significant material deprivation.<sup>40</sup>

It was because the income data told a different story from the deprivation data that the Government decided in 2003 to add a material deprivation measure to its poverty target indicators for 2010. As highlighted earlier, its target of halving child poverty by 2010 will be judged, not only by the number of children with incomes below 60% of the median, but also by how many children in low income families (defined as an income below 70% of the median) are scoring highly (25 points or more) on a material deprivation index.<sup>41</sup> This same measure is also being retained as one of the four 2020 targets in the Child Poverty Bill.

Far from resolving the problem with the poverty targets, however, this has only compounded it, for many of the problems that beset the income target reappear in the deprivation target. Not only is there the familiar problem of arbitrary cut-offs (why choose a deprivation score of 25?), but there is also the problem of definition. Specifically, how do we know that the reason people are going without something is because they cannot afford it? Asking them why they don't have an item does not produce reliable results. Young people, for example, are more likely to say they cannot afford it, while older people are more likely to say they don't really need it.<sup>42</sup>

This links to a major flaw in all deprivation measures, which is that they are only as good as the items they include on their list. People may be unable to afford items on the list because they are poor, or it may be because they prefer to spend their money on other things that are not on the list. People who smoke and drink, for example, may quite legitimately report they have insufficient money to save for a rainy day, replace worn-out furniture, pay for their kids to go swimming, or send their children on a school trip (all items that are included on the deprivation list). But this lack of money reflects the spending choices they have made elsewhere. It makes no sense to conclude that they are more deprived than other people who do not smoke or drink and who can afford the items on the list.

### Spending your way out of poverty

The problems associated with the current income and deprivation based measures of poverty have led the IFS to suggest that the Government should drop them both in favour of an alternative poverty target based on how much people spend.<sup>43</sup>

It sounds counter-intuitive to gauge people's living standards by what they spend, rather than how much money they have coming in, but the IFS says expenditure may be a more reliable indicator. It does not fluctuate so much over time, and people are less reticent about divulging details.

As with deprivation, however, there is only a weak association between expenditure and income poverty. Only 56% of those found to be poor on the income measure are also found to be poor (defined as spending below 60% of the median) on the expenditure measure.<sup>44</sup> However, while those with the lowest recorded incomes are often relatively high spenders (the poorest 1% by income spend more proportionally than those at the 40<sup>th</sup> percentile), the lowest spenders tend not to have high incomes. This suggests that spending may be a better guide to people's living standards than their reported income.

Poverty measured by how much people spend has quite a different character than poverty measured by reported incomes. Groups like the self-employed turn out to be less poor when spending rather than reported incomes is analysed. Pensioners, by contrast, end up with much higher poverty rates on the spending measure than on the income measure.

It is also interesting to note that the child poverty rate, measured on the basis of expenditure, has not fallen at all since New Labour came to power in 1997.<sup>45</sup>

There are, however, three major problems with adopting expenditure as the lead indicator of poverty:

- Firstly, spending reflects choice as well as constraint. For example, one reason why pensioner poverty is much higher measured by expenditure rather than by income may simply be that retired people have less desire to buy the quantity of goods and services that younger households like to consume. Abstemiousness does not necessarily indicate deprivation.
- A second problem is methodological. It is expensive and time-consuming to collect reliable expenditure data from a large sample of the population. Asking people to record every penny they spend in a diary makes for a tedious and demanding requirement with a high probability of error, and the kind of people willing and able to do it accurately are unlikely to form a representative slice of the whole population.
- Finally, measuring poverty by what households spend generates poverty statistics that are even more divorced from people's commonsense understanding of what 'poverty' is than the existing relative income measure.

The IFS is right to question the usefulness of poverty targets based on income and deprivation scores, but a target based on expenditure would not be much better.

### **Measuring poverty against a fixed base year (absolute poverty)**

There is another measure of poverty in the array of targets included in the Child Poverty Bill: the so-called 'absolute' poverty rate. This takes the relative poverty line (60% of the median income) as it was in 1998-99, and adjusts it for inflation each year after that. Strictly speaking, this is more a 'fixed' than an 'absolute' poverty measure, for it fixes the relative poverty line where it was when New Labour assumed power and uses it as a baseline for future years.

