

## Tackling the Causes of Poverty

### Replacing the child poverty target with a multi-dimensional set of causal indicators

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#### The need for a different approach

Policy Exchange welcomes the Field Review's conclusion that there is a "clear case to be made for developing an alternative strategy" to tackling and measuring child poverty, and that this would be true even if the cost were not a limiting factor. We welcome the government's attempt to begin to incorporate this new approach to tackling child poverty, but have concerns that it is not being radical enough, that there are key areas where emphasis needs to be stronger and that a longer-term approach to policy needs to be adopted. Below we argue that in order to deliver effective support to reduce child poverty, the government should:

- Replace, rather than complement, the existing income-based poverty targets with their new wider measures;
- Include longer-term measures of success alongside its focus on the early years; and
- Place a firmer emphasis on personal responsibility and the role of parents in providing a working role model for their children.

In our publication *Poverty of Ambition: why we need a new approach to tackling child poverty* we highlighted that the current poverty targets are misguided in terms of both conception and measurement. We argued strongly that the current targets are not really child poverty targets at all. They are income inequality targets. Among many other perverse aspects of using this current measure as a target is that recessions "appear" to reduce child poverty, because the median income falls while the incomes of those on benefits do not. This suggests there's something seriously wrong with the target. The paper "*Poverty of Ambition*" is annexed to this submission.

Aiming at an arbitrary "pound above poverty" target also leads to poor incentives for policy makers. The focus of the poverty targets on income distribution, has encouraged 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.

We are concerned that the current target, measured every year, encourages an excessively short-termist focus on treating the *symptoms* of poverty, rather than dealing with the root *causes*. We believe an approach focused on these root causes would be more effective over the longer term.

Furthermore, the current approach also encourages an excessively narrow and uni-dimensional understanding of what poverty is. Although there are now four targets, they are all based on measures of income, and the core 60% of median income target still dominates political discussion and government thinking. At the 2010 Budget and Spending Review the government announced spending of £8 billion on tackling “poverty” over the next two years by raising Child Tax Credits. Over the longer term it is arguable whether increasing the generosity of out-of-work benefits is a cost effective way to reduce poverty. Indeed, by reducing work incentives it could even worsen poverty.

It was partly because of these kinds of problems with the headline income measure of child poverty that the Department for Work and Pensions began to consult on alternatives in 2002. The consultation document outlined four approaches:

- the multi-dimensional approach of *Opportunity for All*;
- an index of headline indicators;
- a measure of 'consistent poverty' based on the Irish method; and
- a core set of indicators and a measure of 'consistent poverty'.

We do not believe the move to a set of four income and material deprivation targets has succeeded in addressing the problems identified in 2002. Indeed the original measure is still often reported on as though it were *the* single measure of child poverty. Given these problems, the approach suggested in this paper comes closest to the multi-dimensional approach of *Opportunity for All*, which was last published in 2007.<sup>1</sup>

### What is the point of a child poverty target?

While outcomes for adults may reflect their personal choices, children’s opportunities reflect an accident of birth. However, the measure currently used reflects the income of the household they live in. The purpose of having a child poverty target, though not an adult one, is presumably to encourage policy makers to deal with the causes of poverty rather than the results of it.

However, the approach taken has had the opposite effect, pushing people towards symptoms rather than causes. The benefits used to pursue the goal, particularly Child Tax Credits, lead to immediate increases in household income for households which contain children, but are unsustainable and

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<sup>1</sup> <http://www.dwp.gov.uk/docs/opportunityforall2007.pdf>

ineffective in the longer-term. This means that other policies may be more effective in improving children's life chances.

Most importantly, a pound spent on increasing benefit income could instead be spent on improving early years education, improved drug treatment for drug dependent parents, improving the care system, reducing teenage pregnancy, or reducing child abuse. In short – it could be spent on tackling the causes of poverty rather than just trying to manipulate the income distribution.

The purpose of a government target should be to stretch government and promote effective policy making. A multi-dimensional basket of poverty indicators would provide a better framework than the current one-dimensional target for thinking about each of the different dimensions and causes of poverty, how they overlap, and how they might be addressed.

However, we realise that the government does not have such detailed data that it can neatly rank many different types of intervention by their cost effectiveness over long periods. Measuring the social return on investment requires philosophical choices to be made about how much we value different kinds of outcomes. Even a more narrow conception based on the lifetime cost saving to government of an intervention is hard to calculate, as the benefits of a particular intervention for an individual may be felt across many different budgets, over many decades.

