

# Where poverty intersects with social exclusion

Evidence and features of solutions

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## Summary

- Income poverty and social exclusion need to be tackled together. Poverty can be looked at as an aspect of income equality or in terms of exclusion, but these measures overlap
- Tackling poverty involves addressing underlying social and economic trends that caused it to double in the past generation. Poverty remains close to historic highs and children are still at the greatest risk
- The most important effects of poverty today involve exclusion from social participation, which in turn feeds future poverty. The consequences of harm caused by poverty to children's development appear to be growing in the long term. Policies need to address particular features of childhood that make children of poverty feel like “outsiders” among their peers.
- A “road map” to tackle poverty and disadvantage requires the twin commitments of opening up opportunity and a bedrock of support. The Joseph Rowntree Foundation has shown that where you live in Britain affects your life chances, so a key target should be to reduce the concentration of deprivation, not just the overall level of deprivation. Providing security for “those who can't” means re-establishing the idea of a basic living standard

## Income poverty and social exclusion need to be tackled together

Poverty can be looked at as an aspect of **income inequality**.

- Poverty means having income a certain amount below contemporary norms.

Or it can be looked at in terms of **exclusion**.

- Poverty means not being able to have and do the things that permit full participation in our society.

These measures **overlap**.

They are not identical and the causes of each need to be understood. But poverty and social exclusion cannot be solved in isolation:

- People in poverty find it hard to participate in society, because they lack resources to do so.
- Conversely, lack of participation exacerbates poverty, both directly (exclusion from paid work) and indirectly (exclusion from social networks enabling people to improve their lives).

## Tackling poverty involves addressing underlying social and economic trends that caused it to double in the past generation

*Poverty remains near historic highs, and children are still at the greatest risk*

In 2004/05, 11.4 million people were living below 60% median income (after housing costs). While this is a somewhat arbitrary definition of poverty, it corresponds roughly with calculations of a “minimum essential budget”. It also allows comparisons across time and countries.

The 11.4 million compares to 7 million in 1979 and 13.8 million in 1997 (figure 1).

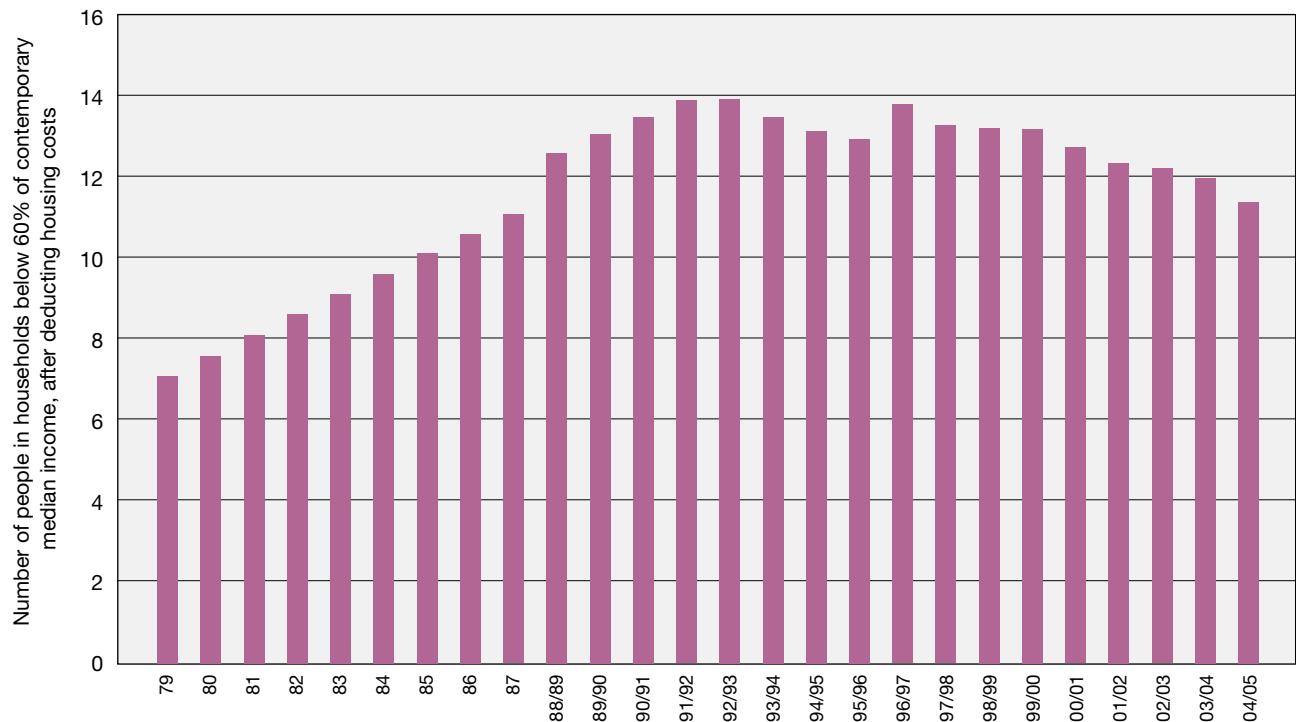
A key feature of the long-term increase is that children have replaced pensioners as the group most at risk of poverty (figure 2).