### What is absolute poverty?

The government says it is measuring absolute poverty by fixing the relative poverty line at its 1998 value, and then updating it each year in line with CPI. This is not the way absolute poverty is usually understood, however.

Absolute poverty normally refers to a standard of living that fails to achieve basic subsistence requirements. Seebohm Rowntree pioneered the measurement of absolute poverty in his three studies of York. He calculated the cost of meeting basic food, heating and housing needs for families of varying sizes, and compared people's incomes with this poverty line. In his first 1899 survey he found that 28% of York's population had insufficient income to secure its basic needs. Despite adding more items (including beer and tobacco, newspapers and books, and holidays) to his list of basic needs, this proportion fell to 18% by the time of his 1936 survey, and to just 1.5% by the final survey in 1950.<sup>46</sup>

As we shall see, the USA uses a similar absolute poverty measure to this day, basing it on the cost of a basic, but nutritional, diet.

On this fixed measure, child poverty has reduced dramatically. Indeed, the Government has already met its 2010 target of halving the child poverty rate.<sup>47</sup> This success owes relatively little to the Government's anti-poverty programme, but more reflects the way economic growth in a market society delivers a rising standard of living to all sections of society over time.

A number of commentators, including the IFS, have criticised the Government's use of this measure on the grounds that poverty measured in this way is likely to dwindle: "If, as seems likely, real incomes grow over time, absolute measures of poverty lose their relevance as the group with real incomes below a fixed point shrinks."<sup>48</sup>

This may be true, but the criticism is a strange one. We do not change the baseline measure on other phenomena when they start to decline, so why do it with poverty? We do not constantly redefine disease, for example, to keep the numbers up when reported cases of smallpox or TB fall. We do not change the definition of functional literacy when more people learn to read, or the definition of infant mortality when more babies start to survive. So why should a fixed poverty measure lose relevance if the poverty rate falls over time?

The United States has had a fixed absolute poverty line (or to be more accurate, dozens of lines, for different types of households) ever since the mid-1960s and this does seem to work reasonably well. These official poverty thresholds are updated each year to take account of general price inflation, and are used to calculate eligibility for a wide range of federal government welfare assistance including Medicaid, Medicare prescriptions, the Head Start education program, and food stamps. Poverty numbers have not dwindled into insignificance when measured in this way: the official US poverty rate has fallen by less than 3 percentage points in the last 40 years.<sup>49</sup>

#### Absolute poverty measurement in the USA<sup>50</sup>

In 1955, the US Department of Agriculture conducted a survey that found that families with 3 or more members spent about one-third of their after-tax income on food. The Department also published a number of 'food plans' outlining how a nutritious diet could be achieved at different levels of income.

In 1963, the Social Security Administration calculated how much it would cost a family of 3 or more to follow the cheapest of these food plans. Recognising that the food bill absorbs about one-third of family expenditure, the resulting cost was multiplied by 3 to arrive at a basic 'poverty threshold' income, and this was then adjusted for different household types, producing a matrix of 124 'poverty thresholds.'

After President Johnson announced his "war on poverty" in 1964, these thresholds were adopted as the official US poverty line. In 1969, it was decided to index them each year against the CPI to take account of inflation, but the food plan itself has never been re-costed. Although a few changes were made in 1981, which reduced the number of thresholds from 124 to 48, the thresholds have remained in place ever since, and a simplified version (the poverty guideline) is published alongside them each year. Currently, the poverty guideline for a family of 4 is \$22,050.<sup>51</sup> In 2007, 11.1% of men and 13.8% of women were officially classified as poor (down from 13.0% and 16.3% respectively in 1966).<sup>52</sup>

### Why the current child poverty targets are flawed

We have seen that the Government's child poverty targets are conceptually and methodologically flawed:

- The definition of poverty is divorced from what most people understand by the word, and is fatally compromised by its confusion with income inequality;
- The commitment to eradicating child poverty by 2020 is impossible to achieve, given a relative definition of poverty, and has had to be fudged;
- The poverty line, drawn at 60% of median income, is arbitrary, and a slightly different but equally plausible cut-off point would create very different results;
- The 'incomes' allocated to children for the purposes of measuring child poverty are fictitious and vary according to which equivalence scale we use;
- The poverty statistics change dramatically according to whether incomes are measured before or after housing costs, but there is no clear rationale for either;
- The poverty statistics are based on incomes at one point in time, yet people's incomes fluctuate, and most people who are under the poverty line at one time are above it at another;
- The income data are incomplete and misleading, particularly at the bottom end of the distribution, yet these are the data on which poverty targets are assessed;
- Much of the money handed out to lower income households in welfare benefits and tax credits is not reported in the income statistics;
- Incomes don't include the value of services in kind, like health care and schooling, even though these have a big impact on the living standards of poorer households;
- People who are defined as poor on the basis of their incomes often turn out to be less deprived on material deprivation indicators, and spend more money than people with higher reported incomes, which suggests they are better off than they seem;
- People defined as poor on the basis of their incomes also commonly have more money to spend than some of those with higher recorded incomes;
- Increasing the number of indicators of child poverty does not resolve these problems but compounds them. On some measures, child poverty has fallen significantly since the turn of the century; on others, it hasn't fallen at all.

In short, the Government's child poverty agenda has been built on a methodological quicksand. The 2010 and 2020 targets to which politicians of both main parties have bound themselves, and which the Child Poverty Bill seeks to enshrine in law, are artificial constructs which don't drive policy in a sensible direction.

### Conclusion: Where to from here?

Of course governments should concern themselves about the wellbeing of children. But legally-binding child poverty targets are not the way to do it. Defining policy priorities in this way is a mistake for two reasons:

- The targets cannot be adequately measured. The Government's poverty indicators are arbitrary, biased, unreliable and only very weakly related to people's actual living standards.
- The targets are too narrow. By focusing solely on the question of income distribution, poverty targets encourage politicians to treat the symptoms (by increasing welfare benefits and other income transfers), rather than addressing the deeper causes of deprivation like joblessness, poor schooling, substance abuse or poor parenting.

This Research Note therefore recommends that the current child poverty targets should be replaced and the Child Poverty Bill withdrawn. We are not, however, arguing that the Government should abandon its broader concern to improve child wellbeing and the causes of poverty.

We saw earlier that the Government has in the past monitored many of the factors that tend to affect children's wellbeing – not only low income, but also things like growing up in a jobless household, growing up in care, rates of teenage pregnancy, low educational attainment, poor school attendance, and teenage smoking and obesity. Until 2007, the DWP reported annually on whether these indicators were improving or deteriorating in comparison with a base year (usually 1997, when Labour came to power).

Data like these can be invaluable in informing and evaluating public policy. The DWP data actually showed improvements in many indicators, such as teenage pregnancies, educational attainment of 16 year-olds, and child injuries (as well as relative poverty), but a worsening in a few, such as child obesity and families living in temporary accommodation.<sup>53</sup> Where things were getting worse, the Government was able to develop new initiatives to try to tackle them.

In 2007, the DWP stopped collating, updating and publishing these indicators, although it seems that the new child poverty strategy, outlined in Clause 8 of the Child Poverty Bill, is intended to incorporate many of them. But having acknowledged the importance of these underlying, causal factors, the only targets laid down in the Child Poverty Bill are to do with the distribution of income between households. This is a mistake. The Government should collate and publish a series of measures focused on child wellbeing and the causes of poverty, and policies should continue to be developed to improve outcomes where appropriate.

