

Tackling UK poverty and disadvantage in the twenty-first century

An exploration of the issues

Edited by David Darton and Jason Strelitz

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Using this report

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Part I

1 Introduction: The unsolved problem within the UK's economic success

The UK has become much more prosperous over the last two decades. The considerable economic success enjoyed by the nation has been reflected in increased affluence and opportunities for the majority of British people. For example:

- Median income¹ has risen by nearly 50 per cent, with a huge expansion in leisure spending on items such as holidays and eating out, increased access to a range of household goods and a continuing increase in home ownership.
- We are far more mobile – in 2001/2 the total number of miles travelled was 30 per cent higher than 15 years ago.

We are now among the 10 richest countries in the world in terms of average income per head. However, behind this story of economic success lies a major problem: the sustained high numbers of households on relatively low incomes (see Figure 1.1).

- The poorest 10 per cent, and even the poorest 25 per cent, have benefited much less than the rest from the increase in prosperity over the last 20 years.²
- During the 1980s, whilst median income rose by 28 per cent in real terms, that of the bottom quarter rose by only 15 per cent, and that of the bottom 10 per cent by only 6 per cent. In recent years, whilst the incomes of all have grown at a more equal rate, the gaps of the 1980s have not been closed.
- Relative to the majority of the population, many people – and in some cases whole neighbourhoods – have fallen further and further behind. Many millions of people are unable to afford goods and services that the majority deem necessary. Wider disadvantage associated with this increase in poverty, such as growing health inequalities and area deprivation have been well documented.³

In this web report we discuss important next steps in tackling disadvantage over the next 20 years. This and the summary document *Tackling disadvantage: A twenty year enterprise* are based on a wide-ranging review of the research evidence and a large-scale consultation with academics and practitioners in the field.

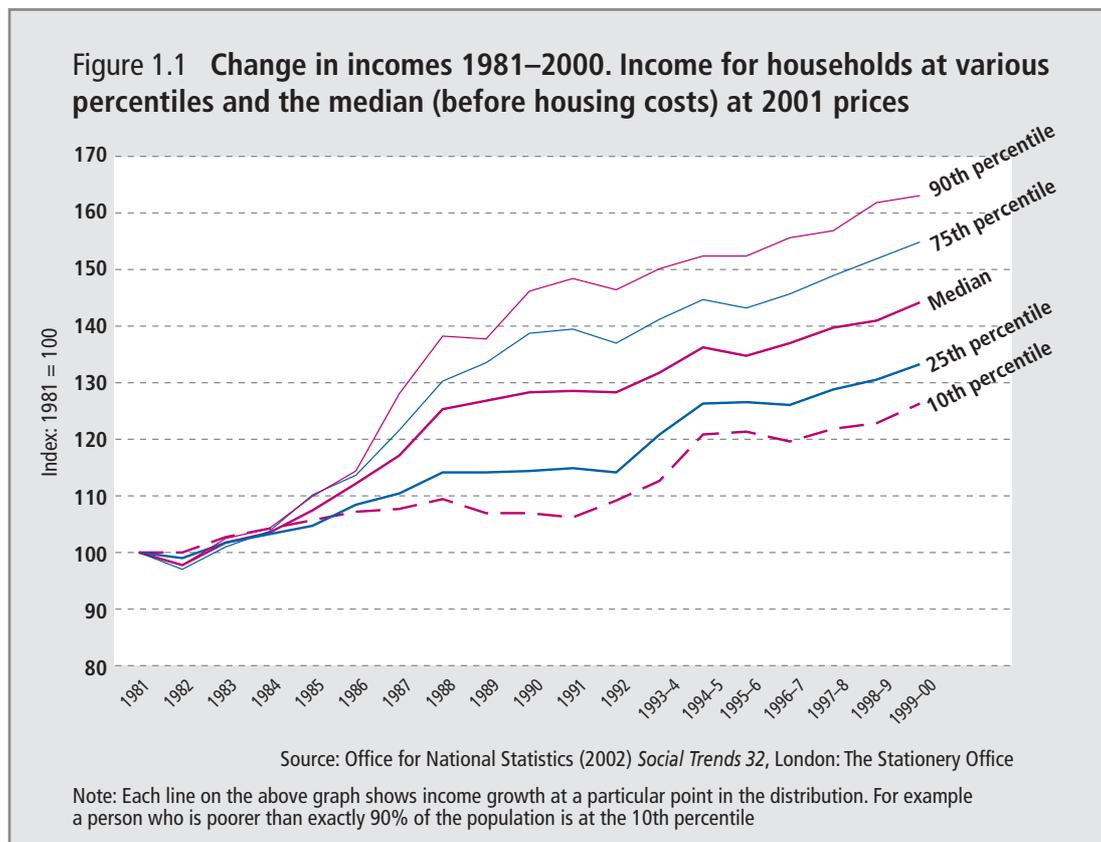
This report deals with broad questions of why we should be concerned with tackling poverty and disadvantage, what is meant by these concepts and the feasibility of a sustained, long-term drive to tackle them. There are links between the chapters that deal with particular aspects of reducing poverty. These discuss policy goals in areas such as education, family and housing policy, and provide some illustrations of how aspects of policy may be oriented if the reduction of disadvantage is the long-term priority. These are designed to spark policy debate

in preparation for the Foundation's Centenary Conference in 2004, which we hope will set out an agenda for tackling poverty over the next 20 years.

This agenda must address how to reduce widespread poverty whilst ensuring that the momentum of economic growth experienced over the last 20 years is maintained.⁴ In the 1980s, Government policy aimed to increase incentives (i.e. financial rewards) for 'enterprise' and 'wealth creation', with the goal of ending the economic stagnation and high inflation of the 1970s. But the theory that rising prosperity would then 'trickle down' to the rest of the population proved to be incorrect. The 1980s saw a huge rise in the number of people whose incomes were far below the incomes of the majority. In general over the last 20 years, worse-off people saw their incomes stagnate or grow much more slowly than the average.

There is now a broad consensus that it is important to reduce the widespread poverty that has resulted, and that the market will not achieve this on its own through some kind of 'trickle down' effect. Nevertheless, the levels of poverty remain at stubbornly high levels in comparison with both our post-war history and the present situation in most European countries. We now have almost the highest level of relative poverty⁵ in Europe, and the challenge is to steadily reduce it so that in 20 years it is the lowest.

Policies introduced in recent years, or announced for implementation in the near future, may yet have some significant impact on meeting this challenge. But it is timely to highlight key areas where further policy development is essential if we are really to make substantial inroads into tackling disadvantage.



We begin this task in the next chapter of this report, which addresses some key questions:

- [1 Poverty: What do we mean? What should we be aiming for?](#)
- [2 What impact will demographic and economic trends have on the extent and nature of poverty and disadvantage?](#)
- [3 Who exactly are we talking about? What characterises the population in poverty?](#)
- [4 Why is it important to reduce poverty?](#)
- [5 Is tackling poverty an economically and politically feasible goal?](#)
- [6 What broad approach will ensure that if we tackle poverty we do not scupper economic growth?](#)

The answers to these questions underpin the arguments made in Part II, where chapters deal with some specific policy areas:

Tackling disadvantage: Education

Inequalities of opportunities and outcomes

Jason Strelitz

This paper argues that a major policy challenge is to address the needs of the one-in-four young people who get no GCSEs A*–C, who are left in a highly vulnerable position with respect to future employment and educational opportunities.

The policy goals suggested are to:

- *Reduce wider inequalities, beyond education, to give students the right start in childhood.*
- *Tackle concentrations of disadvantage within schools with policies that counter, rather than contribute to polarisation.*
- *Prioritise the tackling of low attainment in the allocation of resources and in the incentive structure governing the way schools are run.*

Tackling disadvantage: Families

Breaking the link between family poverty and social exclusion

David Utting

This argues that a major policy challenge is to reduce the huge numbers of children who still grow up in poverty, and develop policies that support families and tackle some of the wider exclusionary factors experienced by poor families.

The policy goals suggested deal with the need to:

- *Sustain the assault on child poverty, in terms of bringing ever more families above a satisfactory income threshold.*
- *Structure services to deliver support to families, which offers direct help to parents and children in dealing with their lives.*
- *Extend family support policies in new directions.*

Tackling disadvantage: Place

A persistent regional divide

Jason Strelitz and David Darton

This argues that a major policy challenge is to enable the rest of the UK regions to catch up with London and the South-East. Whilst there is poverty in all regions, much of the country outside of the south of England is characterised by a fundamental lack of wealth generation. In these areas, the lack of good employment opportunities operates as a major barrier to tackling poverty.

The policy goals suggested are to:

- *Deploy targeted support for private investment* in ways that the evidence suggests can have the most positive impact.
- *Deploy public spending with regional considerations in mind.*
- *Encourage an urban renaissance* through broad support for policies encouraging people to return to urban living, whilst maintaining a regional focus.
- *Support the development of bottom-up solutions.*

Tackling disadvantage: Incomes

Combining opportunity and support

Donald Hirsch and David Darton

This argues that a major policy challenge is to ensure that no one has an income below 60 per cent of median income for sustained periods, at the same time gradually reducing the role of means-testing. Recent initiatives to reshape the welfare state may help towards ensuring an adequate minimum income. Most notable has been the introduction of tax credits and some helpful specific measures for particular groups, such as more generous earnings disregards in certain circumstances, or the disregard of Disability Living Allowance in means testing for disabled people. This paper highlights some future directions for policy within a framework that would allow more people to have an adequate minimum income without disincentivising those contributions that the UK needs, such as paid employment, caring or education and training.

The policy goals suggested are to:

- Enhance earnings from paid work.
- Value and reward activities outside paid work.
- Create a sound basis for providing incomes for needy groups outside the labour market.

Tackling disadvantage: Housing

More shortages and homelessness?

Richard Best

This argues that a major policy challenge is to sharply reduce the shortages of homes – most acutely felt by poor people in need of access to affordable homes.

The policy goals suggested are to:

- Change perceptions about land for housing and about urban living.
- Develop new approaches to increasing supply in this new context.
- Find better ways of ensuring that there are a sufficient number of affordable homes to serve disadvantaged households.

Tackling disadvantage: Care

Meeting the growing demand for long-term care

Richard Best

This argues that a major policy challenge is to find ways of meeting the cost of long-term care. Existing problems of funding adequate provision will only grow with an ageing population. Here the problem is not so much greater targeting of policy on the needs of those in poverty, but rather the need to take measures that ensure the overall supply of resources is sufficient. This is part of any anti-poverty strategy, because it is those who are relatively poor who will suffer the most if there is an overall shortage of resources in areas such as care, health, or housing.

The policy goals suggested are:

- Health education for all people, which can potentially reduce support costs in old age.
- Preventative support and intermediate care through improved low intensity support, which would reduce or delay the need for intensive long-term care and free-up hospital places.
- A new insurance-based mechanism for paying for long-term care.

Notes

- 1 Median households income is the income of the middle household if all households were to be lined up from the poorest to the richest, taking account of different household sizes. This measure is increasingly used in preference to the more common 'average' – the 'mean' – because the mean is more affected by growth in the income of the extremely rich. The median can be thought of as representing the income of the large number of people clustered around the middle of the income distribution. The figures in this project are based on the income left after housing costs have been met, unless otherwise stated.
- 2 Barclay, Sir Peter (chair) (1995) *Inquiry into Income and Wealth*, York, Joseph Rowntree Foundation; Department of Works and Pensions (2002) *Households Below Average Income 1994/5–2000/01*, London: The Stationery Office.
- 3 Palmer, G., Rahman, R. and Kenway, P. (2002) *Monitoring poverty and social exclusion 2002*, York: Joseph Rowntree Foundation; Social Exclusion Unit (1998) *Bringing Britain Together: A national strategy for neighbourhood renewal*, London: The Stationery Office.
- 4 Other major challenges that affect the population as a whole, such as environmental ones or work-life balance issues for the affluent majority, or problems of public services aimed at the whole population, are largely outside the scope of this report. We do note, however, at the outset that measures taken to alleviate poverty need to take account of sustainability issues. The Joseph Rowntree Foundation has therefore been funding a programme of work on reconciling social needs and environmental needs, details of which can be found on the Foundation Website, www.jrf.org.uk.
- 5 In terms of 60 per cent below median income ([see section on this below](#)).

2 The key questions

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Poverty: What do we mean? What should we be aiming for?

It is poverty and relative income that are important

Most people accept in general terms that poverty is more than just a lack of the basic requirements of food and shelter:

- Nearly two in three people think *someone in Britain is in poverty if they have enough to eat and drink, but not other things that they need.*¹
- A large majority believe a range of goods and activities to be 'essential' beyond food and shelter. These include a warm, waterproof coat, insurance for possessions and a damp-free home.²

Surveys show that people's idea of 'necessities' changes slowly over time. For example in 1983 the majority did not consider that a telephone, having friends or family round for dinner or having a best outfit were necessities. By 2000 they did. They also thought that a wide range of activities were necessities, such as being able to collect children from school or being able to save a minimal amount 'for a rainy day'.

We therefore need an indicator of poverty trends that relates to general living standards at any given time. A range of measures might be chosen to define which households are poor, including:

- Households unable to afford certain things (either those things that the majority think are necessary (*lacking socially-perceived necessities*) or a basket of goods and services that experts believe to be necessary (known as a *Household Budget standard*).
- Those for whom a very high proportion of *expenditure is on basic goods* like food and shelter.
- *Longitudinal measures* that show movements in and out of poverty.
- Those whose *relative income* is low. A number of thresholds may be chosen, such as 50 per cent, 60 per cent and 70 per cent of median income.

It is useful for different purposes to consider all of these. Some countries also regularly monitor indicators that are a mixture of measures – for example, the Irish poverty indicator combines income and possession of necessity measures.³

There is a danger that policy development is distracted by important, but often esoteric, debates about which measures should be used. The final choice of indicator inevitably has some element of arbitrariness, but clarity and simplicity are important if the indicator is to motivate change. We suggest that the measure that should be at the centre of discussions about poverty should be the number of people with incomes less than 60 per cent of the median. For a discussion of the reason for this see [Appendix i: A poverty indicator](#).

There are a number of resources in addition to income that, through adequate collective provision, allow people to 'afford' those things that society thinks of as essential; housing, care, and health services are amongst these. In the papers on specific policy areas, we consider the disadvantages that a lack of some of these resources can create.

But adequate income is critical, and it is on poverty in these terms that this project concentrates. Evidence shows that lack of income is associated with a wide range of other disadvantages, such as worse health, poorer education and the likelihood of being a victim of crime.⁴ Some examples are given in [Appendix ii: The association of poverty with other disadvantage](#).

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What impact will demographic and economic trends have on the extent and nature of poverty and disadvantage?

If we are to succeed in reducing poverty, we will have to effect change through policy. Economic and demographic trends will not lead to its reduction. Indeed, some polarising trends are likely to continue:

- *In the labour market:* The changing occupational structure of the labour market, polarising between low paid and well paid work and spreading employment opportunities unequally across areas and households.
- *Between areas:* As a result of the location choices more affluent people and firms make.
- *Between generations:* Increased longevity and low fertility means that the population will continue to age. Unless the relative incomes of older people rise, this will contribute to growing proportions of relatively poor people.

Policy that is concerned with tackling poverty will also need to take account of:

- *Changing family structures* that are resulting in a larger number of smaller, more diverse households.
- Increasing need for people to combine and easily move between *caring, training and employment roles*.
- High concentrations in some areas of *people with low qualifications*.
- A larger *minority ethnic population*.
- Relatively high numbers of *immigrants*.

These are covered in more detail in: [Appendix iii: Labour market trends](#), which covers changing occupational structure, increasing wage dispersion and the changing distribution of non-employment; [Appendix iv: Geographic trends](#), which discusses some of the main factors leading to polarisation between areas; and [Appendix v: Demographic trends](#), which covers the ageing population, increasing number of households, increasing numbers of people in minority ethnic groups and immigration trends.

Who exactly are we talking about? What characterises the population in poverty?

In this report, poverty refers to those households with incomes below 60 per cent of median. One way of understanding the broad characteristics of the population in poverty is as follows:

- Of the 11.5 million or so people in poverty, two million are *pensioners*.⁵
- Of the remaining 9.5 million, about 3.5 million are *children*; about 45% of these are in single parent families.
- Of the six million non-pensioner adults in poverty, 2.5 million are parents. Just over 800,000 of these are *single parents* and over 80 per cent of them are entirely reliant on benefits, with no employment income. Just over 1.5 million *couples with children* make up the remainder of poor parents and, with the extra flexibility that two parents have, just over half are reliant entirely on benefits. A fifth have a mix of earnings and benefit income and a quarter rely solely on earnings.
- That leaves 3.5 million adults in poverty living in *households without children*. Half of these are lone adults; of those adults in poverty living in households without children, three-quarters are living on benefits alone. Only a quarter have earnings, and of these nearly a third supplement this with in-work benefits.
- Overall, 6.5 million of the 9.5 million non-pensioner poor are in *households solely reliant on benefits*, with just over 2¹/₄ million being children.
- Of the 2³/₄ million people in households with *low earnings*, just over 1 million are children.
- Of the 2³/₄ million people in households with low earnings, 1¹/₄ million are in households receiving *in-work* benefits.

[Appendix vi: Types of household in poverty](#) contains further data.

Different types of households vary in how far they are, on average, below the poverty line (60 per cent of median income) – the so-called poverty gap. Figure 2.1 summarises this. Column height shows the average poverty gap of each group, column width shows the relative size of that group amongst the population with incomes below 60 per cent median.

A number of groups are at particular risk of being in poverty. These include some pensioners, lone parent families, workless households, those with low qualifications, those living in particular areas and types of housing, minority ethnic groups and disabled people. The following sections look at each of these groups in turn.

Women are also likely to accumulate less income over their life times than men and are therefore particularly vulnerable to poverty in certain circumstances. For a brief discussion on gender and poverty see [Appendix vii](#).

Pensioners

In 2000, more than one in four pensioners had incomes below 60 per cent of median income, and a large proportion of pensioners relied on means-tested benefits.⁶ The Minimum Income Guarantee provides £92.15 for a single pensioner. This is short of the £99–£125 that the Family Budget Unit estimates a single pensioner requires to provide for basic dietary, warmth and transport needs.⁷ It is not as far short as some other groups and, as Figure 2.1 shows, the

average depth of poverty is not as great for pensioners as some others. However, there is a problem that significant proportions of pensioners do not claim their full entitlements.⁸

A further reason for specific concern about pensioner poverty is that the fluctuations of income which most people experience during their working life come to a relative standstill in later life.⁹ For most pensioners there is little chance to increase income once retired. Their income will be based upon the entitlements they have built up during their working life and the level of state provision. Converting assets and savings into income will be insufficient to compensate for this over an extended period, especially for the most disadvantaged who generally lack assets and savings altogether.

The impact of pensioner poverty is most vivid each winter when thousands die, because of an inability to keep their homes sufficiently warm. In the winter of 1999–2000, 44,000 older people died of cold-related illnesses.¹⁰

Lone parents

The number of lone parent families has trebled since the beginning of the 1970s.¹¹ Today 22 per cent of families are headed by a lone parent, 90 per cent of which are female-led. As Figure 2.1 shows, lone parent families account for about a fifth of poor households, but the risk of living in poverty is high (30 per cent). With responsibility for both caring and providing for themselves and their children, it is very difficult for many lone parents to secure an adequate income. Whilst many lone parents express a desire to work – especially when the children start school – the high costs and uncertainty often associated with employment have remained a great barrier. At the same time, for those who cannot find cost-effective work or want to look after their children, critical social attitudes have, until recently, underpinned low levels of benefit that such families have been able to access. Consequently, more than half of lone parent families are living on incomes below 60 per cent median.

Workless households

Figure 2.2 shows that most poor households rely on benefits. Work is a major route out of poverty. ‘Workless households’ account for half the poverty in the UK today. Seventy per cent of workless households are poor, but where there are children – and nearly two million children live in workless households – the risk rises to 90 per cent of households.¹² Of these children, approximately 70 per cent live in single parent families, whilst 30 per cent live in households headed by couples where neither partner works.

Households reliant on benefits

The poverty of workless households is sustained not only by their lack of employment, but also by benefit levels that have until recently been moving families ever further away from the living standards of the mainstream. In 1981 the Supplementary Benefit Rate was equivalent to one-fifth of average earnings; in 2000 Income Support was only one-eighth of average earnings.¹³

People with low qualifications

The link between qualifications and better-paid jobs remains strong. Currently, over 40 per cent of working age adults with incomes below 60 per cent median lack any qualifications.¹⁴

Figure 2.1 Average poverty gap by household type
Width of column represents total share in poor population

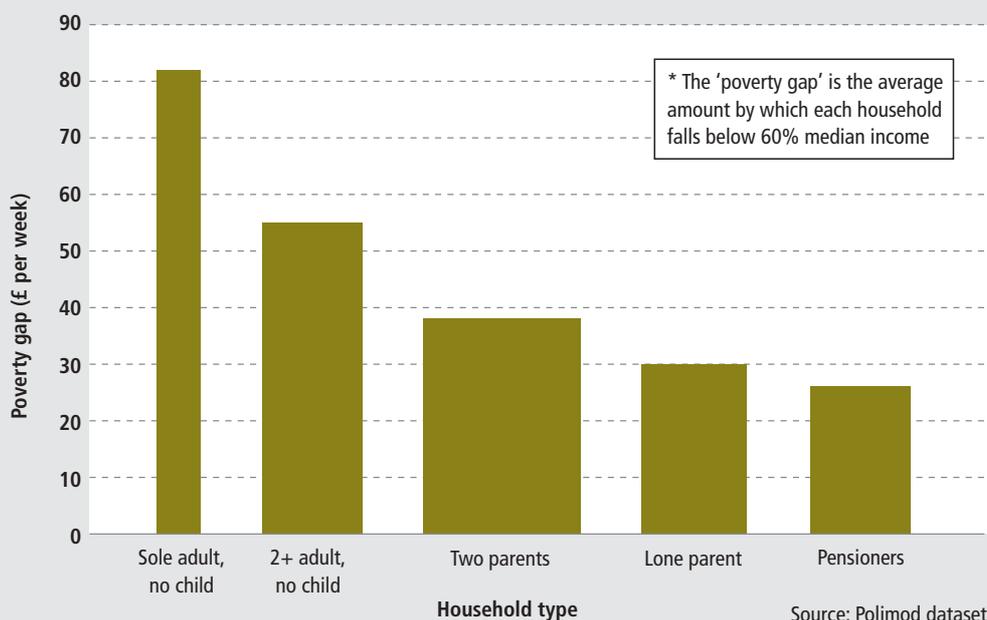
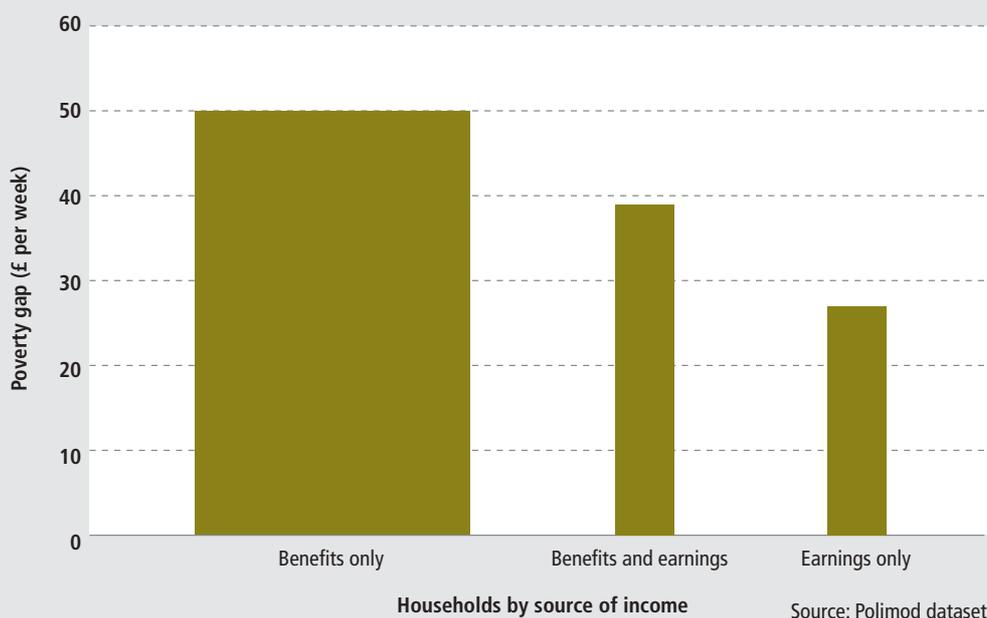
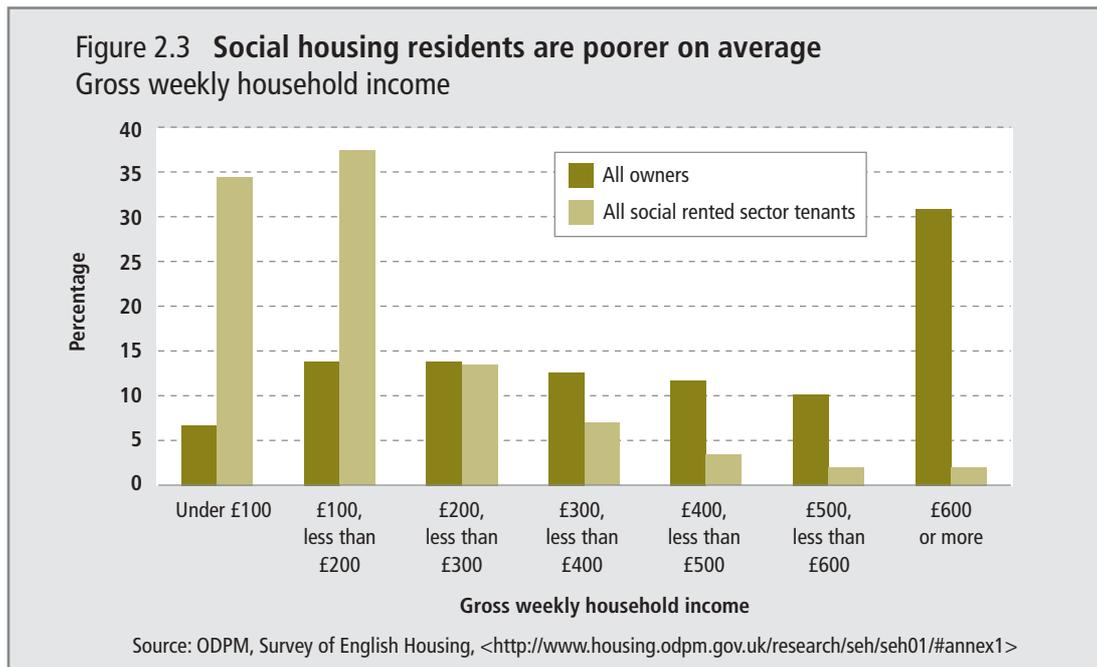


Figure 2.2 Average poverty gap by source of income
Width of column represents total share in poor population



People living in particular types of housing and particular areas

Residents of social housing are particularly likely to be poor, as shown in Figure 2.3. The 'right to buy' policy brought home ownership to many social housing residents who otherwise would never have afforded it, but the majority of houses sold were from the best housing stock in the most socially mixed areas.¹⁵ The remaining social housing is now often a last resort for people. People in social housing comprise half of the population below 60 per cent of median income¹⁶ and, furthermore, many deprived areas are full of poor quality privately



rented accommodation. Concentrations of poverty are associated with wider disadvantage, such as a withdrawal of private services, under-funded public services and a poor environment.

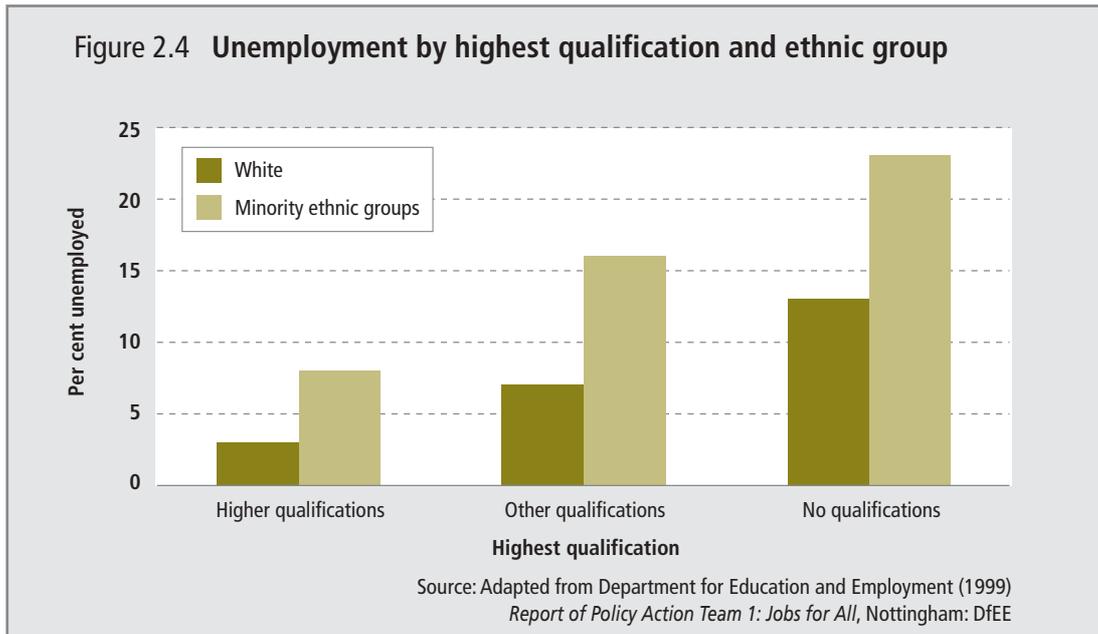
Minority ethnic groups

Disproportionate numbers of working-age adults from minority ethnic groups have incomes below 60 per cent of the median. They also experience a higher prevalence of child deprivation. In the Joseph Rowntree Foundation's Poverty and Social Exclusion (PSE) Survey, 14 per cent of 'white' children lacked two items that the majority of the population believe to be necessities, but 35 per cent of 'non-white' children did – over half from the latter group lacked at least one item.¹⁷

It is important to recognise the contrasting experiences of different ethnic groups but, taken as a whole, ethnic minorities fare worse than the average on a number of indicators of disadvantage. One example is the below-average educational attainment of these groups. Further disadvantage is evident in the fact that unemployment is higher whatever the educational qualification, as shown in Figure 2.4. One reason for this is discrimination. For example, there is strong evidence that 'white' applicants are much more likely to get job interviews than their minority counterparts.¹⁸

Disabled people

Disabled people have a relatively high probability of being poor, both because of the additional costs associated with being disabled and the disproportionate likelihood of belonging to groups more at risk of being poor: lone parent families, workless households etc. Half of all disabled people had incomes below 50 per cent of mean income in 1999 (close to the 60 per cent of median income threshold in that year) after making adjustments for extra costs. Even without such adjustment the probability of being below this threshold is 40 per cent – an increase of one-sixth since 1985. Employment rates are low, at around 40 per cent and one-third of disabled people who do find work are out of a job again by the following year.¹⁹



Disabled parents are especially at risk of being poor. Qualitative work for the Joseph Rowntree Foundation on young carers found that experience of poverty and social exclusion was common – with virtually all the disabled parents being in receipt of welfare benefits and outside the paid labour market.²⁰ In the PSE Survey, children with at least one parent or household member with a long-standing illness were approximately a third more likely to be deprived than children as a whole.²¹

Whilst it is important not to treat disabled people as a homogenous group, it is clear that overall access to income and other resources is inequitable with the non-disabled population. This is in part due to differences in take-up. The Family Fund Trust that distributes grants on behalf of the Department of Health to disabled children has stated that families from the lowest income groups are under-represented in applications. It is in part due to inequitable means testing, with a lack of recognition of the additional costs of having an impairment, and in part the result of living in a society and environment that is often disabling.

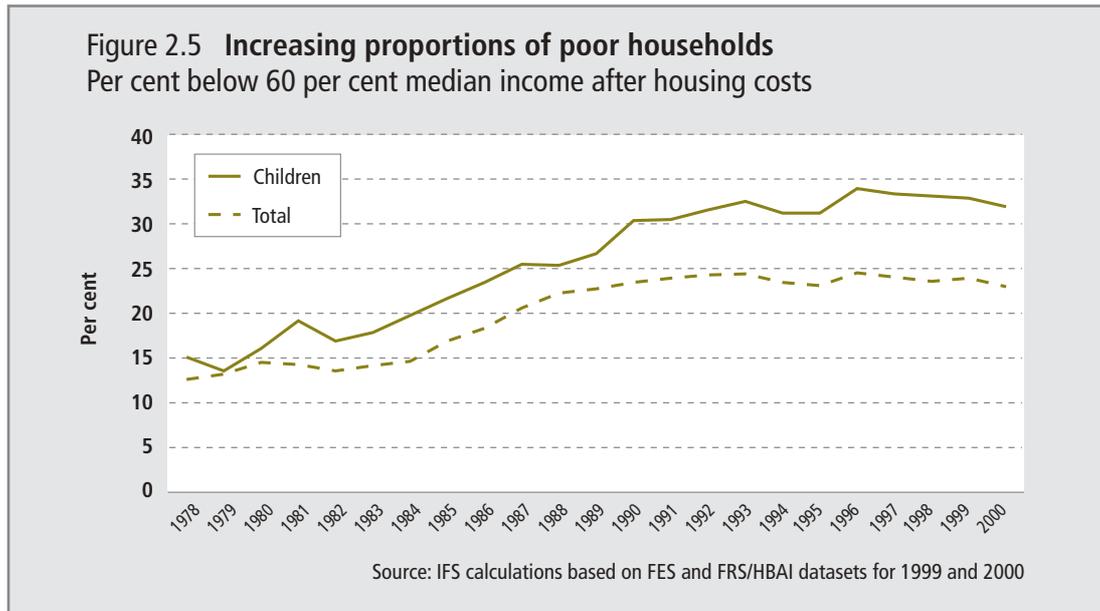
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Why is it important to reduce poverty?

There is growing consensus that tackling poverty is important for everyone. There are three main reasons:

- *Social justice*: It is a mark of a civilised society that increasing prosperity is used to the benefit of all citizens. Values of social justice demand that the quality of life for all should not fall below an acceptable level.
- *Economic prosperity*: Poverty and disadvantage limit the economic potential of people who could contribute positively. This is detrimental to the affluence and well-being of the country as a whole.
- *Strengthening civil society*: Exclusion from the mainstream can cause alienation and a weakening of civil society. The consequences of this have an immense cost – personal, financial and social – that we all pay.

Each of these is explored in more detail in [Appendix viii: The reasons for tackling poverty](#).



Large numbers in poverty

If there were only a few people in poverty, perhaps these consequences would be small scale and it would be easier to deal with them. However, the proportion of people living in poverty has increased sharply over the past 20 years and remains at historically high levels. Reversing this trend and bringing the levels dramatically down is critical.

Figure 2.5 shows the well-recognised rise in poverty between the 1970s and today, with most of it occurring during the 1980s. There has been little sign of significant reductions since then.

This growth in poverty was not mirrored in many other countries. Whilst some, such as the USA and New Zealand also saw large rises, levels in most European countries stayed fairly stable, rose only slightly or diminished. In these countries the curtailment of poverty remained a policy priority. As Figure 2.6 shows, the UK has greater poverty than most OECD countries.

Although cross-national comparisons of poverty are complicated, recent research by UNICEF illustrates the UK's comparative position. Among wealthy nations, the UK's child poverty rate is less than only that of the USA, Italy and Mexico. Nine countries have less than half the UK rate. Five – Sweden, Norway, Finland, Belgium and Luxembourg – have less than five per cent of children in households with income below 60 per cent of the median.²²

The increase in households with income below 60 per cent median was mirrored by a growth in the number unable to afford 'socially perceived necessities'. In 1983 the Breadline Britain survey showed 14 per cent lacking three or more necessities because they could not afford them. By 1990 this had risen to 21 per cent and by 1999 to 24 per cent.²³

In these terms the position in Britain in 2000 was severe. Identifying goods and activities that a majority thought 'necessary, which all adults should be able to afford and which they should not have to do without', the *Poverty and Social Exclusion Survey 2000* found that:

- Nearly one in four of the population could not afford three or more of these necessities.
- About eight million could not afford one or more essential household goods. A similar number were too poor to engage in common social activities considered necessary by the majority of the population.
- Two million British children go without at least two things they need.

- About 6.5 million adults lack essential clothing. Four million are not properly fed by today’s standards.
- Over ten million suffer from financial insecurity, unable to save even £10 per month, insure the contents of their homes or spend any money on themselves.

Is tackling poverty an economically and politically feasible goal?

It is possible for the UK to tackle poverty. The issue is how much of our future growth in economic prosperity would need to be put into this effort and is that likely to be politically acceptable.

