Response of IFS Researchers to Child Poverty Consultation

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This document sets out the response of IFS researchers to the government's consultation entitled "Ending Child Poverty: Making it Happen", launched in January 2009[1].

1.   (a) Does the 2020 vision, as set out in Chapter 2, capture the key areas where action is required to ensure the greatest impact on reducing child poverty?

(b) – Are the building blocks the right ones to make progress towards 2020, including for those groups at particular risk of poverty?

The section below sets out our response to both of these questions by discussing the listed building blocks for progress towards 2020: *employment and adult skills*; *financial and material support*; *services for children, young people and families*; and, *housing and neighbourhoods*.

Improving *employment and adult skills* will certainly be important if the Government is to achieve its 2020 targets. The employment rate of lone parents in the UK is well below that of other European countries and is surely a major contributory factor to the high-level of income poverty amongst lone parents. On the subject of adult skills, instilling low skill adults with skills that are of value to employers would surely be beneficial. However, many policies aimed at low skill adults have suffered from low returns and high dead-weight. But, dismissing the current generation of low-skilled adults as beyond help is unsatisfactory. Nevertheless, we feel it is still important to consider the returns

[1] See link for more details,
(http://www.dcsf.gov.uk/consultations/index.cfm?action=consultationDetails&consultationId=1590&external=no&menu=1).

to policy interventions and it is of little doubt that early intervention has higher returns; limited resources should thus be skewed towards early intervention.

Financial support and material support for low income families will also be important. However, as the consultation document states, maintaining work incentives is just as important, especially if one is to increase employment rates. Furthermore, whilst increased financial support may be the most direct way of achieving income-based targets, this should not be allowed to skew policy responses. We feel that other factors, such as education, should have much greater prominence in order to improve the life-chances of today's children, and to reduce the inter-generational transmission of poverty.

Improving ***services for children, young people and families*** is vital if the Government is to achieve its 2020 targets. Educational attainment is the single strongest predictor of future earnings, prior to entering the labour market, and is also associated with improved health and other measures of well-being. Without reducing the number of children with low levels of educational attainment, it is hard to see how the 2020 child poverty targets can be achieved. We feel that this should thus be one of the most important building blocks, if not the most important. Increasing the focus on health is also likely to be important. It has been shown that even very early factors like low birth-weight can impact upon measures of child development.

Looking at the fourth building block, ***housing and neighbourhoods***, improved housing conditions are clearly important for well-being. It is hard to object to the idea of safe and cohesive communities. However, it is questionable whether or not neighbourhood-level characteristics impact upon individual factors like educational attainment. Whilst it is true that children living in poorer neighbourhoods do have below average educational achievement, it is more likely that this results from an aggregation of the individual effects of low household incomes. In other words, children from poor households have below average educational attainment, and thus communities with a greater proportion of poor households achieve below average results. The causal impact of living in a poor neighbourhood, over and above being poor oneself, is questionable.

2(a) – Should the measure of success be expanded beyond relative income, combined low income and material deprivation, and persistent low income to also include absolute low income?

The first section, below, discusses the merits of expanding the measure of success to include a measure of absolute low incomes. The next section discusses further issues in the measurement of chid poverty for 2020.

Absolute low income measure?

Progress on the relative low income indicator would imply that the incomes of relatively low-income families with children grow faster than average (median)

income, such that only 5-10% of children live in a household with a relative low-income by 2020. Meeting this target would imply a closing of the gap between relative low-income families with children and average incomes. However, such a measure need not imply that the living standards of families with children are rising year-on-year. Indeed, average incomes are likely to decline in real terms during the current downturn, but if the incomes of low-income families with children decline at a slower rate, then relative child poverty will fall. But it is hard to see declining real incomes amongst low-income families with children as something which should be celebrated.

In this instance, a measure of absolute child poverty would be useful in order to confirm that living standards are improving. However, absolute measures of poverty lose their relevance over time. Given real income growth between now and 2020, those observed to live in absolute poverty in 2020 using thresholds of median income for 2007-08 or earlier are likely to be a small group with very low real incomes,. And there are well-known problems with using families with the lowest recorded incomes as a guide as to the number or characteristics of families with the lowest living standards. These families could well be temporarily poor or have their incomes mis-measured, given that the families with the lowest incomes often have living standards similar to those much higher up the income distribution. Therefore absolute indicators will need to be rebased so they do not lose their value over time, and this could create undesirable discontinuities.

One way to circumvent these problems is simply to check that the incomes of low-income families with children are growing year-on-year (or over some other short period of time). For example, this could involve measuring the growth in the incomes of families with children living in the bottom fifth of the income distribution. If there is a need to summarise this in one number (as is achieved by a measure of absolute poverty), then perhaps a fixed three year or five year period could be used: in other words, in 2009/10, one could calculate how many children had incomes below 60% of the median income in 2004/5 or 2006/7, and so on, on a rolling basis.

Alternatively, declining levels of material deprivation amongst families with relatively low-incomes should itself confirm that the real living standards of low incomes families with children are improving year-on-year. In other words, progress on the combined measure of relative low-income and material deprivation should confirm actual improvements in living standards. Taking this approach would also minimise the number of targets for 2020, which might well be preferred on grounds of transparency and communicating the targets to a wider public.

Other issues in the measurement of child poverty and definition of "eradication"

This section discusses further issues in the measurement of child poverty and the definition of "eradication." Firstly, we propose a firm numerical target for the relative low income measure, in place of a target range. We then discuss the introduction of a permanent poverty target, but also the potential benefits of using a spending poverty target. We then move on to discuss whether or not the proposed measures of success represent "eradication." We then examine whether or not the focus on income based measures could skew the policy response. Finally, we discuss whether or not there should be different targets for self-employed families with children.

