









Routes out of poverty

Although many people remain poor for some time, there is considerable movement into and out of poverty. Policy-makers are increasingly interested in the ways in which people escape from poverty. This study by the Social Policy Research Unit at the University of York reviewed existing evidence on this topic and found that:

-  There is considerable mobility of income from one year to the next, with people moving into and out of poverty. However, most do not move far up or down the income distribution scale.
-  Work is the most important route out of poverty for working-age people, but not a guaranteed one. There is evidence of a 'low pay, no pay' cycle of moving from unemployment into low-paid work and back again.
-  For some economically inactive people, especially severely disabled people, paid employment is not a realistic option. In these cases, increases in social security benefits could be the most important ladder out of poverty.
-  Success in education and training is an increasingly important route out of poverty for young people, but there is evidence of increasing polarisation between those who stay on and gain qualifications and those who do not.
-  Changes to the tax/benefit package since 1999 have lifted large numbers of families with children out of poverty.
-  Maintenance payments can be a ladder out of poverty and into work (by acting as a wage supplement) if they are regular and not offset by falls in benefit. Acquiring a new partner, especially one in work, is an important ladder out of poverty for lone parents.
-  Although income changes in later life are less sharp than for younger generations, older people also move into and out of poverty. Changes in non-labour income such as pensions and savings are the main routes out of poverty.
-  Since 1999, means-tested income top-up for pensioners has increased substantially above rises in average earnings, enhancing its role as a ladder out of poverty. However, a third of entitled older people do not claim it. Increased benefit take-up would help older people to escape from poverty.

Background

There is a long history of research into poverty in Britain, stretching back to the pioneering work of Seebohm Rowntree at the beginning of the twentieth century. Much of this research has been based on poverty at a particular moment in time. However, in recent years, research has begun to examine the dynamic as well as the static aspects of poverty. This new research has helped to shift the focus of attention towards a better understanding not just of routes *into* poverty, but also – crucially – routes *out* of poverty.

The Joseph Rowntree Foundation is supporting a programme of research on ladders out of poverty. As part of this initiative, the Foundation commissioned a review of the existing evidence on the subject. The review focused on income poverty and income trajectories, but did not cover broader questions around social mobility. The sources on which it was based are listed in the full report of the review.

Routes into and out of poverty

Recent research on the dynamics of poverty has revealed that there is considerable mobility of income from one year to the next, including movement into and out of poverty. Consequently, the number of people affected by poverty is much greater than the number experiencing it at any one point in time.

However, most income mobility takes place over a relatively short scale and there is considerable persistence in poverty among some groups of people. Those most at risk of persistent poverty are children, older people, lone parents, social housing tenants, adults with no educational qualifications and workless households.

In the 1990s, over a third of people on low incomes escaped from poverty between one year and the next. Apart from education, the key ladders out of poverty identified by the review were:

- paid work – moves into work or increased earnings;
- increases in non-labour income;
- changes in household composition;
- moves out of ill-health or disability.

Labour-market events were the most common routes out of poverty, but the importance of different routes varied from one type of household to another.

For *lone parents*, the event most likely to be associated with escape from poverty in the 1990s was acquiring a new partner, where this was accompanied

by a move into paid work. For *couples with children*, labour-market events were the most common ladder out of poverty. Demographic events, such as changes in household type or reductions in the number of children in the household, were much less important.

For *older people*, increases in non-benefit, non-labour income – mainly pensions and savings – were the most common route out of poverty in the 1990s. The next most common route was improvements in mental and physical health, mainly because of their relatively high incidence among older people. Although very few older people were affected by labour-market events, where these occurred they were associated with a very high rate of escape from poverty.

Work as a ladder out of poverty

Paid work is the most common route out of poverty, but it is not a guaranteed one. Just over half of adults of working age who are in poverty – 2.6 million people – live in households where at least one person is working.

Work is not always a route out of poverty because some jobs are low paid. Low pay is concentrated among certain industries (such as catering, retail and residential care) and occupations (for example, hairdressers, cleaners and security guards). Women and young people are the most likely to be low paid. The incidence of low pay has increased over the past quarter of a century.

For many people, low pay is not a transient experience: low-paid workers tend to remain low paid. Low-paid jobs often do not act as stepping-stones to better-paid ones; they are more likely to constitute dead ends from which there is relatively little prospect of escape. Low-paid jobs also tend to be more precarious than higher-paid ones. Indeed, there appears to be a ‘low pay, no pay’ cycle in which periods of low pay are interspersed with periods of unemployment. Being out of work appears to have a ‘scarring’ effect on future earnings, thereby helping to perpetuate low pay. Moreover, this wage penalty increases with length of time out of work.

The National Minimum Wage has helped to tackle the problem of low pay. It has raised the pay of about 1.3 million workers, or about 5-6 per cent of all employees. About three-quarters of those who have benefited are women.

Despite having one of the lowest unemployment rates among the Organisation for Economic Co-operation and Development countries, Britain also has one of the highest rates of worklessness.