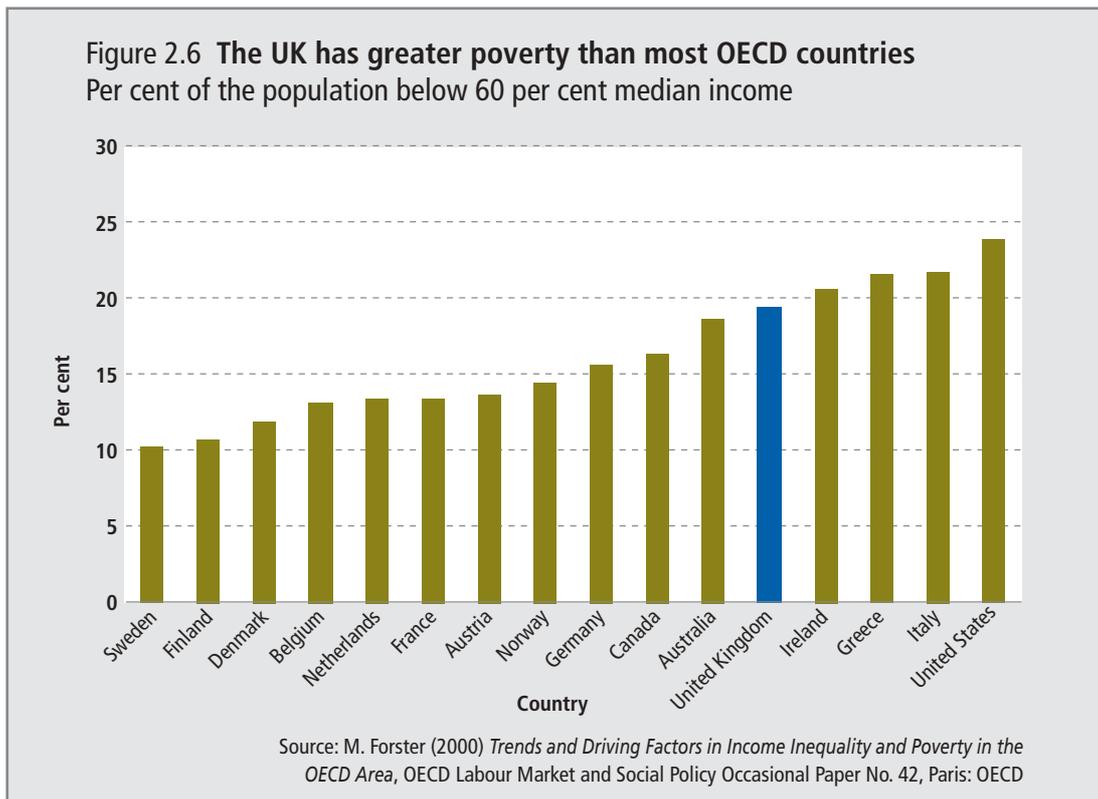
The affluence to tackle poverty

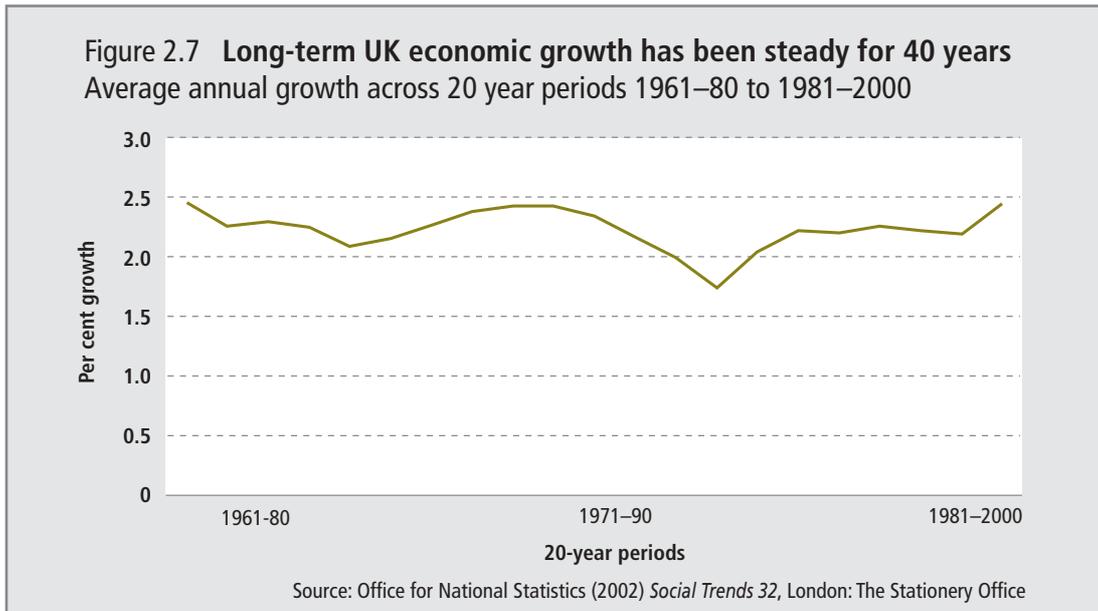
The UK will generate an enormous amount of extra wealth over the next two decades. The long-term growth rate in the UK from decade to decade, through many ups and downs of the economic cycle is fairly consistent:

- Since the 1960s, the average annual growth rate for any 20-year period has only once dipped below 2 per cent and it has never been above 2.5 per cent.
- In the last 20 years the average annual growth rate has been about 2.4 per cent (see Figure 2.7).

If this growth rate is maintained, we will be about 50 per cent richer by 2022. This affluence gives us choices about the type of society in which we wish to live.

These choices are wider than is sometimes assumed by those who emphasise apparent powerlessness in an increasingly global economy, where many decisions are made beyond our





shores. For example, the relatively affluent countries of the OECD vary greatly in terms of their levels of taxation, public expenditure and the degree to which that taxation and expenditure is redistributive. The UK tends towards the middle or lower ends of the spectrum – less tax, less expenditure, and as shown in Figure 2.8, less redistributive.

Our relatively low income tax and high indirect tax makes the UK system more regressive than many. The bottom fifth in the income distribution pay a third of their disposable income in indirect taxes while the top fifth pay about a seventh.²⁴

Figure 2.9 shows countries' poverty levels against tax as a proportion of GDP; there is clearly a relationship between the two. It also demonstrates that being a relatively high tax/low poverty country is far from predictive of a poorly functioning economy – many of the countries towards the top left have per capita incomes above the average and vice versa. We could choose to put extra resources into:

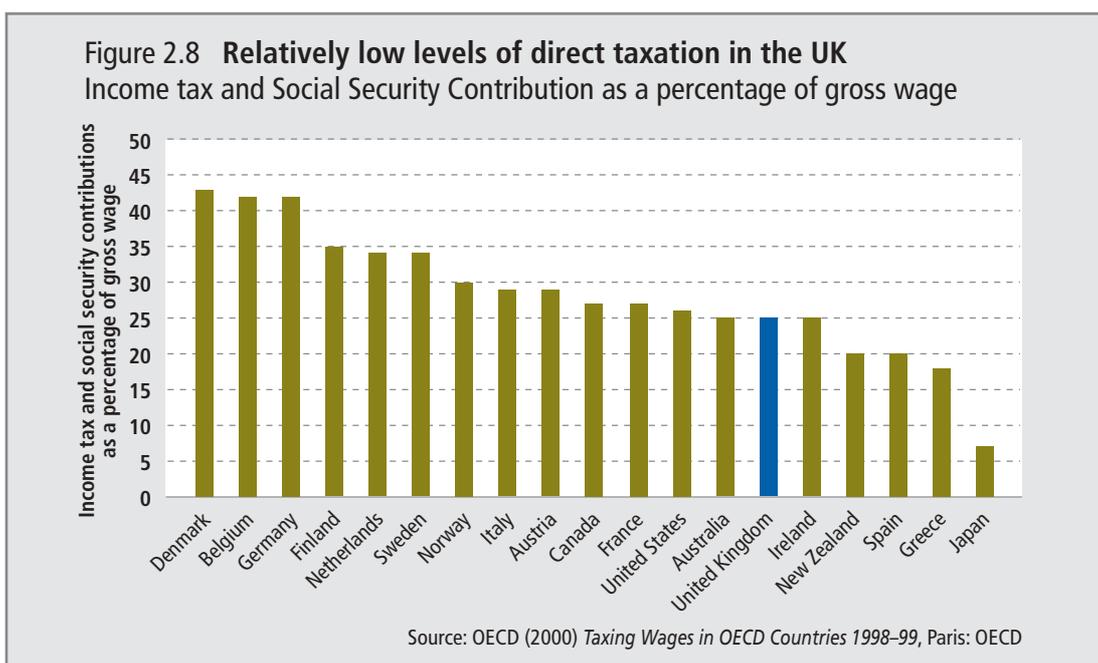
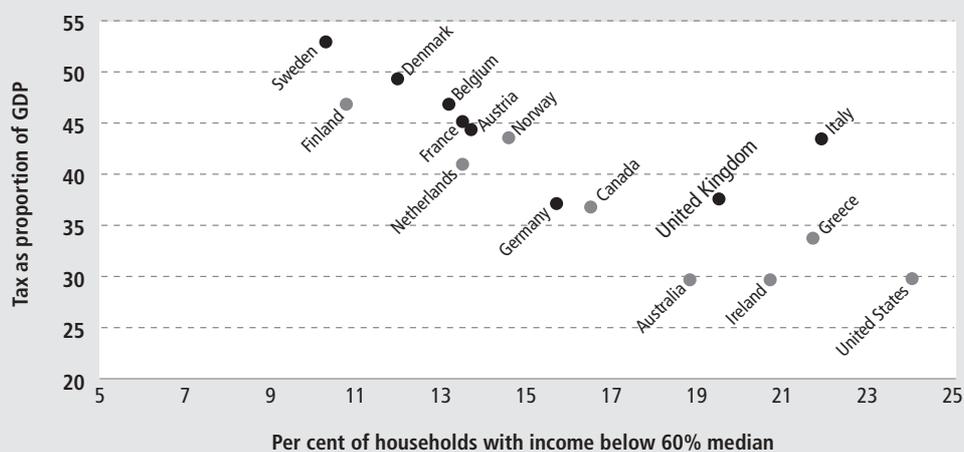


Figure 2.9 The association between poverty and taxation across OECD countries

Proportion of households with incomes below 60 per cent national median by tax as a proportion of GDP. Countries in black have national per capita income below the average for the countries shown, countries in grey above.



Source: OECD; Luxembourg Income Study; World Bank

- Developing the country's infrastructure and public services²⁵ in ways that particularly benefit disadvantaged people and areas;
- Having greater net income transfers, through changes in taxes and benefits.

How much may it cost to tackle poverty?

To answer this question we have used figures from POLIMOD. This shows that:

- The average poverty gap (i.e. the difference between a household's actual income and what it would require to be on 60 per cent of median income) is about £2,800 per household in poverty per year.
- Collectively, the five million poor households would need £14 billion extra income to bring them all above the poverty line.
- About a fifth of these households are pensioner households, but they are not in as deep poverty as other groups, so if the age profile of the population were to change to that of 2022, there is only a relatively small increase, to £14.5 billion.
- This sum is about 1.5 per cent of GDP.

If it is assumed that the economy grows in the next 20 years at the same rate as the last 20 years and that income distribution was unchanged, except for the impact of the ageing population, then:

- The economy would be about £520 billion better off in 2022.
- £23 billion would be needed in 2022 to close the poverty gap.

In other words, about £1 of every £23 of our future growth in prosperity would need to go to people who would otherwise be living in poverty. If this gap did exist in 2022 and had to be closed by income transfers alone, the actual cost would be greater because it would be impossible to means test accurately, and undesirable to have 100 per cent tapers even if you could. Some income transfer would inevitably go to people above the poverty threshold in order to avoid acute poverty and unemployment traps. But even if it cost half as much again to actually close the poverty gap, the country would need to give up only £1 for every extra £15 the economy grows by.

Problems of disadvantage would not be solved by filling this poverty gap with income transfers alone. Action on many fronts is required to empower people, both to increase their incomes on their own and to take control of many aspects of their lives. However, calculating the overall poverty gap gives us a sense of how much the economy as a whole must redistribute – through a variety of means – in order to address the income shortages that nearly one in four British people continue to experience.

In reality it would be hoped that some of the steps suggested in other parts of this report would lead to investment in people's skills, in services and in places, so that more people would benefit sufficiently from the market economy. The costs of this investment would hopefully therefore have a pay-back, in terms of a smaller poverty gap to be filled by income transfers. However, calculating the broad amounts involved if this did not happen demonstrates that:

- It is feasible to greatly reduce poverty²⁶ over a 20-year period, with the incomes of the most affluent 75 per cent growing just a little less than they might otherwise have done.

Figure 2.10 demonstrates this:

- Between 1979 and 1995–6 the incomes of the most affluent fifth of the population grew much faster than the bottom fifth (10a).
- In recent years, the income of the population grew at roughly the same rate for all (10b).
- Figure 10c shows how income growth would have to be distributed in order to fill the poverty gap by 2022 (i.e. for no one to have incomes below 60 per cent median) assuming the economy grows at the same rate as it did in the past 20 years.

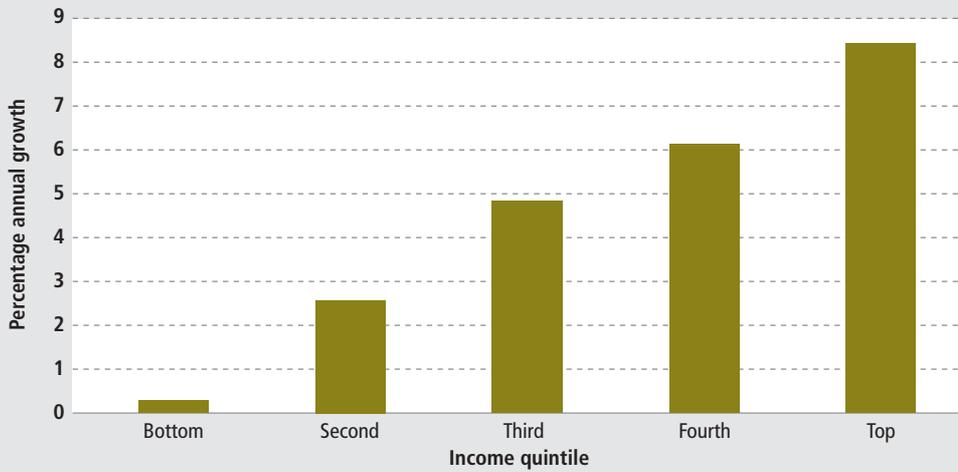
Those at the bottom would need to experience relative growth similar to that experienced by the most affluent during the 1980s. But the more affluent would be able to enjoy income growth only marginally less than in the past 5 years, with a drop far less than already experienced relative to the 1980s. Furthermore, part of this drop is because 2.3 per cent growth is assumed for the future growth, whilst the 1996/7–2000/1 period saw overall growth above the long-term trend.

This report has argued that it is possible to tackle poverty by diverting a relatively small percentage of economic growth to poorer groups. In the papers on specific policy areas it is also argued that a higher proportion of the increased resources already announced in areas such as education should be spent on tackling disadvantage. We also note the need to increase the supply of affordable housing and long-term care. It may be that in many cases the

Figure 2.10 Real income growth by quintile

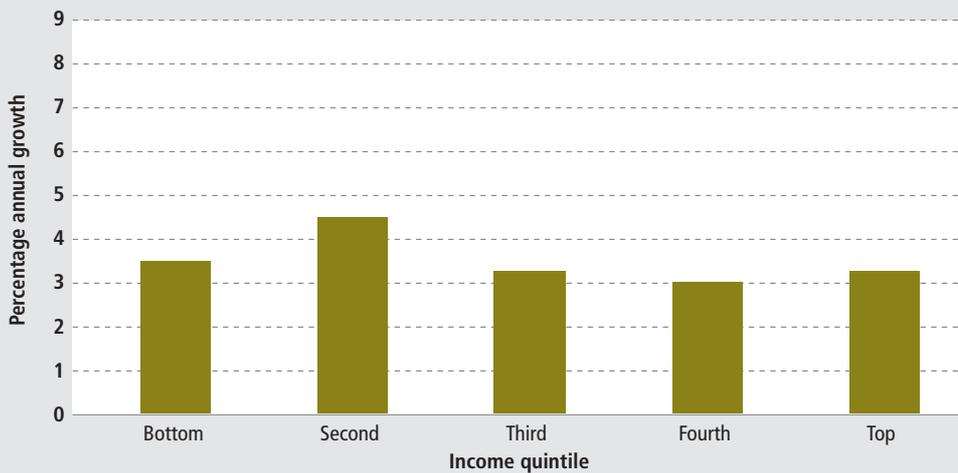
(a) Over most of the past 20 years, incomes grew much faster for richer groups...

1979–1995/6



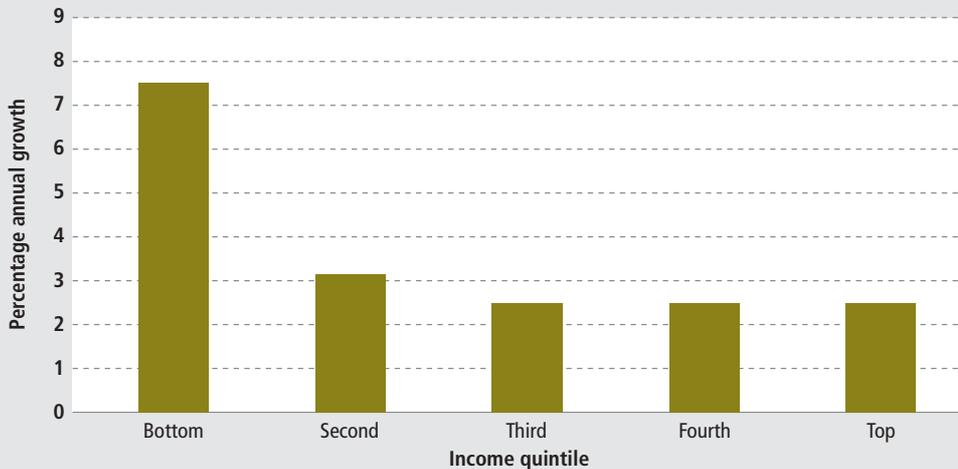
(b) ...but more recently there has been steady, moderate growth across the board...

1996/7–2000/01



(c) ...and with the same overall rate of economic growth over the next 20 years, skewed to the poor, it could bring them above 60 per cent median, while other groups maintain modest rises.

2002–2022?



Source: Author calculations and Department for Work and Pensions (2002) *Households Below Average Income – 1994/5 to 2000/01*, London: The Stationery Office

increased spending on public services already announced will be sufficient if emphasis is given to tackling disadvantage. But some new resources may be needed to raise the floor of incomes to 60 per cent of median income and to improve services. How much will depend on how successful policy is in raising the capacity of disadvantaged groups to succeed economically. Three factors discussed above make a degree of direct redistributive taxation to fund any new resources required look feasible:

- The Government has made a start over the past five years with budgets that have given disproportionately to those on low incomes.
- Gradual movement in this direction over the long-term does not require anyone to have reduced disposable income – simply for some to become better-off a little more slowly.
- The UK remains a relatively low taxed country, with most of its EU neighbours raising considerably more taxed, particularly directly.

This is not an argument for making redistributive taxation the centre of a strategy to combat poverty and disadvantage, but it can play its part – especially if there is a sustained public commitment to this enterprise.

In search of a democratic consensus

There is consistent evidence of people becoming more willing to pay higher taxes in return for improvements in health and education (Table 2.1). There is also strong evidence that much of the public support the broad aims of this report, but the case for paying the relatively small cost of fundamentally addressing poverty and disadvantage still has to be made repeatedly in order to sustain action over 20 years.

Table 2.1 Percentage of the population in favour of certain positions regarding taxes and public spending

	1983	1987	1991	1995	1998
Increased taxes and more spending on health, education and social benefits	32	50	65	61	63
Keeping taxes and spending on these services the same as now	54	42	29	31	32
Reducing taxes and less spending on these services	9	3	3	5	3

Source: Hills, J. and Lelkes, O. (1999) 'social security, selective universalism and patchwork redistribution', in Jowell R., et al. (eds) *British Social Attitudes, 16th Report*, London: Sage.

What does 'poverty' mean to the British public?

Recent analysis in the British Social Attitudes Survey confirms evidence from previous years that most people's understanding of poverty goes beyond the absolute requirements of food and shelter and incorporates a broader conception of necessities. When asked 'whether

someone in Britain was in poverty, if they had enough to eat and live, but not other things which they needed', nearly 60 per cent thought that they were. Furthermore more people think that there is 'quite a lot' of real poverty today, than thought so in 1986, a period during which general living standards have risen. This confirms the point made earlier that people's notion of necessities changes over time, in line with a concept of relative poverty. Moreover, there is increasing evidence of congruity between the 60 per cent median poverty line and people's self-reporting of their own poverty experiences. Fundamentally, about two out of three people believe that there is 'quite a lot' of 'real poverty' in Britain today. Nor is this biased towards low-income groups; this belief is shared across the income distribution.²⁷

Do they think Government should do something about it?

Believing that poverty exists is still different from thinking that something should be done about; a third of the population think that poverty is '*an inevitable part of modern life*'. However, the majority of the population do believe that government should take action to reduce disadvantage.

When asked more specifically about the mechanisms for addressing poverty and disadvantage and the groups who should be targeted, people are more equivocal. There is overwhelming belief that older people and those who cannot work due to disability and ill health should be guaranteed a decent standard of living. Most people also believe that it is the Government's responsibility to ensure a job for all who want one. However, people are less willing to support those who can work but, for a variety of reasons, are not sufficiently active in the labour market.

How far are people prepared to go?

There has long been a view held by some that, whilst people may tell opinion pollsters and survey researchers that they are willing to pay more taxes for improved services and addressing poverty, in the confines of the poll booth they will vote with their pockets. Whether this has been true or not in the past, there are signs of a growing consensus towards tackling these issues, as shown by many of the statistics above. Despite this, there remain hurdles to really winning the argument on tackling poverty and disadvantage:

- *A knowledge gap* Many people are surprised both at the incomes that people living in poverty survive on, and the extent of poverty in Britain compared with other countries.
- *A belief gap* Whilst many believe that Government should take action towards alleviating poverty and disadvantage, many are sceptical as to whether they can. People will not be willing to pay taxes unless they see a return.

With the Government's commitment to eradicate child poverty over the next 20 years; with the prominence of improving public service standards in this parliament; and with a virtue being made of helping poorer households in various budget statements, the political environment is arguably more favourable to prioritising the tackling of disadvantage than at some times in the past. This bodes well for the concerted effort that will be required now to kick-start a 20-year enterprise to greatly reduce poverty in the UK.

What broad approach will ensure that if we tackle poverty we do not scupper economic growth?

We have argued that tackling disadvantage is vital, not only from a social justice perspective, but also pragmatically in terms of the country's economic performance and social well-being. Among the benefits that success in tackling disadvantage would bring is a Britain where:

- Far fewer experience disadvantage through disability, ethnicity or other personal or cultural characteristics.
- Far fewer experience periods of poverty.
- Such periods of poverty that do occur are transitory.
- The occupation and income of your parents are less predictive of where you will live, what you will do and how much you will earn.

To achieve this at the expense of economic growth, however, would be counter-productive. Indeed, for it to be affordable and politically acceptable in the terms discussed in the last section, the long-term growth rate of the UK economy must be maintained. It is the increased wealth that growth will create over the next 20 years that will actually allow us to tackle poverty and reap these benefits.

It is therefore critical that the first principle in tackling poverty is to:

1 Increase the capacity of poorer households and communities to gain from the market economy.

Apart from the social and financial benefits to the individuals concerned, success in this would imply that their average productivity has risen. There would also therefore be a 'second order' benefit of higher long-term economic growth.

However successful this strand of policy is in the long term, redistribution of income will also be required, both to enable people to develop their own capacity and to protect the needs of those who the market necessarily fails. A second principle must therefore be to:

2 Ensure an adequate floor income that relates to what as a society we believe are the necessities of contemporary living.

The policy priority proposed here is to minimise the number of people in households with below 60 per cent of median income.

Shortage of income, however, is not the only aspect of poverty. Severe disadvantage also occurs for some because of a shortage of other resources, particularly health, care and housing. A third principle therefore needs to be to:

3 Ensure that all, particularly relatively poor people and those living in multiplydeprived areas, have access to adequate health care, personal care, housing and other essential services.

Some groups are particularly prone to poverty, as discussed above. Some of this is due to inequality that relates to the personal characteristics of people – their gender, race, disability,

sexual orientation, religion, or age. European legislation requires the UK government to have machinery in place to promote and enforce labour market equality in relation to these six personal characteristics by 2003 (2006 in the case of age). Because some people with these characteristics are particularly vulnerable to poverty, equality policies are a fourth strand of tackling poverty. However, these equality policies need to be extended from the issue of employment to the implementation of all policies aimed at tackling disadvantage, including service provision, if they are going to be fully effective. A fourth principle is therefore to:

4 Ensure that in the implementation of policies aimed at tackling disadvantage, there is no discrimination on the grounds of gender, race, disability, sexual orientation, religion or age.

(This principle cuts across all the papers on specific policy areas, but is not dealt with in any detail because specific implementation issues are not covered.)

All of the policies aimed at tackling disadvantage must not only be based on these four principles, but also take account of a world where, among other things:

- There is likely to be continued polarisation in occupations and wages.
- People will need to switch between and combine employment and non-employment roles (such as care and training) to a greater extent than before.
- Pressures leading to polarisation between different areas are likely to continue.
- There will be more households to find homes for.
- There will be more older people with continuing care needs.
- There will be more people in some groups currently disadvantaged, such as disabled people and people from minority ethnic groups.

Conclusion

Short chapters on specific policy areas are provided in Part II of this report. Clearly these are not the only areas where policy needs development if we are to succeed in the enterprise of tackling disadvantage over the next 20 years. However, progress along the lines indicated above would be a major step forward. These include:

- A greater focus on the needs of the disadvantaged in the areas of education, family support and regional spending in order to improve the capacity of people to benefit from the market.
- Further welfare reform to minimise the number of people on incomes of less than 60 per cent of the median.
- Policies that dramatically increase the supply of care for older people and housing (particularly in the south); these will help avoid shortages that will be particularly detrimental to those on relatively low incomes.
- Implementation that avoids discrimination against disadvantaged groups.

Notes

- 1 Hills, J. (2001) 'Poverty and Social Security: What rights? Whose responsibilities?' in Jowell, R. et al. (eds) *British Social Attitudes*, 18th report, London: Sage.
- 2 Mack, J. and Lansley, S. (1985) *Poor Britain*, London: Allen and Unwin; Gordon, D. and Pantazis, C. (1997) *Breadline Britain in the 1990s*, Aldershot: Ashgate; Gordon, D., Adelman, L., Ashworth, K., Bradshaw, J., Levitas, R., Middleton, S., Pantazis, C., Patsios, D., Payne, S., Townsend, P. and Williams, J. (2000) *Poverty and Social Exclusion in Britain*, York: Joseph Rowntree Foundation.
- 3 Layte, R., Nolan, B. and Whelan, C. (2001) 'Reassessing Income and Deprivation Approaches to Poverty in Ireland', *Economic and Social Review*, 32 (3), 239–262.
- 4 MORI Political Monitor: Most plus Other Important Issues – 1974–Present <<http://www.mori.com/polls/trends/issues.shtml>> Accessed 21 January 2003.
- 5 Analysis of the POLIMOD model at Cambridge University shows the types of households (in terms of their size and main source of income), to show that there are some particularly large groups within the poor population.
- 6 In 1982 the figure was only 17%. This is partly because state pensions have been increased only in line with prices over a period when average earnings have increased much faster than prices.
- 7 Help the Aged (2001) *Tackling Pensioner Poverty Today* Help the Aged; see Wilkinson, P., Armstrong, B., Landon, M., et al. (2001) *Cold Comfort: The social and environmental determinants of excess winter deaths in England, 1986–1996*, York: Joseph Rowntree Foundation, for a discussion of this issue.
- 8 Department of Social Security (2001) *Income Related Benefits: Estimates of take-up in 1999–2000*, London: The Stationery Office.
- 9 Emmerson, C. (1998) 'UK Pensioner Incomes', in *Persistent Poverty and Life-time Inequality: The evidence*, HM Treasury Occasional Paper 10, London: The Stationery Office.
- 10 Help the Aged (2001) Addressing excess winter deaths: the causes and solutions, Help the Aged / British Gas.
- 11 A number of factors have fed into this trend, including the increase in divorce, falling marriage rates, and an increase in births outside of marriage. In 1975, 9 per cent of births took place outside of marriage – by 1998 this had risen to 39 per cent, with only half being jointly registered. Overall, marriage and childbearing have been decreasing. For most, they are becoming increasingly delayed, as people spend longer in education and look to secure their future before settling down to family life. This overall delay in childbearing is, however, paralleled by a sustained rate of early pregnancy that is very high by international standards, predominantly amongst women from more disadvantaged backgrounds.
- 12 In this section 'poor' households are defined as those below 60 per cent median income.
- 13 ONS (2002) *New Earnings Survey 2001*; IFS (2002) Fiscal Facts <<http://www.ifs.org.uk/taxsystem/contents.shtml>> Accessed 23 January 2003.
- 14 Department for Work and Pensions (2002) *The Abstract of Statistics*, London: Stationery Office.
- 15 Jones, C. and Murie, A. (1998) *Reviewing the Right to Buy*, York: Joseph Rowntree Foundation.
- 16 Dept for Work and Pensions, *Abstract of Statistics*.
- 17 Gordon, D., Adelman, L., Ashworth, K., Bradshaw, J., Levitas, R., Middleton, S., Pantazis, C., Patsios, D., Payne, S., Townsend, P. and Williams, J. (2000) *Poverty and Social Exclusion in Britain*, York: Joseph Rowntree Foundation.
- 18 Performance and Innovation Unit (2001) *Improving the Labour Market Achievements for Ethnic Minorities in British Society*, London: PIU.
- 19 Burchardt, T. (2000) *Enduring Economic Exclusion: Disabled people, income and work*, York: Joseph Rowntree Foundation/YPS.
- 20 Dearden, C. and Becker, S. (2000) *Growing up Caring: Vulnerability and transitions to adulthood – young carers' experiences*. National Youth Agency.
- 21 Gordon, D. et al., *Poverty and Social Exclusion*
- 22 UNICEF (2000) *Child Poverty in Rich Nations*, Report Card Florence: UNICEF.
- 23 Gordon, D. and Pantazis, C. (1997) *Breadline Britain in the 1990s*, Aldershot: Ashgate; Gordon, D., Adelman, L., Ashworth, K., Bradshaw, J., Levitas, R., Middleton, S., Pantazis, C., Patsios, D., Payne, S., Townsend, P. and Williams, J. (2000) *Poverty and Social Exclusion in Britain*, York: Joseph Rowntree Foundation.
- 24 Office for National Statistics (2001) *Social Trends 31*, London: The Stationery Office.
- 25 We have choices about the way in which the new money that has been made available in recent budgets for public services is spent. Joseph Rowntree Foundation research [Sefton, T. (1997) *The Changing Distribution of the Social Wage*, York: Joseph Rowntree Foundation] shows that currently expenditure on public services is only moderately pro-poor.
- 26 That is, reduce the proportion of households with below 60 per cent of median equivalised income to below 5 per cent or so from the current levels of over 20 per cent.
- 27 Hills, J. and Leikes, O. (1999) 'social security, selective universalism and patchwork redistribution', in R. Jowell et al. (eds) *British Social Attitudes*, 16th Report, London: Sage.

3 Appendices to Part I ■

Appendix i: A poverty indicator

Using 60 per cent of median household income as a threshold for monitoring progress in combating poverty

This Appendix outlines the reasoning behind using 60 per cent of median household income as a threshold for measuring poverty in the Tackling Disadvantage report. It discusses the main advantages of using this approach, as well as the conceptual and technical weaknesses.¹

If we are aiming to reduce poverty dramatically over the next 20 years, we require some means of monitoring progress and determining relative success or failure on a regular basis. We need a straightforward indicator that will help to evaluate how effective public policy is in meeting overall aims. This would help to garner public support for applying resources towards a clear objective. It would also be easier to hold Government to account over any existing or future pledges on reducing poverty.

There are many ways of measuring different aspects of poverty but this report argues that '60 per cent of median household income' is an appropriate key indicator to track attempts to reduce poverty. There are several reasons for this:

- *A single headline indicator is vital.* In order to hold Government to account and to gear public consciousness towards tackling poverty, a single measure is needed. The academic and policy communities are quite rightly interested in the complexities and nuances of definition and measurement. However, from the perspective of the wider public, it is clarity that is most important. Moreover, multiple indicators make it easier for Governments to avoid taking responsibility for key goals if necessary.

In any field, quantitative measures that are regularly monitored and announced publicly are complex and do not tell the whole story. For example, standard unemployment figures capture a major essence of the 'employment' story, but far from all of it. The academic and policy community can worry about the bits left out, such as wider economic inactivity. Similarly, it will be vital to collect a range of data in the case of poverty and low incomes that can inform the wider pool of knowledge, but this data need not complicate the headline message.

- *Income is important.* In looking at poverty and disadvantage, there are many things that matter. Access to services, family make-up, and neighbourhood conditions all have a vital effect on the wider quality of life, but income is central in determining the choice and control that individuals and households have.
- *Relative income matters.* Absolute poverty is, of course, important and we should be glad that the overall standard of living for most people in the UK has been rising over many years. But relative poverty matters. It matters for a cohesive society that rises in general living standards do not leave behind a minority. It matters because in a changing society what is considered a necessity changes over time (who considered a telephone necessary

50 years ago, who will not consider regular access to IT a necessity in 10 years time?). It matters because relative poverty has implications in areas such as health, education and crime, which are detrimental not only to the lives of people on low incomes, but to society as a whole.

- *Connecting to the mainstream is key.* British society is very unequal; there are extremes of wealth, as well as poverty. Social justice demands that the wealthy should contribute to improving the relative position of all, and reducing overall inequality is the aim of some. However, this report concentrates on the position of those on low incomes in relation to those in the middle of the income distribution. The causes and symptoms of poverty can be tackled by closing the gap between the least well off and the mainstream population without worrying about the spiralling wealth of the rich whose lifestyles are a million miles from the experience of most people. The 'median' is the measure that takes the income of the household in the middle if all households are lined up from the household with the lowest income to the household with the highest. Thus, 50 per cent of households will be below the median and 50 per cent above. As a result, unlike the 'mean' or 'average' it is not affected by the extremes of wealth.
- *The relevant data is collected annually.* Data collection is an expensive business, yet Government already collects data that can track this measure. Whilst the collection of further data on an annual basis that could complement this (see below) would be welcome, it cannot be guaranteed. Moreover, we have data on this measure now stretching back many years and in most other developed nations, lending us a depth of historical and international perspective that most other measures cannot offer.

These reasons suggest taking a measure of income that relates to the median, but not necessarily the 60 per cent figure. Justification for the 60 per cent figure is less clear-cut – it is to a certain extent arbitrary. However, several things make it appropriate:

- *It's already being used:* The UK Government in the Households Below Average Income series, a wide range of other national Governments, international organisations including the EU and the OECD are all using this measure for tracking progress. Whilst the UK Government has not said explicitly that it is using the 60 per cent measure as its benchmark for abolishing child poverty, all the statements surrounding this goal have indicated that this is the measure that they are (or, at least, were initially) intending to use. Therefore, there is no need to convince them to use it. It is likely that if the child poverty benchmark is made more sophisticated, 60 per cent of median household income will be a major component of any composite measure.²
- *It's close to the Budget Standard level:* 'Budget standards' are measured by calculating the minimum reasonable cost of those specific goods and services that comprise a 'basket of goods' deemed necessary by experts. Using this approach, the Family Budget Unit has defined 'low cost, but acceptable' budgets for certain types of household. The levels they have come up with are at present fairly close to the 60 per cent median level for particular

household types. Sixty per cent of median therefore has some meaning when talking about households on low incomes – it represents a very basic amount needed for essentials (see Box below). The 60 per cent median income data is also less cumbersome to collect and calculate than the budget standard measure.

However, for several reasons, 60 per cent of median household income does not tell the whole story.