Today, children and their parents comprise 6 million out of 11 million poor individuals. So most poverty today is family poverty (figure 3). By contrast, in the 1970s, nearly half was pensioner poverty. Just one in six poor individuals are now pensioners, fewer than their representation in the population.

While the child poverty rate has dropped from its peak, it remains close to the highest in the EU25 – only Slovakia, Italy, Spain, Portugal and Poland have higher rates (figure 4).

**Figure 1 Number of people in households below 60% median income**

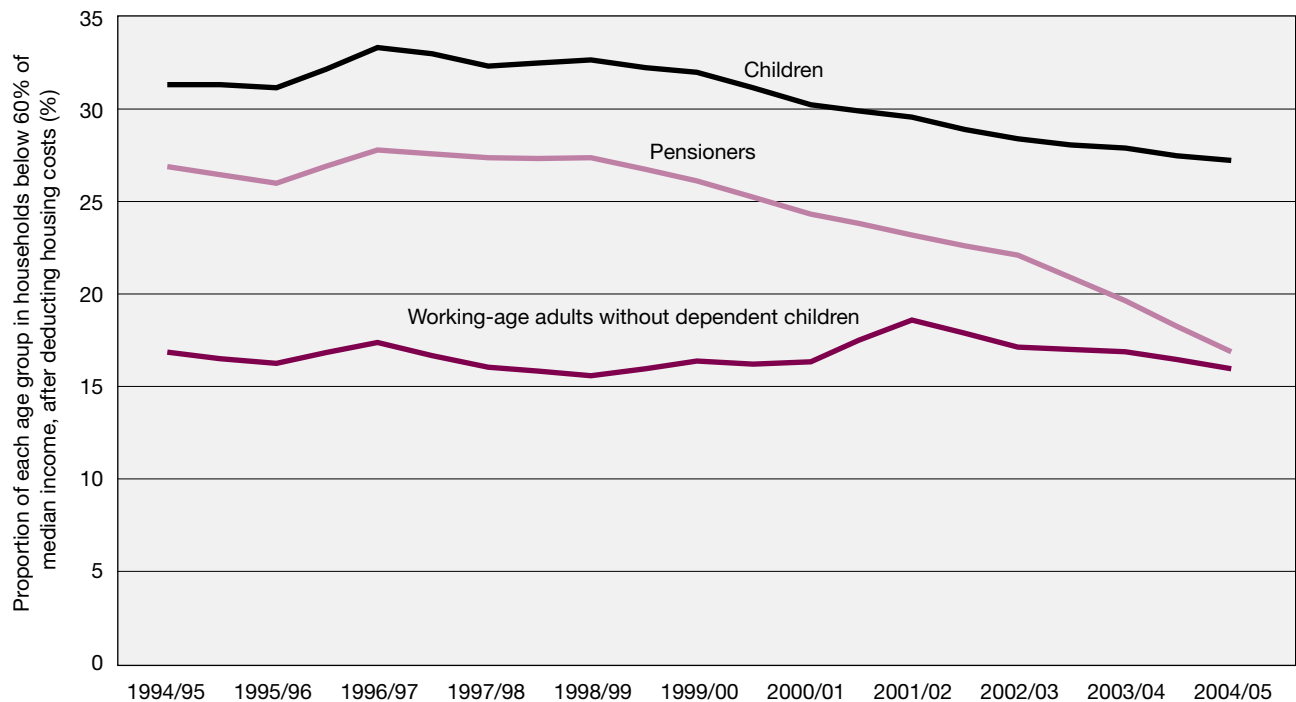
The number of people on low incomes is now lower than at any time since 1987, but is still much higher than in the early 1980s