Nonetheless, where economists have attempted such calculations in a rough and ready manner, the reported benefits of some early interventions appear to be very high. But such interventions (e.g. Sure Start) compete for money in government budgets with measures (e.g. Child Tax Credits) which have a more immediate effect on "poverty" as defined by the existing targets. Within the current paradigm it is difficult to shift spending from the short to the long term. A basket of indicators focused on the causes of poverty would make this easier. For this reason Policy Exchange supports the Field Review's conclusion that a wider set of measures should be used in assessing the extent of child poverty. However, for this to have success, we feel that these new measures need to replace the existing income-based targets, rather than sit alongside them.

### Why we should remove rather than add to the income target

The retention of the income-based targets leaves policy makers and politicians with perverse incentives, which lead to costly and ineffective policies. This is most obviously highlighted by measures announced at the Emergency Budget and Spending Review to increase Child Tax Credit to ensure that there would be "no measurable impact on child poverty for two years". The cost of this will be over £8 billion in the period to 2013/14. This money is being spent to avoid an unfortunate projected statistic, it will do nothing to treat the true causes of poverty and because of the impact it has on work incentives, could in fact, do more damage than good. The money is targeted solely through the Child Tax Credit – meaning that £8 billion will be pumped into a benefit that has no link to work – and will reduce incentives for

parents to enter work and support their families independently. This will impact on employment in this generation and, through the intergenerational transmission of unemployment and poverty, future generations.

We must also accept the negative role that the financial support motivated by income-based measures of poverty can have. Recent evidence<sup>2</sup> links the levels of benefit generosity with unemployment in future generations because parents do not invest enough in building their children's work ethic because they believe that the state can support them. This means that financial support aimed at alleviating poverty can impact on work incentives both in this generation, by altering the financial rewards to work, and in the next generation by impacting indirectly on the extent to which people are willing to work. Other evidence from the USA<sup>3</sup> and UK<sup>4</sup> also highlights that financial support can lead to reduced wages for those in receipt of financial support – in effect undermining the positive impact of tax credits and simply benefiting the firms that those in receipt of support work for. This is not to say that benefit levels need to be cut to deliver stronger work incentives, just that there are other ways in which we can ensure that this happens.

This leads to our view that the wider set of indicators being incorporated by the government should *replace*, rather than complement, the existing income-based measures.

While many will argue that adding further indicators will take the focus away from the income-based measures, our experience tells us that this is unlikely to be the case. Income-based measures are relatively easy to measure and report and, as such, they make good headlines. This means that the media and opposition parties are likely to maintain their focus on these measures. Thus, until we move away from the income measures, the policy response is always likely to be the same and focus on short-term ineffective policy, leaving fewer resources available for policies which have more chance of success.

### Building on previous government approaches

To replace the current income-based poverty targets, we support the Field Review conclusions that a range of measures should be used. Until 2007 the previous government produced a regular series of reports – “*Opportunity for All*” which tracked a whole series of different dimensions of poverty. The assessment approach taken in these reports is broadly the right one.

Many of the 17 headings and 24 metrics included in the Children and Young People section of *Opportunity for All* 2007 would be sensible indicators to include in a broadly based set of child poverty indicators. Indeed we believe simply replacing the current target with these indicators would be an improvement on the current situation.

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<sup>2</sup> <http://cep.lse.ac.uk/pubs/download/dp0936.pdf>

<sup>3</sup> <http://ideas.repec.org/a/bpj/bejeap/v10y2010i1n45.html>

<sup>4</sup> Unpublished work by Oakley & Sneade (2010) – available on request.

However, we also feel that the government should be tackling the causes of future poverty, rather than just poverty in this generation. In this respect, the range of measures as laid out in the Field Review are too restricted, and too focused on the early years. A key driver of poverty is in the intergenerational transmission mechanism – and so a dual attack on both early intervention / “Life Chances” and tackling poverty in adults is likely to be successful.

Our conclusion is that as well as indicators based on children and young people, the basket of indicators should also include measures that focus on working age adults and local communities. *Opportunity for All* also included measures such as these, and again these could simply replace the current income-based indicators.

However, for both the indicators for children and those for adults and communities:

- a) It may well be possible to add more indicators which better encourage policymakers to focus on the most effective anti-poverty interventions, which deal with other causes of poverty;
- b) Some of the indicators should be dropped so that the basket of indicators is focused on several key measures and remains transparent and easy to report; and
- c) Some of the indicators could be refined to improve the extent to which they measure the outcomes we are concerned with.

Our overall assessment of the *Opportunity for All* indicators is given in the box below.