- Its major weakness is that when the population on incomes below 60 per cent median is compared to the population lacking three or more ‘socially perceived necessities’ as measured in the Joseph Rowntree Foundation’s Poverty and Social Exclusion (PSE) Survey, the overlap of the populations said to be ‘poor’ is relatively low. Yet the PSE/Breadline Britain approach of measuring relative deprivation is an important one. The problem is that the data for household income comes from the Family Resources Survey, which measures household income at a single point in time. Yet we know that the incomes of working-age families can fluctuate greatly over very short periods. This is especially true for those on lower incomes who are not in permanent full-time employment, which is what gives a relative degree of income stability. The lack of congruity between the two measures jars. In all likelihood one would need to track income longitudinally before a more consistent overlap was found between the populations who are on persistently low incomes, and those who are deprived.
- Some suggest that income surveys cannot really capture households’ true access to disposable income, and that expenditure would be a more reliable proxy of access to resources.
- It is susceptible to paradoxes in periods of economic boom and bust. In a fast growing economy even if living standards of all are rising, as in Ireland in recent years, numbers on incomes below 60 per cent median could be going up. Conversely, in a highly recessive economy where people perceive poverty to be increasing greatly, the numbers below 60 per cent median could be shrinking alongside all incomes. Research for the Joseph Rowntree Foundation by David Piachaud and Holly Sutherland reflects this point. Despite the measures that have been taken to boost many household’s incomes over the past five years, progress in reducing the incomes below 60 per cent of median income has been slower than expected as much of the population has enjoyed income growth.
- As a measure it does not resonate with how people understand poverty in the way that either the PSE/Breadline Britain or Household Budget Standard approaches. Both these approaches paint some kind of picture of what poverty actually means.
- There are numerous technical difficulties with the data. For example, there are disagreements over the appropriate equivalence scale – the statistical technique used to ascribe equivalent incomes to different family types and sizes. The current need to present incomes both ‘Before’ and ‘After Housing costs’ also complicates the message significantly.

How do we deal with these problems?

The problems above fit into two different kinds – technical and conceptual. From a technical perspective, the current Households Below Average Income (HBAI) measure is adequate. No measure, however, will ever be entirely satisfactory and we should aspire to improvements. The way the data is collected and presented in the HBAI series can be improved so as to address certain statistical anomalies and presentational inadequacies.

The conceptual problems are more significant and pose a threat to the overall choice of measure. Other measures, such as longitudinal data from the British Household Panel Study, the PSE/Breadline Britain approach and the Budget Standards Approach are vital parts of developing our knowledge of low incomes and poverty. Moreover, the latter two especially play an important role in developing public consciousness of what the experience of poverty may actually mean to some people. Monitoring these measures, alongside 60 per cent of median household income, can enhance our overall understanding of poverty.

But the reason for selecting 60 per cent median relates to our initial aims. These were to monitor progress in a way that facilitates comparisons both historically and cross-nationally, using a simple indicator that is congruent with the values we are concerned with, which can give the public a sense of progress or lack of it, and through which the Government of the day can be held to account. We believe that 60 per cent of median household income meets these criteria and that it can counter the objections outlined above. For example, it is clear that if, as overall living standards rise, the incomes of some fall behind the mainstream, those people will lack the resources to allow them to afford items considered essential by contemporary standards. This is evidenced by the fact that the changing proportions of people defined as deprived in the various Breadline Britain surveys corresponded very closely with changing proportions below 60 per cent median. Thus, whilst the Breadline Britain Survey and the 60 per cent median indicator are measuring different things and are not showing entirely the same populations, they appear to be measuring related phenomena, whose movement is influenced by similar social and economic forces. When considered over the course of the economic cycle, the 60 per cent of median measure therefore appears robust.

Comparing the 'low-cost but acceptable' budget with 60 per cent of median income

Poverty can be understood as the inability of a household to purchase a sufficient 'basket of goods and services' deemed necessary for a certain kind of household. It can be measured by calculating the minimum reasonable cost of those specific goods and services that comprise the 'basket of goods' and comparing the overall cost to the actual disposable incomes of households. Using this approach, the Family Budget Unit has defined 'low cost, but acceptable' budgets. These include all potential expenditure that a household requires. Some, such as food, rent or childcare are part of normal weekly expenditure. Other goods such as a fridge-freezer are calculated in terms of how often it must be bought (every 15 years), how much it costs (£260.00) and the cost translated into a weekly amount over the 15 year period (£0.33). Table 3.1 shows the weekly expenditure for a couple with a boy aged 10 and a girl aged 4.

Table 3.1 The 'low-cost but acceptable budget': two adults, two children
(1998 prices)

Variable Costs	£	Budget Standard Costs	£
Housing	47.54	Food	53.23
Council Tax	9.01	Clothing	24.97
Fuel (<i>within the home</i>)	13.29	Personal care (<i>e.g. soap, cosmetics</i>)	4.05
Transport (non-car using)	6.42	Household goods	15.78
NHS Charges	0.05	Household services (<i>e.g. telephone, baby-sitting</i>)	5.43
Insurance/ Pensions	1.51	Leisure goods (<i>e.g. toys, television</i>)	8.79
Debts, Fines, Maintenance Orders	0.00	Leisure services (<i>e.g. outings, TV licence</i>)	12.11
Seeking work costs	0.00		
		Total weekly expenditure	£214.08
Pets	3.28		
Alcohol	8.62		
Tobacco	0.00		
Charitable donations	0.00		

Source: Parker, H. (ed.) (1998) *Low Cost but Acceptable : A minimum income standard for the UK; Families with young children*, Bristol: The Policy Press/Zacchaeus 2000 Trust

This expenditure is indeed minimal, but it is in many ways unrealistic. In reality, many people smoke and the price of expensive goods cannot be divided into weekly amounts over many years, so those on low incomes must pay more expensive hire purchase prices, or borrow at substantial interest rates. Also, there is no saving here for later in life.

A household on 60 per cent of median income would have £227 per week. They would be able to afford the low-cost but adequate budget.

Yet for a couple with two children of this age, the average weekly income for those in the bottom tenth of the distribution is just £153.³ This is only 70 per cent of the amount required to purchase those items indicated in the budget. No one can be in doubt that this is a highly acute level of poverty in the context of contemporary Britain.

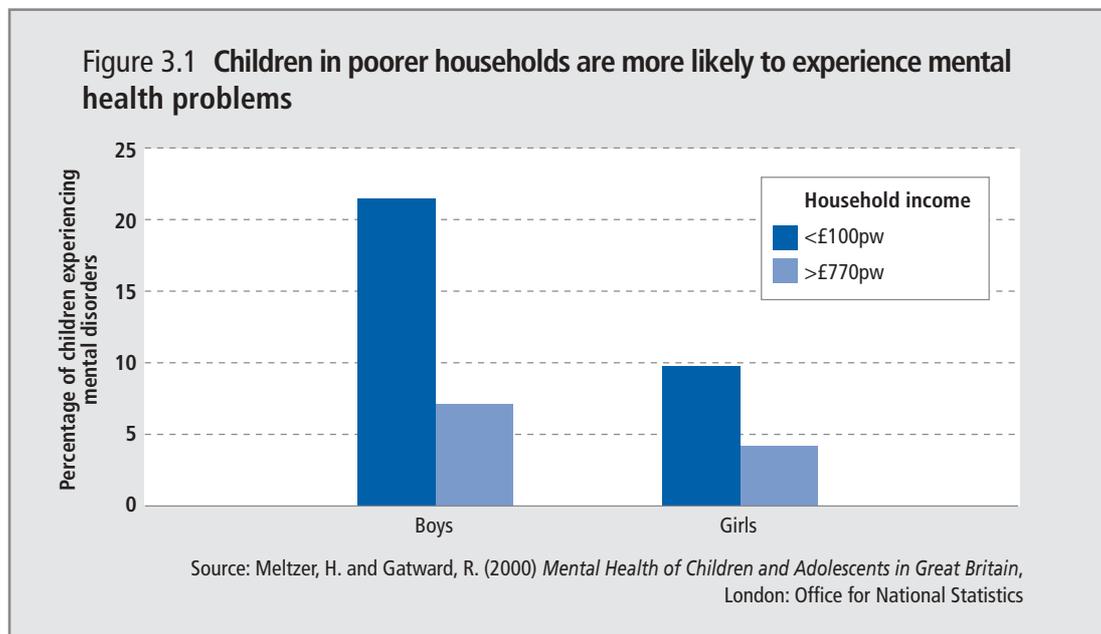
Appendix ii: The association of poverty with other disadvantage

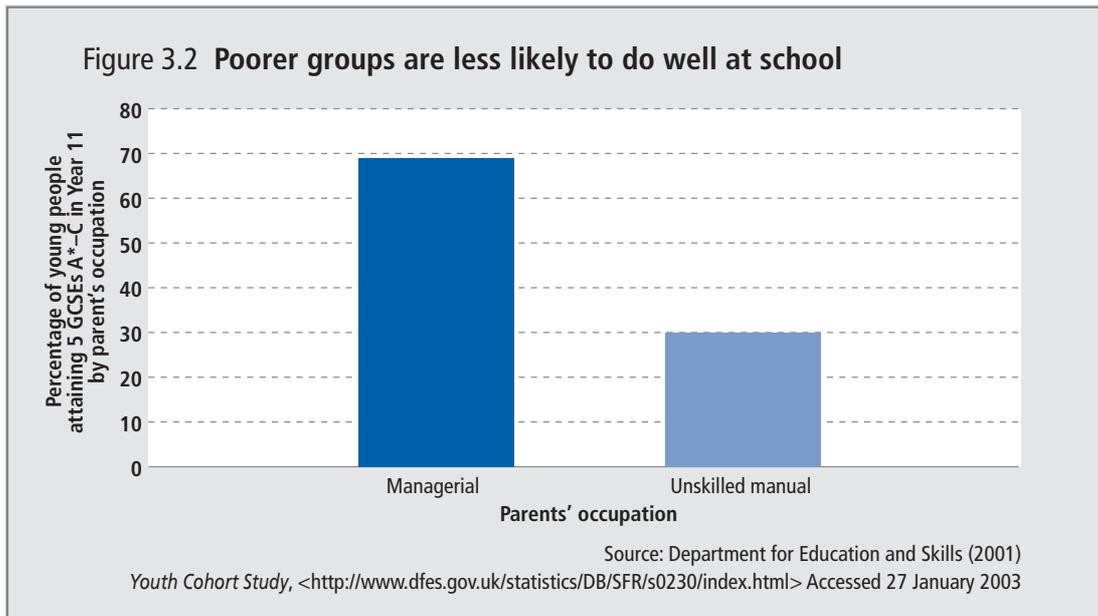
Income poverty does not in itself present the sole challenge over the next 20 years. Unless we seek to address factors such as employment, health, education, housing, discrimination and concentrations of deprivation, we will succeed in combating neither poverty nor its multiple consequences. Such factors are both the causes of poverty and disadvantage, and the symptoms, impacting on each other and ultimately on the quality and opportunities of people's lives.

Three issues that surveys consistently suggest are the most important to British people are indicative of the far-reaching consequences of poverty: health, education and crime.⁴ In today's Britain the least affluent suffer most on all three fronts.

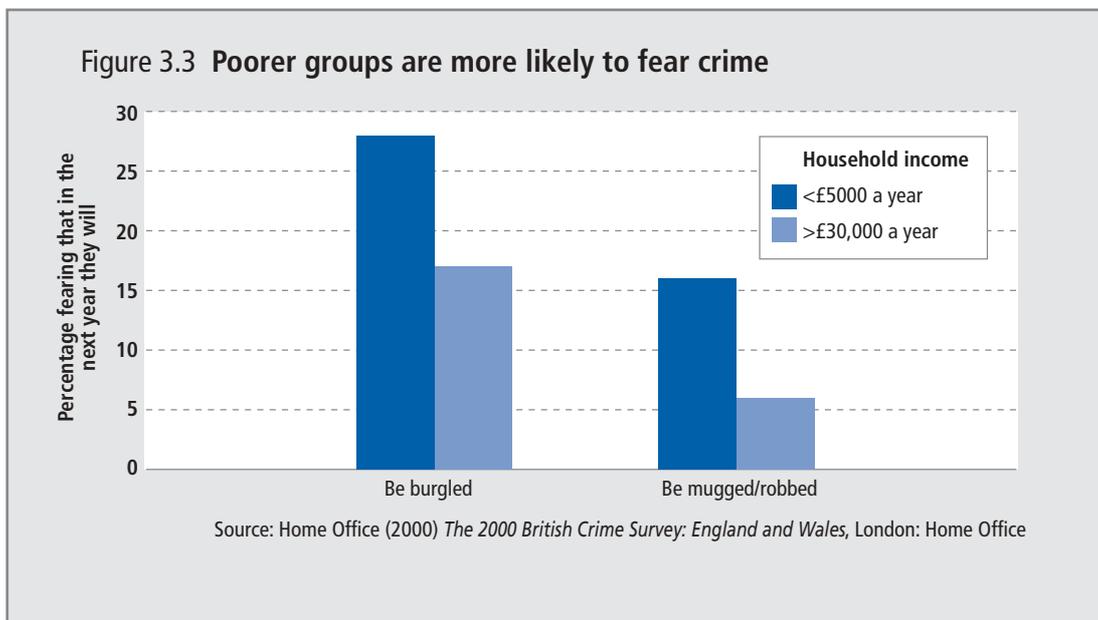
The disparities in health experiences and outcomes according to incomes are large.⁵ Poorer people are more likely to die younger than more wealthy people – and the gap has grown in the period that income inequalities have risen.⁶ The gaps are large on many different aspects of both mental and physical health. Children from poorer families are more likely to be born with low birth weight, to suffer from accidental deaths, and to experience mental disorders (Figure 3.1).⁷

As a society we may be less concerned with income inequality if all children had the same opportunity to achieve. However, this is demonstrably not the case as shown in Figure 3.2. Three factors are key predictors of educational attainment: poverty, peer group and parental involvement.⁸ In deprived areas these problems may well compound each other, ensuring that very few young people achieve any qualifications.





Where crime and the fear of crime are present, they undermine the basic sense of security that people need in their day-to-day lives. Not only is the fear of crime greater amongst poor people, as shown in Figure 3.3, but the risk is also genuinely greater. In some of Britain's most deprived local authorities there are more than 10 times as many 'reported' violent crimes per year than in some more affluent places; at the neighbourhood level these disparities are likely to be far greater.⁹



Appendix iii: Labour market trends

Changing occupations

As the UK economy has moved from traditional manufacturing towards an economy largely based on service industries the nature of work, in terms of occupations has changed:

- There are fewer requirements for trade related and basic unskilled occupations.
- There is an increased demand for professional, managerial and technical work.

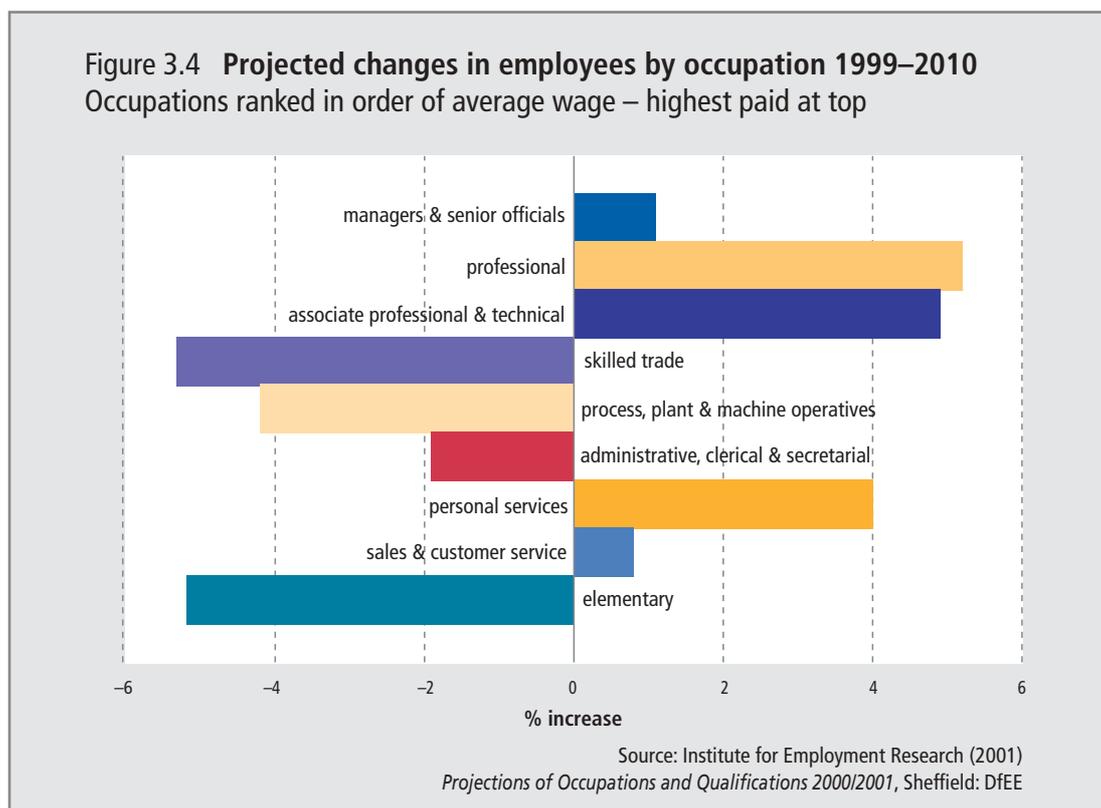
The result has been polarisation, with many new well-paid and poorly paid jobs, but fewer in the middle of the wage spectrum. Furthermore, the ladders that operated in many traditional industries, enabling poorly qualified individuals to progress during their career have increasingly disappeared. The extent of the gap between winners and losers could widen as the occupational structure of the UK's labour market continues to change.

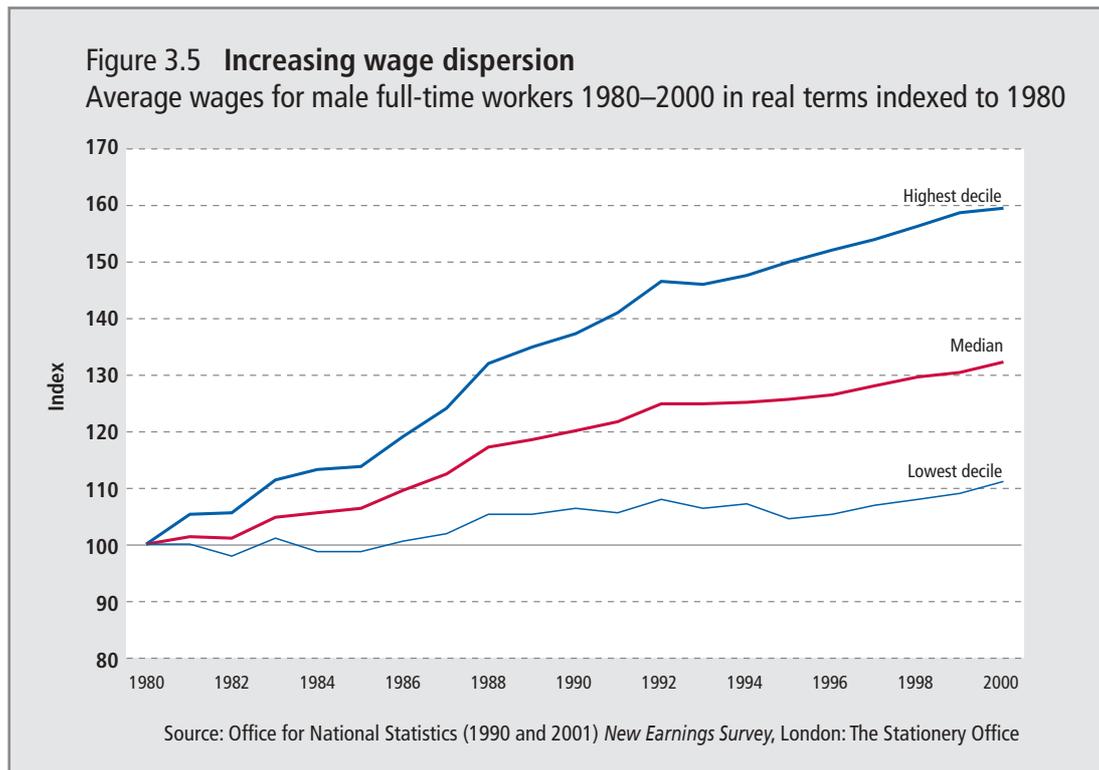
In 1981, of the nine major occupational classifications, skilled trade and elementary occupations¹⁰ were ranked first and second, amounting to nearly 35 per cent of all employment. By 2010 they are projected to be ranked fifth and sixth respectively, providing less than a quarter of all jobs.

Significantly, as Figure 3.4 shows, not only is there a continuing polarisation between the better and lower paid jobs, but there is also a significant decline in the least paid jobs – jobs accessible to those with the very few skills and the most minimal or no qualifications.

Wage dispersion

The labour market increasingly requires a skilled, educated workforce with at least basic literacy and numeracy skills, and key personal and computer skills. It places high premiums on





more advanced skills. Failures in the education and skills training system to respond to the changing economy have resulted in an over-supply of labour for low-skilled work and huge pay rises in the professional and managerial sectors. The result has been

- Minimal growth in real terms of wages towards the bottom of the wage distribution. In 1980 average earnings of the 10 per cent lowest paid were 68 per cent of the average, today they are 58 per cent.

Over three-quarters of current jobs are in the 'service sector'.¹¹ Many of these are well-paid and offer opportunities for training and career development, but many are quite the opposite. There are a 'basement dozen occupations' that have particularly high proportions of people who are low paid; these include cleaners, care assistants and security guards.¹² Such jobs not only pay the worst, but they seldom act as stepping-stones to better employment through possibilities of promotion or training. On the contrary, many low-wage jobs are temporary in nature; often people find themselves in a 'no-pay, low-pay' cycle, moving between poor quality jobs and unemployment.¹³

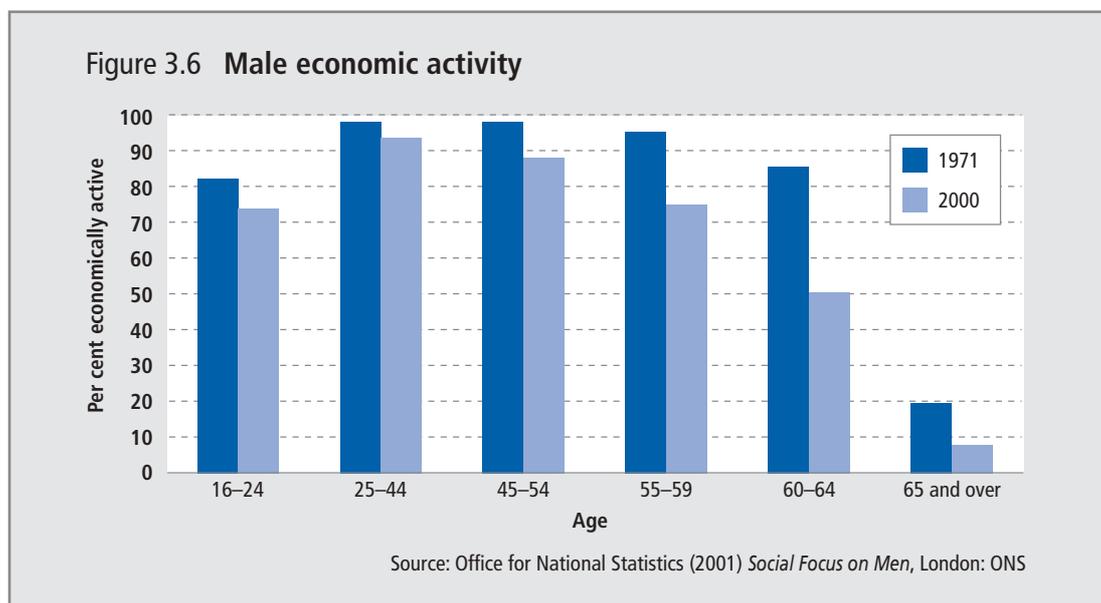
The rise of the workless household

Throughout the last quarter of the 20th century the rate of female employment continued to rise, whilst that of men has declined. Employment rates for men declined from 92 per cent to 80 per cent; for woman they rose from 58 per cent to 70 per cent. The increase in working women has taken place entirely amongst partners of working men. Partners of the unemployed and lone parents are no more likely to be active in the labour market than 25 years ago.¹⁴ The result has been many more households with two adults working, at the same time as a large increase in households with no adult in work. Between 1975 and 2000 the

proportion of such 'workless households' rose from 6.5 per cent to 16.7 per cent,¹⁵ equivalent to one in every six households containing people of working age. This phenomenon is unusually pronounced in the UK. Many other Western countries, even with substantially higher unemployment rates, do not have the same proportion of workless households.

Changing distribution of non-employment

Economic inactivity rates (the proportion of the working age population not working or seeking work) were similar in the 1970s to today. However, whereas the economically inactive population was largely female, reflecting enduring social norms about male breadwinners and female housewives, today it often signals an inability for older men and lone mothers to access work, or a decision to 'drop-out' of the labour market. Figure 3.6 shows that the decline in male economic activity after the age of 45 is much greater now than it used to be.



Appendix iv: Geographic trends

There is a sustained trend of both people and work moving out of cities and large towns.

- The population is moving out of the major cities and conurbations and into smaller towns, suburban greenfield developments and rural areas. Much of the out-migration is by more prosperous individuals.
- Within cities, there is also a process of abandonment of some deprived areas.¹⁶
- The UK's major towns and cities have been leaking work to the rest of the country over many decades. Britain's largest 20 cities lost about 500,000 jobs between 1981 and 1999.¹⁷

For the more affluent, the precise location of work is becoming less important, due to increased mobility. For poorer people, the absence of work in reasonable proximity can have profound consequences. This can be in inner cities or isolated places such as coalfields, or in suburban areas reliant on particular factories. The lack of work in areas with workforces who lack basic skills, or the mobility to seek work further afield, results in high levels of unemployment and economic inactivity in some places.¹⁸ As Table 3.2 shows, the difference between areas is stark.

	Male (%)	Female (%)
Knowsley	28.6	43.8
Merthyr Tydfil	25.0	42.9
Milton Keynes	8.2	18.3
Swindon	6.3	16.7

Source: Labour Force Survey (via NOMIS) <<http://www.nomisweb.co.uk>> Accessed 23 January 2003

Whether comparing regions, towns within regions, or neighbourhoods within towns, processes of polarisation are continuing. A recent Joseph Rowntree Foundation study has shown that, whilst almost all areas have benefited in some ways from the economic growth of recent years, the gaps between the most affluent and most deprived areas have continued to grow.¹⁹ Within all regions, however, there is much deprivation.

The location decisions of people and firms are likely to create further polarisation. Decisions on where to locate employment are increasingly dominated by where clusters of firms and people either offer prosperous markets and skilled employees, or – in the case of low-tech manufacturing and remote service industries – low costs and large numbers of relatively low-skilled people. The need for most businesses to locate near prosperous markets will become even more compelling for many of the new service industries over the next 20 years. In many places a virtuous cycle, whereby businesses set up where there is a ready market, and more customers are attracted because there are lots of suppliers offering a wide choice, will

continue to develop. At the most local level, such processes are visible often on a daily basis in gentrifying areas, where numbers of leisure and retail outlets often multiply exponentially over a short period of time. Over larger areas the same process occurs with big business, whether it be legal firms or biotechnology industries.

At a very broad level there is a fundamental difference between the South and the rest of the country:

- Whilst the southern regions (essentially London, the South-east and East) are increasingly characterised by a problem of wealth distribution, the 'northern' regions (essentially the rest of the UK) suffer from a fundamental lack of wealth generation.
- The result in the South is small pockets of concentrated deprivation and a major crisis in housing shortages, leading to increased homelessness and overcrowding for the poorest.
- In the North, however, there are large poverty clusters, alongside a housing problem of lack of demand, leading, in the worst hit areas, to some places being abandoned.

Lack of qualifications is likely to become an increasingly pressing problem, as the labour market continues to change. The fact that people with poor qualifications are often concentrated in particular areas intensifies the problem. Although there are still many unskilled employment opportunities, they are often distributed widely across areas in basic service jobs, or serving a high-wage local economy, rather than being concentrated in a local manufacturing base. The result is low relative demand for unskilled work alongside high supply, allowing wages to remain low and leaving many people outside the labour market. Furthermore, there is a disincentive for employer-funded training, with the consequence that people in these jobs fall even further behind the opportunities and experience of much of the population.

Overall, therefore, pressures are towards further polarisation between areas.

Appendix v: Demographic trends

The ageing population

The UK has a gradually ageing population, both in terms of the proportion of the population above retirement age and, perhaps more significantly, the longevity that can be expected by many who pass beyond this age. By 2021, nearly 20 per cent of the UK's population will be aged over 65, with nearly 10 per cent over 75. This compares to 16 per cent and seven per cent in 2001.²⁰

Current evidence suggests that the extra years of life enjoyed by those with increased life expectancy are not being accompanied by extra years of poor health, although the lack of robust longitudinal data gives cause for concern.²¹ Even if this proves to be the case, however, the rising number of very old people (above age 85) will raise overall care requirements. Increasing longevity raises questions about sustaining the incomes of older people for many more years than pensions have needed to do in the past.

The older population is not homogenous. Older women, for example, are already the most disadvantaged group within the pensioner population. It is often widowhood and living alone that expose female pensioners to poverty. At younger ages the differences in poverty rates are disguised by the fact that women share in the household income of men. With the increase in divorce that has occurred over recent years, the young single pensioner population will grow over the next 20 years (despite significant re-marrying). Given that 20 per cent of informal care is estimated to be spousal, this may store up problems for beyond 2021 when care needs increase.²²

Increasing number of households

The sustained decrease in marriage rates, increase in divorce and co-habitation, and reduced and delayed child-bearing means that the household composition of the population is now highly varied.²³ There have been dramatic rises in single parent (most female-led) families, and many children will experience parental divorce at some point in their lives. There is a continuing ageing population (see below) and sustained high levels of net inward immigration.

These factors have contributed to a dramatic rise in the number of households from 16.3 million in 1971 to over 24 million in 2001 (for the UK). This growth looks set to continue relentlessly. It is projected that from 1996–2021 we will need to accommodate a further 4.3 million households in England alone.

One notable increase has been in the rise of single person households and, within that, the rise amongst single men of working age of whom 10.3 per cent now live alone, compared to only 3.3 per cent in 1971. These trends look set to continue over forthcoming decades.

Larger minority ethnic population

The UK's expanding minority ethnic populations have given many of Britain's urban areas a strong multi-ethnic base. London, for example, in the 1991 census contained 1.3 million people from minority ethnic groups and 37 different minority communities with over 10,000 people.²⁴ There are substantial population centres in the West Midlands, West Yorkshire and Greater Manchester. There are likely to be several local authorities with a 'multi-ethnic majority' in 20 years time, including Brent, Newham and Tower Hamlets in London.²⁵ In total,

there are 15 local education authorities where more than 50 per cent of secondary school pupils are of 'non-white' ethnic origin.²⁶

The largest groups are from South Asia, the Caribbean, Africa and Ireland – the latter group being regularly excluded from the literature and statistics relating to minority ethnic populations.²⁷

The size of the minority ethnic populations will grow rapidly over the next 20 years, and the nature of the social and age profile of different groups mean that alongside such growth there will be profound changes in the character of each group. Whereas 97 per cent of people from minorities over the age of 44 were born outside of the UK, 90 per cent of those under 15 were born here.²⁸

The age structures of the country's minority ethnic populations are also very different from the white population, with much lower median ages. The proportion of the UK's population accounted for by minority ethnic groups is about 2 per cent for over-75s, but more than 10 per cent for under 15s.²⁹

Immigration trends

Very high proportions of those who have entered the country in the last 10 years are living in poverty. In recent years, levels of immigration to the UK have risen sharply and official projections for net inward migration into the UK have been raised from 95,000 per year to 135,000.³⁰ This figure combines 395,000 coming into the UK and 260,000 leaving, which means that there are projected to be 8.4 million immigrants to the UK over the next 20 years. The data on immigrants and asylum seekers is currently poor. The estimated numbers should be treated with caution, and with regards to the ethnic composition and socio-economic background of immigrants there is a genuine lack of knowledge at present. However, a recent study that looked at the labour market participation of refugees with permission to work highlighted the difficulty faced by this particular group in accessing work. For those who do find work, the opportunities are often characterised by low pay and poor conditions.³¹

Table 3.3: Projections for immigration to the UK over the next 20 years

	Projected number of immigrants	
	Per year	Next 20 years
Origin of immigrants		
European Economic Area	105,000	2.1 million
Old Commonwealth + USA	120,000	2.4 million
New Commonwealth	45,000	900,000
Rest of world	75,000	1.5 million
Republic of Ireland	15,000	375,000
Non-immigrant status on arrival		
Asylum seekers	20,000	500,000
Visitor switchers	25,000	625,000
Total	335,000 (adjusted)	8.4 million

Source: Government Actuary's Department (2002)
National Population Projections 2000-Based, London: The Stationery Office

Appendix vi: Types of household in poverty

Certain types of household, dependent on particular sources of income, are especially at risk of being in poverty. To examine this in detail we have used POLIMOD,³² a model developed at Cambridge University.³³

Using 60 per cent of median income as the dividing line between those defined as poor and those not,³⁴ just over a fifth are in poverty. Table 3.4 shows the broad make-up of poor households in terms of the type of household³⁵ and in terms of the source of income.³⁶

Household type	%	Source of income	%
Two-parent families	30	Earned income only	15
Lone parent families	20	Earned income and benefits	10
Other working age	30	Benefits	60
Pensioners	20	Pension income	15
Total	100	Total	100

Source: Polimod dataset – rounded to nearest 5%

Half of people in poverty are in households with children.³⁷ However, about a third of non-pensioner poor people are not families and, of these, about 60 per cent are adults living alone. Less than 15 per cent of the poor are reliant solely on earnings. Unsurprisingly, the level of benefits (particularly out-of-work benefits) is the most important source of income that will impact on the degree of poverty.

Depth of poverty

Those defined as poor in the sense of those living below 60 per cent of median income are primarily in the bottom two-tenths of the income distribution. Those in the lowest tenth are clearly in greater income poverty than others. Table 3.5 provides a broad-brush break down for each of the lowest two-tenths in the same way as Table 3.4 did for the poor population as a whole. The largest group in the poorest tenth are adults without children. Two-thirds of these are adults living alone.

It is possible to go further than this broad approach and see, on average, how far below the poverty line³⁸ different groups are. For this analysis we combine dimensions of household type and source of income. Table 3.6 shows the average amount below the line different individuals are in pounds per week. The average poverty gap³⁹ is about £65 per person per week. Many relying on benefits only are in particularly deep poverty, and multi-adult households without children are, on average, in deeper poverty than other groups.

Table 3.5 Most poor individuals are in families and/or receiving benefits
Per cent of people (including children) in households with income below 60% of equivalised income

Household type	Poorest tenth	Next tenth	Source of income	Poorest tenth	Next tenth
Two-parent families	35	30	Earned income only	10	15
Lone parent families	10	30	Earned income + benefits	10	10
Other working age	45	20	Benefits	70	50
Pensioners	10	25	Pension income	10	25
Total	100	100	Total	100	100

Source: Poliomod dataset – to the nearest 5%. Figures do not always sum to 100 due to rounding

Table 3.6 Depth of poverty
Pounds per week below 60% of median income (rounded)

		£ per week
Poor adults without children, but not living alone	Benefits only	140
	Earnings only	90
Poor couples with children	Benefits only	85
	Benefits and earnings	75
	Earnings only	65
Lone adults	Little difference between source of income	65
	Benefits only	40
Lone parents	Benefits and earnings	30
	Pensions	30
Pensioners (little difference between older, single or couple)		30
All (including children)		65

Appendix vii: Gender and poverty

There is considerable evidence suggesting that women are more likely to be poor than men, and that there are particular reasons for this. The following brief summary is based on a literature review and data re-analysis undertaken for the Equal Opportunities Commission by the University of York.⁴⁰

Women are poorer

Overall as Table 3.7 shows, a higher proportion of women than men are poor (live in households with below 60 per cent of median income). Women are more likely than men to be poor when they are single pensioners over 70, unemployed, Pakistani/Bangladeshi or tenants. They are a higher proportion of the poor than men if they are single pensioners, lone parents, local authority tenants or without occupational pensions.

%	Men	Women
Before housing costs	16	18
After housing costs	22	25

The characteristics that increase the probability of being poor are, of course, inter-related. However, if one controls for the factors covered in the Family Resources Survey, such as ethnicity, disability etc., the data suggest that there is still a strong gender impact. The probability of a woman being poor is 80 per cent higher than for a man. Using the data in the Poverty and Social Exclusion Survey 2000, which contains different variables, the probability of a woman being poor is 50 per cent higher than for a man after controlling for the other factors covered. Therefore, although it is difficult to be accurate on the precise magnitude of the difference, it is clear that women are substantially more at risk of being poor than men.⁴¹

Why women are poorer than men

One of the major reasons why women are poorer than men is their relationship with the labour market. There is still a significant gender pay gap, with full-time working men earning about 20 per cent more than full-time working women, excluding any effect from differing working hours.⁴² The pay gap stems partly from continued occupational segregation, with jobs predominantly done by women tending to be lower paid, and partly because of a looser attachment to the labour market as a result of women's involvement with childbirth and caring roles. Particularly those women with lower educational qualifications have interrupted periods in employment and are much more likely to be in lower paid part-time work. In general, although girls out-perform boys in school, they disproportionately tend to pursue subjects that do not lead to high pay in the labour market.