Source: Households Below Average Income, DWP (1979-1993/94 using FES; 1994/95-2001/02 using FRS)

**Figure 2 Proportion of each age group in households below 60% median income**

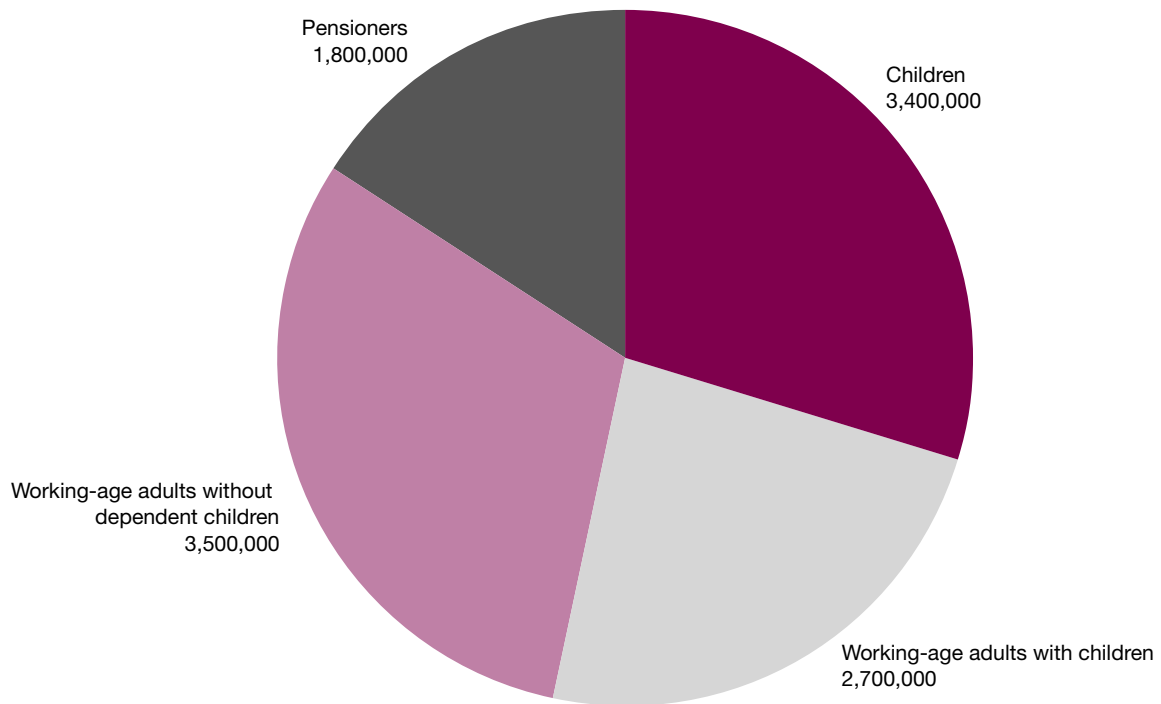
The proportion of children and pensioners who live in low income households has been falling. In contrast, the proportion for working-age adults without dependent children has remained broadly unchanged