#### **The 2007 *Opportunity for All* indicators for Children and Young People**

1. Children in workless households – *Could be improved*
2. Low income – *Should be deleted*
3. Teenage pregnancy – *Keep*
4. Proportion of children in disadvantaged areas with a ‘good’ level of development – *Could be improved*
5. Key Stage 2 (11-year-olds) attainment – *Could be improved*
6. Attainment – *Could be improved*
7. 19 year olds with at least a Level 2 qualification – *Could be improved*
8. School attendance – *Could be improved*
9. Improvement in the outcomes for looked after children – *Could be improved*

10. 16–18 year olds in learning – *Should be deleted*
11. Infant mortality: gap between manual workers and average – *Further work needed*
12. Serious unintentional injury – *Should be deleted*
13. Smoking prevalence for pregnant women and children – *Should be deleted*
14. Obesity for children aged 2-10 – *Should be deleted*
15. Re-registrations on Child Protection Register – *Further work needed*
16. Housing that falls below the set standard of decency – *Should be deleted*
17. Families in temporary accommodation England – *Keep*

### Which of these indicators should be retained and how can they be improved?

#### 1. Children in workless households

The proportion of children in workless households is an absolutely central indicator. Social research shows that the chances of being in poverty as an adult are significantly increased for those who grow up in a workless household. Recent evidence suggests that a son whose father experienced worklessness is over twice as likely to experience worklessness themselves.<sup>5</sup> Other evidence backs up the links with poverty showing that both income and social class are strongly correlated between generations.<sup>6</sup>

However, we feel that this indicator could be improved by adding more information about the number of working and non working adults of employable age in children’s households. On the government’s current measure, 90% of children in all workless households are in low income, compared to 35% in part-working families and 7% in all-working households. This is unsurprising: the more work that a family is doing, the more income they are likely to earn, so improving this indicator could add greater understanding to the measurement of poverty.

It might also be fruitful to move beyond the binary working / not working measure. A rise in the number of lone parents working part time has reduced the numbers of workless households but has increased the number of children in poverty in “working households”. It is likely that future changes to the welfare system, including the introduction of the Universal Credit, will further incentivise people to move into short-hours jobs. However, evidence<sup>7</sup> has shown the difficulty that many short-hours workers have in

<sup>5</sup> <http://www.bristol.ac.uk/cmpo/publications/papers/2010/wp231.pdf>

<sup>6</sup> <http://www.bristol.ac.uk/cmpo/publications/papers/2008/wp195.pdf>

<sup>7</sup> <http://ftp.iza.org/dp2041.pdf> is one example. There are many other pieces of evidence that suggest that taking a “mini-job” has a limited impact on increasing the likelihood of moving to full-time work.

finding better paid or longer-hours work, so helping these groups progress beyond a small number of hours or infrequent work is an important part of increasing exits from poverty.

For this reason we suggest that another useful indicator would be the proportion and number of children living in households relying on benefits for certain proportions of their income, e.g. 50% 75%. This data already exists in the Family Resources Survey. It would measure the extent to which government has been successful in helping families move into self sufficiency, rather than just taking low income low hours jobs.

## 2. Low income

We made strong arguments above as to why this indicator should be dropped. However, we suggest below how an element of measurement based on income could be re-introduced by assessing the “gap” in indicators between families at the 10<sup>th</sup> and 90<sup>th</sup> income percentile. Such an approach would really target the causes of disadvantage in low income families, rather than just measuring the low income itself.

## 3. Teenage pregnancy

This should be retained.

## 4-7. Development and educational attainment

There is a host of evidence suggesting the role that education has in increasing intergeneration income mobility.<sup>8</sup> However, the targets previously looked at in *Opportunity for All* are more like measures of the schools system as a whole than clear poverty indicators. They are not sufficiently focused on the most severe underachievement likely to lead to poverty in later life. In 2007 56% of children were not achieving a good level of development at the foundation stage, 42% of 16 year olds were not getting five good GCSEs, 29% of 19 year olds were not gaining a Level 2 qualification, and 20-23% of 11 year olds were not achieving Level 4 or above in the Key Stage 2 tests for English and Mathematics respectively.

A set of indicators more focused on severe educational failure might have a tighter link to entry into poverty. This data is readily available from the Department of Education. For example, around 1% of pupils leave school with no qualifications at all. Members of this groups are statistically far more likely to end up in poverty than members of the 40%+ who fail to gain five good GCSEs or the 50%+ who fail on the development indicator. A future set of indicators aiming to track the causes of poverty should be more focused on severe underachievement.

