

## 2 The challenge of finding a comprehensive solution

*Tackling poverty involves not just direct transfers of income, but also improving opportunities and environments for low income families.*

A straightforward way of abolishing child poverty would be to set tax credits and benefits at levels that mean that no child needs to live in a household with below 60 per cent median income. This would address the immediate problem of improving the material circumstances of deprived children. However, it would have a high public cost (see Chapter 4), and would not tackle the underlying causes of poverty or of the problems that surround it. A more comprehensive solution needs to address a range of factors that may affect children's wellbeing and development. These include parents' employment patterns, the quality of childcare, the availability of suitable housing, educational opportunities and the characteristics of local communities.

An improvement of family opportunities needs to be at the heart of any solution – opening up new possibilities for both parents and children. These can influence both the immediate material wellbeing of the family and the longer-term development of the child. This chapter considers three central influences on adult and child opportunity: employment, education and childcare; and also the role of direct support for family incomes. The following chapter goes on to identify the contribution made by some of these factors in reducing child poverty over the past few years.

The following analysis does not cover wider influences on children's development, including features of their environment such as housing and communities. These have important but hard to measure influences on child poverty. The analysis of such influences is beyond the scope of this report.

### **Work chances, work patterns and child poverty**

*Work is the most reliable single route out of poverty ...*

A child living in a household where nobody works has a three in four chance of being in poverty. For those in a household with a mixture of working and non-working adults, the probability reduces to one in three, and where all adults are working, to one in eight. No other factor is such a strong predictor of whether a child is poor. It is therefore unsurprising that 'work is the best route out of poverty' has been a central tenet of anti-poverty strategies. This does not, however, imply that the solution to child poverty is for every parent to work (see Box 5).

**Box 5: Limits to a work-based solution**

This chapter inevitably has a lot to say about the role of work opportunities in helping to reduce child poverty. Improving the chance of parents to earn money is at the heart of an ‘active’ solution to low family income, alongside the ‘passive’ remedy of giving poor families more money in benefits and tax credits.

Yet this does not mean that the only way to help children is for all their parents to go out to work. In feedback events held with families living on low incomes and local service providers as part of this project, there was broad consensus about the importance of parents being able to make choices about the balance between working to support their children and staying at home to look after them. Supporting this choice relies first and foremost on providing adequate out-of-work incomes that does not mean that work is the only alternative to poverty (see the last section in this chapter). But choice is also a matter of the kinds of work opportunities that are available. The chance to work appropriate hours, to obtain good childcare arrangements and to have flexibility around the needs of raising a family can be at least as important as the opportunity to get some kind of job. Governments cannot control these conditions, but can work hard to promote them.

*“We discussed the fact that it should be important for parents to retain choice. It should not simply be that work is the only route out of poverty. Parents should have a choice about when they feel work is the right step for them to take. We were concerned about the pressure that is being put on parents, particularly lone parents, to move back into employment very early. Maybe they feel they are not ready to take the step and that their children’s needs at that point might not be best met by returning to employment.” (small group session at London feedback event)*

*“All my tax credits and most of my wages go to keeping my four kids; they’re in three different kinds of childcare and I’ve been working for six years and I’m not any better off for working. I’m playing at being an employee and playing at being a mum – can’t do either fully.” (parent at Glasgow feedback event)*

**... but the nature and rhythm of work opportunities matter greatly.**

On the other hand, it is not the case that when a parent gets a job, his or her family’s poverty permanently disappears. Today, even with a generous regime of in-work tax credits for families with children, half of all children in poverty have at least one parent in work. Low pay is one contributing factor: while only one in 20 employees overall are in poor households, for employees with low hourly pay, the risk is one in seven<sup>23</sup>. Another important influence is the amount of work within the family. Of 1.9 million children who are in poverty despite having at least one working parent, only 100,000 are in families where all adults are in full-time work<sup>24</sup>.

Thus, while it matters greatly to children's experience of poverty whether any of their parents are working, the characteristics of parents' experiences in the labour market also matter: whether they get better-paying jobs, their hours of work and whether their work is stable or erratic. A recent study for Save the Children on factors affecting severe and persistent poverty concluded that while long periods of worklessness are associated with persistent poverty, the most severe poverty is particularly associated with instability in employment status<sup>25</sup>. Where members of a household make transitions in and out of work, there is a strong risk of a period with low or no income. Part of the solution to this problem lies in a smoother tax and benefits system, but improvements in job retention would also help families greatly.