Source: Households Below Average Income, DWP

Figure 3 **Shares of each age group in households below 60% median income**

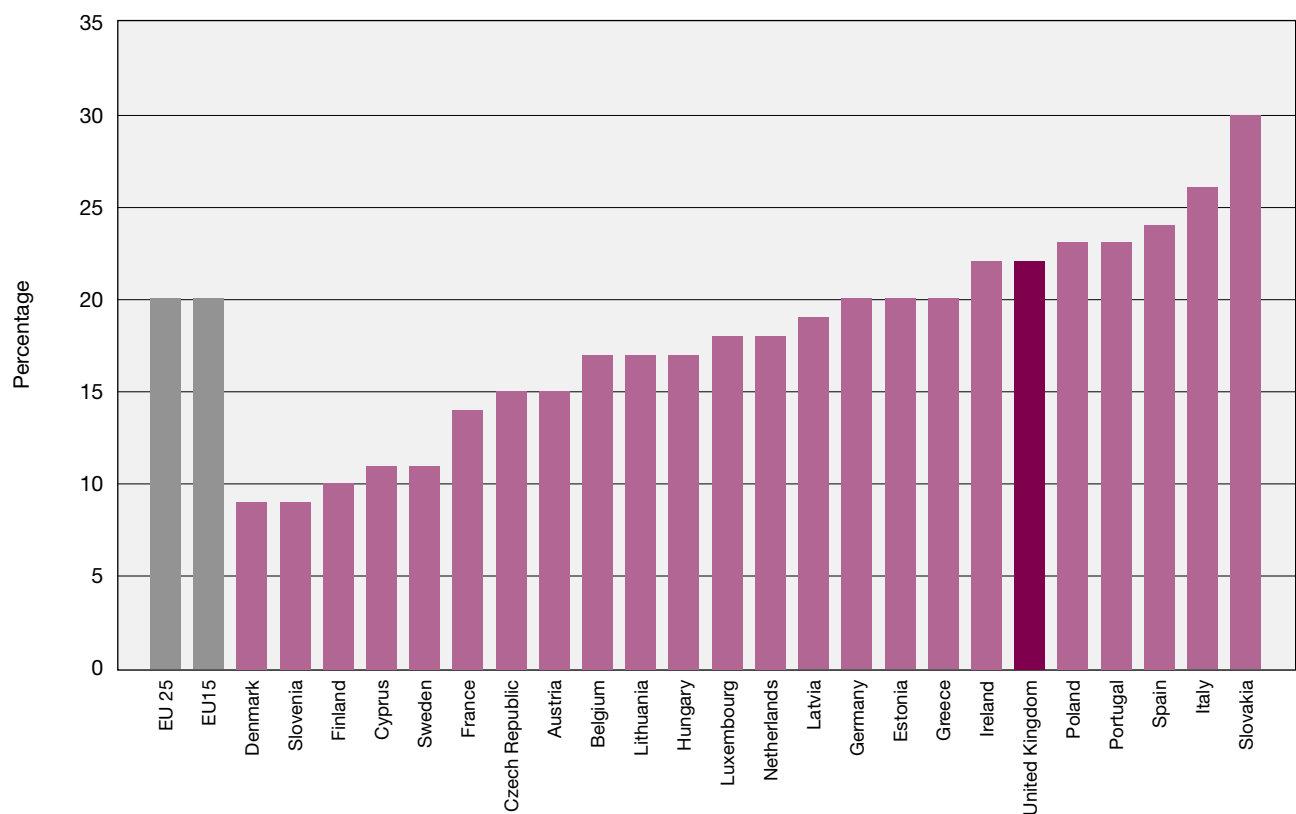
A third of all people in low income households are working-age adults without dependent children



Source: Households Below Average Income, 2004/05 DWP

Figure 4 **Child poverty rates in the UK compared with those in other EU countries**

Child poverty rates in the UK are higher than in most other EU countries



Source: European Community Household Panel Survey; the data is for either 2003 or 2004 depending on the country

***Labour market and social trends combine to drive high poverty rates in the UK – but public policy has also contributed***

**Pay inequality** widened between the mid-70s and mid-90s. For example, lowest-decile male wages dropped from 60% to 50% median – then stabilised.

**Work has become more concentrated.** In the 1970s, as today, about three-quarters of adults worked. But the percentage of *households* without work more than doubled to nearly one in five by the mid-90s. Since then it has fallen a bit, but remains around one in six.

A key reason for the increase in non-working households has been the rise of **lone parenthood**. Nearly one in four children now lives with only one parent, higher than any other EU country apart from Sweden. Yet the UK has had one of the lowest lone parent employment rates – fewer than half until recently. Typical EU rates are around two thirds.

Thus the UK has **high individual employment rates but also high family worklessness** by international standards.

This is exacerbated by **declining relative incomes** for people out of work (figure 5). The 25-year linking of the main benefits with rises in prices, while incomes generally rise faster than this, has inevitably widened and deepened relative poverty. So, for example, the basic Income Support rate is now only a third of median income compared to a half in 1979. Note, however, that two groups – pensioners and families with children – have done much better since 1998.