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<sup>8</sup> For example: <http://www.oecd.org/dataoecd/27/28/38335410.pdf> , <http://cee.lse.ac.uk/cee%20dps/ceesp05.pdf>

## 8. School attendance

Again this indicator measures an important aggregate: percentage of attendances in school. However, in terms of identifying those most in danger of future poverty, it might be more appropriate to measure the number / proportion of children with more than a certain proportion of absences to gain a sense of how many pupils frequently truant.

The Department for Education already publishes two measures of persistent truancy, which would be better indicators of a risk of future poverty. In Autumn 2009: 0.5% pupils missed 64 or more sessions, classifying them as “persistent absentees”; and 4.5% of pupils missed 28 or more sessions, classifying them as “may become persistent absentees”. The problem is concentrated in secondary schools where 5.8% of pupils fall into the latter category.<sup>9</sup>

Local authorities also collect data on the number of children “missing” – those who have not attended school for over a month. According to a series of FOI requests by *The Guardian*, there are 12,000 such children in England. This data could be centrally published on a routine basis.<sup>10</sup>

An indicator should also be added to measure the gap in performance between children in families from different parts of the income distribution. For instance, this could compare school attendance for children in households at the 10<sup>th</sup> and 90<sup>th</sup> income percentiles, or other data which is readily available to the Department for Education, based on the difference between poorer and richer areas.

## 9. Improvements in outcomes for looked after children

The indicators in *Opportunity for All* relating to education and employment outcomes for care leavers are good ones. However, a number of other indicators relating to looked after children could be supplied. The total number of looked after children, and new flows into this category should be monitored. In 2010 there were 64,300 looked after children, compared to 62,100 in 2001.

While it is very important for the government to try and improve conditions for these children – among the most deprived in our society – a rounded anti-poverty policy should also press the government to consider ways to ensure that less children end up in this category in the first place. The obvious danger of such an indicator is that it *could* create a perverse incentive to leave children with parents who they should be removed from, in order to game the target. However, this seems unlikely, and once this danger is clearly stated and borne in mind, it should be an objective of public policy to reduce the number of children who need to be looked after, by looking at the causes of the inflows into this category.

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<sup>9</sup> <http://www.education.gov.uk/rsgateway/DB/SFR/s000928/sfr14-2010.pdf>

<sup>10</sup> [http://www.guardian.co.uk/education/2011/feb/11/pupils-missing-school?CMP=twf\\_fd](http://www.guardian.co.uk/education/2011/feb/11/pupils-missing-school?CMP=twf_fd)



The adoption rate for looked after children might be another interesting indicator to track. Outcomes for children who are adopted are generally thought to be better for those who remain in fostering arrangements or care homes.

#### 10. 16-18 year olds in learning

The number of 16-18 year olds in learning may or may not be a good metric for the Department of Education to track as part of its general efforts to improve education. But the connection with future poverty is not likely to be as close as with other measures of educational achievement. For this reason, we suggest that it is not used as a basket of indicators for child poverty.

#### 11. Infant mortality

While this does not measure child poverty explicitly – it is an important measure of the potential disadvantage that lower-income families face. It uses a “gap” measure using socioeconomic classification and as such will be effective in assessing the relative disadvantage that poor families face. If reliable data were available, we would recommend that this measure moves to use income percentiles (10<sup>th</sup> / 90<sup>th</sup>) rather than socioeconomic class. However, careful consideration would need to be given to the other influences on this there might be e.g. infant mortality varies dramatically between different ethnic groups, for reasons that are not obviously linked to either income or disadvantage. For this reason we suggest further work to assess the suitability of this measure.

#### 12. Serious unintentional injury

In *Opportunity for All 2007* the government targeted “A reduction in the rate at which children are admitted into hospital as a result of unintentional injury resulting in a hospital stay of longer than three days”. This is clearly a laudable goal, but is unclear how closely this indicator is connected with future risk of poverty. Thus, unless this could be linked with income data to form a “gap” measure, then it should not be included.

#### 13 and 14. Smoking prevalence for pregnant women and children / Obesity for children aged 2-10

Each of these is an important measure of health, but the measures presented are for the country as a whole, rather than being tied to poverty. While these measures correlate well with lower social class (again using percentile gap measures in these indicators might be more interesting to track) the links between these indicators and future poverty are unclear. For this reason we suggest that these are not included.

#### 15. Re-registrations on Child Protection Register

Being abused as a child is likely to increase the chance of future poverty, and in turn, the chances of poverty of the next generation of children. However, the indicator presented in *Opportunity for All* was

designed as a measure of the performance of child protection services. The rationale is that if child protection interventions work, then parents will not be re-registered in the future. However, that itself has unclear links with future poverty. As such we suggest it is not included. The total number of registrations on the register would have a more direct bearing on future poverty – but the danger of such an indicator might potentially be to create an incentive not to register people who should be registered in order to game the system. Further work might be needed to come up with a robust indicator.