It is not only the Government that monitors these broader indicators. In 2007, Unicef produced a 'report card' on child wellbeing across 21 OECD countries, including the UK. It included 6 different dimensions of 'child wellbeing' including health, education and family strength as well as income, and it ranked the UK bottom among 21 countries when all 6 were taken into account.<sup>54</sup>

Save the Children also publishes child wellbeing indicators. On its measures it has found that infant mortality, accidental deaths, children growing up in jobless families and levels of educational qualifications have all been



improving in recent years, but other aspects of child wellbeing, including school exclusions, vaccination rates, obesity, drugs and crime, have been deteriorating.<sup>55</sup>

The Joseph Rowntree Foundation has for 10 years been monitoring broader aspects of what it terms social exclusion which it measures by looking at 56 different indicators, including 12 specifically focused on children's wellbeing. These latter measures include children in low income households, children in jobless households, educational qualifications, under-age pregnancies, juvenile crime and low birth weights. In its recent report the Foundation found that 5 of these child welfare indicators had improved over the last 5 years, 2 had worsened and 5 remained stable.<sup>56</sup>

All such attempts at measuring broader aspects of child wellbeing are fallible, of course.<sup>57</sup> Some indicators seem much more important than others, yet they are all weighted equally. Some factors that probably should be included are ignored (only the UNICEF report recognises the rise in single parenthood as a risk factor for children for instance), and there are familiar issues regarding the reliability of some of the statistical indicators (for example, improvements in educational qualifications may reflect laxer marking standards rather than higher pupil achievements). But in principle it makes a lot more sense to assess progress against a broad set of indicators, than to be fixated on how many children are on each side of an artificial and largely meaningless poverty line.

Of course, any set of child wellbeing targets will probably include within it some attempt to measure material deprivation. But this is only one component among several dimensions of child wellbeing. It is also important that any measure of 'material deprivation' should have a fixed base year against which to assess progress, just as other child wellbeing indicators do. Like infant mortality, literacy or teenage pregnancy, child poverty should be measured in the same way every year and the numbers should not inflate simply because average living standards rise.

What the Government calls absolute poverty is the only one of the four indicators included in the Child Poverty Bill that meets this criterion. This makes it the most suitable and useful measure of child poverty to be included in any suite of fixed, baseline measures of child wellbeing.