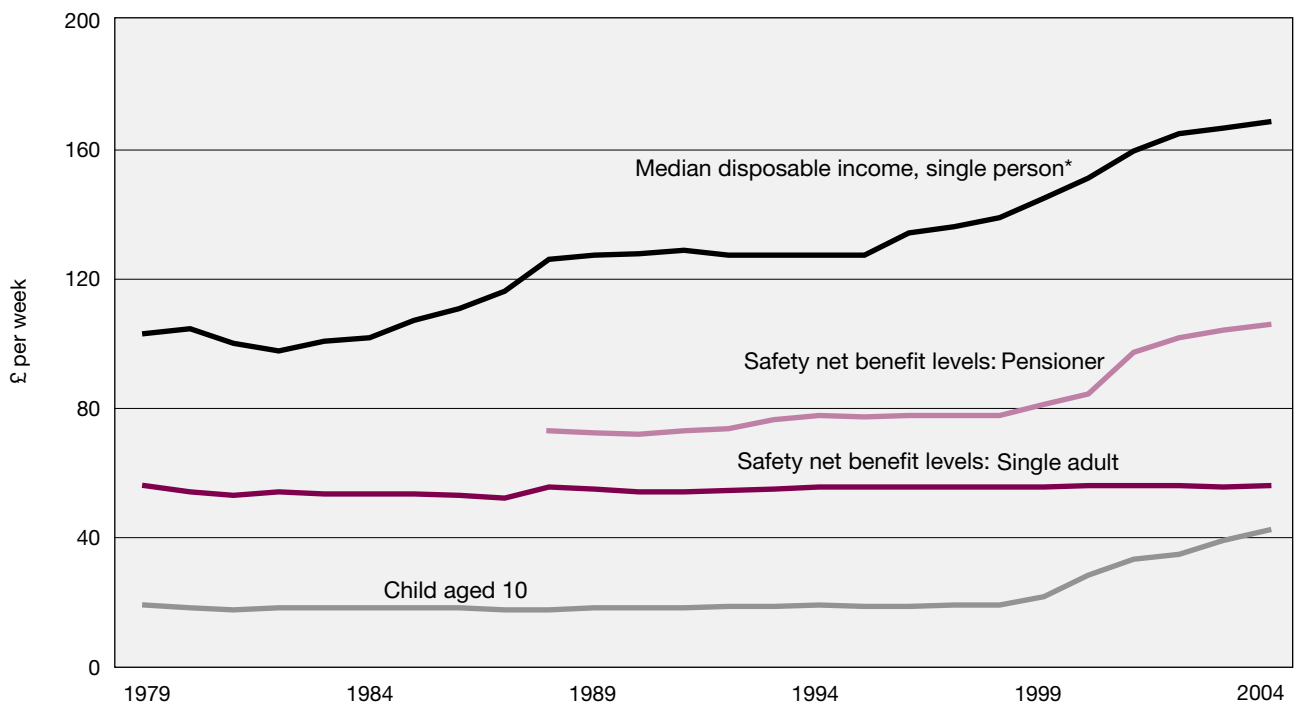
***Among the 3 million children in poverty, a substantial proportion face long-term and severe poverty***

Not all children in households with relatively low incomes necessarily face severe hardship. However, for most of their families, poverty is more than a passing phase and many are “hard to help”. For example:

- Two in three children in poverty, about 2 million, have been in poverty for at least **3 of the past 4 years**.
- Nearly 2 million are living well below the poverty line – **below 50% median** income.
- Half of children in poverty **do not have a parent in work** (figure 6). Of this group, many have at least one parent claiming a disability benefit: 70% among non-working couples. Half of lone parents on Income Support have at least one child under 5.

Among these groups, a return to work may not be imminent, even though it may be possible to work towards it. In the meantime, children’s living standards will depend on whether their parents are receiving adequate benefits.