Lone mothers are particularly prone to experience poverty. The number of lone parent households has been increasing, and the majority are still headed by mothers. Access to employment is difficult, not only because of childcare problems, but because they tend to concentrate in localities of high unemployment.

Women's labour market disadvantages lead to lower lifetime incomes and they are less likely to have rights to the full state pension, or as good occupational pensions as men. The risk of poverty at retirement age is therefore greater for women. Older single pensioners are also more prone to poverty, and these are mainly women as their life-expectancy is longer.

There are also more hidden causes of women's poverty. First, in households where men are the main earners, partners may not get access to earnings entering the household. This seems to be particularly true of some low-income families. Second, women are often the people responsible for managing inadequate household budgets and therefore suffer more of the stresses of managing on low incomes. Third, parents, but especially mothers, often sacrifice their own needs for those of their children.

Underpinning these causes of poverty is an assumption in policy – in the way benefits are structured and the way pensions in particular work – that women are or should be financially dependent on men. This also legitimises low pay and poor employment opportunities. Poverty of lone mothers and older pensioners is often associated with the fact that there is not a man with higher earning power or pension rights.

Ultimately, people are less likely to be in poverty when they have the capacity to support themselves. Some commentators have suggested that, to reduce women's vulnerability to poverty, policy will need not only to improve women's independent income, but also tackle the private sphere of life, relieving women of some of the unpaid work they do in the home. They argue that the first without the second would simply double women's workload.⁴³ Policy has not yet really begun to address this private sphere. If there was more of a level playing field in terms of the choices men and women make between caring and work roles and between different occupations, it is likely that people's lives overall would be more satisfying and that total productivity in the broadest sense would be higher in Britain than it is today.

Appendix viii: The reasons for tackling poverty

Social justice: opportunities and outcomes

Whilst the concept of social justice lacks clear definition, it reflects society's changing common values and norms. In today's affluent society, it implies a quality of life for disadvantaged people that relates to the average, not with that of the least affluent in other countries, or in this country 50 years ago.

Britain is not an immobile society where a child's occupation and place on the income distribution is pre-ordained. But evidence from longitudinal studies demonstrates that the social conditions surrounding someone as they grow up remain highly predictive of conditions in later life (see for example Figure 3.7). The area people grow up in, the schools they attend, and the occupations of their parents are strongly associated with different outcomes.⁴⁴

As important as the lack of social mobility is, we are equally concerned with outcomes. Whatever the circumstances surrounding someone's life, their standard of living should stay within touching distance of that of the mainstream population. For many, it is seen as inherently unsatisfactory, inequitable and unjust that some people repeatedly suffer from greater ill-health, worse levels of educational opportunity, increased experience of crime and the poorest quality of essential services. For most, it is unacceptable that poorer people should have shorter lives; the life expectancy of men and women from unskilled backgrounds is respectively 7.4 and 5.7 years shorter than for men and women from professional backgrounds (Figure 3.8).

Poverty limits economic growth and the UK's overall affluence

Poverty and disadvantage impact negatively on the country's ability to generate wealth and on the distribution of public services. Poverty is often associated with low levels of skill development. This stops the UK economy from performing to its potential. In many parts of the country too many low-skilled individuals are chasing too few jobs at the bottom end of the labour market. This discourages in-work training and staff development, and reduces the incentive for employers to increase the productivity of jobs. At the same time, the under-supply of skilled workers, such as information and communication technology staff and teachers, results in missed business opportunities or under-productive public services. If productivity would increase by as little as 0.1 per cent, through raising skills levels, £10 billion more output could be generated over the next decade.⁴⁵

Many deprived areas have high crime rates, a poor quality environment, and a population with low skills levels and minimal spending power. They often struggle to attract investment, and as much as 75 per cent of money in circulation within deprived areas derives from central or local Government.⁴⁶ Such areas cannot contribute to their full potential.⁴⁷ Reviving these local economies would not only be highly beneficial to the local population, but through generating wealth and consumer spending would clearly also benefit the national economy.

Social cohesion helps us all

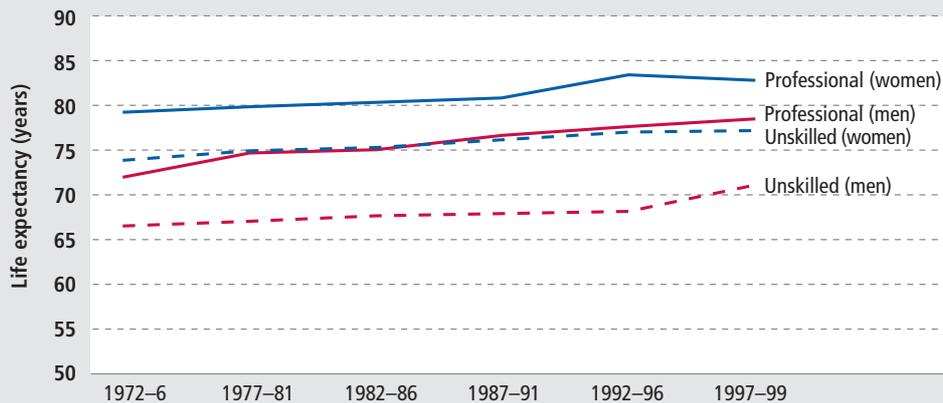
A strong civil society is based around the members of that society believing that they have a stake in its future, and an ability to affect change. Yet we continue to exclude many people who have little control over their source of income, the location or type of housing they live in,

Figure 3.7 **Lack of social mobility in modern Britain**
Participation in higher education by parental social class



Source: Office for National Statistics (2001) *Social Trends*, London: The Stationery Office

Figure 3.8 **Life is shorter if you are poor**
Life expectancy by social class



Source: Office for National Statistics (2002) *Trends in Life Expectancy by Social Class*, <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=8460&Pos=38ColRank=1&Rank=272>

or the education their children obtain. One result is that people become alienated from the democratic institutions that seem so distant from their lives, and unresponsive to their needs.

If we value the idea of a vibrant civil society, underpinned by high levels of participation, then the evidence that poverty and disadvantage are associated with withdrawal or exclusion from these activities must be of great concern. For example, there is long-standing evidence that the turnout at general and local elections is especially low amongst poorer people. At the 1997 General Election the 10 most deprived constituencies also had the lowest turnouts.⁴⁸

The feeling of powerlessness comes across in many qualitative studies of people living in poverty, and is evident in attitudes to politics and civic engagement. There is often a huge gap between decision-makers and those living in poverty. Middle-class people tend to say politics and policy-makers are about the way we organise ourselves. Those living in poverty tend to say it is about the way they do things to us.

On occasions, the disengagement and alienation of young men in poor areas results in a complete breakdown in order. Recently, this came to public attention when riots occurred in

several of England's northern towns, where a potent mix of social deprivation and racial tension resulted in serious confrontations between young men and the police. Such instances are not, however, always tied to ethnic relations; Joseph Rowntree Foundation research has consistently shown that the key factors are high levels of deprivation and few jobs.⁴⁹

The causes of violence and disorder are complex, but the reality that they are more associated with poverty and deprivation is clear. Highlighting this link is not to justify the actions of the perpetrators. It is an attempt to understand and deal with the root causes of conditions that foster crime and disorder, rather than focusing solely on the symptoms. Rising violent crime (at the same time as general crime rates are falling) affects people in poor areas the most. But it impacts on the lives of all in society. Large parts of urban America are characterised by a polarisation between crime-riven 'no go' inner-city areas and securitised suburbs and public spaces. The better-off have often opted out into privatised, individualised solutions to social ills. It is a direction than many are seeking to avoid for British society.

Notes

- 1 See CASE/DSS (2000) *Indicators of progress: a discussion of approaches to monitor the Government's strategy to tackle poverty and social exclusion*, CASE report 13, London: Centre for the Analysis of Social Exclusion, London School of Economics – for a wide-ranging discussion of indicators of poverty and social exclusion.
- 2 The Government may adopt something akin to the Irish model (a composite indicator of income poverty and deprivation) for its child poverty target.
- 3 Department for Work and Pensions (2002) *The Abstract of Statistics*, London: Stationery Office.
- 4 MORI Political Monitor: Most plus Other Important Issues – 1974–Present
<<http://www.mori.com/polls/trends/issues.shtml>> Accessed 21 January 2003.
- 5 Rahman, M., Palmer, G. and Kenway, P. (2001) *Monitoring Poverty and Social Exclusion*, York: Joseph Rowntree Foundation.
- 6 Dorling, D. (1997) *Death in Britain*, York: Joseph Rowntree Foundation.
- 7 Rahman et al., op. cit. (2001); Meltzer, H. and Gatward, R. (2000) *Mental Health of Children and Adolescents in Great Britain*, London: Office for National Statistics.
- 8 Feinstein, L. and Symons, J. (1999) 'Attainment in Secondary School', *Oxford Economic Papers*, 51, 300–321; Gregg, P. and Machin, S. (1997) *Child Development and Success or Failure in the Youth Labour Market*, London: Centre for Economic Performance, London School of Economics.
- 9 Home Office (2001) *Recorder Crime Statistics: England and Wales*, London: The Stationery Office.
- 10 This is based on the ONS' Standard Occupation Classifications. Skilled Trade occupations may require a substantial period of training, often provided by means of a work-based training programme (e.g. gardeners and welders). Elementary Occupations will usually require a minimum general level of education (i.e. that which is provided by the end of the period of compulsory education) (e.g. labourers).
- 11 National Statistics (2003) *Labour Market Trends*, January 2003, London: The Stationery Office.
- 12 Stewart, M. (1999) 'Low Pay in Britain', in Gregg, P. and Wadsworth, J. (eds) *The State of Working Britain*, Manchester: Manchester University Press.
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- 18 This is, of course, a story not unique to Britain – see for example Wilson, W.J. (1996) *When Work Disappears: The world of the new urban poor*, New York: Alfred A Knopf.
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- 32 We use POLIMOD to help develop a broader understanding of the quantitative picture with respect to the population in poverty. It is based on micro-data from the Family Expenditure Survey. These data are Crown Copyright. They have been made available by the Office for National Statistics (ONS) through the Data Archive and are used by permission. Neither the ONS nor the Data Archive bear any responsibility for the analysis or interpretation of the data reported here.
- 33 The estimates calculated for this chapter use the same methods as in Piachaud, D. and Sutherland, H. (2001), 'Child Poverty: Aims, Achievements and Prospects for the future', *New Economy* 8 (2), pp. 71–6 and in Sutherland H., (2001), *Five Labour Budgets (1997–2001): Impacts on the distribution of household incomes and on child poverty*, Microsimulation Unit Research Note MU/RN/41. The only difference is that an after housing cost measure is used rather than a before housing cost one. The figures are different from the 1999/2000 published HBAI figures because they include policy changes since 1999/2000, but will not be the same as the 2000/2001 HBAI figures because we cannot include behavioural responses to the policy reforms introduced.
- 34 Both the definition of 60 per cent of median and the figures presented in this section are based on equivalised household income, measured over people.
- 35 The household type definitions are mutually exclusive. A parent who is over pension age is counted in the parent category, not the pensioner category. The characteristics refer to current living arrangements (i.e. a parent is someone currently living with a dependent child – pensioners who are parents, are not counted unless their children are still dependent and co-resident).
- 36 The pension income category applies when all adults in the benefit unit are over pension age. They may or may not have earnings and may or may not be in receipt of means-tested benefits.
- 37 We are talking here of proportions of individuals, including children. The proportion of poor households that contain children is about a third.
- 38 60 per cent of median equivalised income.

- 39 To calculate this, the equivalised poverty line (60 per cent of median) for each household is 'unequalised' back into real money and the household's 'poverty gap' is the shortfall in its actual income relative to that 'unequalised' level that they would need. The figures in Table 3.6 are the average for different types of individuals across households.
- 40 Bradshaw *et al.* *Gender and Poverty* (forthcoming), Manchester: Equal Opportunities Commission.
- 41 These figures are based on logistic regressions carried out on the Family Resources Survey data and the Poverty and Social Exclusion Survey 2000 data cited in Bradshaw *et al.* (*ibid.*).
- 42 Based on the New Earnings Survey 2002 as cited in Equal Opportunities Commission (2003) *Facts about Women and Men in Great Britain 2003* Manchester: Equal Opportunities Commission, p. 11.
- 43 Glendinning C. and Millar J. (eds) (1992) *Women in Poverty in Britain in the 1990s*, Hemel Hempstead: Harvester Wheatsheaf.
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Part II

4 Tackling disadvantage: Education

Inequalities of opportunities and outcomes

Jason Strelitz

Introduction

Over the last 20 years the UK has seen an increasing number of young people staying on in education beyond the compulsory age, more young people attending university and a rate of university graduation amongst the highest in the world. However, alongside these improvements there has been relative stagnation at the lower end of the attainment scale. Whilst in recent years policies have been introduced aimed at improving this situation, they have yet to change sufficiently radically a system that disadvantages many young people in the UK today.

This chapter opens by discussing the importance of education, both to individuals' capacity to improve their employment prospects and to creating a labour market that promotes more equitable outcomes. It highlights how many young people have been missed out by the educational improvements that have taken place in recent years. Factors contributing to low attainment, including the pivotal role of poverty and social class, are discussed. The current policy context, looking at the existing system and policies implemented in recent years, is discussed, concluding with some principles that we believe should underpin a long-term approach to reforming education policy.

The centrality of education

There are many reasons why tackling educational inequalities and low attainment are essential elements of any drive to tackle disadvantage.

The individual's life-course

- Employment is the most important way of avoiding poverty. The better that employment, in terms of pay, security and access to continued training and development, the more sustainable and long-term a move into work is likely to be. The better qualified and more highly skilled individuals are, the better their chance of accessing this kind of work.¹
- Any pretensions Britain may have to being a fair society are confounded by the reality that equal educational opportunities still do not exist for most people from disadvantaged backgrounds. For example, only 13 per cent of young people from unskilled backgrounds attend university, compared with 72 per cent of those from professional backgrounds.
- Education has a role beyond providing a springboard for labour market participation. It relates to people's overall cognitive, emotional, intellectual and moral development, which has implications for all aspects of life – from sense of self and relationships within families

and community, to sense of civil society. Moreover, basic skills, such as numeracy and literacy, are fundamental to full participation in society. For people who are well educated it is difficult to comprehend the exclusionary impact in today's world for an adult who has great difficulties in reading or writing.

A wider economic impact

- In many parts of the UK there is a need to generate more employment, but this is impossible without greater numbers of higher skilled people. As part of this project we consulted many people involved with trying to tackle sustained low levels of employment and wealth generation in relatively depressed parts of the UK. Everyone consulted suggested that lack of skills amongst the local population is amongst the most significant obstacles to raising employment levels (see [Chapter 6](#) for a fuller discussion of demand issues within less favoured regions).
- The over-supply of unskilled labour is especially problematic in places that in the past have had low education levels, but were traditionally served by core industries. As these industries decline, there are not only fewer lower skilled jobs in the country overall, but they are also less concentrated in these areas. In places with a continuing over-supply of low-skilled labour, wages are kept low and there are few incentives for employers to invest in training and other employment-related benefits. The lack of training further contributes to widening the gap between the already low skilled and those better educated. In the current UK system, where continued training is often employer-funded, it is the better educated who are more likely to receive opportunities for development.
- Improving education levels is an investment. If more people can increase their employment prospects and raise their earnings potential, then there will be less need for redistribution through the tax and benefit system.

Problems of low educational attainment exist today. However, future trends make the need to tackle these problems ever more critical. The long-standing shift from manufacturing industries to services and, within both manufacturing and services, from lower-skilled to higher-skilled work is set to continue apace. Whilst education levels lag behind this labour market transformation, the consequence will be an ongoing skills mismatch.

The skills mismatch

The changes that have occurred in the labour market are long-standing and have occurred across a number of dimensions:

- The rapid decline of traditional manufacturing industry has continued over the past 25 years. The continual losses in industries such as coal mining, steel, car making, textiles and shipbuilding, have contributed to a fall in the proportion of manufacturing jobs from 27 per cent in 1978 to 15 per cent in 2000.²

- There has been a large increase in demand for people with higher level skills and different skills caused, for example, by huge post-war increases in the health and education sectors, and, more recently, by rapid computerisation and the pervasiveness of information and communication technology (ICT). This has led to a boom in professional services, leisure and retail, together with a huge increase in managerial and professional work.
- A fall in the demand for people with 'middle' level skills, including both routine clerical work, which has been automated, and semi-skilled production work, which has disappeared along with mass production industries.
- An explosion in demand for personal service occupations, which require little by way of formal qualifications but are quite demanding in terms of interpersonal skills

The result has been the so-called 'skills mismatch'. This is not as simple as a straight mismatch between overall labour demand and supply; changes have occurred across different dimensions, such as place and gender.

Impacting on place

Changes have had greatest impact on inner urban and traditional manufacturing and trade areas. JRF research identified that during 1981–99 Britain's 20 major cities experienced a net loss of 500,000 jobs.³ However, the decline in traditional employment was even more acute than this indicates, for there was substantial, concurrent growth in professional and managerial jobs filled by commuting populations. With the long-standing educational problems in many urban areas, the implications of the changing occupational structure have been immense, even in places with an apparently buoyant labour market. Research in one London area suggested that:

in West London, demand from employers for labour is concentrated at the level of NVQ3⁴ and above, while the local supply shows predominance at level NVQ2 and below. Some experts believe that by 2006, the entry-level requirement for the West London labour market will be NVQ4, that is, a university degree or its vocational equivalent. This leads to the phenomenon of high-skill workers commuting into the area and excluded and unemployed local residents. Despite nearly 24,000 unemployed people in West London, 50 per cent of all vacancies remained unfilled at the end of the first quarter 1997. For every unfilled vacancy at the end of April 1997, there were four applicants who could not secure that job.⁵

In areas with low levels of demand, such as former coalfields, the problems can be even worse: no demand for traditional mining-related labour; no wider economic infrastructure or wealth to drive new innovation; no workforce with a broad set of well developed transferable skills to encourage inward investment. The consequence in many areas has been severe shortages of employment opportunities. One commentator has remarked about a former steel community:

as things stand few businesses would dream of coming...This is because skills levels here are among the worst in the country. A workforce whose members for generations were guaranteed a job didn't need to pay any attention at school. Their children, seeing how their dads were thrown on the scrapheap with no alternative offered, gave up. The result? A deep socio-economic crisis.⁶

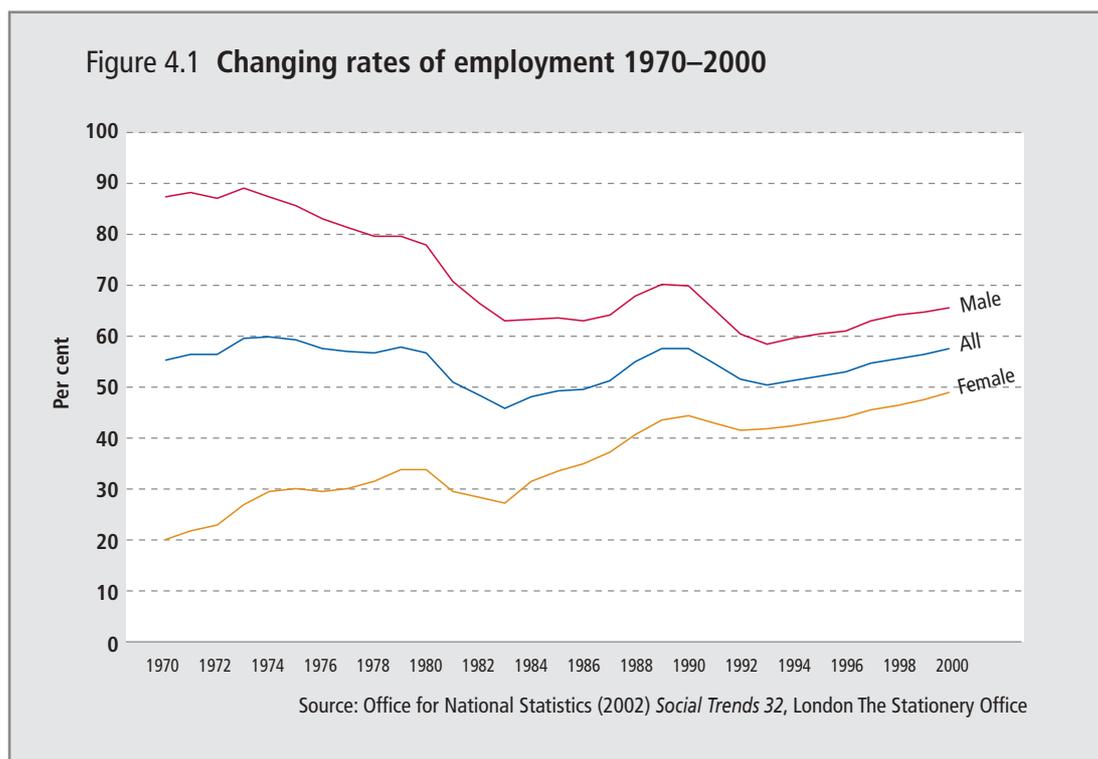
A gender dimension

Whilst the employment rate today is similar to what it was 30 years ago, rates of male and female employment have continued to converge (see Figure 4.1). In 1970, 93 per cent of men and 52 per cent of women of working age were in employment; by 2000 only 75 per cent of men were working whilst female employment had increased to 70 per cent. This has been driven by many factors, but one has been the skills shift, predominantly affecting male-dominated occupations. The social problems created by large-scale male unemployment and inactivity, especially in urban areas, have been a significant issue for policy in recent years.

Looking forward

Projections by the Institute for Employment Research and Cambridge Econometrics, in support of the Government's Skills Taskforce, suggest that the changes in the broad occupational structure look set to continue along similar lines.⁷ Very high levels of growth in professional and associate professional jobs are projected, alongside significant growth in managerial and personal service related employment. However, there will continue to be major losses in demand for skilled trades-people in manufacturing sectors, and for unskilled workers across a broad range of industries.

These changes will remain gradual. Whilst certain industries may be disappearing – there were 200,000 miners in 1975, and approximately 10,000 in 2001⁸ – there will continue to be demand across the spectrum of skill levels. For the foreseeable future there will be work that,



relatively speaking, requires few skills and even less in terms of formal qualifications, and many industries where vocational apprenticeships would be highly appropriate (although not necessarily the kind of industries traditionally associated with such apprenticeships). However, the balance has shifted dramatically. Whilst we cannot be sure what changes may occur 20 years hence, we can assume that the greater the proportion of the population that has a broad set of skills, the more equipped we will be as a country to respond proactively and efficiently.

The importance of generic key skills

The key skills that most people now require encompass: basic communication, numeracy and literacy, information technology (IT), ability to work with others, problem solving, improving own learning and performance, reasoning skills for work planning, and work process management skills.⁹

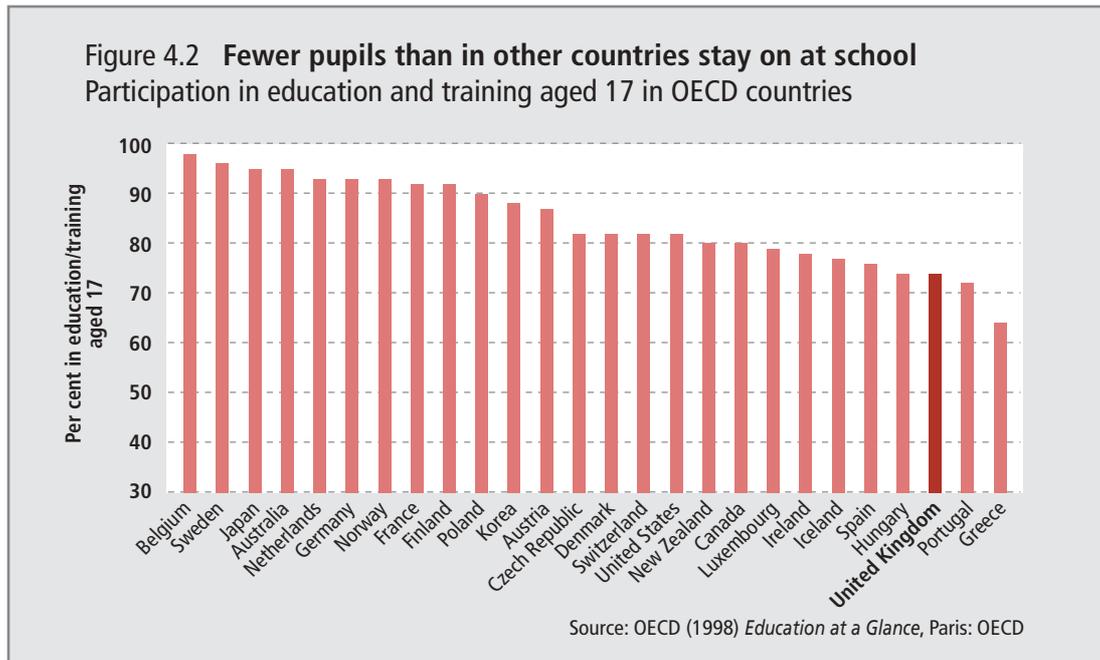
Such skills are required for an extremely wide spectrum of jobs.¹⁰ They are generic and, as such, should be highly transferable and adaptable to new work and changing circumstances.¹¹ They provide a platform for further personal development and mobility. People need no longer think in terms of one skill or trade for life.¹²

In short, people need the competencies traditionally associated with white-collar work.¹³ But entry to white collar occupations has been through possession of the 'O level standard', and the higher qualifications that flow from it.¹⁴ The equivalent to this is GCSE grade C (or NVQ level 2) and above. Lack of this level of qualification and/or minimum literacy, numeracy and communicative skills is the critical challenge to overcome.

The education problem

These occupational changes are being mirrored throughout Western economies. Britain has adapted faster than most countries, in recent years, in expanding access to higher level education. Since the introduction of GCSEs there has been a rapid increase in the numbers continuing in post-compulsory education, completing A-Levels and attending a much larger university system. However, Britain remains behind most other countries in reducing the numbers of people who leave education with few or no qualifications. We have failed to recognise that there are now many fewer jobs than in the past available to people who lack a basic educational foundation.

In the OECD's PISA study (Programme for International Student Assessment), analysing the literacy and numeracy levels of 15-year-olds in developed countries, the UK performed fairly well at both the highest and lowest ends of the achievement scale.¹⁵ However, to an extent unmatched in most other countries, the distribution of educational achievement maintained pre-existing inequalities, with differences between high and low attainment accounted for by socio-economic class. Moreover, the tests were carried out on 15-year-olds. It is beyond this point that the dividing lines between the educational 'haves' and 'have not's' become evermore clear. At age 17, just 74 per cent in Britain are in full-time education, the fourth lowest proportion out of OECD countries – only higher than Mexico, Greece and Portugal; ten countries have participation rates over 90 per cent, including France, Germany, Australia and the Netherlands.¹⁶ Comparative research across Europe has shown that it is primarily levels of prior educational attainment that are the key determinant of staying on, rather than factors such as opportunities in the youth labour market.¹⁷ One specific consequence has been the phenomenon known as NEET – young people not in education, employment or training. The



Social Exclusion Unit estimates that there are 161,000 so-called NEET young people every year¹⁸ and this has remained unchanged for 8 years.¹⁹

A failing school population²⁰

The significant improvement over the last ten years in attainment has seen the proportion attaining five or more GCSEs A*–C increase from 33 per cent in 1989 to 50 per cent in 2001. However, more than 25 per cent of pupils get no grades A*–C.²¹ They are one in four of the young adults entering the labour force, and their level of attainment has stagnated. One analysis of GCSE results from 1993–1997 showed that whilst the top 10 per cent of students increased their scores on average by over 4 points,²² the scores of the bottom 10 per cent actually worsened.²³

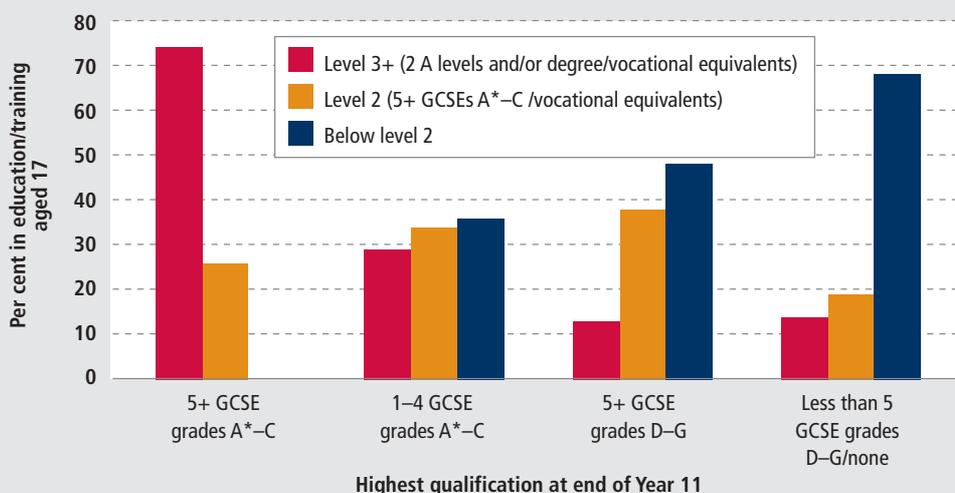
At this level attainment really matters. More often than not attaining five GCSEs A*–C in Year 11 is a ticket to A-levels and then on to university. For others, and many attaining slightly lower levels, there is access to good further education and good prospect of decent employment and the employer-funded skills escalator. As Figure 4.3 shows, the majority of those who get 1–4 GCSEs A–C after school year 11 (mostly aged 16), those who most narrowly miss the benchmark, go on to reach Level 2 or 3 qualifications by the time they are 19; for those with less, the prospects are clearly much worse – with many fewer picking up more qualifications over the next few years in further education.

Whilst one in fourteen 17-year-olds who get 1–4 GCSEs A*–C after school year 11 are not in education, training or employment, one in four of the cohort who get 1–4 GCSEs D–G are in this situation.²⁴ Whilst many who lack qualifications do find success in the labour market, their chances are much reduced.

Factors associated with low attainment

There are many factors that feed into someone completing compulsory education with few or zero qualifications. However, it is a complex issue and isolating the key variables and inferring causality remains less clear-cut. There are several reasons for this:

Figure 4.3 **Attainment trajectories after school year 11**
Highest qualification aged 19 by qualifications at end of school year 11



Source: Department for Education and Skills (2001)
Youth Cohort Study: The activities and experience of 16-year-olds: England and Wales,
<<http://www.dfes.gov.uk/statistics/DB/SFR/s0230/index.html>>. Accessed 27 January 2003

- 1 Many of the key variables discussed below interact very strongly with each other.
- 2 Much of the quantitative evidence derives from longitudinal studies.²⁵ Such studies are invaluable, however they are neither exhaustive nor can they reveal more nuanced effects that qualitative studies may elucidate. Amongst these may be factors that many believe are central to a successful educational process, such as values (of pupils, parents and teachers), which are very difficult to quantify and compare on a large scale.
- 3 There are a range of individual, human differences that impact upon the whole process. For every young person who succeeds 'against the odds' there are those who would appear to have all the comparative advantages associated with good attainment levels, but who do poorly.

As education is a process, different factors have a cumulative effect. Under-development at one stage will lead to ill-preparedness at the next, which in turn may impact in a range of ways. This process begins before a child is born, and poverty appears to bite even in this early stage. In infancy a range of environmental factors will feed into the skill-set a child has by the time they reach primary school. At primary school whilst 'home' factors such as nutrition or parental interest continue to be important, other factors also matter, such as peer group influences (an intake factor) and school quality. A powerful interplay between these factors continues to affect the attainment process throughout. In the following section we consider 'home' factors, 'intake factors' and 'school quality' factors, although in reality they are interdependent.

A further issue of great significance is the experience and outcomes for children of minority ethnic groups within education. Whilst not considered at length in this paper, the differential outcomes and some ways of thinking about the problem are considered in the box overleaf.

Education and minority ethnic groups

Discussion of the educational achievement of minority ethnic groups has been hampered by the poor quality of data, the culture of blame that has often permeated the debate and the emotive nature of any discussion involving race and racism. Yet many young people from some minority groups have lower than average attainment levels; it requires attention and intervention.

Table 4.1 Per cent gaining five GCSEs A*–C by ethnicity and gender

	Overall (%)	Men (%)	Women (%)
White	47	43	52
Caribbean	26	22	30
African	32	22	41
Other black	33	*	34
Indian	54	50	58
Pakistani	27	24	30
Bangladeshi	29	22	37
Chinese	68	68	69
Other Asian	61	53	72
All others	36	31	42

Source: Department for Education and Skills (2001)

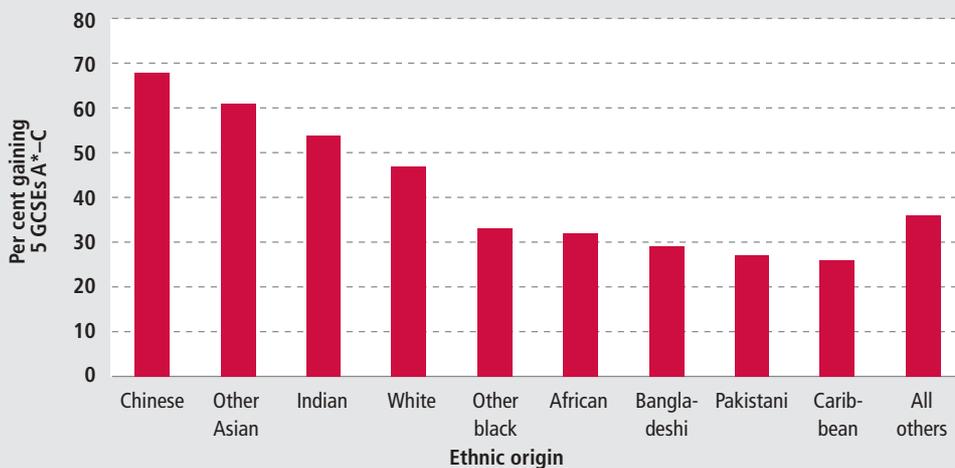
Youth Cohort Study: The activities and experience of 16-year-olds: England and Wales, <<http://www.dfes.gov.uk/statistics/DB/SFR/s0230/index.html>>. Accessed 27 January 2003

* Number withheld due to sample size

Despite significant data issues (see box) a broad picture of the position is presented here. Table 4.1 and Figure 4.4 are based on a new analysis of data from three waves of the Youth Cohort Study.

This data shows some stark differences. The overall performance of women is better in every group. However, the difference in attainment levels between ethnic groups is far greater – ranging from 68 per cent of Chinese young people who attain five GCSEs A–C

Figure 4.4 Attainment of five GCSEs A*–C by ethnic group



Source: Department for Education and Skills (2001)

Youth Cohort Study: The activities and experience of 16-year-olds: England and Wales, <<http://www.dfes.gov.uk/statistics/DB/SFR/s0230/index.html>>. Accessed 27 January 2003

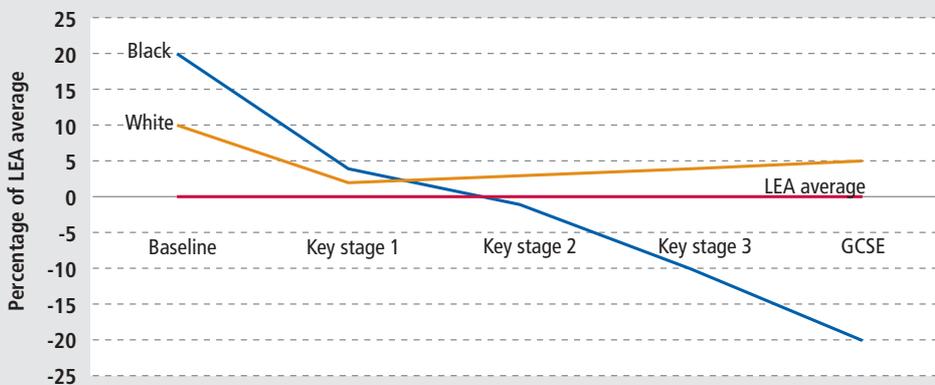
compared with 26 per cent of Black Caribbean pupils.

There is evidence of worrying processes. For example, as Figure 4.5 illustrates in one local authority, the achievement of African Caribbean children was shown to be 20 per cent higher than the LEA average on entry to school at age 5, but 20 per cent below the LEA average by the end of their GCSEs.