## References

- <sup>1</sup> Quoted in Kitty Stewart, Tom Sefton, John Hills, 'Introduction' In John Hills, Tom Sefton, Kitty Stewart, *Towards a More Equal Society?*, Bristol, Policy Press, 2009.
- <sup>2</sup> Report of the Comptroller and Auditor General, appended to HMRC, 2007-08 Accounts, London, Stationery Office, July 2008, Table 1.
- <sup>3</sup> See Theresa May's speech at the Bill's second reading, *Hansard*, 20 July 2009. On Cameron's 2006 endorsement of Blair's targets see: Andrew Lilico, *Measuring child poverty and targeting its elimination*, Bow Group, November 2006, p.2; Tom Sefton, 'Moving in the right direction?' in Hills et al, *Towards a More Equal Society?*, pp.243-4.
- <sup>4</sup> Yvette Cooper, *Hansard*, 20 July 2009.
- <sup>5</sup> The Work and Pensions Secretary told journalists: "a government that failed to show how it was seeking to abolish child poverty could be subject to judicial review" and that "a Tory government wishing to abandon the commitment would have to go back to Parliament." Patrick Wintour, "Yvette Cooper plans binding legal commitment to cutting child poverty", *The Guardian*, 11 June 2009.
- <sup>6</sup> Single parenthood is a notable absentee which should have been added to the list. A recent Unicef report on child deprivation notes that children raised in broken families have "a greater risk of dropping out of school, of leaving home early, of poorer health, of low skills, and of low pay. Furthermore such risks appear to persist even when the substantial effect of increased poverty levels in single-parent and stepfamilies have been taken into account" (p.6). The UK government, however, insists that the problems experienced by children growing up in broken families can be explained away by lower incomes alone (see Cabinet Office Strategy Unit and Dept for Children Schools and Families, *Families in Britain: An evidence paper*, December 2008, p.84).
- <sup>7</sup> The DWP said at the time that, although the annual 'Opportunity for All' reports were being discontinued, the indicators would still be updated and published on its website. This has not, however, been the case.
- <sup>8</sup> Child Poverty Unit, *Impact assessment for the Child Poverty Bill*, HM Government, 2009, para 1.17.
- <sup>9</sup> UNICEF notes: "No OECD country devoting 10% or more of GDP to social transfers has a child poverty rate higher than 10%. No country devoting less than 5% of GDP to social transfers has a child poverty rate of less than 15%. Variation in government policy appears to account for most of the variation in child poverty levels between OECD countries" (UNICEF Innocenti Research Centre, *An Overview of Child Wellbeing* Florence, 2007, p.7).
- <sup>10</sup> See Tom Sefton, John Hills and Holly Sutherland, 'Poverty, inequality and redistribution', in John Hills, Tom Sefton, Kitty Stewart, *Towards a More Equal Society?*, Table 2.4.
- <sup>11</sup> Sources: Mike Brewer, Alastair Muriel, David Phillips, Luke Sibieta, *Poverty and Inequality in the UK: 2009*, Institute for Fiscal Studies, May 2009, Tables 4.1 and 4.7.
- <sup>12</sup> Sefton, 'Moving in the right direction?', Table 11.3.
- <sup>13</sup> The World Bank, *Understanding Poverty*, <http://go.worldbank.org/RQBDCTUXW0>.
- <sup>14</sup> Peter Townsend, *Poverty in the United Kingdom: a survey of household resources and standards of living*, Harmondsworth: Penguin Books, 1979
- <sup>15</sup> This is explicitly advocated by the Joseph Rowntree Foundation which has called for "an above-inflation upratings system across a range of benefits and tax credits" to meet child poverty targets (Donald Hirsch, *What is needed to end child poverty in 2020?* JRF, November 2008, p.11). Warning that "much more needs to be done", this report is a good example of how child poverty targets have been used to push a traditional socialist agenda involving a bigger welfare state and much higher government expenditure. It envisages a "big agenda" for change and warns that "only a different kind of world" will deliver the desired results (pages 9 and 10).
- <sup>16</sup> This is how the Child Poverty Bill defines the 2020 target for eliminating child poverty. See also: Mike Brewer, *Ministers suggest more realistic child poverty target*, Institute for Fiscal Studies, 'Observations,' February 2009; Louise Hunt, 'Child Poverty Bill not ambitious enough, warns NCB'. <http://www.communitycare.co.uk/Articles/2009/06/15/111802/child-poverty-bill-not-ambitious-enough-warns-ncb.html>.
- <sup>17</sup> See UNICEF Innocenti Research Centre, *An Overview of Child Wellbeing* Florence, 2007, Fig.1.1. Defining "relative poverty" as an income below 50% of the median, the report places the UK 20<sup>th</sup> out of 21 OECD countries on child poverty, behind the Czech Republic (7<sup>th</sup>) and Poland (17<sup>th</sup>). But as the report itself admits: "The fact that a smaller percentage of children are growing up poor in the Czech Republic than in France, or in Poland than in Italy, does not mean that Czech or Polish children are more affluent, but that their countries have a more equal distribution of income" (pp. 6-7). In other words, the 'relative poverty' measure does not actually tell us anything about poverty or people's living standards – it tells us only about inequality.
- <sup>18</sup> Source: Mike Brewer, Alastair Muriel, David Phillips, Luke Sibieta, *Poverty and Inequality in the UK: 2009*, Fig 4.1a and 4.1b. Table 2 gives estimates for all individuals. Child poverty tends to be higher. DWP figures (*Opportunity for all, Indicators Update* 2007) comparing 1996/97 with 2005/06 are as follows:
- |                                      |                |                |
|--------------------------------------|----------------|----------------|
| Before housing costs, 50% of median: | 12% in 1996/97 | 11% in 2005/06 |
| 60% of median:                       | 25%            | 20%            |
| 70% of median:                       | 35%            | 31%            |
| After housing costs, 50% of median:  | 23%            | 19%            |
| 60% of median:                       | 33%            | 29%            |
| 70% of median:                       | 41%            | 38%            |
- <sup>19</sup> As a government paper explains: "The threshold defined needs to capture enough people in poverty but it also needs to capture only the truly deprived in order to be meaningful." Maxine Willitts, *Measuring child poverty using material deprivation*, Department for Work and Pensions, 2006, p.34.
- <sup>20</sup> Mike Brewer, Alastair Muriel, David Phillips, Luke Sibieta, *Poverty and Inequality in the UK: 2009*, p.41. This is based on incomes before housing costs are taken into account. Measured after housing costs are included, the figure rises to 4 million.
- <sup>21</sup> Report of the Comptroller and Auditor General, July 2008