Looking further at the relative low income target, we feel it would be preferable to define the relative low-income target as a *firm single number* rather than the current range of 5-10%. It is unclear from the range what the exact target is. If the target is genuinely the range of 5-10% then the actual target would seem to be 10%, the highest level consistent with this range. However, one could equally interpret the actual target as the mid-point of the range, 7.5%. The target range also implies that a level of 4.9% would be unacceptable. Of course, one might believe that rates of child poverty approaching zero would require undesirable policy responses to combat temporarily low incomes, but there is no evidence to suggest that the desirable threshold is 5%. Therefore, mainly to make the target as transparent as possible, we believe that a single number is preferable to a range.

We welcome the addition of a measure of *permanently low incomes*. This is mainly because those with permanently low incomes are likely to be those with the lowest living standards, and be unable to smooth their consumption patterns through savings and borrowing. We look forward to further consultation on how this will be measured.

However, we feel it is worth nothing that defining poverty in terms of *family spending* could circumvent a number of concerns associated with the relative income measure. Family spending is likely to be a better guide to long-term resources or permanent income than is current income. This is because families are able to use savings and borrowings to fund a fairly flat profile of family spending when faced with either temporarily high or low income. Such a measure could thus replace the combined material deprivation and relative low income indicator, as it is a direct representation of living standards, and could replace the permanent income poverty measure, as it is a guide to long-term resources.

On the deeper point of whether or not stated *numerical targets represent eradication or not*, it is difficult to make any firm judgement. Naturally, approaching zero on the permanent low income measure would seem to be consistent with the eradication of permanently low incomes, as would the

4

combined material deprivation and relative low-income (assuming that temporarily poor households would be able to escape material deprivation through savings and borrowing).

The consultation paper gives three reasons for why a relative poverty rate of 5-10% could represent "eradication": this range is in line with the best in Europe; the technical infeasibility of a zero measure using a survey of income measured over a short period; and the dynamic nature of incomes. The second reason (ignoring the dynamic aspect of incomes) would suggest that a zero income on any survey-based measure might be infeasible, having implications for the other two measures. Indeed, it is hard to know whether a level approaching zero on any survey-based measure is possible: it will depend on the accuracy and quality of the survey data. The third reason, the dynamic aspect of incomes, could be used to justify a non-zero target. However, whether or not one desires a relative low income measure approaching zero or not will depend upon the weight one places on temporarily low incomes as representing child poverty, and the extent of temporarily low incomes. It is not clear that the answer to these questions then suggest a target range of 5-10%. In our opinion, the first reason of being consistent with the best in Europe would seem to be a better reason, as it suggests what is feasible in a modern European economy. Moreover, a level of relative poverty of 10% or less would be the lowest in the UK since at least 1961, so would represent an achievement in those terms.

We do, however, have serious **concerns regarding the almost exclusively income-based nature of the targets**. With all the focus on income-based measures, especially the relative income measure, we feel that there is a risk that the policy response will be skewed towards those measures which have immediate and predictable impacts on household incomes – mostly tax and benefit changes – rather than those which will do the most to improve the lives of today's children or to reduce the risk of the next generation of children from being poor. We believe it would therefore be sensible to make use of targets for other aspects of children's' and parents' lives, with these published at the same time as income-based poverty measures.

To some extent this is already done via the data and targets published in *Opportunity for All.* However, these targets have much less prominence than the headline income poverty targets, and this publication no longer discusses the government's overall poverty strategy: both of these points are a shame. We think that progress towards the 2020 targets should not be assessed solely as continual decline in the income poverty measures, but in wider policy targets, such as measures of educational inequality. For example, one could define an educational target in terms of closing the gap between the proportion of children eligible for free school meals who attain 5 good (A*-C) GCSEs, including English and Maths, and the national average. One could also add a target for the national average to improve by a given amount to avoid accusations of attempting to "level-down."

There are two reasons why we believe that the government should have a broader range of targets. Firstly, short-term political horizons of politicians might make it difficult for them to commit to implementing policies that are only likely to yield results ten or fifteen years down the line. Using interim targets to commit them to such policies might thus be helpful to both politicians and the making of good public policy. Secondly, it is not clear that giving more money to a child's parents is the best way to improve their current or long-term living standards. We believe that a broad strategy to reduce child poverty should focus resources on combating broader disadvantages experienced by children.

Lastly, past research has shown that children living in *self-employed families* experience lower levels of material deprivation than those in other family types with similar income. One further could thus be to present poverty rates with and without the self-employed, as was the previous practice in HBAI. However, it is hard to objectively define a separate target for the self-employed. Moreover, there are other groups in society for whom income and other measures of living standards can give different impressions, and it would not be realistic to have different targets for each.

2(b) – Will proposals to publish a strategy, informed by an expert child poverty commission, and proposals to monitor and report on progress, drive the action needed?

The idea of expert child poverty commission is surely a good one. However, rather than act as a talking shop, or a body rubber-stamping government proposals, we feel that the commission should be as independent as possible, and should be funded to publish its own reports on progress towards the 2020 targets.

Indeed, following our arguments above that there should be a broader range of child poverty targets; we would suggest that the Commission be asked to:

- Assess well-being of current children
- document progress being made to eradicate child poverty in 2020
- assess government policy
- make policy recommendations for the future

We think that the document should be wide-ranging, covering as many dimensions of child well-being as possible (including income poverty, educational attainment, health and more) and these should be presented on both a relative and absolute basis. We also think that the focus of the report should be children – not their parents – and that it should cover all children in the UK.