The interactions of different characteristics, such as poverty and deprivation, the ethnic composition of particular area and school and gender make determining cause highly complicated.²⁶ Indeed there are likely to be many explanations for the disparities in attainment between different groups, many hidden by the reality that aggregate experiences of one ethnic group hide great diversity within it. What seems to be clear is that there are multiple causes. It is important for educational institutions to respond to these differences in ways that begin to enhance achievement. This is supported by the observation of the Commission on the Future of Multi-ethnic Britain that:

...the most successful multi-ethnic schools are 'listening schools....' schools which took time to talk to students and parents; which were prepared to consider and debate values as well as strategies; which took seriously the views students and parents offered and their own interpretations of school process; and which used this learning to reappraise, and where necessary change their practices to build a more inclusive curriculum.²⁷

Figure 4.5 Inequalities from Baseline to GCSE by ethnic origin in relation to LEA average in one LEA



Source: Gilborn, D. and Mirza, H. (2000) *Educational Inequality: Mapping race, class and gender, a synthesis of research evidence*, London: OFSTED.

Some popular explanations for disparities in achievement run counter to this observation: those that blame children for their own school 'failure'; those that cast cultural aspersions about behavioural norms and values to explain collective group 'under achievement'; those that do not recognise that problems within the education system reflect structural inequalities within society as a whole.

Moving forward requires recognising that the vast majority of those involved in delivering education, from policy-makers, through LEA officials, governors and teachers do not necessarily fully understand the knowledge, values and aspirations of the communities whom they serve. Furthermore, they cannot expect nor be expected to, until the system attempts to engage with different communities at all levels.

Home factors

Poverty – the starting point

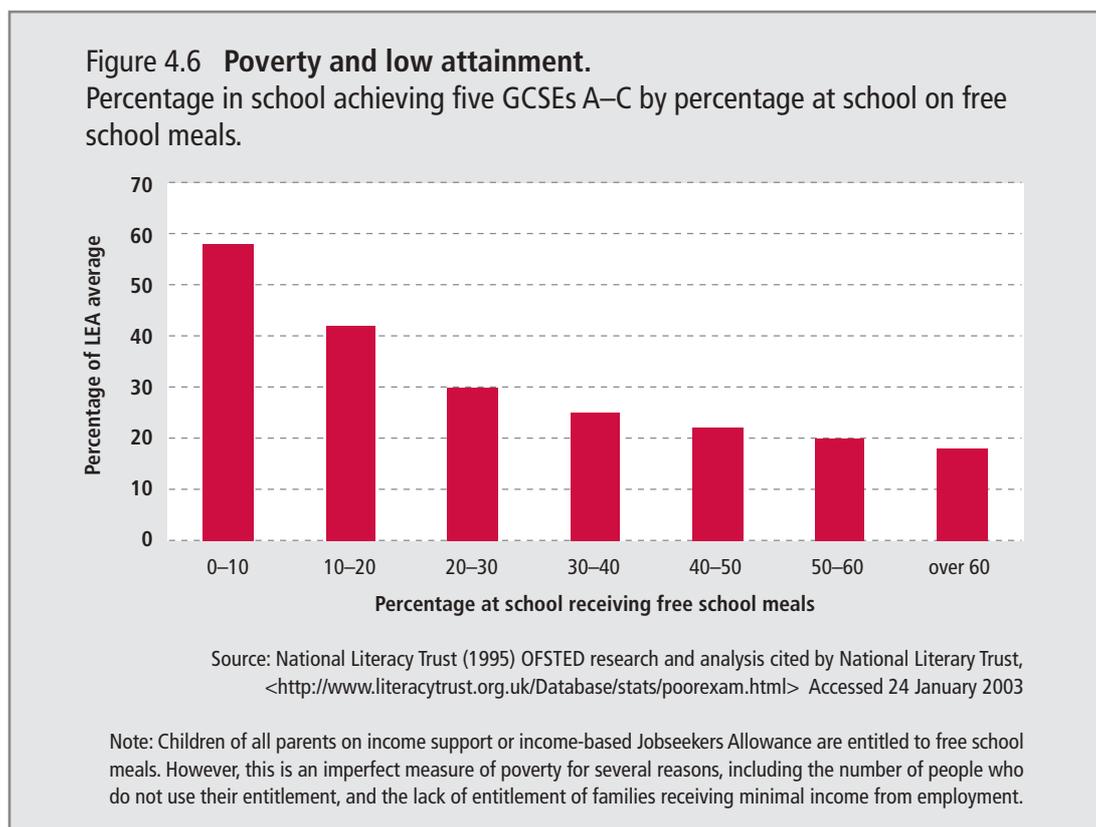
Throughout the world, poverty is consistently associated with worse educational outcomes; the situation in the UK is no different, as shown by one measure in Figure 4.6. Whilst everyone knows examples of people who have succeeded against the odds, the aggregate figures are clear.

The precise reasons why poverty is so strongly associated with lower levels of attainment remain unclear. Poverty is associated with the variables mentioned below, yet appears highly statistically significant even once these are accounted for. Associations of poverty with low expectations, lack of educational successful role models and motivation, poor nutrition, the need to support the family income, overcrowded housing all may be amongst a wide range of possible factors. One researcher has concluded that:

Potentially the most powerful 'educational' policy might be one which tackles social and economic disadvantage. A serious policy to alleviate child poverty might do far more for boosting attainment in literacy and numeracy than any modest interventions in schooling.²⁸

Early years development

Processes surrounding foetal and neonate development, through to pre-school, are associated with educational outcomes. There is a well-established psychological literature indicating that many aspects of family life, health, nutrition and poverty affect cognitive, intellectual, emotional, social and physical development, all of which can impact on educational experiences. The positive impact of some intervention strategies at this life stage indicates the potential significance of this period.²⁹ Notable examples include the Highscope/Perry Preschool



Project in the USA, an intensive developmental programme for people from disadvantaged backgrounds, which has resulted in substantially enhanced educational outcomes for participants.³⁰

Parental support

Many studies have shown that the academic achievements of parents are associated with educational outcomes for children; this appears to feed through the significant role that parental interest and involvement plays in children's education.³¹ There are many commonsense reasons why this factor is important. Parents can give practical help; for example, reading to children and then helping them to read has been shown to have a powerful impact. However, throughout childhood ongoing emotional support and encouragement and the constant reinforcement of the value of education and setting of high expectations are all important. Moreover, knowledge of how to maximise a child's educational potential – such as encouraging them to do their homework, discussing problems constructively with teachers and being able to play the system to the greatest possible effect – are all significant.

Intake factors

Prior attainment

Perhaps the most significant predictor of attainment at secondary level is attainment at the previous level. Much of this is likely to be associative – similar factors that led to good or bad attainment previously will feed into the similar results later on. However, it is likely that there are certain causal factors as well. A pupil going through the Key Stages of education reaching the expected levels at each stage will be prepared to move on to the next stage, whereas a pupil who falls behind will find the work cumulatively ever harder and more de-motivating. Furthermore, if schools intakes or structures are in any way connected to prior attainment (e.g. through selection or setting), then peer group effects, discussed further below, take effect.

Peer groups

There is robust evidence that peer groups have a strong impact on the education attainment of their members.³² The effect, depending on the peer group in question, can be positive or negative, and operates both at the school and classroom level and even within the wider community. The peer group effect manifests itself overtly through the capabilities in some groups for pupils to help each other, or to bring each other down, as has been shown starkly within qualitative studies.³³

However, the more important effect is thought to be in the transmission of values that will impact in a variety of ways, from classroom behaviour to propensity to do homework, encompassing motivation, commitment and expectations of one's own potential achievement. These are values that many educationalists believe are really at the heart of educational success, and are very much part of a broader notion of human capital.

School quality factors

Transitions to secondary school

The transition from primary to secondary school is one that has a major impact on children, socially, emotionally and academically. Major changes range from a new teaching and learning style, large curriculum changes and a new structure to the day, to a much larger environment with new people, both teachers and peers. All these changes occur at the same time as many children are experiencing changes associated with adolescence. When transitions are unsuccessful, the result can be stagnation in learning, which even if short-lived can have a long-term impact.³⁴

Broader school quality issues

The relative significance of 'school quality' continues to be much debated. In large-scale longitudinal studies, aspects of school quality that are detectable, such as class size, often appear insignificant. At the same time, whole arms of academia, Government and the education profession, not only in the UK but internationally, are aiming to improve levels of academic provision, making poor schools better, improving all schools. Furthermore parents 'know' a good head-teacher when they see one, and recognise the importance of an inspiring teacher and a positive learning environment to their child's progress. Is this all irrelevant? Surely not.

School effectiveness research suggests several factors that can have a positive effect on helping a school to reach its potential. These factors include: a professional leadership, a shared vision and goals, a learning environment, concentration on teaching and learning, purposeful teaching, high expectations, positive reinforcement, the monitoring of progress, an emphasis on pupil rights and responsibilities, positive home-school partnerships and the school acting as a learning organisation.³⁵

Evidence from OFSTED (Office for Standards in Education) supports this view. Repeated studies show that schools with very similar intakes have very different examination performance. This must indicate the potential salience of school quality factors. However, the research simultaneously shows that even the very best performing schools serving disadvantaged intakes – which perform well above the national average on OFSTED inspection ratings – struggle to perform at the national average in terms of exam results. The implication is that within the current system, schools can have a differential impact upon children's attainment, but the potential effect is limited by the nature of the school's intake. The conclusion must be that within the present system there is little chance of radically altering the educational prospects of the most disadvantaged.

However, evidence exists that where schools are given extra opportunities – above what is offered to the mainstream – results can improve more rapidly. An example comes from the USA. Independent pilot studies of schools serving disadvantaged communities in Wisconsin (SAGE) and Tennessee (STAR) have had very positive test results experimenting with classroom sizes of no more than 15. The greatly enhanced test results in comparison to control groups, are reinforced by qualitative analysis of teachers' experiences, which in the case of SAGE showed that:

*...because of the small class sizes, they (teachers) know the strengths and weaknesses of each child. They know where each is in the learning cycle and can respond appropriately. The teacher gets around to every child to offer help in a one-to-one situation. Furthermore, the teacher can give help instantly when the class is small.*³⁶

Moreover, classroom management issues were shown to be greatly reduced.

The current policy context

The current Government has recognised the plethora of factors discussed above and has rolled out a broad policy agenda.

Discussed elsewhere in the report, there have been policies aimed at tackling child poverty. Sure Start is one of the more tightly focussed on factors associated with low attainment. Sure Start aims to improve those aspects of child development discussed previously. Its goal is:

- to work with parents-to-be, parents and children to promote the physical, intellectual and social development of babies and young children – particularly those who are disadvantaged – so that they can flourish at home and when they get to school.³⁷

It is modelled on a programme originating in the USA, which has been shown to positively influence disadvantaged children's long-term education and employment trajectories.

At primary school level there has been the introduction of numeracy and literacy hours, aimed at improving the basic skills lacked by too many children entering secondary schools, as well as the reduction of primary school class size to below 30. There is evidence that primary school results have been improving throughout the population, and that the social class gap may be narrowing at this stage.³⁸

There have been initiatives aimed at providing more information for parents, giving greater voice and encouraging family learning. Schools are required to produce home-school agreements. Sure Start is also about actively involving parents in their children's education and empowering them to take on such a role permanently. The emphasis on lifelong learning should, if ultimately successful, improve the capacity of parents to be more directly involved in their children's education.

There has been the introduction, and curtailment of the Education Action Zones, and the more popular Excellence in Cities (EiC). EiC in 2001–2 has injected an extra £300m into a wide variety of programmes aimed at improving attainment at predominantly secondary level in inner city schools. Programmes have ranged from Learning Support Units, which take 'problematic' pupils out of the classroom to give them special attention and allow the classroom to function better, to the Gifted and Talented programme, which identifies potentially high attaining pupils to give them extra opportunities. There has also been money to expand Specialist schools, City Learning Academies and the Beacon School initiative.

However, these policies must be seen in the context not only of the massive rise of poverty and increases in area polarisation discussed elsewhere, but a number of systemic disadvantages that currently exist:

- The introduction of a quasi-market in education during the 1980s has had particular

implications for the bottom 25 per cent of pupils. 'Formula funding' meant that schools' priority was to maximise their pupil numbers. With published performance indicators – commonly known as league tables – and with those performance indicators being measured on a relatively high attainment target (five GCSEs A–C), the incentive for schools was to focus on helping pupils to meet this target. This had several implications. With existing pupils there was an incentive to focus resources on those who could reasonably expect to have a chance of meeting the benchmark.³⁹ Those languishing with little hope would count for no more whether they got no GCSEs or two. Secondly – and this is discussed further below – the best way of maximising numbers of successful pupils, is to garner the right intake. With published league tables and a liberalisation of several aspects of intake policy, the seeds of greater segregation were sewn.

- At the same time, as discussed elsewhere in the report, there have been other processes of polarisation, across place, housing sectors and in the labour market. These processes have also influenced the make-up of schools in many ways, such as an increasingly residualised estate providing an increased proportion of a school's intake. Also, long anecdotally recognised, now supported by research, is the process of house prices being heavily influenced by the quality of local schools, with parents willing to pay a hefty premium to send their children to 'good' schools.⁴⁰

These factors have led to increasing social segregation in schools (even if research is yet to agree which cause was more significant).⁴¹ The result has been to maximise the polarising impact of peer-group influences on educational inequality.

There is evidence that people from disadvantaged backgrounds are more likely to go to schools that do more poorly in many of the key elements of school quality mentioned before. Nearly one in seven inner-city secondary schools have been identified by OFSTED as having 'serious weakness' or 'requiring special measures', compared with 1 in 19 nationally – an indicator neither looking at exam performance, nor focussing on intake factors.⁴² Schools with above 35 per cent pupils known to be eligible for free school meals are well below the average on OFSTED inspection grades for good or very good in key areas, such as school ethos and management.⁴³

Quantitative evidence is lacking in other areas. However, there is qualitative and anecdotal evidence – supported by our consultations. In deprived areas there are more likely to be unqualified teachers, high rates of teacher turnover, large numbers of supply teachers and teacher shortages, dilapidated buildings and poor facilities, including access to ICT.

Looking forward

If the focus is on tackling disadvantage, then the education system must concentrate on the lowest achieving and facilitating their capacity to improve their circumstances through the labour market.

Even taking this approach, however, we recognise there are many questions that are highly contested within academia, the policy world and the public as a whole. What is the purpose of education? Is education aimed at producing well-rounded people or is it to facilitate strong labour market performance? If it is aimed at facilitating strong labour market performance, is it necessary to judge which range of skills and abilities would be best for the country, and to try and mould the education system to fit this recipe, or is it to allow all to compete? What are

the lines between personal choices and each individual's or parents' understanding of their own needs and the responsibilities of society? Why, for example, do people have a choice to leave school at 16 and not 14 or 18?

We cannot answer all of these questions, but seek rather to assert the principle that the answers to such questions should be the same for disadvantaged groups as they are for the more privileged. It is based on an assumption that, for many young people who do not get high attainment at schools, there are a range of factors beyond their control that are contributing to this low attainment. This is not to suggest that all young people would – if the school system was fully effective – be able to follow a successful traditional learning path. But it does suggest that, given the right opportunities, many more young people from disadvantaged backgrounds would. The corollary is that whilst there is an important role for a more widespread and varied curriculum that recognises different people's strengths and interests, the focus of such a new curriculum should not be on the currently disadvantaged – otherwise such a curriculum would forever be residualised. We need to balance up the chance of all young people succeeding in the traditional route, and offering choice based on abilities and interests not on social class and differential opportunities.

Principles for change

A real change in education is possible over 20 years. It requires a commitment to a long-term transformation that will – if successful – make our society in 20 years look very different from what it does today. Whilst there may be potential avenues for quick gains, overall it is likely to require a broad consensus that the status quo is both unjust and deeply unhelpful to the economic and social future of this country.

Out of our consultations emerged three principles that must lie at the heart of education policy.

- 1 *Reducing wider inequalities:* We cannot expect schools to solve all the problems of disadvantage. Unless children have the right start, and are supported throughout childhood, both at home and in their wider environment, in all aspects of their development, inequalities will persist.
- 2 *Tackling concentrations of disadvantage within schools:* Whilst all schools have the potential to achieve great things with their children, those that have concentrations of poverty and disadvantage will struggle to help children attain the levels of those in schools with more advantaged intakes. We need a policy agenda that seeks to counter, rather than contribute to the trends of polarisation.
- 3 *Prioritising the tackling of the lowest attainment within schools:* Whatever the social make-up of a school, it needs the frameworks, incentives and resources to make the educational attainment of those towards the lower end of the attainment scale a major priority.

The first issue of addressing wider inequalities is dealt with elsewhere in the report. [Chapter 5](#) focuses on family support and the wide range of risk and protective factors associated with early child development. [Chapter 7](#) looks at adequately supporting incomes. We therefore concentrate here on the second two.

We are not aiming to be prescriptive about policy implementation in the education sphere.

Teachers and governors, researchers and policy-makers, parents and children all need to be engaged in developing a wide range of effective strategies – at different levels – in order to address these problems. However, our consultations and the existing literature reveal some promising directions to explore in developing these strategies. It is to this that we now turn.

Tackling concentrations of disadvantage in schools

Central to this is a challenging reality that there is a middle class hegemony in education. Each individual parent wants to maximise their child's potential gains from the education system, and the middle classes would react harshly to any attempts at systemic change that are seen as challenging the advantages which they currently accrue. The tension is most visible in frequent media discussions about politicians' choice of schools for their children. This hegemony is maintained through a wide variety of means: some of the main ones have been mentioned earlier (selective schools, selection by mortgage). There are others, however, such as the continued existence of independent schools which, for example in many parts of London, allow poverty and affluence to live 'cheek by jowl', with some parents being able to buy out of the local education system. There are several policy levers available for tackling such issues. However, whether or not desirable, they are all controversial.

Some are well rehearsed:

- Directing the wider policy agenda more towards creating more socially balance and mixed-income areas, countering the trend toward social polarisation that has increasingly occurred in recent decades. This requires an emphasis, not just on housing policy, but on all the factors that drive the private market, such as the broad quality of public services, crime, public spaces etc.
- Changing league tables as we know them to reflect added value rather than gross attainment levels. A focus on the attainment of all pupils, rather than just those who get five GCSEs A–C would encourage schools to take a wider intake, in the knowledge that they would be rewarded for progress made with all pupils and not merely those they propelled over one required threshold.
- Cutting back on school selection. In the maintained sector there remain many old style grammar schools, moreover there are increasingly a broad range of schools that operate some method of selection. Furthermore, the state continues to give a subsidy for the most affluent to buy out of mainstream provision, which could be addressed by removing the charitable status that independent schools carry.

A further idea suggested by our consultations is:

- League tables based on clusters of schools. This is an educational point as much as a peer-group point, making the case for schools to be considered within a larger locality, to share the resources and expertise and to be judged as an education cluster.

The government's policy in this area is to make disadvantaged schools better, and by doing this to encourage 'middle class' parents to choose them. This is an explicit aim of the Excellence in Cities policy. However, there is great concern that the focus on Specialist schools is creating another tier, which the more affluent will find a way of buying into and the poorest families will continue to be left with a residualised option.⁴⁴

Prioritising the tackling of the lowest attainment within schools

Whatever intake a school has it should be incumbent on the education system to try to reduce pre-existing inequalities and give all the opportunity to reach good attainment levels.

Achieving this requires action on four fronts.

- 1 *Equalising access to the same level of basic provision.* This means providing the necessary resources to ensure that all young people from disadvantaged backgrounds have equal access to dimensions such as quality of teachers and levels of facilities, whether sporting and Information Technology or actual building conditions.
- 2 *Dissemination of good practice.* In both a general sense and in specific areas faced by schools serving large numbers of disadvantaged children, knowledge of 'what works' needs to be spread. This includes specific training for Senior Management (including, of course, head teachers) and teachers dealing with specific issues.
- 3 *Incentives for concentrating on those in greatest need.* Whilst incentives exist for schools to concentrate their resources on those who can get five GCSEs A–C, the 25 per cent of young people not getting any GCSEs A–C will remain marginalised.

These priorities should be uncontroversial. There has been some Government action on all of these fronts. However, there remains a long way to go in many places and where resources are required to meet any of these needs they should represent an urgent short-term priority.

- 4 If the educational opportunities for disadvantaged groups are truly to be transformed, then the education system needs to offer such groups something beyond the mainstream school experience to give them a chance of meeting the same goals. All those we consulted believed that if more resources were targeted in the correct way towards meeting needs then progress could be made. The Government has already accepted this argument, however the scale of extra resource allocation is far from adequate.

For far too long in the UK, spending on education as a proportion of GDP has been well below the OECD average. The Government's latest spending plans, announced in the 2002 Spending Review, building on previous announcements, will substantially raise spending, with the intention to match the OECD average of 5.6 per cent of GDP by 2005–6. This offers a real opportunity to make a marked impact on the educational opportunities of disadvantaged young people. The size of expansion allows the Government to ensure that all benefit, whilst directing significant extra resources to disadvantaged groups, thus beginning to redress the long-standing inequalities.

The potential efficacy of a resources-led strategy to combat educational disadvantage is contested, with strong advocates on either side.⁴⁵ However, there has been little evaluation to date of major mainstream resource-driven attempts to reduce educational disadvantage, based on allocating resources in those areas identified as key by school-effectiveness research.

We need serious levels of investment, buttressed by rigorous longitudinal evaluation over a sustained period of time. Precisely how that investment is used goes beyond the scope of this chapter, however we must:

- Have the same expectations for all, but provide the extra resources necessary to make those expectations realistic.
- Develop better mechanisms for targeting disadvantage, both between and within schools. The current mechanisms that predominantly target schools fail to do this adequately, but also fail to meet the needs of disadvantaged young people who attend schools that are not recipients of extra resources.
- Not be afraid to think radically, and try out new ideas – such an approach is imperative. One idea suggested in our consultations was to offer a scheme where talented young teachers are offered the incentive of a paid year of travelling abroad in return for a commitment to 5 years in a disadvantaged school with special training and a strong support structure. Another would be to try an equivalent of the STAR and SAGE programmes mentioned earlier.
- Have a rigorous longitudinal evaluation in place, so we can have a good understanding of what works and what effects there are, not just on attainment at school but also on later outcomes.

Notes

- 1 There is much evidence showing the financial benefits of both extra years of schooling and obtaining qualifications. See Walker, I. and Harmon, C. (2001) *The Returns to Education: A review of evidence, issues and deficiencies in the literature*, RR254, London: Department for Education and Skills for a discussion.
- 2 Office for National Statistics (2001) *Social Trends 31*, London: The Stationery Office.
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- 4 NVQ levels: Level 1, GCSEs D–G; Level 2, GCSEs A*–C; Level 3, A levels; Levels 4 and 5, higher levels qualifications.
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- 10 These skills include many of the 'soft' skills that have been emphasised recently in employers' concerns about the employability of young and/or unskilled people.
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- 19 Rahman, M., Palmer, G. and Kenway, P. (2001) *Monitoring Poverty and Social Exclusion*, York: Joseph Rowntree Foundation.
- 20 Many of the issues raised in this chapter refer to both secondary and primary schools. Whilst problems at secondary schools may appear more acute, many of the seeds of secondary school problems are sown at primary school. Issues to do with concentrations of disadvantage and lack of resources apply to both, if not always equally.
- 21 We note that there has been improving results for low-achieving primary school pupils over the past decade.
- 22 Equivalent to two GCSE grades.
- 23 Sparkes, J. (1999) *Schools, Education and Social Exclusion*, CASE paper 29, Centre for the Analysis of Social Exclusion, London School of Economics.
- 24 Youth Cohort Study, Department for Education and Skills, unpublished.
- 25 Primarily in the UK, the National Child Development Study and the British Cohort Study.
- 26 Gillborn, D. and Mirza, H. (2000) *Educational Inequality: Mapping race, class and gender, a synthesis of research evidence*, London: OFSTED.
- 27 Blair, M., Bourne, J. et al. 'Making the difference: teaching and learning strategies in successful multi-ethnic schools' cited in Parekh, Lord (2000) *Commission on The Future of Multi-Ethnic Britain*, Runnymede Trust.
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5 Tackling disadvantage: Families

Breaking the links between family poverty and social exclusion

David Utting

Family poverty: a continuing story

The most politically charged aspect of the widening gap between rich and poor in the past 20 years has been the increased concentration of families with dependent children towards the bottom of the income distribution. Between 1979 and 1996 the number of people living in households with less than 60 per cent of the median income (after housing costs) increased from approximately 7.5 million (13.2 per cent) to a peak of 13.9 million (24.6 per cent). Yet the number of children who were living in 'poor' households grew even faster over the same period, from 1.7 million (14 per cent) to 4.4 million (34 per cent).¹ Moving into the 21st century, the figures for 2000/2001 – the latest statistics available – show a decline of about half a million to 3.9 million. But that continues to represent three in ten children.²

International comparisons have shown that child poverty rates in Britain have risen to become higher than those in almost all other European states – double those of France and the Netherlands and five times those in Finland, Sweden and Norway.³ This, as the Joseph Rowntree Foundation (JRF) Inquiry into Income and Wealth⁴ demonstrated during the mid-1990s, was not merely a matter of people with low incomes in the UK getting 'richer' less rapidly than high earners. Looking back, there was compelling evidence that during the 'boom' years of the mid-1980s, the poorest 20–30 per cent of the population failed to benefit in any significant way from economic growth. The Inquiry issued a warning to the 'prosperous majority' that they should beware the long-term potential for social dislocation if so many children continued to be raised in relative poverty.

Looking ahead 20 years, we can take greater comfort than seemed possible in the mid-1990s, yet still find cause for concern. Although little discussed during the 2001 election campaign, the eradication of child poverty has become a central goal of the Labour Government that took power in 1997. In the words of the Prime Minister:

Our historic aim will be for ours to be the first generation to end child poverty...It is a 20 year mission.⁵

A raft of measures that began taking effect during the second half of the Government's first term, and have been sustained and extended during its second term, are deliberately designed to reduce the number of children living in poverty. The Government has launched its attack on three fronts:

- 1 *Redistribution of income towards families with children:* including a more generous Working Families Tax Credit (WFTC) in place of Family Credit, and above-inflation increases in Child Benefit. A Children's Tax Credit has replaced the Married Couple's Tax Allowance and rates of Income Support have been raised in successive budgets for families with children. From April 2003, a new, integrated Child Tax Credit (paid to the main carer and replacing all income transfers for children apart from the non-means-tested Child Benefit) will simplify the system. The Government's 'two-track' policy will, as a result, become more transparent: namely, that a transfer of income is taking place in favour of all families with children, but that a much greater redistribution is occurring in favour of those on low incomes.⁶

- 2 *'Welfare to work' incentives for parents:* In addition to the tax credits available for working parents, these incentives include the *New Deal for Lone Parents* – a voluntary package of measures to help lone parents into training and work, with an associated target of having 70 per cent of lone parents in paid work by 2010. Funding has also been progressively increased to make more childcare places available for working parents. The 2002 Comprehensive Spending Strategy looked forward to an extra 250,000 affordable childcare places by 2006.⁷

- 3 *Initiatives to tackle wider social exclusion.* Additional investments in children's health and education include the *Sure Start* programme, offering comprehensive support services to families of children under four in disadvantaged neighbourhoods, the *Children's Fund* supporting older children and their parents and specified elements of the *National Strategy for Neighbourhood Renewal*. The administration of the Government's English childcare, early years and *Sure Start* programmes have been brought together in a single, cross-departmental unit, with increased funding. Children's Centres, combining childcare with child and family support services, are to be established in each of the 20 per cent most deprived wards.⁸

Without exception, these measures represent serious attempts not only to raise the levels of income available to families, but also improve the well-being and life chances of disadvantaged children. Yet the first flush of enthusiasm among anti-poverty campaigners at finding a government prepared to listen to research messages about low family incomes and social disadvantage has given way to more searching questions about the capacity of the current strategy to achieve its goals.

Recent research has underlined the need to pursue such a strategy by demonstrating how chronic poverty, sustained from year to year, is disproportionately common among households with children.⁹ From another perspective, the JRF Poverty and Social Exclusion Survey of Britain showed how more than two million children in the late 1990s were going without two or more items that most people considered necessary. These 'necessities' included adequate clothing, a healthy diet, items to help their educational development, an annual week's holiday away from home, and social activities. Deprivation was greatest in homes where no adult had any work at all or worked only part-time, in lone-parent households, in large families, households where someone was chronically sick or disabled and in families of non-white ethnic origin.¹⁰

Given the continuing evidence of what life is like for low-income families,¹¹ there will be a growing and unrelenting requirement from now on for hard evidence of the Government's ability to deliver. Hence, the central question driving this project: what more should the Government be doing now to reach its highly desirable, but ambitious aims?

Within a generation?

Few would disagree with Gordon Brown, the Chancellor of the Exchequer, that child poverty is a 'scar on the nation's soul'.¹² But it seems increasingly unlikely that his commitment to halve child poverty by 2010 and then eradicate it 'within a generation'—repeated in the 2002 Budget statement¹³—can be met unless the goal is pursued with still greater vigour and determination. The most recent statistics on Households Below Average Income, for 2000-2001, suggest that Labour politicians overstated the case when they claimed, during the 2001 election, to have taken a million children out of poverty.^{14,15} A policy modelling exercise by Piachaud and Sutherland, funded by the Foundation, provides further evidence that the Government risks missing its immediate target, set for 2004, of reducing child poverty by a quarter of its 1996/7 level. Doing this would require a reduction of around 1.2 million in the number of children living in poor households. Yet the estimated impact of current policies is a reduction by 2003/4 of no more than 750,000.¹⁶

Political disputes over the latest statistics may prove ephemeral in the context of the next 20 years, but it is still necessary to understand why the figures are currently not falling as fast as many had hoped. Brewer, Clark and Goodman, in an analysis for the Institute for Fiscal Studies (IFS),¹⁷ point out that the 2000–2001 HBAI figures fail to capture the full impact of benefit increases in October 2000 and that measures in Labour's first term may have lifted another 100,000 to 200,000 children above the poverty line, by the end of 2001. But they also highlight factors with significant longer-term implications for the Government's chances of meeting its targets:

- Although the measures taken in successive budgets have redistributed income in favour of low-income families with children, pushing them towards the average, the average itself is a moving target. Over much of the past 20 years, earnings for higher income groups have tended to rise faster than earnings for poorer people in work, and faster than welfare benefits. To reverse this, the government needs to ensure that benefits rise faster than average incomes, and that tax credits for people in work rise fast enough to compensate for any further decline in the relative earnings at the bottom end of the labour market.
- There appear to be problems with the take-up of Income Support and Working Families Tax Credit (WFTS). According to the 2000–01 Family Resources Survey only 62 per cent of children below the poverty line are in households receiving either benefit. This suggests that as many as 1.5 million children in families defined as poor were living beyond the reach of the Government's main instruments for tackling child poverty. The degree to which these numbers relate to families with genuinely low incomes, or to households whose incomes had temporarily dipped at the time of the survey, is not clear. But in either case, they amount to a substantial barrier in the way of government reaching its targets as currently defined.

In relation to the Working Families Tax Credit and Children's Tax Credit, the IFS analysis suggests that their impact on poverty has probably been less than expected because many of the households receiving them already had incomes above the poverty line. If Child Benefit increases, paid to all parents with dependent children, are taken into account, then it is even more apparent how current policies are designed to help families with children in general as well as those in poverty. All this can be justified in policy terms by a general desire to recognise the role and added costs of parenthood through the tax/benefit system¹⁸ and a specific requirement to preserve work incentives as benefits for non-working parents increase. However, it is necessary to recognise that if more money is channelled through the new, integrated Child Tax Credit, not all of it will feed directly into poverty reduction.

Another reason for believing that the task the Government has set itself will become more difficult over time is the straightforward observation that the children most easily raised above the 60 per cent of median income threshold are those whose family incomes are already closest to the line. In other words, as the Government moves closer to its target, the families left below the line are likely to be those families in the deepest poverty, who are least susceptible to its welfare-to-work measures. In this context, it is important to recognise that child poverty is not only more widespread than 20 years ago, but also deeper – as evidenced by a disproportionate rise in the number of households with less than 40 per cent of average net income.¹⁹ The most recent HBAI figures show that out of 1.75 million children in poor families with at least one parent in work, more than half were in households whose incomes were £50 a week or more below the poverty line. There were also 750,000 children in non-working households whose net incomes were £50 a week below the 2000–2001 threshold. Around 300,000 were £100 a week below the poverty line.²⁰

The genuine, though less than intended, progress made in reducing child poverty still leaves some of the highest and seemingly most intractable levels of poverty in Europe. It follows that even if economic recession can be avoided and unemployment kept below a million, the Government will need to redouble its efforts.²¹ While its chosen tools appear to be the right ones, the balance between them may need to change. As previously noted, it is also apparent (from the Family Resources Survey) that more than a third (38 per cent) of families below the poverty threshold receive neither Income Support nor the Working Families Tax Credit. There are likely to be a number of reasons why this is so. These range from inclusion in the survey of households whose income has only temporarily dipped to delays in processing benefit claims, ignorance concerning entitlement and outright refusal to claim. Each contributing problem will demand a different policy response;²² making it imperative that the Government unravels the statistics as a matter of urgency.

Remedial action, including take-up campaigns and measures to improve administrative efficiency, may be part of the answer. But the IFS report by Brewer, Clark and Goodman also implies a need to re-examine the way that child poverty itself is measured. If 'snapshot' surveys mean the poverty statistics misleadingly include significant numbers of families whose low income is temporary, then it may be that additional measurements – such as ability to afford 'necessities' and length of time spent in poverty – would give a clearer impression of progress and the impact of particular policies.

Better information is essential if the right choices are to be made in future about the balance between different policies. Paid work is currently seen as the best pathway out of

poverty for those parents who are in a position to take advantage. Indeed, few children whose parents are unemployed or economically inactive have moved out of poverty altogether in the past five years – although there is some evidence that unemployed families have moved nearer to the line.²³ But short of compulsion – adopted by some American states at the price of negative or neutral income consequences for significant numbers of families²⁴ – there will be parents who not only lack the basic skills and qualifications to obtain paid work, but also make a positive decision that their childcare responsibilities preclude it. Lifting these families out of poverty is, sooner or later, likely to require even greater emphasis on income redistribution and increases in tax credit and benefit levels. It also raises the question of whether the increased spending could be targeted more accurately to reach the poorest families. The IFS report demonstrates how, in a perfectly targeted system, it would cost just under one per cent of GDP to raise all households with dependent children above the current poverty line. However, that level of extra investment channelled through the new Child Tax Credit would, for reasons already referred to, only halve child poverty.

The Foundation's own research programme has shown how low-income parents often go without themselves rather than see their children miss out on necessary items that most families take for granted.²⁵ Even so, spending by the poorest fifth of the population on toys, children's clothing, shoes and fresh fruit in the mid-1990s was no higher in real terms it had been almost 30 years earlier.²⁶ Demonstrable progress in raising the incomes of these, the poorest, non-working families in the next few years would send a clear signal that the Government is committed to tackling poverty in its depth, as well as its breadth. More generous benefits more closely targeted on the poorest non-working parents would inevitably raise detailed issues concerning their relationship with 'in-work' benefits and erosion of 'welfare to work' incentives. It is a nettle that, in time, will have to be grasped.

Links between poverty and social exclusion

While action to remove child poverty can be justified as an end itself, low income is numbered as one among a whole range of important factors that influence children and young people's well-being and life chances. The term 'cycle of deprivation', coined 30 years ago by the Conservative politician Sir Keith Joseph, proved too determinist a description of the way that poverty and social disadvantage can be transmitted from one generation to the next.²⁷ But the links between relative poverty and the risks that children will lead adult lives on the margins of mainstream society – now referred to as 'social exclusion' – are well-established.²⁸ According to the distinguished American academic and commentator, Lisbeth Schorr:

Poverty is the greatest risk factor of all. Family poverty is relentless correlated with high rates of school-age childbearing, school failure and violent crime – and with all their antecedents. Low income is an important risk factor in itself, and so is relative poverty...especially in a society that places a high value on economic success.²⁹

Low family income in the UK is associated with less good outcomes in health and education, including the chances of leaving school at 16 and failure to obtain qualifications.³⁰ It is also linked to adolescent and adult anti-social behaviour, with evidence suggesting that its influence on children occurs indirectly through the stress placed on parents and other family

members. A Joseph Rowntree Foundation study by Gregg, Harkness and Machin,³¹ using the longitudinal National Child Development Study, found that social disadvantage during childhood was correlated with an increased risk of low earnings, unemployment and other adversity in young adulthood. Poverty was much the most important force among family-based measures linking childhood development with later social and economic problems. Turning to the next generation, the research found that parents in their early thirties who had, themselves, been disadvantaged as children were more likely than others to have children who were performing poorly in school.