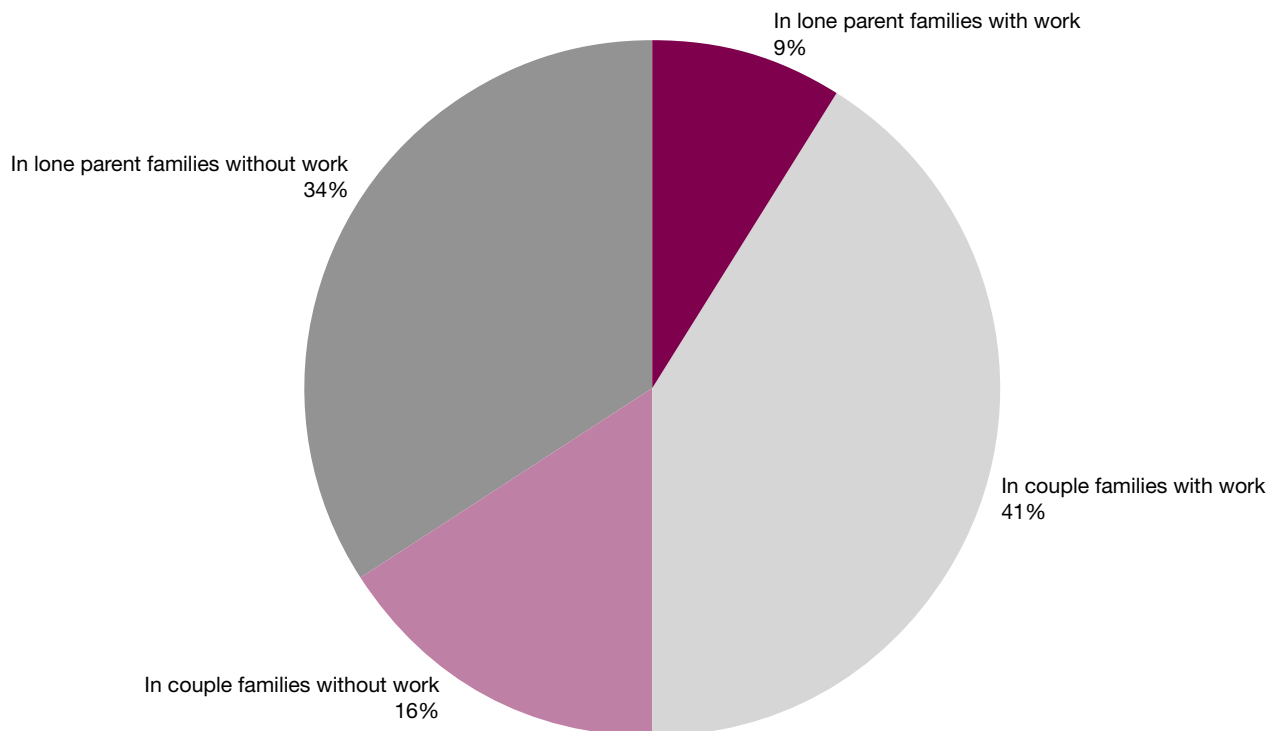
Figure 5 **Safety net benefits compared to median income**  
(constant 2004 prices)



\* Median net household income adjusted for single person household, after housing costs

Figure 6 **Half of children in poverty do not have a parent in work**

But two fifths of the children in low income households live in couple households where at least one of the adults is in paid work



Source: Households Below Average Income, 2004/05 DWP

## *The anti-poverty strategy has made progress, but needs to be broadened to progress further*

The government is succeeding in getting more lone parents back into work, and at lifting a number of working families out of poverty through tax credits. This, together with a healthy economy, has helped lift about 700,000 children out of poverty.

More of the same will be necessary, but not sufficient to make further progress:

- On their own, projected welfare-to-work measures will make a modest contribution. We need to acknowledge (a) that a large number of people will continue to be outside work at any one time and (b) that many people moving into work are not moving out of poverty.
- Improving tax credits can help, but they represent only part of people's income. Targets can only be met if the other parts of their income also rise in real terms:
  - For people outside work, this means Income Support (see above)
  - For people inside work, this means better earnings from the labour market – whether through improved productivity and hence pay, more work in the family (e.g. second earners) or regulation to raise minimum wages or enforce equal pay for men and women.

The three parts of the welfare equation cannot be separated from each other:

- **Getting more people into work** helps make it more affordable to provide **decent benefits** for those remaining outside it.
- **Improving in-work earnings** and job stability makes it possible to reduce in-work poverty and to maintain work incentives (while raising benefits) without excessive use of tax credits. Without such improvements, not only are tax credits expensive but they widen disincentives within work due to high marginal withdrawal rates.