- <sup>22</sup> *Poverty and Inequality in the UK: 2009*, Table 4.2 and page 46. All figures are before housing costs.
- <sup>23</sup> *Poverty and Inequality in the UK: 2009*, Table 4.2 and page 46. Again, all figures are before housing costs.
- <sup>24</sup> Research by Policy Exchange estimates the 60% of median income ‘poverty line’ in 2007-08 as an equivalised weekly income of £235.80. A child aged 6 with 2 parents, one of whom works for 38 hours at the minimum wage, would have received a total equivalised income of £232.07, just £3.93 below the line. However, a child aged 14 living with two parents, neither of whom is employed and both of whom claim Job Seekers’ Allowance, would have received just £122.91, putting them £112.89 below the line. Government poverty targets make no distinction between these two cases, both of which get designated as ‘poor.’ Thanks to James Hill for these calculations. Further details are available on request from the author.
- <sup>25</sup> See for example, OECD *What are equivalence scales?*, <http://www.oecd.org/dataoecd/61/52/35411111.pdf>.
- <sup>26</sup> Maxine Willitts, *Measuring child poverty using material deprivation* Department for Work and Pensions, 2006, p.11; Child Poverty Action Group, *Changes between the 2004/05 and 2005/06 HBAI figures*, [www.cpag.org.uk/info/changes%20in-measurement.doc](http://www.cpag.org.uk/info/changes%20in-measurement.doc) (undated). It hasn’t taken long for this new scale itself to be criticised – it is suggested, for example, that it under-estimates the costs of single parent families relative to couples (*Poverty and Inequality in the UK: 2008*, pp.76-8).
- <sup>27</sup> *Poverty and Inequality in the UK: 2009*, Table 4.1.
- <sup>28</sup> John Hills, *Inequality and the State*, 2004
- <sup>29</sup> *Ibid.*
- <sup>30</sup> *Ibid.* Hills notes that, although persistent poverty is rare, repeated poverty is more common: over the ten years, 15% were under the poverty line for at least 5 years, and 8% for 7 years or more. The relatively high level of turnover also means, of course, that many people experience some ‘poverty’ even though few experience it for long periods – almost half the population fell below the ‘poverty line’ in at least one out of the ten years.
- <sup>31</sup> Maxine Willitts, *Measuring child poverty using material deprivation*, p.8.
- <sup>32</sup> “The survey used to measure household incomes seems to under-record incomes of some low-income families with children.” Mike Brewer, James Browne, Robert Joyce, Holly Sutherland’ *Micro-simulating child poverty in 2010 and 2020* London, 2009, p.1
- <sup>33</sup> I am indebted to Policy Exchange intern, James Hill, for these calculations.
- <sup>34</sup> *Poverty and Inequality in the UK: 2009*, p.36.
- <sup>35</sup> Mike Brewer, Alastair Muriel, David Phillips, Luke Sibieta, *Poverty and Inequality in the UK: 2008*, p.87. The IFS points out that this may not necessarily have inflated overall child poverty estimates, for if families around the middle of the income distribution have been under-reporting their tax credit receipts, the actual median income will be higher than the survey suggests, in which case the poverty line will be pushed higher and more people will be under it. However, the IFS also notes that “families entitled to significant amounts of tax credits (who are likely to be in poverty or close to the poverty line) do seem to be under-reporting their total tax credit income as well” (2009 report, p.43). What is clear is that the family incomes of many children classed as being “in poverty” are actually significantly higher than the survey data suggest.
- <sup>36</sup> Hills *Inequality and the State* estimates that those in the bottom fifth of incomes benefit from government health care spending relative to those in the top fifth by a ratio of 1.8:1, and by 2.6:1 from state spending on schooling for under-16s. Even when these ratios are adjusted for demographic variations, the poorest fifth still benefit in ratios of 1.5:1 and 1.2:1 respectively.