*"You go back to work and the first thing they do is take your benefit away ... your back to work adviser didn't calculate that in!" (small group session at Glasgow feedback event)*

### ***One factor is low work rates for lone parents ...***

An important factor underlying the relatively high incidence of child poverty in the UK is the situation of their parents, a high proportion of whom face barriers to employment. In particular, over four in ten children living in poverty have lone parents, and of these, nearly 80 per cent are not working. Some lone parents give priority to staying at home to look after their children, and in this sense it is the UK's high rate of lone parenthood that produces non-working families. But lone parents' low employment rate, by international standards, can also be attributed to barriers to employment. Part of this is due to this group's relatively high likelihood of having characteristics associated with a lower chance of working: they are more likely to have low qualifications, to be claiming sickness and disability benefits and to live in social housing than other adults of their age<sup>26</sup>. Part is due to practical barriers such as a lack of acceptable childcare options.

The overall result is that a child with a lone parent is over five times as likely to have no earnings coming into his or her family than a child with two parents, and has only a 20 per cent chance of having a parent with full-time earnings. Moreover, while lone parents' entry rate into employment is now as high as for other people not working, their exit rate remains twice the average. Thus, lone parents more than other groups are finding it hard to access stable jobs, and/or are finding it hard to hold down a job given other pressures in their lives and the practicalities of childcare.

### ***... but a neglected factor has been high poverty rates among single-earner couples ...***

Even though the vast majority of couples with children are now in work, this does not mean that they have escaped poverty. One and a quarter million children living with couples in work are still poor, about twice as many as in non-working couples and a similar number as in non-working lone-parent families. Thus, there is as much potential to reduce poverty by improving the incomes of working couples as by moving lone parents into work. Yet there has been much less focus on this task. As argued elsewhere in this

report, there is an argument for improving the relative value of in-work tax credits for this group. But there is also a need to do more to help improve working opportunities for second earners. Most poor working couples with children either have only one earner or are self-employed.

***... while disability and mental illness play important roles ...***

A less well-recognised factor affecting parental employment chances is the fact that many parents have mental and physical disabilities and illnesses that affect their ability to work. The Department for Work and Pensions' analysis of its clients shows that over 900,000 children are in families where at least one parent claims a benefit due to a disability. A wide range of conditions, ranging from severe physical impairments to stress-related illnesses, have impacts on parental work prospects and hence on child poverty.

One particular issue of concern is mental illness. There is a lack of hard data, but it is likely that approximately 1.25 million children in England and Wales live with parents or carers who have a mental health problem, while only one in four people with mental health problems are in employment. The evidence shows that poverty and mental health difficulties interact, with the stresses caused by poverty contributing to the onset of conditions such as depression, while the employment impacts of mental illness can in turn accentuate poverty. This interaction seems to affect lone parents in particular, who face a greater challenge in bringing up children in difficult circumstances. Lone parents are two to three times as likely to experience the most common mental disorders than parents in couples with children<sup>27</sup>. Another important feature of mental illness is its unpredictability, which contributes to the unstable work patterns that can contribute to severe child poverty, as described above.

***... and government now has a range of tools to help improve parental employment rates.***

The government has put considerable stress on a range of policies to improve employment outcomes for parents. These include:

- measures to help people into jobs, such as the New Deal for Lone Parents;
- measures to encourage people actively to consider work, notably the development of work-focused interviews and of personal advisers;
- measures to make work pay, notably the development of in-work tax credits, especially for families with children, and the introduction and raising of the National Minimum Wage;
- improvements in the supply of childcare as well as help in financing it through the tax credit system; and
- piloted measures to give more intensive support to people, before or after entering jobs, to help progress into and within the labour market. The Pathways to Work pilots give intensive help to disabled people. The Employee Retention and Advancement demonstration project is exploring more generally how employment services can help people towards sustainable employment.

Chapter 3 considers the impact that some of these measures have had so far on child poverty. One notable feature of the policy strategy is that it has so far been better designed to move individuals into work than to transform the labour market. Providing job search help and ‘making work pay’ through tax credits can help greatly in the short term to move people into jobs, but do not in themselves ensure that jobs are worthwhile, well-paid or sustainable. Measures to help individuals to do better in the labour market remain at an underdeveloped, experimental stage. Thus, while the present policy armoury does contain a wide range of tools, it does not yet provide a comprehensive, long-term solution to improve the position of parents in the labour market and thus permanently reduce child poverty.