Currently, about one in six working-age households has no adult in paid employment. Since 1997, various New Deals have been introduced to improve employability and help long-term unemployed and economically inactive people into work. The emerging evaluations of these programmes point to success in helping people into unsubsidised jobs. However, these programmes have been better able to help people who are reasonably 'job ready' than those who are more detached from the labour market.

For some economically inactive people, including the most severely disabled people, paid employment is not a realistic option and therefore not a route out of poverty. Most of these people rely on social security benefits for their income. For such households, improvements in social security benefits could be the most important ladder out of poverty.

Young people

The transition from childhood to adulthood has become more protracted and, for some, more fractured than in the past. Critical points in this transition can act as ladders out of, or snakes into, poverty. For young people, ladders out of poverty operate on three interconnected pathways: the school-to-work transition, the domestic transition and the housing transition.

Changes in the nature of the labour market and in family structures mean that young people face new risks and challenges when making the transition from education to employment. In today's labour market there is greater demand for a highly trained workforce, while traditional craft apprenticeship routes to employment have declined. Most young people stay on in education or training for longer than their predecessors did. Those who do not stay on have fewer opportunities and a more insecure outlook later on in life. Despite the New Deal for Young People, long-term unemployment among young people has not been eliminated, though it is at a much lower level than it was in 1997.

Young people with caring responsibilities often miss out on education, which can later lead to unemployment and social exclusion. Young people from certain minority ethnic backgrounds are at increased risk of lower educational achievement and discrimination in the labour market.

Young people's family of origin is a crucial determinant of their future success. Good family relationships can provide a route out of poverty by enabling young people to follow their chosen careers. For young people with a disability, their family's

resources are crucial for a successful transfer to independent living. However, for some of the most disadvantaged young people, a problematic family background may be part of their difficulties.

The supply of affordable housing available to young people has fallen because of a decline of social housing, constraints on access to privately rented housing, and an owner-occupier sector characterised by price inflation. Living in the parental home can soften the impact of unemployment and low-paid jobs. Low-income young people who have left home often live in poor physical conditions and need parental support.

Families with children

Changes to the child tax and benefit package since 1999 have lifted large numbers of families with children out of poverty. The Government is on schedule to achieve its target of reducing the number of children in relative poverty by a quarter between 1998-99 and 2004-05.

Income from paid work is the most important ladder out of poverty for families with children, especially full-time work for lone parents. Acquiring a new partner can be a ladder out of poverty for lone parents, particularly if the new partner is employed. However, the high cost of childcare can be a barrier to taking up paid work and can make people worse off in work than on benefits. Affordable, accessible, high-quality childcare is essential for paid work to be a more secure ladder out of poverty for lone parents.

Income from child support (maintenance) payments can also help to make work pay for lone parents. It can enable them to manage on lower earnings or shorter hours or, by supplementing wages, make combining work with looking after children a financially viable option. But child support is only an effective ladder out of poverty for children if it increases income, is not off-set by a fall in benefit, and is both regular and reliable. In addition, child support payments to first families can act as a route into poverty for the second families of non-resident parents.

Improvements in the tax and benefit system since 1999 have helped to lift the most severely disabled children from poverty. Nevertheless, families with disabled children are disproportionately likely to be in poverty.

Older people

'Snakes and ladders' is a better descriptor of the income changes that affect working-age adults and children than is the case for older people. The level

and source of income in retirement is determined by opportunities in working life. Retirement itself can be a snake if it results in a sharp drop in income.

Post-retirement income tends to vary less than income during working age. Even so, there is significant movement into and out of poverty among older people.

A sizeable minority of older people continue to work beyond retirement age, but the proportion doing so tails off quite quickly after five years. There is a high rate of escape from poverty among older people who continue to work.

For most older people, investments are not a major source of income, but they have become more important over the post-war period. Income from investments is associated with short-range mobility of income, which suggests that it is not a very secure source of income.

The loss of a partner can result in significant change in household income. It can lead to a reduction in poverty, mainly for technical reasons connected with the way in which incomes are 'equivalised' to take account of different sizes of household (the same money income is valued more highly for singles than for couples). But where the surviving spouse does not inherit their partner's pension income, poverty may increase. This disproportionately affects women since they are more likely to be both survivors and without separate pensions rights.

The level of means-tested benefit for pensioners has increased very substantially in real terms since 1999, but a significant minority of older people fail to claim these benefits. Improved take-up of benefits is thus a potential ladder out of poverty for people above state retirement age.

About the project

Drawing on existing knowledge supplemented by database and website searches, the researchers endeavoured to encompass a wide range of literature including academic journals and books, government publications and grey literature, though the amount of material that could be included in the review was constrained by the budget and timescale available. Within these constraints, the research focused more on quantitative than on qualitative research evidence.

How to get further information

The full report, **Routes out of poverty: A research review** by Peter Kemp, Jonathan Bradshaw, Paul Dornan, Naomi Finch and Emese Mayhew, is published by the Joseph Rowntree Foundation (ISBN 1 85935 230 8, price £13.95).