Risk and protective factors

Action to reduce the extent and depth of family poverty in the next 20 years can, on the evidence available, be expected to produce positive effects for children and young people that extend well beyond the boundaries of their economic well-being. It follows, however, that there is a broader task of tackling social disadvantage that demands wider action across the other main areas where children and young people are exposed to risk. The Government's Social Exclusion Unit has played an invaluable role in drawing the attention of other policy makers to the mosaic of links between poverty and an increased likelihood that problems will be transmitted from one generation to the next. It has also reinforced the understanding that the multiple problems contributing to social exclusion can only be adequately answered through multi-agency solutions. A number of Government initiatives have embraced this essential premise for 'joined-up' policy making. The *New Deal for Communities*, for example, approaches area regeneration from a standpoint where local residents, schools and police can play an important part alongside the agencies more conventionally concerned with area renewal. Sure Start, the Government's programme for children under four and their parents in disadvantaged neighbourhoods, aims to deliver comprehensive support services ranging from antenatal support and parenting groups to day nurseries and training for parents planning a return to work.

The Joseph Rowntree Foundation has supported an even more systematic approach to tackling social exclusion – not least through its support for the *Communities that Care* initiative in demonstration areas.³² This draws on longitudinal and other research to identify the risk factors that are most likely to be implicated, directly or indirectly, in producing poor outcomes for children and young people. The underpinning theory draws its strength from the way that low family income and other factors recur as risks for different problems experienced by children and young people, such as lack of qualifications, school-age pregnancy, poor mental health and problem drug and alcohol use, as well as criminal activity. The risks range from 'individual' characteristics – such as hyperactivity disorders and anti-social attitudes – to 'community' factors such as growing up in a disadvantaged run-down neighbourhood with high population turnover. School-related risks, like low academic achievement and disruptive behaviour, figure prominently. Family factors, in addition to low income and poor housing, include conflict between parents, and poor parental supervision and discipline. This approach to tackling social disadvantage also recognises the important part played by protective factors, such as warm, affectionate family relationships, in explaining why some children exposed to multiple risks remain resilient and do well in later life despite the odds stacked against them. According to this model – which has influenced the strategic framework adopted by policy

makers in the Children and Young People's Unit and elsewhere in government²⁵ – the aim of policy is that of enhancing the level of protection in children and young people's lives while reducing risks.³⁴

Supporting families

Policy makers who apply the model of 'risk and protection-focused prevention' are acknowledging that targeting individual factors – even low family income – offers an incomplete answer to social exclusion. Action to raise standards in schools, improve access to paid work and regenerate disadvantaged neighbourhoods must also be part of the jigsaw for the next 20 years, alongside support services provided for individual children in need and their families.³⁵ Since housing, education and training are considered by other chapters, the focus for the remainder of this paper is on the additional support that could help prevent social exclusion among families in the next 20 years.

Public policy always steers a course between providing legitimate support for families in their role of raising healthy, competent and confident children, and unjustified intervention in the private sphere of people's lives.³⁶ The Labour Government's consultation paper, *Supporting Families*, has stated that, except in extreme circumstances such as domestic violence or child abuse, its role should be to support parents in non-stigmatising ways, rather than attempting to substitute for them. It has also declared that government's primary policy interest should be to give the next generation the best possible start in life.³⁷

While there has been continuing debate about the right balance between the public and private spheres, its hands-on application through *Sure Start*, the *Children's Fund* and the Children and Young People's Unit has encountered little criticism. The Government's funding intentions are, by traditional standards, long-term and generous. Yet by 2021 these initiatives could be a distant memory, unless they are able to influence the way that mainstream services for children and families are planned and provided. Even *Sure Start*, targeted to reach over 400,000 children under four by 2004, will miss two-thirds of under fours being raised in poor households.

'Mainstreaming' issues

Reaching more children at risk of exclusion is increasingly seen to depend on whether mainstream services – whose expenditure dwarfs the sums being invested in *Sure Start* and the *Children's Fund* – can be re-oriented to deliver similarly 'joined-up' services. This carries important implications for central government funding and guidance, as well as the way that local government and other agencies plan, budget and implement their services. The Government has promised local authorities an enhanced role in organising delivery of services for children and families, including the new Children's Centres proposed to reach an extra 300,000 children in the most disadvantaged wards. It is also creating a single, inter-departmental unit within Whitehall to deal with *Sure Start*, early years and childcare. More radically, the 2002 Comprehensive Spending Review commits the Government to piloting the concept of Children's Trusts, which will bring together all the agencies involved in providing services for children. It looks to a future in which mainstream services adopt a common framework for integrating the lesson from *Sure Start* and the other special initiatives into their work. Specifically, this would include:

- multi-disciplinary working on the basis of core learning and skills objectives across all statutory and voluntary agencies;
- integrated service delivery and co-location of services to improve co-ordination, backed by capital investment in shared premises.³⁸

As statements of intent, the Spending Review proposals are welcome – as are specific initiatives such as nine pilot exercises exploring how the *Sure Start* approach spread across major cities. Importantly, they leave the door open for central and local government policymakers to take ‘mainstreaming’ a step further by abandoning performance indicators relating to service outputs in favour of a firm focus on actual, measurable results or ‘outcomes’ that planners expect their services to achieve for children. A shift towards ‘outcome-based’ planning would create a framework for budget pooling between departments and genuine, multi-agency service delivery. But it would also create welcome opportunities to involve children, young people and their parents in local decisions about strategy and the services that are most likely to help them reach their goals.³⁹

New directions in family policy

In addition to reform of the overall structure of service delivery, there are some specific areas where demographic and other trends suggest a need for new directions in policy for children and families. These concern:

- early parenthood
- relationship support
- work–life balance.

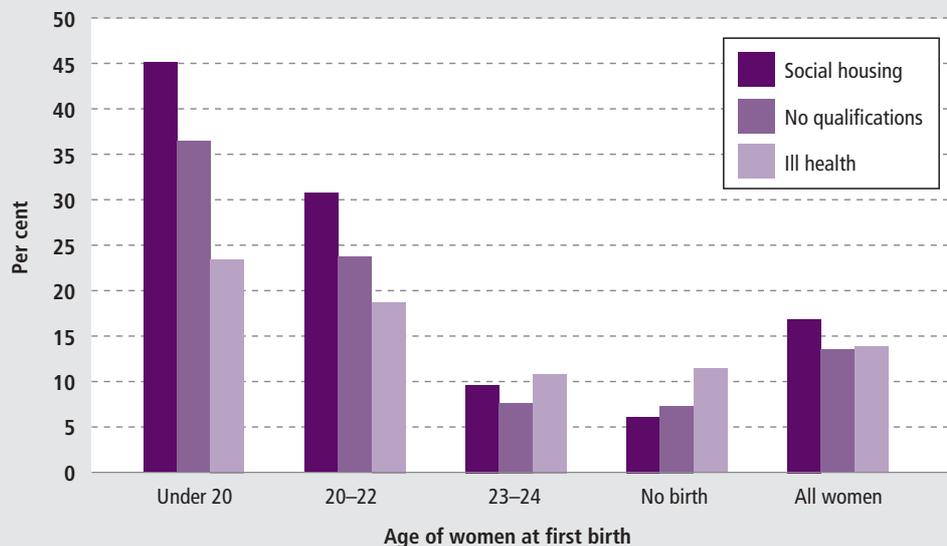
Early parenthood

Britain has the highest teenage birth rate in Western Europe. Unlike other European countries, it has also seen little decline in the rate during the past 20 years. This unenviable record matters not only because young mothers are particularly likely to come from disadvantaged backgrounds and have few educational qualifications themselves, but also because their children are more likely than others to be raised in poverty. As Kathleen Kiernan has pointed out in a paper for the Joseph Rowntree Foundation 2022 project,⁴⁰ the general trend across Britain and Europe is for couples to start their families at older ages when they have improved their position in terms of earnings, career options, housing and consumer goods. A widening gap can be foreseen in the next 20 years between the life-chances of children raised in double-income families begun by parents in their thirties and forties, and the children of parents in their teens and early twenties – especially ‘solo’ mothers who are not living with their child’s father at the time of birth.

Longitudinal research findings suggest that investment in educational opportunities is at least as necessary to discouraging early parenthood as reliable advice on contraception.⁴¹ It also endorses the current work of the Government’s Teenage Pregnancy Unit and the *Sure Start Plus* programme in ensuring that young parents-to-be have access to impartial advice when conception is confirmed. If they choose to continue with the pregnancy, they should receive comprehensive pre- and post-natal support. This approach chimes with the Foundation’s own research findings in neighbourhoods where teenage pregnancy rates are high.⁴²

Figure 5.1 Early motherhood associated with poor housing, health and education

Proportion of women experiencing certain adult outcomes by age at first birth



Source: Hobcraft, J. and Kiernan, K. (1999) *Childhood Poverty, Early Motherhood and Adult Social Exclusion*, CASE Paper 28, London: Centre for the Analysis of Social Exclusion, London School of Economics

There is, however, a case for proposing that the available advice and support should not be limited by a literal definition of ‘teenage’ parents. The evidence assembled by Kiernan is clear in suggesting that many of the difficulties and disadvantages associated with ‘teen’ pregnancy, including low income and greater reliance on welfare benefits, apply to those who become parents in their early twenties. It would, therefore, make sense if current policies were targeted on a wider age range.

Relationship support

Ministers have properly maintained that Government should have no part to play in cajoling people into marriage, let alone compelling them to remain together when their relationships have broken down.⁴³ There is, however, a growing body of opinion among the agencies who work with families that it would be in the long-term interests of children if more public resources were available to support parental relationships, particularly those that are fragile or under stress. Research, as previously mentioned, does highlight the link between parental conflict and an increased risk of problems for children as they grow older, including anti-social behaviour. It also suggests that economic and environmental factors, notably low income and poor housing, often achieve their adverse effect on children through the stress placed on parents.⁴⁴ Although the ending of some relationships may improve the quality of life for individuals and their children, separation commonly brings a loss of economic resources with other, knock-on consequences. These, for a minority of children, can have enduring, adverse effects that extend from lower educational attainment and income, to the greater fragility of their own relationships as adults. Indeed, divorce is more likely to occur in the first place among couples living on low incomes.⁴⁵

Britain not only has one of the highest divorce rates in Europe, but also a marriage rate that until 2001 was in steady decline. During discussions as part of this project, it has been argued that the growing numbers of children that are born and raised outside marriage must be afforded greater policy recognition, given evidence that cohabiting relationships with children are more fragile than those of married couples. Kiernan's paper for the project⁴⁶ makes an important qualifying point that the comparative instability of cohabitation is probably a 'selection effect'. In other words, it is the stronger, more committed partnerships that tend to lead to marriages, a growing number of which now take place after children become part of the relationship. Even so, there is still a problem because the UK has higher rates than other European countries of relationship breakdown among cohabiting parents and among parents who marry some time after the birth of a child.

Public policy cannot legislate for better personal relationships, but there is undoubtedly more that could be done to make support available to couples at times of stress and to limit the economic and other socially excluding effects of relationship breakdown on children.⁴⁷ And while a continuing high divorce rate demonstrates the limitations of relying on institutional or legal structures to strengthen relationships, it would, be wrong to dismiss out of hand the potential for preventing relationship breakdown by offering greater and more public recognition to unmarried unions. The concept of Civil Solidarity Pacts, introduced in France, is one of the options that merits further investigation for the UK, since there are signs that many French parents who do not wish to marry welcome the rights, responsibilities and recognition that such a pact confers on their relationship.⁴⁸

Experience gained from attempted reform of the divorce laws and implementation of the Family Law Act 1996 highlights other opportunities, yet to be consistently applied, for making timely support available to couples whose relationships are in difficulties, especially parents. These include screening and counselling at well-known stress points, such as the months after the birth of a child, and training for GPs and other front-line professionals who are most likely to be approached during the early stages of relationship problems.⁴⁹ Another area for extending publicly-funded support would be counselling and mediation services designed to help parents, especially those who are separating, to manage the process in ways that are least damaging to their children.⁵⁰

Work–life balance

Low-income parents, especially lone parents, often face invidious choices between the need to improve their economic situation through paid work, and their desire to spend time with their children. In the language of 'risk' and 'protection', their efforts to minimise factors like low income and poor housing can come into conflict with their desire to strengthen the protective attachment between parent and child. Parents of pre-school children may, especially, feel that the quality of care that they can provide is an important contribution to their child's early development. Research reinforces the dilemma. For example, one Joseph Rowntree Foundation study has identified a trade-off between the potential benefits from avoiding poverty through higher family income, and evidence that children whose mothers had worked full-time for longer periods when they were pre-schoolers were less likely to have gained A-level qualifications.⁵¹ There has been no suggestion during discussions for this project that the choice of whether to work, and for how long, should be anything other than a matter for

parents. But while they alone must decide what seems right for their child (and themselves), their view will be influenced by factors such as their access to affordable, alternative childcare, and their confidence in its quality. The Government, judged by its intention to create 250,000 more childcare places by 2006, is prepared to spend heavily in meeting its 'welfare to work' objectives, and the aim of having seven out of ten lone parents in paid work by 2010. But it has also, through above-inflation increases in the child allowances within Income Support, been investing on the other side of the equation by raising the incomes of non-working parents. There is no great contradiction between these different arms of policy if the aim is to preserve parental choice while reducing poverty. The dominant emphasis is, for the present, on welfare-to-work. Yet success in reducing poverty may, paradoxically, depend in the longer-term on policy makers making it easier for parents to spend more of the time they deem necessary with their children.

The fact that most 'dual-earner' families consist of one parent working full-time and the other working part-time is itself evidence of the widespread demand for flexible, family-friendly employment arrangements. Likewise, the fact that most women returning to work after maternity leave switch from full to part-time work.⁵² Meanwhile, there are significant levels of dissatisfaction among UK fathers, whose average working hours are the longest in Europe. The Government's own baseline study of work-life balance issues in the workplace has found that men in couple households with dependent children are even more likely than others to work long hours. More than a third worked more than 49 hours a week and one in eight were working over 60 hours a week. While two out of three men feared that a switch to part-time working would damage their careers, it was apparent that fathers, especially, favoured greater flexibility, including opportunities to work from home.⁵³

Working outside the 48-hour limit specified by the European Union's Working Time Directive is especially common among British men in professional and managerial positions. However, a study of parents working 'atypically' outside the normal '9 to 5' found that fathers from lower socio-economic groups who worked at nights or weekends were especially likely to feel they had no choice.⁵⁴ Other findings from the Foundation's current *Family and Work* research series demonstrate why issues concerning flexible working or 'family-friendly employment' are seldom straightforward. For example, the Government's work-life balance campaign aims to work through persuasion and partnership with employers, rather than edict. This places more emphasis on establishing a business case for flexible working, alongside the social and ethical justifications. An analysis of the Workplace Employee Relations Survey has provided reinforcing evidence that employers who adopt family-friendly working policies tend to rate their financial performance and productivity more highly than others.⁵⁵ However, it is also clear that in many workplaces, flexible working options – where they exist – are limited to making part-time working available and, less often, flexitime.⁵⁶ Moreover, the mere existence of flexible working policies within an organisation is not sufficient to ensure that employees will find them accessible or choose to make use of them. On the one hand, as family-friendly employment policies become more widely available, many parents who are in work will need increasing reassurance that reducing their hours or taking family leave will not cost them their careers. On the other, non-working parents may start demanding better evidence – especially if they have young children and plan to work full-time – that making paid work their route out of poverty is more likely to enhance than harm their child's development.

Since reviewing work–life balance issues in a consultation paper in 2000⁵⁷ the Government has announced enhancements in maternity leave and pay and, for the first time from April 2003, a father’s right to two weeks’ paid paternity leave. Entitlement to unpaid parental leave is being extended from 13 to 18 weeks in the first five years of a child’s life. As a further measure, the recommendation of a Government task force is being implemented to place employers under a duty to consider requests from employees with children under 6 who wish to work flexibly.⁵⁸

It would be premature to declare the Government’s largely voluntary approach to work–life balance has foundered. It is, however, a matter of record that UK entitlements to family leave and other family-friendly arrangements lag behind those in a number of European states, where there is greater compulsion. This is especially true of the Nordic countries, where parental- and family-leave provision is comparatively generous and family-friendly policies have been viewed politically as an important contribution to the well-being of children.⁵⁹ It is not, therefore, unreasonable to propose that, while continuing to pursue its campaign, the British Government should embrace a more forthright and radical set of longer-term aims. These would include a right, as already exists in Germany and the Netherlands, for employees to reduce or change their hours for family reasons unless there a compelling business case for refusing them. Another desirable goal would be an extension of parental leave, part of which should be a paid entitlement to make it more accessible by low-wage earners. More rigorous enforcement of the EU Working Time Directive would also help low-paid parents, especially fathers who currently feel they have no choice but to accept long and unsocial working hours.

From alleviating poverty to eradicating it

...for the children and parents living on a low income it matters little whether they are called ‘poor’ or ‘relatively deprived’. What matters to them is that they are excluded from full participation in the world around them.⁶⁰

On existing policies, the alleviation of child poverty and social exclusion has begun and – if they remain in place – is likely to continue. The reasons for this are broadly those set out in an optimistic paper by Jonathan Bradshaw:⁶¹

- There will be fewer dependent children. The number of women of child-bearing age will decline after 2010 and fertility rates are likely to continue below ‘replacement level’ for the UK population.
- The economy shows sustained signs of stability, with less likelihood of a return to the very high levels of unemployment of the 1980s and early 1990s, which were the most important force creating poverty.
- The Labour Government, re-elected in 2001, has demonstrated an unprecedented degree of political commitment to tackling relative poverty affecting children.

In Bradshaw’s view, these factors are more than enough to outweigh the most obvious area where social trends might point to an increase in child poverty: namely, the continuing high rates of divorce and breakdown in cohabiting relationships between parents.

Whether the Government is on course to meet its welcome, but hugely ambitious, target of eradicating child poverty in a generation is a very different question. The evidence concerning slower than expected progress so far, suggests that it will not be achieved without a re-doubling of the current effort. Although a better set of measures for family poverty might make the task in hand appear more manageable, a stronger commitment to income redistribution will still be needed, including willingness to raise benefit levels for those parents who do not and cannot enter paid work.

Tackling poverty is only one, albeit important, contribution to the wider objective of improving children's life chances and reducing the risks of social exclusion. *Sure Start*, the *Children's Fund* and other Government initiatives give holistic recognition to the multiple risk factors that can cluster together in the lives of disadvantaged children, in their families, schools and communities. However, there is doubt whether social exclusion and its transmission from one generation to the next can be tackled effectively in the next 20 years unless the principles of 'joined-up' action become embedded in mainstream support services.

In addition, there are trends and policy areas where greater attention from policy makers now could be expected to contribute to a long-term diminution of social exclusion. The options include:

- Policies acknowledging that parents in their early twenties and their children would also benefit from the comprehensive support services now being made available to teenagers.
- Public investment in services that support parental relationships, possibly including the creation of a new institutional and legal status for cohabiting couples with children.
- Stronger public recognition for the role of parents in raising the next generation, including a statutory entitlement to flexible working arrangements and paid parental leave, matching the family-friendly policies in a number of other European states.

Notes

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- 21 Piachaud and Sutherland, *Changing Poverty*.
- 22 Brewer *et al.*, *Government's Child Poverty Target*.
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6 Tackling disadvantage: Place

A persistent regional divide

Jason Strelitz and David Darton

The considerable variation between areas in the depth and breadth of poverty and disadvantage has been a significant issue within recent policy discussions. Much of the focus has been directed at the urban level or lower, with considerable attention being paid to problems occurring at the neighbourhood and local level. In recent years, substantial resources have been targeted towards neighbourhoods and local authorities perceived as being in need. The array of area-based programmes introduced in recent years has encompassed a very broad range of issues, including health, education, community development, housing, transport, crime, job-search, and employment training.

Alongside this, there has been increasing emphasis placed on the need to develop and implement public policy at the regional level. The introduction of the Regional Development Agencies and White Paper on Regional Governance, alongside the more substantial devolution that has taken place to Scotland, Wales, Northern Ireland and London, are the most obvious outcomes of this. Different aims appear to be converging here: a belief in devolution as a democratic principle and a conviction that it is important to create effective strategies for areas that approximate to 'regional economies'. The focus of the new regional approach – especially within the English regions, has not at present embraced the importance of tackling poverty and disadvantage.

But the dominant causes of poverty do differ between the regions and, in particular, there is a significant divide between the South (essentially London, South-east and Eastern Regions) and the North (more or less the rest of the UK).¹ Area-based policy will face an uphill struggle to make significant inroads into tackling poverty and concentrated deprivation at the neighbourhood level if regional issues of economic development are not also tackled.

In this paper we examine the nature of the divide between the South and North. We discuss some of the factors that have led to this position, and how they may impact upon poverty and disadvantage in the future. We conclude that narrowing the gap between regions of the UK over the next 20 years is an important policy objective in tackling disadvantage.

In broad terms there are three main reasons why, from the perspective of reducing disadvantage, it is important to tackle the regional divide.

- 1 In London and the South-east there is a crisis in housing. There are booming numbers of families in temporary accommodation, major problems in housing key public-sector workers and a growing but at present largely hidden problem of overcrowding. By contrast, in many parts of the North population densities are very low – unsustainably so in many places – and therefore unable to support adequate public and private services. There are many empty homes and in the worst hit areas neighbourhoods have been virtually abandoned.²

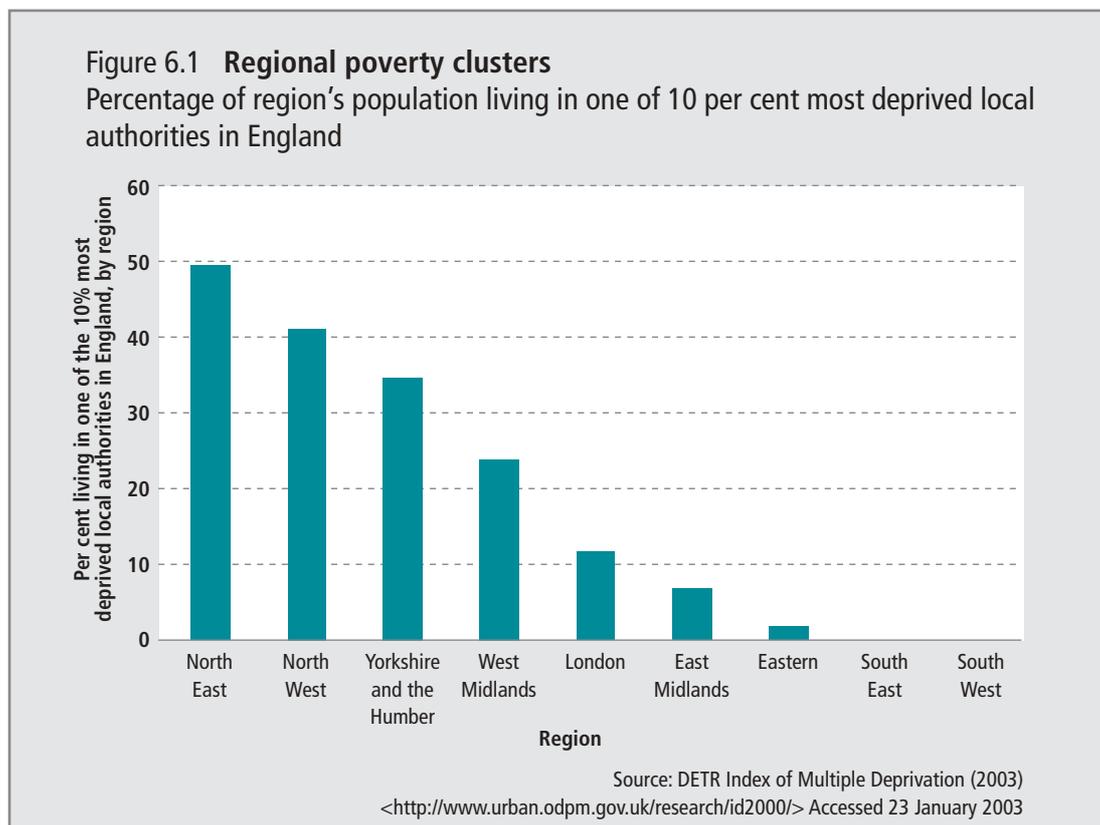
- Throughout the North there are large poverty clusters – places where deprived areas lie next to each other. As one researcher argues:

Clusters of poverty matter because all the disadvantages associated with poverty are more concentrated and more extensive, therefore escape becomes more difficult. Large poverty clusters within cities often have a long history and attract powerful stigma, making them hard to change. They work to limit people's chances in many ways.³

- The factors that have driven regional disparities in differential wealth generation and employment creation have yet to run their course. The consequence is that without significant policy intervention, the inequalities between regions are likely to become wider over the next 20 years.⁴ As economic restructuring continues, strong regions will build on their existing comparative advantages while weaker regions continue to suffer. Recognising these structural inequalities, does not imply that regional development should be treated as a zero-sum game. For example, jeopardising London's global position would be highly detrimental to the country as a whole. However, there are areas where such recognition and policy emphases are important.

The regional divide

There are without doubt major problems of poverty and disadvantage throughout all regions of the UK.⁵ However, whilst the southern regions are characterised by a problem with wealth distribution, the North has a fundamental lack of wealth generation.⁶ This is highlighted by Figure 6.2, which shows that of the UK's twelve regions only London and the South-east have GDP per capita significantly above the EU average.⁷



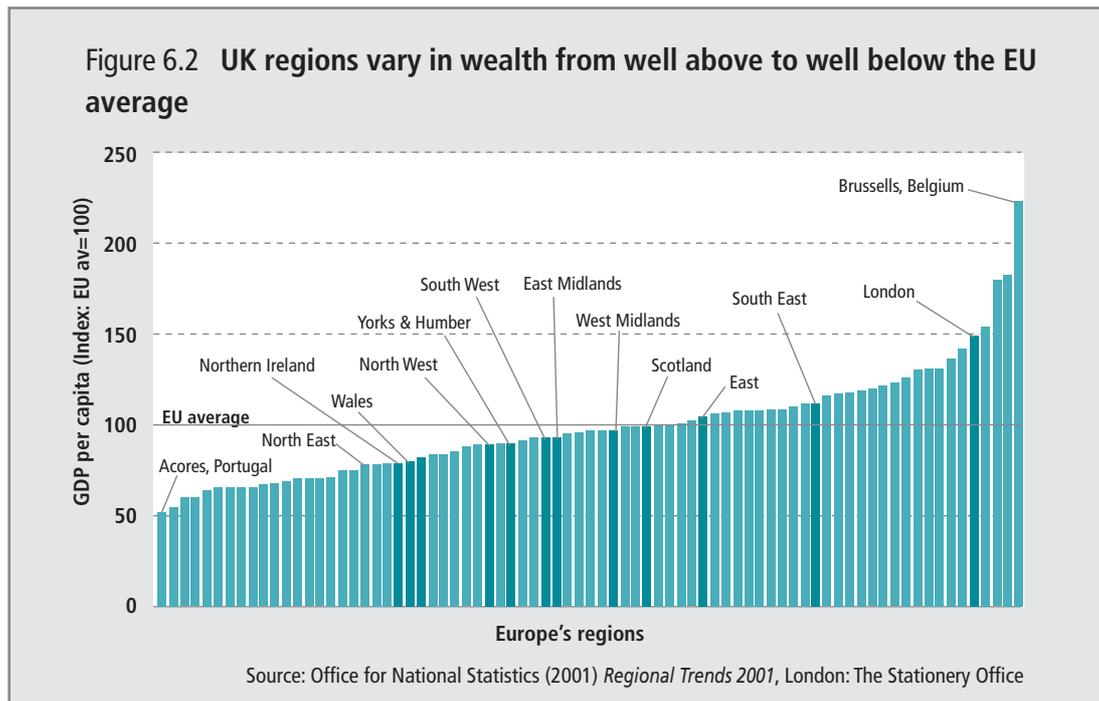
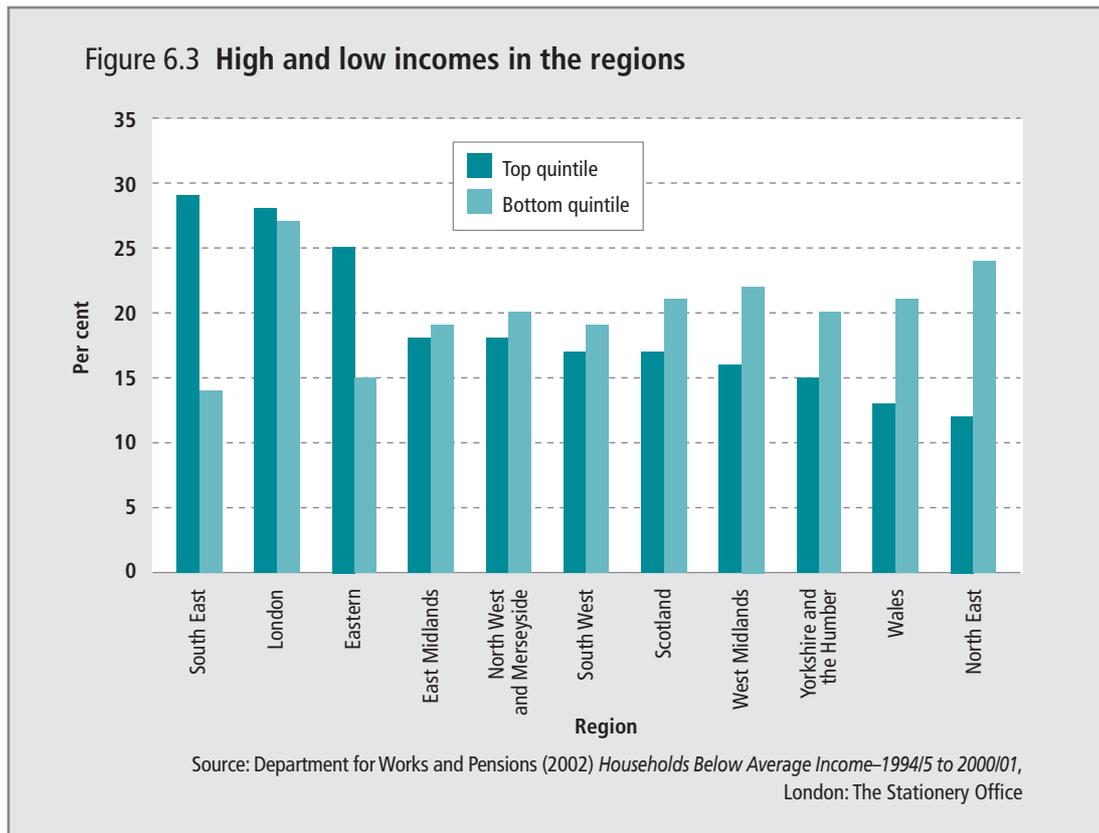


Figure 6.3 demonstrates the problem further. If incomes were spread equally across the regions then each column would be 20 per cent – with one-fifth of each region’s population in both the bottom and top quintiles of the income distribution. However, the East, South-east and London have a greater proportion of their population in the top than the bottom quintile, whilst for the other regions the opposite is true. In some cases the difference between the columns is extreme. (The figure takes the *after housing costs* measure; with the *before housing costs* measure, the regional disparities are much more extreme.)⁸

In more affluent regions, many people have not benefited from economic growth of recent years and there is a polarisation of incomes and opportunities. London contains the most extreme examples of this polarisation. A recent report showed that over half of children within inner London are living in households with incomes below 60 per cent median.⁹ However, the economy in the South does generate sufficient wealth and employment for the situation to be turned around if tackling disadvantage is prioritised. The sorts of the measures that may form part of this strategy are the subject of most of this report. This paper is more concerned with those areas where overall demand is low.

For example, whilst work is being generated and new businesses formed, supply-side labour policies are able to help people successfully access the labour market. However, in places without sufficient jobs this is not true. Evidence from the New Deal for Young People is indicative of this. Whilst overall it has had some success, there has been a wide divergence of impact across different places.¹⁰ There have been disparities not just in the ability to place New Deal clients in work, but in the quality and longevity of the employment. In relatively buoyant labour markets the New Deal has often come up against a hard-core of hard-to-employ young people (albeit at times within dense pockets). The research therefore suggests that more radically targeted policies are needed to help these people access work.¹¹ In more depressed labour markets, however, the New Deal has struggled to find decent work for many of the more ‘employable’ – the jobs are just not there.



When considering poverty and disadvantage, employment opportunities – as discussed throughout this report – are key. Moreover it is access to well-paid, permanent, full-time and secure employment that truly helps propel people out of sustained poverty. However, on all these aspects there is a significant regional divide. Despite some narrowing in recent years, there is a persistent difference in levels of unemployment between the regions.

This only begins to tell the whole story. It is employment rates, indicating the overall levels of economic activity, where there is a more serious divide that has remained stubbornly consistent, even during the recent period of healthy economic growth. In lagging regions, not only are there more people 'actively seeking work' but there are many more who have dropped out of the labour market altogether.

During the period 1995–2001 employment in London and the South-east grew by 16 per cent and 13.9 per cent respectively; in Scotland, Yorkshire and the Humber and the North-east, over the same period, employment grew by 0.5 per cent, 0.9 per cent and 1 per cent. Moreover, in those weaker regions there was an actual loss of full-time male employment.¹²

Key trends

The regional divisions have not always been this way. There was a time when towns and cities such as Bradford, Sheffield and Sunderland were wealthier, and flourishing on the back of thriving heavy industry. However, throughout much of this century the key international role of such places within manufacturing industry and trade has steadily declined. In many places the work in these manufacturing industries has largely disappeared. Where such work remains it often hangs on a knife-edge, frequently a branch plant of major multinational corporations, with thousands of jobs able to be lost with one announcement.

The UK's long-term shift from a manufacturing to a service economy is long-standing and continuing.¹³ In the country as a whole, lost manufacturing jobs have been sufficiently replaced by those in the service sector. However, the location of the new work – and especially the better-paid work – has generally not been in many of those places that suffered greatly from the loss of manufacturing industry. Those places reliant on one specific industry have suffered the most.

Building on existing advantages, such as being a centre of tourism, the seat of central government and one of the capitals of the world's financial markets, London has successfully developed into a centre of the new service industries. Alongside this, the South-east, East and, to a lesser extent, the East Midlands have been beneficiaries of the changing economic context.

It's all about people now: the location of employment

Decisions on where to locate employment are increasingly dominated by where clusters of firms and people offer either prosperous markets and skilled employees, or low costs and large numbers of relatively low-skilled people. Relatively little employment now needs to be located near raw materials, and continuing reductions in transaction and transport costs as technology advances reduce the need for industries to be near ports. It's all about where the right people are.

The need to locate near prosperous markets will become even more compelling for many of the new service industries over the next 20 years. In many places a virtuous cycle, whereby businesses set up where there is a ready market and more customers are attracted because there are lots of suppliers offering a wide choice, will continue to develop. At the most local level such processes are visible often on a daily basis in gentrifying areas, where rates of leisure and retail outlets often multiply exponentially over a short period of time. Across larger areas the same process occurs with big business, whether it be legal firms or biotechnology industries

Consequently, it has become increasingly compelling for employment to become concentrated in particular areas. Whilst their salience should not be overstated, the 'new economy' industries are illustrative. The ideas being exchanged are increasingly complex or subtle. Beyond the increased trends for certain generic skills (discussed in [Chapter 4](#)) a parallel, if seemingly contradictory trend to specialisation has emerged.¹⁴ For example, in the past there were many accountants and they were largely interchangeable. Today, a programmer with experience of particular software and database management is part of a much smaller occupational group. Just as academics have always congregated in universities, software programmers or option traders want to work in a community of peers. It is in the interests of these people and the firms that employ them to cluster together. This enables informal networking and communication between different but independent specialists, but also creates possibilities for firms to recruit and employees to change jobs without the upheaval of moving long distances.