*“Not enough is done to recognise what it means to move from benefits into a job and the barrier they face – ie fear of taking a job and it not working out. A flexible benefits system would help so that if a person is unable to do a job (for example if they have a disability) they can move back to benefits without having to wait weeks for claims to be processed.... People need the opportunity to ‘test jobs’. Fear is still a barrier to returning to or taking work.” (small group session at Liverpool feedback event)*

*“If parents are working very hard in a job, what is the point if there are no cheap or good-quality youth clubs or childcare centres? These keep their children off the streets and away from the effects of poverty, such as crime, drugs and bullying. We must address these issues together and understand their roots in poverty if we want to end child poverty.” (parent at London feedback event)*

### **Education at the heart of a long-term solution**

***Overall, improved education is essential to the longer-term fight against poverty and disadvantage.***

One feature of a long-term solution is to ensure that parents today and in the future have the skills needed to access good quality jobs. This can be achieved through improvements in education and training both for adults and for children. In particular, a more inclusive education system could help reduce the persistence of poverty across generations, as disadvantaged children fail to access the educational opportunities that could help them avoid poverty when they are themselves parents.

***Spending extra years at school clearly improves wage and employment prospects ...***

Overall, there is powerful evidence that education in childhood and youth improves one’s chances in adulthood. This applies both to employment effects – how much time one spends working rather than not working, and to wage effects – average pay when in work. Moreover, research<sup>28</sup> indicates that this return is likely to be high at the margin for vulnerable groups likely to leave education early:

- for people leaving school around the minimum age, each extra year of schooling appears to boost earnings in mid-life by about 15 per cent;
- extra educational qualifications boost expected earnings for people from disadvantaged backgrounds at least as much as for those from better-off backgrounds (the premium for women is similar regardless of background; for men it is higher for the disadvantaged);
- while lower-level vocational qualifications have no discernible impact on wages, they have a dramatic impact on job prospects: male employment rates aged 23-25 rise from 68 per cent for the unqualified to 75 per cent for those with Level 1 and 89 per cent with Level 2 qualifications;
- acquiring basic literacy and numeracy skills also boosts the probability of employment. For example, people with Level 1 numeracy are about five percentage points more likely to be employed than those without, and 2-3 percentage points more likely after correcting for associated factors<sup>29</sup>;
- evidence on the impact of learning in adulthood is less definitive. It appears to show that for unqualified adults, some forms of learning in mid-life can be highly beneficial to income, but the evidence does not allow a generalised gain to be measured.

***... and both education and the income that it brings feed into better outcomes for the next generation ...***

In families where parents have good jobs and strong educational backgrounds, children tend to do better at school. It is hard to distinguish educational and income effects, but the evidence shows that each has some independent influence. For example<sup>30</sup>:

- An increase in income of one third of the mean (that is, an increase of about £140 per week) increases the probability of achieving five or more GCSEs at A\*-C by an estimated 3 to 4 percentage points and increases the probability of achieving a degree by a similar magnitude.
- One extra year of a mother's education increases her child's probability of staying on in school beyond minimum school leaving by 8 to 10 percentage points.

These substantial effects illustrate how breaking a cycle of poverty and low educational attainment can help reduce family poverty from one generation to the next.

***... but targeted policy measures remain under-developed.***

In light of the above evidence, it is clear that a long-term assault on child poverty needs to involve measures to improve educational opportunities for disadvantaged children. Governments put a high priority on raising educational performance generally, and have also developed certain measures to give extra help to certain groups or communities. These include area initiatives such as Education Action Zones and measures to help people on low incomes such as financial support for those continuing in further or higher education. Other initiatives have targeted adults with low skills for extra help.

However, such programmes are often on the margins of policies to improve educational outcomes – for example, the amount devoted to Education Action Zones represents only a minute fraction of all spending on education. Most money for schools is directly proportional to the number of students, regardless of their backgrounds. There is some evidence that programmes giving financial support to 16-year-olds to stay at school or to lower-income groups to participate in higher education can yield positive outcomes. In particular, evaluation of Educational Maintenance Allowances shows that they have succeeded in improving staying-on rates. What is less evident, however, is that effective ways have been found to help children growing up in poverty to thrive during the compulsory school years. Even the limited experiment of Education Action Zones has not had clear-cut positive impacts. We thus lack a good understanding of what works in targeted interventions to help economically disadvantaged children in primary and secondary education.