- <sup>37</sup> Mike Brewer, Alastair Muriel, David Phillips, Luke Sibieta, *Poverty and Inequality in the UK: 2008*, chapter 5.
- <sup>38</sup> *Poverty and Inequality in the UK: 2008*, p.72.
- <sup>39</sup> *Ibid.*, p.71.
- <sup>40</sup> *Ibid.*, p.71. See also Willitts, Table 4.1.
- <sup>41</sup> As we shall see, a third indicator, “absolute low income,” was also added. This measures the number of children with incomes below 60% of median income as it was in 1998-99, adjusted for inflation. See Kitty Stewart, ‘A scar on the soul of Britain’ In Hills et al., *Towards a More Equal Society?*; also Andrew Lilico, *Measuring child poverty and targeting its elimination*, p.66. On this third measure, child poverty had been halved as early as 2006, which shows how quickly rising living standards erode “absolute poverty”.
- <sup>42</sup> Willitts, *Measuring child poverty using material deprivation*, p.9.
- <sup>43</sup> Mike Brewer, Alissa Goodman, Andrew Leicester, *Household spending in Britain*, Policy Press, 2006.
- <sup>44</sup> *Household spending in Britain*, Chapter 3.
- <sup>45</sup> Andrew Lilico, *Measuring child poverty and targeting its elimination*, p.7.
- <sup>46</sup> Rowntree’s work is discussed in Asa Briggs, *A Study of the Work of Seebohm Rowntree: 1871-1954*, Longmans, 1961.
- <sup>47</sup> *Poverty and Inequality in the UK: 2008*, p.67; Kitty Stewart, ‘A scar on the soul of Britain,’ p.56.
- <sup>48</sup> *Poverty and Inequality in the UK: 2009*, p.45. The IFS is not alone; during the consultations held by the government prior to drawing up its legislative targets for 2020, half of those consulted wanted the “absolute” measure to be dropped (Child Poverty Unit, *Impact assessment for the Child Poverty Bill*, para 1.11.
- <sup>49</sup> US Bureau of the Census, *Current Population Survey*, Table 7. (<http://www.census.gov/hhes/www/poverty/histpov/perindex.html>).
- <sup>50</sup> Information in this box is taken from G. Fisher, ‘The development and history of the US poverty thresholds,’ *Social Security Bulletin*, vol.55, 1992, 3-14.
- <sup>51</sup> US Department of Health and Human Services, ‘The 2009 HHS Poverty Guidelines,’ <http://aspe.hhs.gov/poverty/09poverty.shtml>.
- <sup>52</sup> US Bureau of the Census, *Current Population Survey*, Table 7.
- <sup>53</sup> DWP, *Opportunity for All Indicators Update 2007*.
- <sup>54</sup> UNICEF Innocenti Research Centre, *An Overview of Child Wellbeing*.
- <sup>55</sup> Jonathon Bradshaw, *The wellbeing of children in the UK 2<sup>nd</sup> edn*, 2005, Save the Children.
- <sup>56</sup> Joseph Rowntree Foundation, *Monitoring Poverty and Social Exclusion*, 2008, York, JRF, December 2008.
- <sup>57</sup> See ‘Save the children (from nonsense),’ *The Times*, 15 February 2007.

## research note

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Policy Exchange has published several reports on social policy issues.

***Reforming the UK Family Tax and Benefits System*** provided a detailed analysis of the development of family support in the UK and argued that we have ended up with a system that is costly, often unfair and which undermines the independence and self-reliance of families rather than promoting it. The report proposed a number of reforms to the current system of financial support provided to families through the tax and benefits system. ***Little Britons*** assessed research on parental preferences and reviewed how state childcare is currently funded, how it supports individual families and its impact on the private and voluntary sectors. The report made a number of recommendations aimed at increasing parental choice and simplifying the current system of support.

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