#### 16 and 17. Housing that falls below the set standard of decency / Families in temporary accommodation

On the current definition a third of homes in England are “non decent”. As well as its broad scope, this indicator is poorly correlated with poverty. On an income basis, poorer households are not significantly more likely to live in non decent homes. Indeed, two thirds of the non decent homes are in the owner occupied sector, and a larger proportion of owner occupied homes are classified “non decent” than in the social housing sector. So the number of homes failing the standard is unlikely to have a tight causal linkage to future poverty, and the indicator should be dropped.

There seems to be a stronger correlation between temporary accommodation and other causes of poverty, perhaps owing to the disruption this causes. For example, homeless children are two to three times more likely to be absent from school than other children due to the disruption caused by moving into and between temporary accommodation. This indicator should be retained, although it may still be possible to refine or improve it, and develop something with a tighter link to future poverty.

#### Additional indicators which could be added to the indicator set

We have highlighted above those *Opportunity for All* indicators on children and young people that we feel should be kept to form a basket of measures to judge progress on child poverty. As well as these, we feel that the following indicators could usefully be added, in particular in an attempt to also consider how action now might reduce child poverty rates in future generations:

##### A range of measures on employment

Sustained employment is the key route out of poverty for both today’s generation and for influencing the chances of future generations experiencing poverty. For this reason we recommend a range of measures which will measure progress in ensuring that both employment rates and the extent to which families are living without state support are maximised across a range of disadvantaged groups. The specific measures are:

##### a) Employment gap of disadvantaged groups:

- Disabled people;

- Lone parents;
- Ethnic minority people; and
- Lowest qualified.

b) Number / proportion of working-age individuals who have been on income-related benefits for more than one year

c) Employment rates in deprived areas

d) The number / proportion of 16-19 year olds NEET

#### The number / proportion of children living with drug or alcohol dependent parents

The Home Office Advisory Council on the misuse of drugs estimated in its 2003 report *“Hidden Harm”* that: “There are between 250,000 and 350,000 children of problem drug users in the UK – about one child for every problem drug user”.<sup>11</sup> Survey based data from Alcohol Concern and the Children’s Society suggests that 705,000 children live with a dependent drinker, and that the majority of the caseloads of social workers involves such parents.<sup>12</sup> It might be thought that children from these families are likely to be at severe risk of being in poverty in later life.

However, one problem with such targets would be that the government does not collect such survey data on a consistent basis. It might, nonetheless, be possible to impute robust measures of this kind using existing administrative data. Would such indicators add anything beyond data on children at risk of abuse? It seems likely that although the two groups overlap, they do not do so entirely – meaning that, if possible, this might be a useful additional indicator.

#### The number / proportion of children found guilty of, or cautioned for, indictable offences, and the severity of offending

Early involvement with the criminal justice system is likely to be linked to later poverty. For example, having a criminal record, or having spent time in prison, is a major barrier to employment. It would be useful to have a number of indicators. As well as the aggregate number found guilty and cautioned each year, it would be useful to look at the proportion of young people with a criminal record (i.e. they have offended in some year) and also track data on the proportion of young people committing multiple offences – in order to distinguish those with a higher probability of ending up in prison and poverty from those who get, say, just a single caution.

<sup>11</sup> <http://www.homeoffice.gov.uk/publications/drugs/acmd1/hidden-harm>

<sup>12</sup> <http://www.alcoholconcern.org.uk/publications/policy-reports/under-the-carpet>

## Conclusion

The use of income-based measures has distorted policy decisions and done little to improve the situation or life chances of those in receipt of government support. In this respect, we support the Field Review's intention to increase the range of measures used in assessing progress on child poverty.

However, we feel that these measures should replace, not complement, the current income-based measures and that further indicators of a wider set of outcomes should be added. This would reflect the multi-dimensional and complex causes of poverty for both adults and children. It would also give greater weight to the fact that poverty is regularly passed down generations, rather than focusing purely on early years / life chances.

A large number of the indicators we recommend have come from the previously used *Opportunity for All* indicators. We have highlighted those indicators which we feel are most relevant and where they should be refined to more closely focus on poverty. We have also suggested some additions to the list. Clearly the final set of indicators used will depend on the availability of data, the cost of collection and the ease to which they can be measured and presented in a timely fashion to influence policy decisions. Here, the focus on indicators from *Opportunity for All* has great advantages as the previous government demonstrated that these data were collectable and easily presented.



### The work of the Economics Unit at Policy Exchange

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