### **Childcare and opportunities for parents and children**

#### ***Families can benefit from better quality, more accessible and more plentiful childcare ...***

Improvements in childcare can have a dual impact on child poverty. In the short term, they can help enable parents to work; in the much longer term, good quality early childhood experiences can contribute to child development and hence improve children's lifetime prospects.

Strategies to improve childcare opportunities have had a number of dimensions, including:

- improvement of provision, through measures to increase supply, using a mixture of providers;
- improvement of access, particularly through tax credits that subsidise most of the cost for low-income families in work;
- the establishment of multipurpose children's services focused on deprived communities, particularly Children's Centres and other Sure Start services.

*“Free or subsidised quality childcare should be available and open to all children including children with a disability.” (small group session at Belfast feedback event)*

#### ***... but despite progress, shortfalls in provision still contribute to child poverty.***

These measures undoubtedly help improve opportunities for many families. Yet an assessment of their contribution to overcoming child poverty<sup>31</sup> concludes that there remain serious shortfalls, and raises doubts over what the promise of moving towards 'universal' provision will mean in practice, given that Children's Centres will be sited in every 'community' but carry no guarantee of offering options to each individual.



Many parents still do not feel that they have a good quality childcare option that they are happy with. In its public consultations in the course of this project, the Joseph Rowntree Foundation noted a widespread view that improvements in childcare, although welcome, were not enough to meet the requirements of parents who would like to work. A host of difficulties are still encountered in different combinations by many parents, including: lack of available childcare with which parents feel comfortable, the continued high cost of provision even after the subsidy, inflexibility of arrangements to pay the supporting tax credit, the lack of resources to compensate friends and relatives who might care for children and difficulties around the hours and working arrangements offered by employers. Above all, parents want choice over their work and childcare package. This will not automatically be provided by a network of centres offering 'wrap-around' institutional childcare, since many parents prioritise seeing their children after school rather than picking them up in the evening.

### **The structure of income transfers and the structure of poverty**

*A key factor will be the level of benefits and tax credits, for different family types.*

The above discussion illustrates how a strategy to eliminate child poverty can include measures to improve family opportunities. But however much these improve, not all families will be able to escape poverty without financial help from the state. Some will remain outside work, and others have earnings that do not meet their needs. Therefore, the structure of support, both inside and outside employment, will continue to have a crucial effect on child poverty rates.

Much will depend on the generosity of the system: on what can be afforded overall, in terms of the level of the main benefits and tax credits going to poor families. But the *structure* of entitlements is also crucial. How much are different kinds of family entitled to? Future benefit and tax credit rates are based partly on the current structure as it is carried forward, but also to a great extent on the way in which different entitlements are updated. At present, this varies greatly for different components of family income. For example, the child element of the Child Tax Credit is rising at least in line with average earnings, Child Benefit is rising in line with prices and the family element of the Child Tax Credit is not rising at all.

In the years ahead, the structure of income transfers will affect the structure of poverty and the rate of its reduction in a number of ways, notably the following:

*The balance between in- and out-of-work support: to eradicate child poverty, non-working incomes in particular need to rise.*

Minimum incomes are bound to be lower for non-working households than for those with jobs: the government is careful to ensure that there remains a financial incentive to work. At present, the consequence is that nearly three in four children in families not in work are in poverty, whereas the chances are much lower for families in work, even those



where all workers are low paid. For example, a lone parent with a low-paid job has a one in five chance of being below 60 per cent median income, even though their pay alone almost never (in only 4 per cent of cases) brings them above this level. The addition of tax credits and benefits is enough to bring about half of these low-paid lone parents out of poverty, and a further one in four escape poverty when other sources of income are added in<sup>32</sup>. The role of tax credits has become ever more important in this equation, and low-paid lone parents working more than the 16 hours required to qualify for the Working Tax Credit have only an 8 per cent chance of being poor.

It could thus be argued that in future, raising out-of-work benefits, relative to average incomes, will be the crucial long-term change if child poverty is eventually to be eliminated. However, to preserve work incentives, it may be necessary to raise in-work support as well. Moreover, since 2003 the fortunes of children in families in and out of work have to some extent been locked together through the Child Tax Credit, a key component in the income of both groups. Nevertheless, the other components should not be neglected. In particular, Income Support, the benefit providing for the basic needs of most out-of-work parents, is only being uprated with prices. This means that the total income of many non-working families may, under present policies, not even keep pace with average incomes, let alone improve relative to the median.