## **The most important effects of poverty today involve exclusion from social participation, which in turn feeds future poverty**

### *Material want persists, but exclusion arises from a more complex form of deprivation*

Measures of deprivation look at how many people cannot afford “social necessities”, that is, items that most of the public say nobody in Britain should have to do without.

A poverty and social exclusion survey found that:

- A relatively small group of people cannot afford material basics. For example, 200,000 children have parents who cannot afford to buy them fresh fruit, vegetables, or a warm coat.
- Larger numbers cannot afford to participate in activities which the majority of the public think everyone should be able to afford. Around 400,000 cannot afford to have friends round for a snack, 800,000 to go swimming once a month, and over 2 million have parents who cannot afford any annual holiday away from home.
- One important thing that a large number cannot afford is to save anything: a quarter of adults say they cannot afford to save at least £10 a month. This makes it impossible for them to take any risks or to spend money to better their lives. It also, of course, results in damaging levels of debt.

Participation is especially important for children, for example school trips, sport or cultural activities, “feeling included”, etc. The long-term detrimental effects of poverty seem to have much to do with feeling like an “outsider”.

## *The consequences of harm caused by poverty to children's development seem to be growing over the long term*

Successive cohort studies indicate an **escalating effect on life chances**. The relative impact on adult outcomes of experiencing poverty as a teenager doubled between the cohort who were teenagers in the 1970s (now in their 40s) and those ten years younger (now in their 30s). The latter became adult in a riskier world.

Policies need to get at particular features of childhood that make children feel like “outsiders” among their peers

For example:

- Homelessness
- Mental illness (parents and children)
- Parental drug and alcohol abuse

## **A “road map” to tackle poverty and disadvantage requires the twin commitments of opening up opportunity and a bedrock of support**

In 2004, the Joseph Rowntree Foundation published a “road map” for tackling poverty and disadvantage over 20 years. This requires a sustained strategy that builds public support for long-term policies.

The strategy needs to be based on both “opportunity” and “support”. Opportunities are partly about jobs; not just more households with work but also better jobs. Opportunity is also about ‘place’. JRF has shown that where you live in Britain today affects your life chances and improving places is therefore central to raising opportunities. A key target should be to reduce the concentration of deprivation in the UK, as well as reducing the overall level of deprivation.

This part of the “road map” is relatively uncontroversial in terms of its broad objectives, although finding the means may require some difficult political decisions. For example, is mainstream spending on public services structured in a way that will improve the relative chances of the least advantaged?

There are area initiatives but there is also, for example, a formula to distribute most spending on schools on an equal per-pupil basis within each authority, rather than skewing it to the most needy.

But what about the other side: support?

## ***“Security for those who can’t” requires a re-establishment of the idea of a basic living standard***

To address the most extreme forms of deprivation in the UK requires a clear attitude towards those without income from work. As discussed earlier, basic safety-net support for those out of work has been in long-term decline relative to average incomes. Under present uprating policies, this decline will continue for working-age adults without children.

So what do we mean when we talk about “security for those who can’t work”? In terms of living standards, there may be security against starvation, but current standards do not guarantee an acceptable level of participation in society.

Such security can only be given meaning if we become clearer about the basis for an acceptable living standard. JRF-funded research is currently producing a **minimum income standard** grounded in ordinary people's perceptions of what nobody should have to go without. This will at least give a benchmark.

One fundamental question for government is: why should the amount considered adequate to support someone out of work systematically decline relative to what someone earns in work? If it is about incentives, there must come a point where further decline is unnecessary. In the 1980s and 1990s, it may have been about affordability given the rising numbers being supported out of work. But today, it looks like **the overall number of working-age households without work may have peaked**. If it is not rising, then it should in principle be possible to maintain benefits relative to earnings without increasing tax rates.

Finally, future approaches to support cannot be restricted to income alone. "**Asset-based**" policies recognise that people on low incomes need to have more means to improve their long-term prospects. But this is not just about saving; it is also about affording larger purchases and avoiding damaging levels of debt. A recent JRF study found the Social Fund to be wholly inadequate for this purpose. We need to re-think how the very worst-off groups acquire credit to access goods and services that take them beyond a hand-to-mouth existence.

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