The employment strategies of many financial services firms offer a good example of the increasing inequality that is likely to develop between places. They will pay an extremely high price for some key workers to be present at the heart of the flow of information (e.g. in the City of London). At the same time, low-skilled, low-paid employment in their call centres is based in other less affluent locations.¹⁵

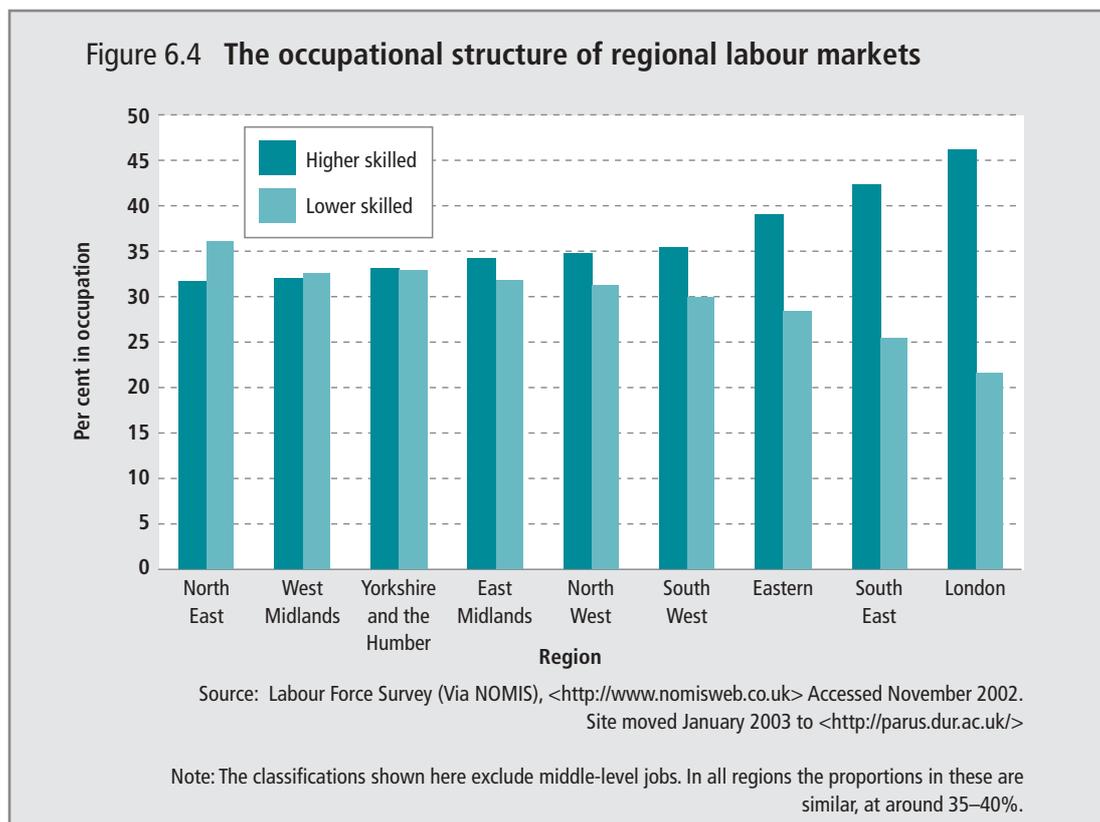
Figure 6.4 highlights how the occupational structure of the labour market is very different across the regions. Whilst all regions have fairly similar proportions – between 35 and 40 per cent working in middle-earning jobs – the proportions in low-paid and high-paid work are very different. In London, nearly 50 per cent more of the population is employed in professional, managerial and technical occupations than in the North-east; conversely in the North-east there are well over 60 per cent more doing traditionally less-skilled work.

There is a danger that in 2022, more places will be dominated by low-paid, low-quality jobs in a cycle that will be difficult to escape from. However, not only will high proportions of the work be low paid, but the lack of high-skill, high-wage – i.e. high productivity work that drives much of the service economy – will result in a continuing shortage of employment.

It was widely held amongst economists and policy makers that regional economies within one country should converge over time.¹⁶ The fact that this has not occurred in the UK, or in most other European countries, indicates that it is unlikely to occur simply as a result of market forces. As we have discussed, the forces towards geographic concentration of affluence and poverty are strong. To differing degrees, the key factors that feed into high productivity, and therefore economic growth, are all differentially distributed throughout the regions.¹⁷

Skills

Human capital is vital in creating a high-skill, high-wage economy to drive a virtuous cycle of growth (see [Chapter 4](#)). Yet most lagging regions suffer on multiple fronts in relation to skills. The current working-age population of such places are often more poorly qualified. Waiting for the present working population to retire will not be enough, as two key trends point towards a persistent and ongoing problem. Firstly, there is continuing propensity for more educated people to leave these regions. In London, the South-east and East, there are more graduates



working than studied there. In every other region the reverse is true, indicating a substantial 'brain-drain'.¹⁸ Furthermore, those three strong regions have the highest number of 17-year-olds participating in full-time education, and substantially more than all other English regions except for the South-west.¹⁹

Investment and innovation

New investment is a starting point for economic growth. Such investment can come from within Britain or overseas, from the private or public sector. On all counts London and the South-east are favoured by investment decisions. Britain has been very successful at garnering internationally mobile investment capital; it makes the news when such investment creates jobs in depressed regions, yet by far the largest proportions come to the regions in the South and this has been increasing. The public sector is also a hugely important part of inward investment toward regions in the UK. In the UK's more depressed areas public sector investment plays a hugely significant role in the local economy.²⁰

Enterprise and competition

Of the 20 local authorities with the highest rates of business formation, all bar two are in the South. Conversely the 20 with lowest rates are all found in Wales, Scotland, the North-West, the North-east and the South-west. This pattern is replicated across the regions. In recent years some of the worst effected regions have seen net business closures, even during this period of economic growth.²¹ This is a sign both of the current difference between the regions and a major signal for future concern. The lack of enterprise is a product of lack of resources and lack of confidence – however all these feed long-term into a lack of enterprise culture. Without new business formation, there is a lack of competition, and in turn less drive for increased productivity, for investment in research and development and for continued education and training of the workforce.²²

That serious inequalities exist alongside trends which point to those inequalities widening over the next 20 years suggests that action needs to be taken. Indeed, the most recent projections by Cambridge Econometrics do suggest that, along with London, the South-east and Eastern Regions, only Northern Ireland of the UK's countries and regions will have employment growth above the UK average over the period to 2015.

Policy goals for addressing the divide

...there is a broad consensus in the academic literature that government policy is a key determinant of the growth performance of poor regions and can make a difference between stagnation and success.²³

The Treasury and the Department of Trade and Industry believe that the Government can have a key impact on growth in lagging regions. A range of possible interventions have been debated at length within the academic literature. These suggest some policy directions for regional development, which we consider below.

In the strong regions, particularly London and the South-east, there are severe problems related to the distribution of wealth, including a housing problem that will ultimately impact

on all people, especially the most disadvantaged (see [Chapter 8](#)). Furthermore, the continuing strength of some regions of the UK makes it harder for weaker regions to fulfil their potential. The ever-present carrot of the London and South-east labour markets for graduates is a prime example of this.

A regional policy that strongly favours growth in lagging regions will therefore benefit all regions by taking some pressure off the South, as well as contributing to employment and wealth-creation in the North. The argument that the distant relationship between people in different regions makes 'regional redistribution' a tough political argument to win is no reason for not making this case strongly, and introducing policies accordingly. In this report we are concerned with tackling poverty and disadvantage, and from this perspective such a regional policy is clearly important. However, the potential contribution of regional development to national wealth generation, environmental sustainability and alleviating some of the housing pressures on London and the South-east should not be under-stated.

Strategies and potential interventions

Potential interventions need to satisfy certain criteria: they need to relate to productivity and driving economic growth, they need to be within the scope of Government capability, both in terms of feasibility (political and economic) and legality (given European competition laws), and they need to address those areas where there are regional disparities.

Here we consider four policy areas that have emerged from our consultations:

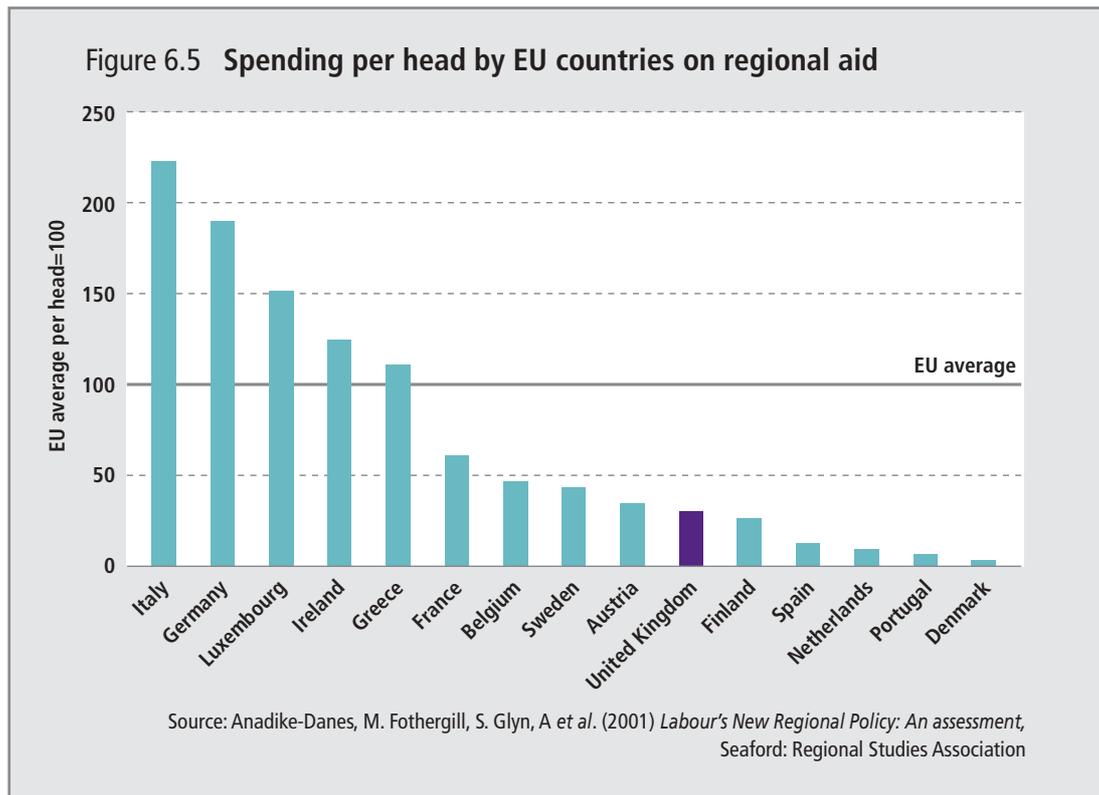
- 1 targeting private investment
- 2 the impact of public spending
- 3 core cities and the urban renaissance
- 4 bottom up: civil society, and local governance.

Improvements in human capital are also, of course, fundamental to the task of regional development. This is partly a role for education, dealt with elsewhere in the report. However, all of these policy areas have a role to play in encouraging both those with skills to stay in currently lagging regions and, over time, persuading others to see moving into those regions as a realistic and positive option. Moreover, building realistic expectations of the possible rewards that education can bring, can contribute to the development of more vibrant regional learning and skills culture.

Targeting private investment

One of the most traditional tools of regional development has been the use of fiscal measures to help attract private investment. There are a variety of means available to Government, such as tax incentives – including preferential tax rates and capital allowances – and financial incentives, for instance, government grants and subsidies. These include Regional Selective Assistance and the EU-allocated Structural Funds, loan guarantees and shared risk-equity participation. There are also non-financial incentives, such as subsidised infrastructure and preferential Government contracts.

The main questions surrounding such policies are: how effective are they? How much 'deadweight' cost is incurred – subsidising investment that would have taken place anyway? What is the cost per job and is that acceptable?



There appears to be some consensus that such investment and fiscal incentives can have significant effects when applied well and in the context of a coherent wider strategy. Indeed, all European regions that are typically mentioned as examples of success stories are places that have had serious investment from their central government or Europe.

Despite evidence of some success in generating employment at a reasonable cost, the annual spending on Regional Selective Assistance (RSA) – the most prominent aspect of the UK Government’s regional economic development armoury – has declined steadily from its highpoint in the mid-1970s when the budget reached £2 billion (at today’s prices). Today, the UK is in the bottom half of EU countries on regional aid spending.²⁴

The impact of public spending

Even if policies such as regional selective assistance were substantially widened, they would continue to be dwarfed by the overall levels of mainstream Government spending.

Much of Government spending is tied. All areas need teachers, police, local government etc. All areas have large numbers of people on a range of benefits and older people taking pensions, accounting for large proportions of Government expenditure. Moreover, whilst in some parts of this report we argue that money needs to be directed more towards the disadvantaged, in many instances that may not have a dramatic regional effect.

However, Government can make choices about its spending according to a wide variety of criteria – and one of those criteria could be regional economic development. This would not be about budgeting extra resources for regional development but prioritising existing spending according to levels of regional need. There are different ways this could be achieved: through the awarding of contracts from major defence spending to smaller contractors; where major investment is planned, such as the Government’s intention to expand higher education, the focus of that investment could be on lagging regions; reviewing

the location of existing civil service offices, and relocating where possible (see below). This is not suggesting that regional economic development becomes the prime aim in the way Government spends money, but that in judging value for money, this is one factor that could contribute to a judgement of value.

Indeed, when public-sector relocation out of London was initially introduced following the Flemming Report in 1963, saving money was the primary driver. Originally, most dispersal was from London to the South-east. In time, full regional dispersal with the objective of spreading good quality jobs became one of the aims. This policy had a positive effect, creating good, skilled employment, not related to the economic cycle, in areas where such work was generally lacking.²⁵ There is evidence that the new employment had positive multiplier effects generating private sector activity. This would not be unexpected after bringing substantial new investment into an area.

The Urban Renaissance Agenda

The role that major regional capitals can take in leading regional economic revivals is becoming an increasingly important debate. The Urban Renaissance Agenda has emerged in recent years out of the Urban Taskforce report and subsequent publication of an Urban White Paper.²⁶ This sets out a vision for Britain's towns and cities, drawn more on the experience and philosophy of European cities, such as Barcelona and Amsterdam, than from the British experience. Economic development is not the sole focus of this agenda; the quality of the urban fabric for all, the environmental consequences of suburban sprawl, residential densities and consumption, and a sustainable approach to meeting the country's long-term housing requirements are all central elements.

Building on this has been the establishment of the Core Cities Group, bringing together Birmingham (West Midlands), Nottingham (East Midlands), Bristol (South-west) Leeds and Sheffield (Yorkshire and the Humber), Liverpool and Manchester (North-west) and Newcastle (North-east). These cities are keen to assert their key role as potential regional hubs.

There is evidence that these cities have begun to turn the corner, with people returning to city living and increases in the amount of total employment.²⁷ Large cities such as these, with a critical mass of people able to support a wide variety of cultural and leisure activities, as well business and public services, have great potential to attract highly skilled workers and inward private investment. However, a great deal of investment as well as strategic planning is pivotal to achieving the necessary development. Leeds is a good example of the dangers. Although it has developed rapidly in recent years, it contains many pockets of extreme deprivation, and the spill-over of growing prosperity into neighbouring places, such as Bradford, has been limited. If this strategy is to be pursued it must be done in a way that:

- Takes into account regional needs and does not assume a trickle-out process will occur from any improvement to the major cities. Linkages are key here – both physical, in terms of a transport infrastructure that matches a notional sense of regional hub and in respect of governance, where the connections between the hub and outlying areas are as important as the hub itself.
- Development occurs in a way that does not just lead to more affluent cities that have great polarisation within them – replicating the problems of London. This means sensitivity in the development of housing that seeks to create mixed income and age communities, and a

commitment to the service needs of all. Furthermore, it requires significant input in training and education for the least skilled to help them access new jobs as they are created.

Housing markets

One area currently garnering particular attention is the issue of housing markets and, especially, the low demand for housing found in many urban areas especially in the north of England. 'Low demand' areas are characterised by extreme difficulties in letting some social rented stock, and high void levels, a growth in private renting, and static or falling prices in the private sector. In the worst cases, significant concentrations of abandoned dwellings are found.

Low demand may be linked to poor physical conditions, but the causes go much wider. Long-term out-migration and decentralisation of population in response to employment decline and other factors are the root causes of the problem. However, these trends are compounded by the poor image and stigmatisation of much social housing, the poor quality of the physical and social environment, and amenities, such as schools, associated with many estates. The unpopularity of certain property types, such as medium- and high-rise flats or, in the private sector, some smaller pre-1919 terraced houses, the increasing availability of short-term alternatives, such as private rented housing, or the longer-term solution of low-cost new-build housing for owner occupation, also feed into this.

In the social rented sector, flexibility in letting housing, better neighbourhood management, targeted investment in dwelling improvements, and broader-based social and economic regeneration initiatives have had an impact in some areas. More realistic business planning in the social rented sector is also leading to rationalisation through demolition, and to diversification of tenure mix through redevelopment. In the private sector, problems are more intractable, because of low equity levels caused by falling property values, the fragmentation of ownership and the inability or unwillingness of owners to invest.

In some areas, such as inner Manchester and Liverpool, studies have concluded that the scale of problems goes beyond what can be achieved through current regeneration or housing investment programmes.²⁸ Unless there is large-scale renewal of housing, and the physical and social infrastructure of these areas, economic regeneration alone may simply generate inward commuting, rather than save or create local communities.

Regional and sub-regional planning frameworks need to play a part by ensuring that new investment in economic development, housing, transport and the social infrastructure is not diverted into other localities. Appropriate vehicles and implementation tools for securing these objectives also need urgent development. As well as serving as channels for significant inputs of public resources new vehicles, such as regeneration companies, need to be capable of operating across whole housing markets at a sub-regional scale. They need the ability to raise private finance and secure private investment, acquiring and demolishing obsolete property, assembling land, securing redevelopment, guaranteeing loans and, most importantly, working with partnerships of existing agencies, such as local authorities and RSLs to secure their objectives. Within this context it will be interesting to observe how the Government's planned investment in a housing market renewal fund is delivered.²⁹

Bottom up: civil society and local governance

Regions are administrative constructions. They are neither discrete labour markets, nor organic economic entities of any other sort. They do not necessarily lend themselves to a coherent '1 +

1 = 2' strategy for the region as a whole. For example, the problems of wealth creation in inner city Bristol and rural Cornwall require different approaches; Merseyside and Greater Manchester may have more similar problems, however each requires a specific focus sensitive to sub-regional nuances. Current processes of decentralisation are important in recognising this; a local entity whether devolved democratic structure or quango is more likely to recognise local diversity and needs than central government.

However, decentralisation must be about more than just the efficient delivery of central government policy. As one academic has argued:

Many of the prosperous regions of Europe are also regions of participatory politics, active citizenship, civic pride and intense institutionalization of collective interests – of society brought back into the art of governance. Within them, association life is active, politics is share and commonly owned, and a strong culture of autonomy and self-governance seeps through local society. These are regions of developed 'social capital'³⁰

Whilst it is unclear how to foster such a situation, Amin³¹ suggests 'catalyst projects such as festivals, and the recovery of local public spaces' as well as a broader social agenda. In countries such as France, Germany and Ireland there is significant policy support for a wide range of community generated activity.

In this light it will be interesting to track developments over the medium to long-term in Manchester post-Commonwealth Games. The impression the city gave to the country as a whole was of greatly heightened levels of social capital. All concepts listed above appeared maximised – with high levels of local pride, based on perceptions of being able to deliver a world-class event, in the ability of local politicians and civic leaders to surpass national and international expectations, of a reinvigorated culture of volunteerism.

Whether this can be built upon will come down to many issues. One such issue emanating from Joseph Rowntree Foundation research is the need for vertical integration of policy. Throughout the past decade there has been an increased emphasis placed on partnerships within neighbourhoods or local areas. What needs to be built on is an understanding of how different strategies at national, regional and local levels can be used to complement each other – implementing policy at the most appropriate spatial level.

Conclusion

This paper has argued that, whilst there is poverty throughout the UK, the socio-economic conditions of much of the South are very different to elsewhere. With projections that suggest the market, if unchecked, may well exacerbate these inequalities over the next 20 years, this issue must emerge on to the policy agenda.

The narrowing of the regional divide requires a coherent strategy that embraces serious investment, good governance at the appropriate spatial level and partnerships working both horizontally across agencies at each level and vertically from the national through regional to the local. Many of these pieces of the jigsaw are, to a degree, in place. However, recognition of a significant regional economic divide by the Government is required, as at present it is clear that the market will only perpetuate existing problems. Such recognition, buttressed by targets and investment, is necessary if the divide is to be reduced 20 year hence.

Notes

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- 4 Cambridge Econometrics (2002) *Regional Economic Prospects*, Cambridge: Cambridge Econometrics.
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7 Tackling disadvantage: Incomes

Combining opportunity and support

Donald Hirsch and David Darton

Introduction

The consequences for society of continued poverty for the individual, in terms of a lack of dignity, choice and control stemming from incomes out of touch with the mainstream, are unacceptable. In Part I we concluded that 60 per cent of median household income¹ represents a threshold below which anyone living in the United Kingdom in the 21st century is unlikely to enjoy an adequate standard of living. A principal task in tackling disadvantage over the next 20 years will be to ensure that as few people as possible spend time relying on incomes below that threshold.

It was established that this is an affordable objective over the long term, in the sense that it could be achieved by expected economic growth going disproportionately to poorer households, while still maintaining a steady rise in living standards among other income groups – not greatly different from that experienced in the past five years. A different, and harder, question concerns the mechanisms by which the relative incomes of the least well off can be increased.

An overall strategy

In a modern democracy with a market economy, it is not realistic to think that unjust levels of poverty can be rectified by simple redistribution alone. Such a strategy is unlikely to gain public approval, if it appears to discourage efforts by people on lower incomes to help themselves, and thereby to produce a growing burden of dependency of one section of the population on the generosity of another. On the other hand, if tackling disadvantage is approached primarily in terms of helping people on lower incomes towards better opportunities, encouraging them to make an active contribution to society, while protecting everyone against certain types of contingency, there is more prospect that public transfers of income to help disadvantaged people, where needed, will gain social and political consent. That is the central approach of this chapter.

More specifically, this chapter advocates a strategy that aims to minimise the number of people living in households with below 60 per cent of median income, while at the same time minimising where possible the use of direct, income-tested redistribution to achieve this. Instead, it proposes maximising the use of other mechanisms to enhance low incomes – whether through earnings or through entitlements that are not directly means-tested. Thus, while basic Income Support will need to rise, it is essential to pursue simultaneously a range of strategies to enhance poorer people's incomes that reduce their need to resort to this safety net.

Establishing a threshold of 60 per cent median income

The income objective recommended is:

To minimise the number of people in households with incomes below 60 per cent of median and in particular the amount of time spent on such incomes for those who do fall short of the threshold.

Justifying the threshold

Part I of this report explored the extent and consequences of poverty in the UK today. Inevitably, to set a line below which a society does not wish anyone's income to fall involves a degree of arbitrary judgement. Deprivation and disadvantage exist on a continuum, rather than disappearing the moment a person's income reaches a particular threshold. Moreover, two people in identical circumstances may in reality feel very differently about whether their incomes are enough to buy the things that they need. Nevertheless, it is useful to use a single main income threshold to which politicians and the public relate. The value of such a threshold in helping to sustain the priority of poverty eradication is already apparent in the quest to end child poverty.

As discussed in [Appendix \(i\)](#) of Part I, there are several reasons for proposing that 60 per cent of median should be seen as a minimum:

- This level corresponds roughly with calculations of a 'low cost but adequate' family budget.
- 60 per cent of median is the most widely recognised international poverty threshold, and can therefore be seen as an internationally defined benchmark.
- A threshold based on the median sets a standard relative to a norm among ordinary working households. It is less sensitive than a threshold based on the mean to fluctuations over the economic cycle, since it has no direct relationship with the incomes of the rich. In this sense it also more accurately measures *disadvantage*, relative to society's mainstream expectations, rather than *inequality* overall, which can increase solely as a result of the rich becoming richer.
- A *relative* income threshold of this kind reflects prevailing social attitudes. Surveys such as the Joseph Rowntree Foundation's Poverty and Social Exclusion Survey and the British Social Attitude surveys demonstrate that most of the public believe that people in the UK should not go without the basics that have become norms of our society. The results confirm that society does not consider that minimum living standards should be the same in the UK today as in developing countries, or in the UK in the past. For example, most of the population believe that everyone in the country should be able to afford a telephone, a television and a washing machine.²

The Foundation has been searching out causes of and solutions to social need and poverty for a century. But there are some particular reasons for society today to adopt an explicit objective for enhancing the incomes of the worst off over the long term. Until the late 1970s, their

relative position had been steadily improving; in the past two decades, however, the numbers on relatively low incomes has risen dramatically, by about 2½ times. Even more importantly, many of the factors driving increasing inequalities remain with us, and some could get worse (even though the deterioration in some of them seems at least temporarily to have halted). These include:

- Changes in occupational and employment structure, with higher degrees of risk continuing to be borne by the individual. The concept for example of the portfolio worker carrying around their own human capital and pension entitlements from one employer to another contrasts strongly with a more paternalistic model of lifelong jobs and protection by employers.
- Widening wage dispersion, connected in particular to differences in opportunities for people with and without educational qualifications and skills.
- Historically high levels of separating and re-forming households, leaving some people, especially women, with reduced sources of family income.
- Some increased burdens on families in the form of requirements for support from other family members. Examples are children making longer transitions into adulthood, and frail elderly people with limited access to institutional care and support making more demands on informal care within some families.
- A growth in the population of some groups at high risk of being on low incomes – notably certain ethnic minorities, recent immigrants and people with disabilities.
- The ageing of the population. Although average income of pensioners has been rising, so has pensioner inequality, and those who remain on low fixed incomes in later life comprise a substantial proportion of people in *long-term* poverty. Demographic change has also made governments more cautious about raising the basic pension in line with overall growth, so those without private pensions have become increasingly dependent on means-tested relief to rescue them from deep poverty.
- Polarisation in the number of earners in households, with an increase in the number with two and with no earners, and a reduction in the number with one earner.

A number of these trends not only help increase the number on relatively low incomes but also make low incomes more of a long-term rather than transitory phenomenon for many people. For example, an older worker who loses their job and who lacks qualifications today faces a strong prospect of never working again.³ Poverty has particularly detrimental effects when it is sustained over a long period;⁴ hence the priority given by this report to limiting the amount of time that anyone has to spend living on an income below 60 per cent of median. Priority needs therefore to be given to measures that help groups suffering long-term poverty, including, for example, people who have been out of work for long periods and pensioners with low incomes who are not claiming their full entitlements.

Do the underlying forces summarised above make the ambition to reduce the numbers on low incomes unrealistic? Not necessarily, providing that these forces are well understood, and their effects tackled directly. Thus, for example, we argue below that the worsening of prospects for those without education and skills makes training, and continuing education and training a priority; at the same time, the growing instability of family relationships makes it important, for example, to improve pension protection for people who are separated or divorced from the person on whom they had depended for income in old age.

What would commitment to a threshold mean?

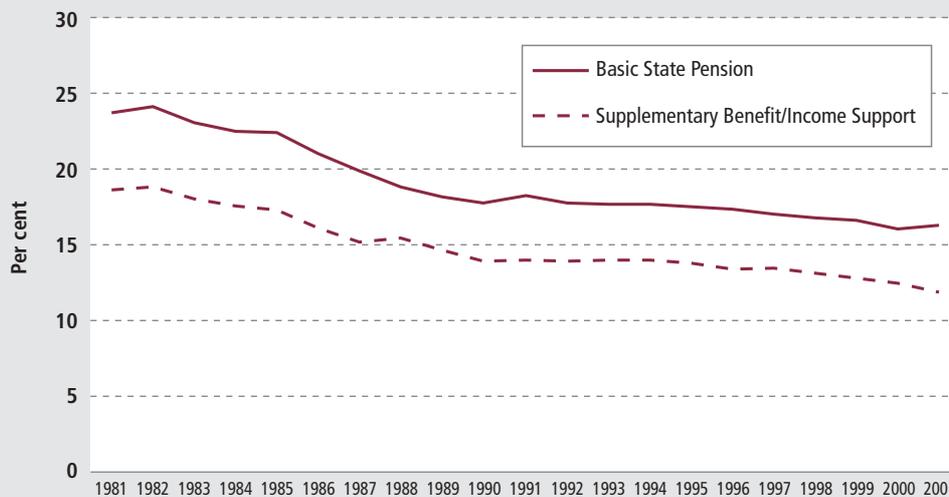
A wide range of advanced industrial countries define 'minimum income standards' as a reference point for their systems of social security and social protection.⁵ These may be based on various criteria, ranging from minimum wages to relative incomes or baskets of goods. The UK has resisted adopting such standards. An important point to note is that in countries that do set them, there is a well-understood difference between stating an aspiration for minimum incomes and making a political commitment guaranteeing that this level will be maintained. Recent political history in the UK is littered with examples of firm pledges and targets, some of which have come back to haunt those who made them. In the case of a minimum income threshold, we suggest that a different approach is taken. A political or social commitment to reducing the number below 60 per cent median household income, whatever form it takes, should meet two essential criteria:

- 1 It should make the reduction in this number a *high profile, high stakes objective*. The best parallel is unemployment. Nobody imagines that under any government it will be eliminated tomorrow, and realistically we can expect it always to exist in some form. Yet we care continually about its level, expect every government to make its best efforts to contain it, and find it unacceptable when it rises too high. Most importantly, everyone agrees on the desirability of a single measure, which is therefore regularly and prominently reported. (The case of unemployment shows that, even where there is more than one measure, a 'headline' figure can play a powerful role. The government's 'preferred measure' of 'ILO' unemployment is regularly published, yet the psychological impact of whether the claimant count is, say, above a million remains. The claimant count had been used for long enough to become a measure familiar to the public.)
- 2 Second, more specifically, it should set as a basic objective a *cycle on cycle reduction* in the number of people below the threshold. It is unrealistic to imagine that the number on low incomes will reduce year on year. But its reduction over an economic cycle would indicate progress in improving the structure of the income distribution over the long term.

Routes to adequate incomes (1): Means-tested benefits

Income Support (IS) and associated safety-net benefits⁶ provide a level below which nobody in the UK needs to fall, providing they claim such benefits and do not contravene conditions such as availability for work. The general level of IS is at present far too low to provide a basic income equal to 60 per cent of median. For example, for a single person basic IS is £54 a week, while 60 per cent of median income after housing costs works out at £84 a week for a single person (adjusted to reflect household composition).

Figure 7.1 With benefits stagnant in real terms, they have steadily fallen as a percentage of average earnings



Source: Department for Work and Pensions (2002) *The Abstract of Statistics*, London: The Stationery Office; Institute for Fiscal Studies (2002) *Fiscal Facts*, <http://www.ifs.org.uk/taxsystem/contents.shtml> Accessed 27 January 2003

Over a long period, therefore, there is a need to raise the safety net at a rate faster than median incomes (and therefore probably faster than average earnings) in order that it should come closer to providing an income that can be considered adequate to live on. This applies more to people of working age than to pensioners: following generous recent increases, the minimum income guarantee, presently £98 a week for a single pensioner, is close to 60 per cent of median.⁷

Simply redistributing incomes through IS to top up everyone to 60 per cent of the median would be an expensive solution that relieved poverty without addressing its underlying causes. Any raising of a safety net needs to be combined with measures that reduce the chance of people falling into it. A further objective is therefore to:

Reduce as far as possible the use of means-testing by maximising the use of other routes to income.

Means-testing has become an increasingly important part of the UK's social security system. Transfers to individuals on the basis of their incomes are serving a range of functions that go far beyond that of an emergency safety net to catch those falling through gaps in the social security system. In particular, they:

- Top up the incomes of nearly *two million pensioners* whose state and private pensions do not reach a set minimum. From April 2003, a new form of income-tested support will be extended to about *half of all pension households* through the Pension Credit.
- Cover incomes of *700,000 unemployed people*,⁸ compared with just 200,000 whose incomes are covered by the contributory insurance system envisaged by Beveridge.
- Help *four million tenants* on low incomes to pay their rent, through housing benefit.⁹

- Top up incomes of *over a million families* in work with low incomes, through the tax credit system. From April 2003 this support will be extended to include families without children.

Note that these changes, as well as extending means-testing to more people, have also involved using it in a wider variety of ways. One kind of means-test (e.g. income support) acts as a pure *safety net* by setting an absolute threshold, and topping up incomes to that level where households fall below it. Another kind (e.g. Working Families Tax Credit) aims to help people on lower incomes more widely, even where they are above this minimum. For example in the case of the pensioner credit and in-work tax credits, support is reduced as incomes rise, but falls by less than a pound for every extra pound earned. This contrasts with the 100 per cent withdrawal rate that applies, for example, to people on income support earning more than a small amount of disregarded¹⁰ income, or until recently to the Minimum Income Guarantee for pensioners.

Means-tested approaches to supporting incomes are at one level attractive. They potentially concentrate resources on those in the greatest need. However, there are some serious disadvantages with a social security system that uses income tested benefits as the prime method of ensuring that everyone has an adequate income – a situation towards which the UK appears to be moving:

Five difficulties with excessive means-testing

- 1 It may reduce people's *incentives* to provide income for themselves.

If the state provides an adequate standard of living, will individuals and households decide that there is no point making efforts to earn and save? Incentive issues arise in a variety of forms. The strongest disincentive results occur when someone with limited earning power has little or no prospect of becoming better off through their own efforts than the state-guaranteed minimum. For example, income support could make someone as well off out of work as they could expect to be in it; or when deciding whether to save for income in retirement, a low income earner might have no hope of adding to the minimum guaranteed by the state. In practice, a '100 per cent withdrawal'¹¹ of extra income has recently been made far less likely in the case of work incentives (through improved in-work support combined with the minimum wage), and effectively abolished in the case of pension income (through the pension credit). However, in both cases a more gradual, but still problematic, form of withdrawal now applies to a wider section of the population, since the income at which means-tested support is payable has increased. The new generation of tax credits will leave nearly 1 1/2 million low-income working households with compounded withdrawal rates¹² of above 60 per cent, nearly double the number before 1999. This may, in particular, discourage a potential second earner from taking a job, knowing that on a minimum wage of £4.20 an hour, less than £2 might end up in their pocket. In the case of the Pension Credit, a pensioner in the lower half of the income distribution will lose 40p in reduced state support for each extra £1 they have in private pensions, keeping the other 60p.

Do these theoretical disincentives in fact affect behaviour? This has proven hard to determine since such a wide range of factors affect decisions about whether to work. Research has tended to indicate that disincentive effects can be significant, but not as

large as one would expect if marginal take-home pay were the only consideration about how much to work.¹³

But even if the visible behavioural response to disincentives is limited, society may be uncomfortable with their existence. First, because the public tends to be unhappy with the idea that the system discourages effort. Second, because a fear that the disincentive is having a hidden influence, or may come to affect behaviour, is bound to linger.

2 Sharp withdrawal rates create poverty traps and may be seen as *unfair*.

Even insofar as means-testing does not create behavioural changes through disincentives (people work less because they will not be much better off), there are reasons to be concerned about the effect of high income withdrawal rates. If people do not change their behaviour, but find themselves little better off from working more, this creates issues about fairness and about the operation of a poverty trap.

The provision of an income floor can be seen as a socially just measure because it guarantees everyone a basic living standard. On the other hand, if a large proportion of the population find that increasing their earnings makes them little better off, this may be seen by themselves and by society as unfair. Whether or not it creates disincentives, it reduces the capacity of individuals to better themselves. A low income pensioner who has saved for many years to achieve a small private pension, and is little or no better off than their neighbour who has saved nothing, is likely to regard the system as unfair. So is a low-paid worker who undergoes some training, achieves a pay rise, and then later has their tax credit and housing benefit cut, largely offsetting this gain.

3 Some people may find it *humiliating* to have to appeal to the state because they are poor.

Means-testing has, in different circumstances, created greater or lesser humiliation of its subjects. The extreme situation of the Victorian poor laws, which aimed to make claiming poor relief as unpleasant as possible to ensure that it was used as a last resort, is certainly a thing of the past. At the other extreme, some forms of means-test can minimise intrusiveness and stigma – especially where they are part of a system involving people across the income range. An example is the old student grant system, at the time when all students got some award, with a minimum level for higher-income families and a maximum for lower-income ones. The new Child Tax Credit will be similar in that respect, with lower and upper rates covering almost everyone, although the richest parents will not be eligible. Overall, the government has tried to take the stigma out of means-tested benefits, through a variety of methods, including rebranding them as tax credits and reducing the frequency with which claims must be renewed. It has also concentrated more than in the past on testing income, rather than capital, more of which is now disregarded.

4 *Take-up* of means-tested benefits is often relatively low.

Whether because of their attitudes to undergoing a means-test, or because of lack of information about what they are entitled to, a large percentage of people do not claim means-tested support. The government's efforts to reduce stigma do not appear so far to have wholly transformed people's attitudes: more than 20 per cent of those entitled are estimated not to claim the Working Families Tax Credit and the Minimum Income

Guarantee, and neither seems to have produced a dramatic increase in take-up compared to their predecessors. This undermines efforts to ensure that people are not living in poverty. It is true that the majority of people who do not claim tend to be those eligible only for small amounts. But before deciding that this does not matter much, policy makers should pause to reflect about why people would think that it is not worth claiming even a few pounds a week to which they are entitled, when they are on very low incomes. For some, it would appear that the means-test is still seen as an unwelcome intrusion.