#### Lone parents compared to couples: many working couples need a lot of extra help to escape poverty.

A further crucial dimension is family type. Although children with lone parents are more likely to be poor because their parents are less likely to work, a child in a workless household has the same chance (72 per cent) of being poor with two parents as with one. Moreover, where parents are working but in part-time or low-paid jobs, the tax credit system is arguably more favourable to lone parents than to couples. It is much more likely to take a lone parent who works full time out of poverty than a couple where one person works full time, and the same is true when comparing a single part-time worker in these two family types. This may be seen as fair, since a couple has more scope to add a second income, and a lone parent may find it harder to work full time. Nevertheless, it is notable that over 80 per cent of poor children with working parents live in couple families, and that a couple with children where a man is low paid is nearly twice as likely to be poor than a family with a lone mother<sup>33</sup>. Thus, future reductions in in-work child poverty could depend to a considerable degree on the generosity of the tax credit system to couples. (See, however, Box 6.)

### **Box 6: Equivalence scales, poverty and the tax/benefits system**

The calculations about poverty reduction made in the present report use the standard definitions of income poverty (see Box 1 above), with adjustments for family need based on the official 'equivalence scales'. These start with a couple as a standard unit, and make adjustments for family composition to calculate the poverty line for each family. For example, when calculating poverty after housing costs, the scales subtract 45 per cent for a household with a single adult and add between 18 per cent and 28 per cent, rising with age, for each child between ages 2 and 16. However, benefits and tax credits do not systematically assume that needs vary according to these scales. For example:

- Per-child benefits and credits are not weighted according to age. But the poverty measure assumes that older children need more. So a family on benefits is more likely to be judged poor the older its children.
- The arrival of the first child raises benefit entitlements much more than that of subsequent children. But the poverty measure assumes that each child needs the same. So a family living on benefits is more likely to be considered poor if it has, say, four children than if it has only one. In particular, having one extra older child brings in less extra benefit income than the presumed needs of that child<sup>34</sup>.
- Working families get a tax credit to help with adult needs that is the same for a couple or a lone parent, even though the poverty measure assumes that a couple needs substantially more. This partially explains the higher poverty risks of working couples.

In presenting below the measures needed to reduce poverty using current equivalence scales, this report is not seeking to make judgements about the actual relative needs of different families. If these were to be deemed different from the arbitrary weightings used in the scales, the design of solutions would be somewhat different.

#### **Large families: families with more children are at greater risk.**

The risk of a child living in poverty rises substantially if he or she has more than one sibling. The poverty rate rises to 50 per cent for those living in the largest families, with four or more children, compared to 23 per cent for those in one- or two-child families. In couples, the number of children is particularly significant, with only about one in seven children being poor in one- or two-child families, but nearly a third of children in larger ones<sup>35</sup>.

There may be a number of causes of these differences, not all related to differences in the tax credit and benefit system. For example, it may be harder for both people in a couple to work where there are more children, with the cost of childcare a major

factor, and families where only one person in a couple works have a high poverty risk. It is also possible that people with some characteristics associated with a higher risk of poverty, such as socioeconomic background, are also more likely on average to have larger families. However, a significant factor is that tax credits and benefits are more likely to compensate fully for the assumed extra cost of a first child than of subsequent children (see Box 6 above). A restructuring of these entitlements could help to bring poverty numbers down.

**Universal and targeted benefits: not all payments to help end child poverty will necessarily be narrowly targeted.**

A final important feature of the tax and benefit system in addressing child poverty is the degree to which it gives entitlements to all families or only those with low incomes. Child Benefit and the family element of Child Tax Credit go to most families. They remain significant in boosting family incomes, but are presently declining relative to average income. An extra pound of public spending will go further towards reducing poverty if it is paid in income-tested benefits. However, insofar as 'progressive universalism' (something for every family but more for the least well off) helps maintain widespread public support for public transfers to families, maintaining universal benefits helps in the long term to prevent poverty. Moreover, universal payments have better take-up and are easier to claim, which also adds to their effectiveness. As shown in Chapter 4, there can be a role for these payments in an anti-poverty strategy that is nevertheless cost-effective.