5 The *ethos* of widespread means-testing does not sit comfortably in an affluent society.

In the case of pensions, for example, there is an important distinction between a system that says 'everyone who has worked has earned an entitlement to a decent pension beyond retirement age', and one that says 'the poorer half of old people can have their income topped up to a decent level if they come to the state and ask for help'. These alternatives are, of course, caricatures, but in thinking about what society we want 20 years hence, one can hope to aim for the first type of outcome rather than the second.

Despite the fact that the present government has increased the number of people subject to means-tests, there is widespread awareness of the above disadvantages, including within government. The present administration hopes, for example, that its pensions strategy will eventually reduce the number of older people on income-related benefits. It has also tried to reduce the disadvantages of means-testing through the design of benefits and tax credits.

There is certainly scope for minimising the drawbacks of means-tested support for incomes. The recent spread of means-tested tax credits rather than benefits does not in itself remove the disadvantages. Whether one calls an income transfer a tax credit or a benefit, and whether it is paid by the Inland Revenue or the benefits service, does not alter its fundamental characteristics. However, several other changes that have to some extent been associated with the move to a tax credit system are likely to be beneficial. In particular:

- *Less frequent assessment* of income helps blunt the relationship between changes in income and eligibility for financial help, reducing the degree to which every time someone improves their position the government takes something away. It also reduces stigma and intrusiveness. New tax credits for working-age people will be assessed annually; those for pensioners every five years.
- *A flat-rate payment* over a relatively wide band of income, in the case of the Child Tax Credit, gives extra security for low income households.
- *A relaxing of capital¹⁴ limits* on a number of benefits means that people with savings are not excluded: hence the means-test is becoming less intrusive than when it looked at every aspect of a person's means. In the case of the pension credit, all limits on capital have been removed.

Yet despite such modifications, means-tested support remains a 'second best' route to adequate incomes – one that will be necessary where other means fail to raise them sufficiently. The remainder of this paper considers three such alternative methods: enhancing incomes earned from work; developing new rewards for activities outside paid work; and improving entitlements to meet the needs of those who are not working. Although none of

these methods is likely in the near future to take very large numbers of people out of means-testing altogether, if they are emphasised over a number of years, the importance of means-testing in propping up incomes could dwindle.

Routes to adequate incomes (2): Enhancing incomes from paid work

The measure with the greatest potential to enhance the incomes of the most disadvantaged is to increase their opportunities for earning income from work. One element of this is helping more people to move into work, especially those in workless households. Recent governments, and particularly the present one, have focused on this, maintaining that working is the best route out of poverty.

However, somewhat less attention has been given to the task of enabling people to thrive in the working world, in terms of getting stable, high-quality jobs that are well enough paid to avoid having to fall back on means-tested support in order to obtain an adequate income. It is important to recognise that even relatively good wages are not guaranteed to lift every family out of poverty – that depends on the composition of the household and how many hours a week of wages its members bring in. Nevertheless, a sustainable long-term reduction in poverty rates depends on the individuals who make up the poorest households increasing their lifetime earning power – which can improve their standard of living in the working years and also, indirectly, in retirement, by giving them greater ability to save and contribute to pensions.¹⁵

Improving relative pay at the bottom of the labour market is not easy: it requires a reversal of a long-standing trend in the opposite direction, associated with the growing reward for skills and education and the declining demand for unskilled jobs. Wage and income dispersion in different OECD countries can be directly associated with education and skill inequalities. This evidence demonstrates that any strategy to reduce low pay must centre around the twin objectives of improving human capital and raising productivity.

As discussed in [Chapter 4](#), this means improving education and training for disadvantaged groups, not just at the beginning of, but also throughout their lives. Such improvement in human capital is a necessary but not sufficient condition for raising job quality and pay at the lower end of the labour market. Government needs to work with employers to ensure that improved skills are actively used. Indeed, since much worker training is provided and/or funded by employers themselves, persuading employers to focus more on training their less qualified workers needs to go hand-in-hand with persuading them to tap their potential more in the workplace. At the same time, government needs to make training a greater priority in its efforts to help disadvantaged groups in the labour market, for example through the New Deals, which hitherto have been oriented primarily on finding and entering jobs, rather than building skills that will lead to job progression.

At the same time as improving skills and productivity, the earnings floor can be progressively raised through upratings in the minimum wage. It is correctly argued that there are bound to be limits to how high this minimum can be set without destroying jobs, and hence undermining the objective of using work as a route out of poverty. However, if a steady increase in the earnings power of lower-paid workers is seen as highly desirable, governments will seek to maximise the level of the minimum wage within this constraint, rather than

Figures 7.2 The UK's relatively unequal earnings distribution is associated with its unequal skill distribution



Source: Nickell, S. (2002) 'The assessment: The economic record of the Labour Government since 1997', *Oxford Review of Economic Policy*, 18 (2)

Notes: *Ration of 95th percentile to 5th percentile score in adult literacy test (OECD 1997 *Literacy Skills for the Knowledge Society*, Paris: OECD).
 ** Ration of 90th to 10th percentile earnings (OECD 1997 *Employment Outlook*, Paris: OECD).

keeping it low out of excessive caution. More importantly, over a 20-year period, steady increases in the minimum wage and in productivity among those who receive it can be seen as complementary objectives. For example, if it is known that the minimum will increase annually at least in proportion to average earnings, this will put greater pressure on employers to take steps to improve productivity among those workers. Conversely, if efforts to raise productivity of lower paid workers succeed, this in itself would permit a higher minimum wage without risking jobs.

If this strategy succeeds, what can be expected to happen to in-work support to top up low incomes? Ideally, over time, they should become less important, and used more as a temporary safety net and as a bridge into work than as a means of ensuring that people stuck on low wages for long periods enjoy an adequate standard of living. This residual role would apply in particular to the Working Tax Credit, which aims to make work pay. People with children and on relatively low incomes may still not be able to reach an adequate living standard without a tax credit, and continue to receive Child Tax Credit at a relatively high rate as a result. In this respect, the separating out of the children's element of tax credits is a useful reform. It allows one to distinguish the elements of support arising from relatively high levels of need (the fact of having children, recognised by the child credit) and that which arises from low earnings in work (recognised by the working credit). A realistic objective over time would be to erode the need for the latter, while accepting the former as an entrenched and necessary feature.

Routes to adequate incomes (3): Valuing activities outside paid work

The present government's mantra so far for welfare reform has been 'work for those who can, security for those who cannot'. Yet this view of people outside paid work as helpless beings,

whose only need is support, creates an unhelpful dichotomy and devalues the many contributions that people make outside paid work. An alternative approach is to encourage and reward a range of activities – such as learning, caring and volunteering – that go on outside the context of paid work, but nevertheless add social value. An important aspect of this task is to enable people to move between different activities more easily. Therefore a further objective is:

To develop an approach to income support that values roles other than paid work and enables people to move more easily between them.

As a minimum, in moving towards the provision of a secure income for people who are not working, it will be important not to deter activity outside the context of paid work. In the past, people on benefits have often been nervous about engaging in learning or voluntary work, for fear either that they might not meet availability for work requirements or, if on Incapacity Benefit, because they might be deemed capable of paid work and lose their benefits. The government has already taken some steps to reverse this situation – for example by making clearer the rules that allow voluntary work while claiming Job Seekers' Allowance – but could go much further in this direction. In particular, in developing a 'work-focused' gateway to benefits it needs to take care that for those whose prospects of paid work are slim, alternative activities are encouraged.

A more ambitious aim would be, not just to create a permissive environment towards activities outside work while claiming benefits, but to make it clear that certain socially valued activities would earn a higher than normal basic income. Two priority areas of support might be:

- *Support for carers.* A substantial benefit or tax credit designed to support the incomes of people spending given amounts of time caring for sick or elderly relations or friends could ensure that carers had adequate living standards that took them above 60 per cent median income and was not clawed back sharply against earnings – although some exclusion of higher income groups would make it more affordable. This could build on the present Carers Allowance. One option would be to provide a (more generous and flexible) carer's allowance to people on low and middle incomes and to exempt any reward for domestic caring – whether from the allowance or from private payment – from income tests affecting benefit and tax credit entitlements. In this way, caring could provide a particularly valuable income supplement for people on low incomes.

Research on carers has shown that many people both inside and outside work undertake substantial amounts of unpaid and unacknowledged care, which often leaves them feeling stressed and undervalued by society.¹⁶ In the long term, while the percentage of children in the UK population can be expected to decline,¹⁷ the number of older people needing personal care will greatly increase. If we continue to take for granted the army of unpaid labour on which we now depend to provide personal care for these groups, there is a strong risk that there will not be enough people willing to put in the dedicated service that is needed. The long-term cost to formal care and health services could greatly exceed the cost of providing supplementary income to carers. Moreover, more than four-fifths of

the public support higher benefits for those who care for the sick and disabled – more than for any other category of benefit recipient.¹⁸

- *Support for people undertaking work-relevant training.* Another priority group is those undergoing work-relevant training. As discussed above, training is an important part of a strategy for enhancing low incomes through work. A training allowance that ensured that people investing in their own futures were brought above the basic income level paid on income support, would be a clear signal that training is considered important by society. As with a carer's allowance, an important measure could be to allow any payment to people undergoing training (including from an employer) to be disregarded in benefit and tax credit assessments. This would make it easier for people to rise above the minimum, and would demonstrate the important value placed on training. One difficult issue about such measures, however, would be deciding exactly what qualified as training: this could be either relatively narrow or broad in scope. An option would be to give an allowance that was restricted to building key skills – available to those in jobs as well as out of work. This would focus on people lacking critical competencies who are vulnerable to low pay and unemployment, without having to use a direct means-test in order to target this group, or to force people to give up a course at the point at which they gained a job.

A key purpose of such support would be for people to move more easily between paid work and other activities like caring and training without catastrophic disruptions to their incomes. An analogy is the present tax credit system for parents. This potentially allows someone on a relatively low income to reduce their working time to 16 hours a week, spending the rest of the time looking after children: with the help of the tax credit they will face a relatively modest fall in income. Although it is not directly justified in this way, this constitutes a form of public acknowledgement of the value of time spent looking after children.

Today, about four million people below pension age are receiving out of work benefits. In seeing these people not just as a 'problem' but as part of the solution, it is important to do more than simply encouraging as many as possible of them to look for paid work. Unpaid work has always played a huge role in society in bringing up children; it is also an essential ingredient of community regeneration, and will become increasingly important in relation to the care of older people. Systems for maintaining lifetime incomes need to acknowledge these contributions to a greater extent in the future than they have done in the past.

Routes to adequate incomes (4): Enhancing incomes for needy groups outside the labour market

A large number of people of working age, and the great majority of older people, have to live for lengthy periods without income from work. As well as thinking of new ways of rewarding activity for some of these people, it is important to think about the basis of providing all of them with a basic income.

One way of approaching this task is through an 'insurance' principle, under which people pay into a pot when they are working and, in exchange, draw out of it when they are not. A true system of insurance, with contributions directly funding payments and individual entitlement directly related to contribution records, has never worked as well in the United

Kingdom as in many other European countries, and in recent years has all but broken down. Two examples illustrate this. First, the linking, in the 2002 Budget, of a 1p rise in national insurance contributions to an increase in resources for the National Health Service – an area of expenditure which is not part of the insurance system – demonstrating that the revenue from National Insurance is now regarded as a tax. Second, the fact, referred to above, that only one in five unemployed people are entitled to contributory benefits, illustrating the degree to which means-tested support has become the main prop for working-age adults without their own income. There would be considerable merit in operating a more robust system of social insurance as still exists in countries like France and Germany, but this would require a massive overhaul of the whole UK social security system. Discussions about how to revive the insurance principle¹⁹ have tended to founder on the twin rocks of political realism and economic caution. To make such a principle viable is likely to require a substantial increase in employers' contributions at precisely the time that many countries are trying to reduce theirs because they believe they are economically damaging.

An alternative is to think about social protection in more general terms, of helping people in certain circumstances and life stages, without trying to set up specific insurance funds to which people pay in and from which they draw out, and without narrow means-tests. A developing model for providing support of this type is the money paid for families with children. Child Benefit is paid to all such families regardless of means, while the new Child Tax Credit will be paid to most families, with different rates for people on lower and on higher incomes. Between them these benefits have helped improve the living standards of all families with children, with a relatively light-touch element of means-testing. Child Benefit has enjoyed almost universal take-up and, as abortive efforts to change child benefit have illustrated, strong political support. For parents moving in and out of low-to-modestly paid work, both of these benefits provide a stable sum that recognise their status as parents and give a fixed, substantial level of support for their children.

Could such support, providing stable incomes to all people in certain life circumstances, be extended to more categories? The British Social Attitudes Survey shows substantial public support for improving the benefits available to certain groups. Over two-thirds of people questioned think for example that disabled people and retired people should be getting more from the government than now.²⁰

In the case of people whose disabilities restrict their ability to work, there is scope for simplifying and strengthening benefits to provide a reliable basic income, greater than the minimum. This would acknowledge society's support for them and give them something stable on which to build. At present, Incapacity Benefit gives some of those who are not working (subject to modest contribution requirements) an income that tends to be higher than the means-tested level (relied on by those without sufficient contributions), while disabled people in work and on low incomes are eligible for tax credits. A more straightforward entitlement to a basic income for those whose impairments restrict their ability to earn might look more like the Child Tax Credit, with a fixed basic amount (although perhaps reduced or phased out if stable income from work rises above a certain level), paid whether or not they are currently working and regardless of contribution records. Note that such a structure would, like the present Incapacity Benefit, be distinct from assistance given to people to help cope with their disabilities, through Disability Living Allowance. Like Child Benefit, this is a pure 'contingency'

benefit that could exist alongside a benefit that was eventually reduced or withdrawn for those finding stable, well-paid work.

A further contingency for which a substantial basic income is desirable is old age. Pensions are discussed in more detail below. At present, the first and second state pensions are linked to contribution records, but to a large extent are contingency based, insofar as the contribution requirements are modest. As with Incapacity Benefit, there is merit in considering whether a contribution condition remains relevant, especially if the state retirement pension were to be restored as the main bulwark for income in retirement for lower income groups.

The particular case of pensions

As discussed throughout this paper, incomes in retirement are subject to many of the same considerations as incomes throughout working life. In retirement as at other times of life, income inequalities have been rising and it is desirable to ensure that individuals and households have at least a basic income sufficient to allow them to enjoy a reasonable standard of living that rises with general levels of prosperity. Also like in working life, means-testing in retirement can create a range of difficulties, although in this case issues of incentives and fairness relate to prior savings rather than current earnings from work.

Yet the ability of individuals to better themselves in terms of retirement income is far more constrained and limited than working-life income. Even though the latter can require some fairly long-term investments in terms of, for example, education, it is relatively easy to see the cause and effect of improving one's qualifications and getting a better job within a reasonable time period. Enhancing one's retirement income 30 or 40 years ahead by making adequate provision now, especially on the basis of a low income, on the other hand, is full of uncertainties. It is hardly surprising that so many people are making inadequate pension savings. Although there are a number of ways in which such provision can be usefully enhanced (notably by improving people's in-work incomes), a voluntaristic approach to pension saving is unlikely to reduce dependence on means-testing in later life.

Rather, the minimum income guarantee and the pension credit will continue to provide the main support against poverty in later life unless systematic measures are taken to provide alternative, non-means-tested sources of income. When it was originally announced, the second state pension was supposed to perform this function – but only as it was built up over 50 years, and even this goal has been undermined by the pensioner credit, which pushes income-testing further up the pensioner income scale. Are there other options for replacing means-tested transfers with more adequate pensions over the next 20 years? Three possible ways of doing this would be:

- 1 To make the second state pension more generous, and accelerate its introduction, so that within 20 years it provides 60 per cent of median income.
- 2 To raise the value of the main state pension to the present level of the minimum income guarantee, and peg it to earnings, making it possible to abolish the pensions credit.²¹
- 3 To introduce a further tier of pensions, an earnings-related compulsory insurance scheme, but with a minimum amount payable that tops up the basic and second pension to at least 60 per cent median. Pensions (as well as long-term care) are an area in which a significant strengthening of the insurance principle could yet prove feasible in the UK – largely

because income needs in old age can be anticipated as a near-certainty for all social groups, and there is potentially a strong interest for the better-off as well as the worse off in supporting such a scheme.

None of these options would be cheap, but neither would they be unaffordable.²² Moreover, the second and third options would yield very tangible benefits, in the form of a more stable base income in retirement to people across income groups who were being asked to pay more in taxes and/or insurance contributions. We do not advocate any particular one of these options, but believe that some such route to adequate pension entitlements for everybody, rather than a system of poor relief covering a swathe of the pensioner population, needs to be developed for the decades ahead.

A final question is whether, for pensioners as for families with children and potentially disabled people, a semi-universal benefit with an element of means-testing (like the Child Tax Credit) might in the long term provide a more viable compromise. This could take the form, for example, of a retirement pension paid to everyone, with a maximum and a minimum rate. The full maximum rate, equal to around 60 per cent of median income, would be payable not just to those with no private means, but to people with incomes up to a certain level (e.g. 25 per cent above the minimum), thus improving the scope for using a small amount of savings and private pensions to raise one's income above a basic amount. Once above this income, the pension would be reduced relatively quickly with rising income to a minimum amount (perhaps similar to the present state retirement pension). This would lead to final incomes not greatly different from the present system, but with less severe means-testing for the worst-off and, more importantly, a single entitlement pension providing adequately for everyone, rather than requiring the worst-off to apply for income top-ups. Such a hybrid system may indeed have potential as a 'second-best' alternative to the three other options suggested above. Yet it would still have a significant disadvantage compared to an adequate state retirement pension for all, which all members of society would have a direct interest in maintaining at levels that increased with national prosperity.

Conclusions

This paper has set out a number of long-term *directions* in which we should be heading if we want people to have sufficient incomes to escape disadvantage.

In summary, these should involve:

- Raising the safety net of minimum income to more adequate levels.
- Taking measures to increase worker skills, productivity and pay at the worst-rewarded end of the labour market, both through training and through attention to the level of protection afforded by the minimum wage.
- Rewarding activities outside paid work that society most values, notably care and training.
- Providing stable entitlements to benefits or tax credits that are not narrowly means-tested – either through universal entitlement for people in certain life situations or through entitlements that reduce above a certain income threshold rather than continuously with rising income.

None of these objectives can be achieved quickly, easily or without cost. However, over a long period if we keep sight of them and move steadily towards them, much can be achieved. That is why they are described as directions: above all we need a steady *compass* that enables a gradual but consistent move towards a more satisfactory system for protecting incomes. Even long journeys can, eventually, be completed successfully as long as the course remains a steady one.

Notes

- 1 Note that this is 'equivalised' to adjust for household size.
- 2 Gordon, D., Adelman, L., Ashworth, K. *et al.* (2000), *Poverty and Social Exclusion in Britain*, York: Joseph Rowntree Foundation pp. 14–15.
- 3 See, for example, Campbell, N. (1999), *The Decline of Employment Among Older People in Britain*, CASE paper 19, London: London Centre for the Analysis of Social Exclusion, London School of Economics.
- 4 For evidence of its effects see Kempson, E. (1996), *Life on a Low Income*, York: Joseph Rowntree Foundation.
- 5 Veit-Wilson, J. (1998) *Setting Adequacy Standards: How governments define minimum incomes*, Bristol: Policy Press.
- 6 Notably Job Seeker's Allowance, where claimants do not have an entitlement based on contributions and, for older people, the Minimum Income Guarantee/Pensioner Credit.
- 7 Note that for the single pensioner, '60 per cent of median income' is calculated as £107 before housing costs.
- 8 Those who have are not entitled to insurance-based benefit, and those who receive such benefits but require supplements to take them up to a safety-net income threshold.
- 9 The particular case of housing benefit is not dealt with here. Housing benefit has made an important contribution to the growth in means-testing, although this has been driven primarily by the shift away from subsidies and regulations to ensure low rents, rather than by a fundamental change in methods of supporting incomes. Similarly, the recently announced pilot change in the housing benefit system will start by reducing benefit sensitivity to rent rather than to incomes (eligibility will be the same for each tenant in an area, regardless of actual rent); means-testing against income will remain.
- 10 i.e. income that is ignored for the purpose of assessing benefit entitlement.
- 11 i.e. for every £1 extra earned, £1 is lost in lower benefits and/or higher taxes.
- 12 i.e. the total rate at which rising earnings are offset by increasing tax/national insurance liabilities and by falling benefits/tax credits.
- 13 See, for example, Duncan, A. and Giles, C. (1996) 'Labour supply incentives and recent family credit reforms', *Economic Journal*, 106 (434), 142–155.
- 14 Capital includes the value of all savings, property and investments, other than the claimant's own home and personal possessions.
- 15 Note that by far the most important predictor of one's chances of being poor in retirement is one's work history. See Bardasi, E. and Jenkins, S.P. (2002) *Income in Later Life: Work history matters*, Bristol: Policy Press.
- 16 Mooney, A., Statham, J. and Simon, A. (2002) *The Pivot Generation: Informal care and work after 50*, York: Joseph Rowntree Foundation/Policy Press; Phillips, J., Bernard, M. and Chittenden, M. (2002) *Juggling Work and Care: The experiences of working carers of older adults*, York: Joseph Rowntree Foundation/Policy Press.
- 17 The population of children under 16 is projected to fall from 20.2 per cent of the total population in 2001 to 17.3 per cent in 2021 – proportionately one in seven fewer children (National Statistics). Changes in fertility and migration could have some effect on this, but bearing in mind that a 3 percentage point fall represents nearly two million fewer children, a substantial fall seems likely.
- 18 See Hills, J., (2000) *Taxation for the Enabling State*, CASE paper no 41, London: Centre for Analysis of Social Exclusion, London School of Economics, p. 17.
- 19 *National Insurance or Social Insurance? Informing the Debate: seminar papers (1999)* A collection of papers from seminars organised by the Joseph Rowntree Foundation, July–November 1999.
- 20 Hills, *Taxation*.
- 21 Brooks, R., Regan, S. and Robinson, P. (2002) *A New Contract for Retirement*, London: IPPR.
- 22 Brooks, R. *et al.* as above; Pensions Reform Group (2001) *A new Contract Universal Protected Pension: Modernising Pensions for the Millennium*, London: Institute for Community Studies.

8 Tackling disadvantage: Housing

More shortages and homelessness?

Richard Best

Introduction

Housing policies can make an immense difference to tackling disadvantage. They can ensure that households even on the lowest incomes live in decent homes within a pleasant environment. Conversely, if policy fails to address housing issues, the lack of a satisfactory home can have a great impact on not only the quality of life of individuals but also their wider opportunities.

For many decades, governments have set as their goal a decent home within the means of every household. Much progress has been made in removing slums, improving conditions and reducing overcrowding. But the evidence suggests that there are underlying trends which point to renewed housing shortages – with consequent impacts on house prices, conditions, overcrowding and homelessness.

Many areas suffer as a result of falling housing demand. Investment is needed not only to encourage growth in the number of households seeking accommodation but to relieve poor conditions and to buttress the range of other regeneration initiatives needed to revive the fortunes of the most disadvantaged neighbourhoods. Here, however, we address the contrasting problem of the areas where the economy is strongest and, consequently, those places where housing demand is greatest.

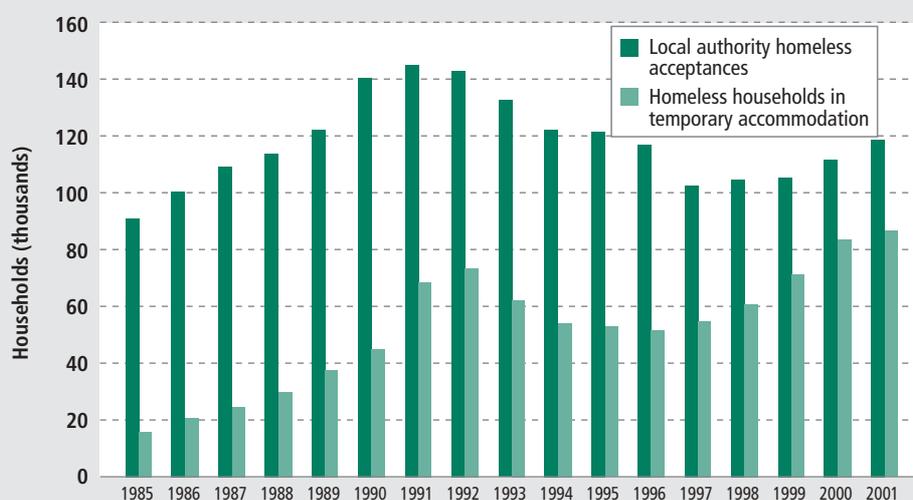
The consequences of housing shortages

In the areas of highest demand the supply of extra homes has not kept pace. This paper argues that this imbalance is destined to worsen. When far fewer homes are available than are required, the effects are felt by those:

- Looking for somewhere to live – through the higher prices and market rents that they must pay.
- Unable to take up employment opportunities because they cannot afford to live within reach of the job on offer.
- Who have to commute long distances between their job and a home they can afford.
- Who are well housed but who feel the effects in high prices and lower quality services – like transport and health – which result from problems of recruiting and retaining staff.
- With mortgages who are hit by higher interest rates when these are used to damp-down inflationary price rises; (in the long-term it is improbable that falling interest rates will coexist for sustained periods with rising house prices, as in the current situation).

Figure 8.1 The growing use of temporary accommodation

Households in temporary accommodation and those accepted by local authorities as homeless



Source: Wilcox, S. (2001) *Housing Finance Review 2001/02*, Coventry and London: CIH/CML; ODPM
Note: Data applies to England

Most of all, however, the effects of housing shortages are felt by the least affluent families, unable to buy or access social housing, who feel the distress of enforced sharing, overcrowding, use of temporary accommodation and, at worst, homelessness.

There is evidence that the problem for those on the lowest incomes is becoming increasingly acute. As Figure 8.1 shows, over a period of increasing affluence, although many fewer households have been accepted as homeless and as requiring housing by local authorities, there has nonetheless been a sharp increase of those being housed in temporary accommodation. This is because, although local authorities have had to find a smaller number of permanent homes to fulfil their statutory duty, they have simply been unable to find enough. The rising use of temporary housing is an important barometer for growing shortages. It should be noted that 58 per cent of homeless households in temporary accommodation are in London – compared with London’s 15 per cent share of England’s households.¹

Pressures for more homes

The impact of affluence

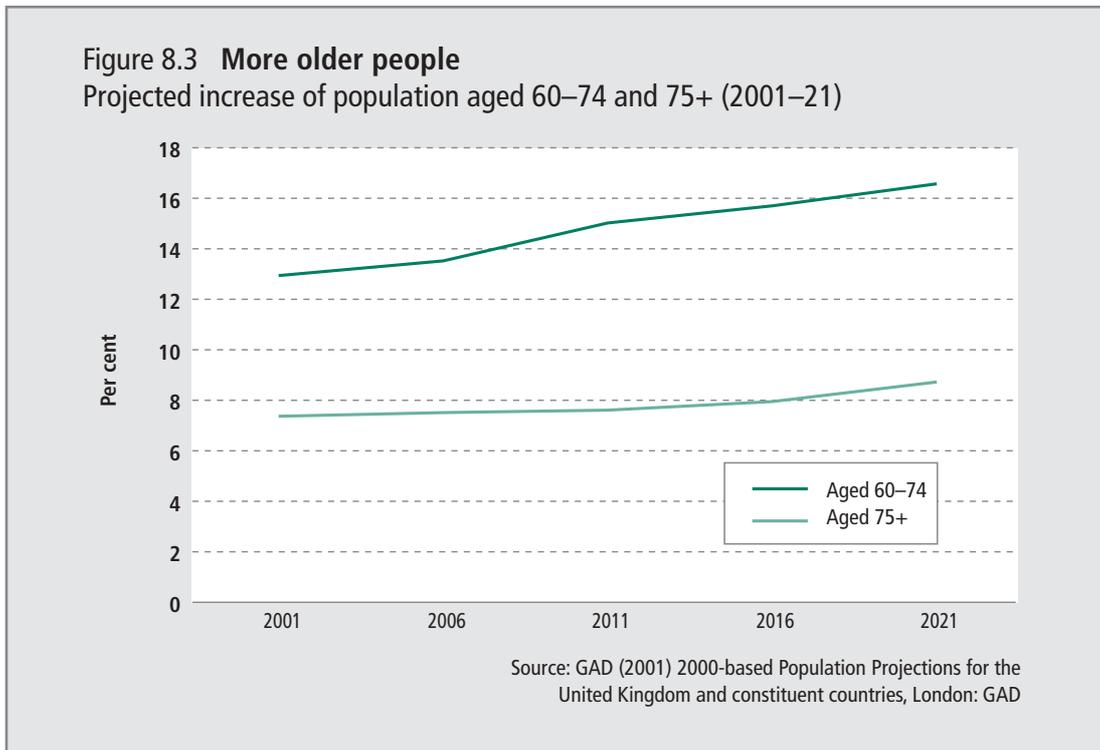
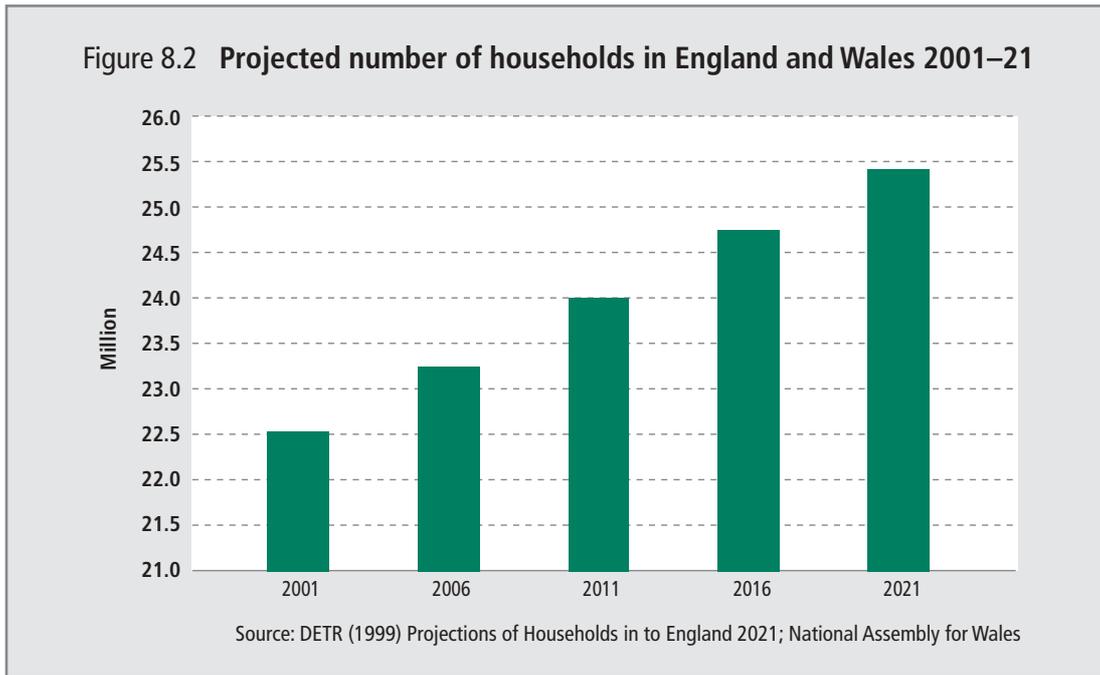
Rising living standards mean that each household today expects to live in a self-contained house or flat. In the early 1900s, a terraced urban house or a rural cottage might have been occupied by three generations, including five or six children; today it may be the home of a childless couple or a single pensioner. In times past, older people might have had no option but to live with their children, in-laws or to share a room in a residential home. But with more money to go round, most of us are choosing in retirement to continue to live in our own homes, even if these contain little-used spare rooms.

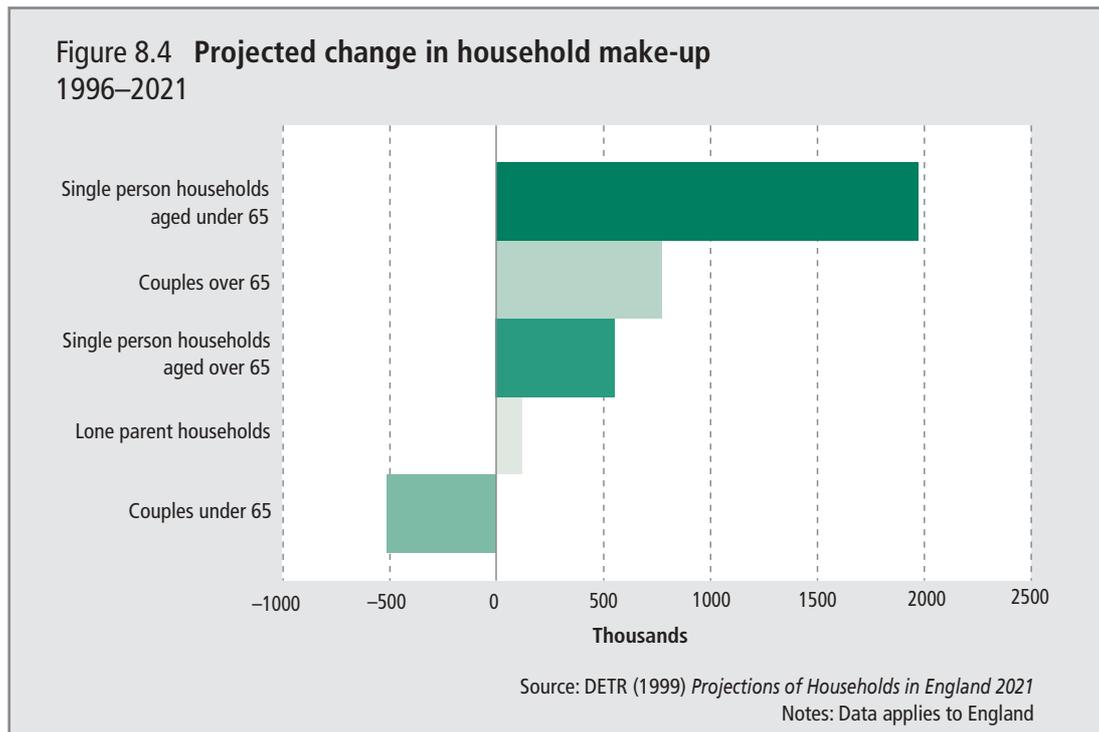
Increased affluence over the next 20 years is likely to mean that a given number of people will occupy a greater number of homes than in previous decades. (Indeed the phenomenon of

second homes might in future impose further strains.) While the majority continues to grow richer, continuing to give high priority in their spending to securing the home they desire, the gap between the well-housed majority and those lacking a decent home could widen.

The impact of demography

It is the number of households – not the number of people – that determines how many homes the nation requires. Figure 8.2 (taken from the Government’s 1996-based household projections) shows that household numbers are projected to continue to rise relentlessly to 2021.





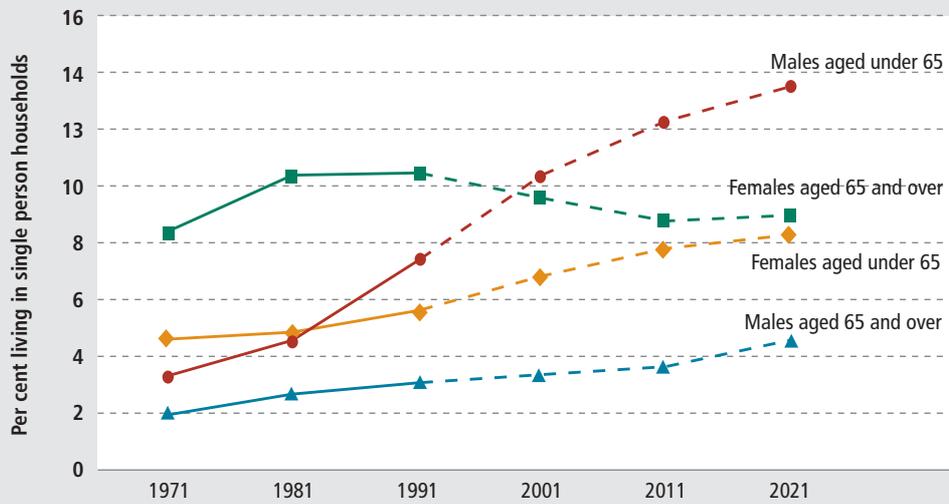
There are three key reasons for the continuing increase in household numbers:

- *Longer lives:* Despite the lower birth rate, longer life expectancy means that natural growth – the excess of births over deaths – will continue to be positive. While houses often used to be vacated following the death of their occupiers in their 60s, in the years to come more and more residents will still be there in their 80s.
- *More singles:* Patterns of family life have changed: more people are becoming partners and parents later in life, or not at all, and more are divorcing and separating. This generates larger numbers of working age single-person households – mostly amongst those over 25 years old who cannot be expected to remain in their parental homes. Projections suggest that these trends will continue over the next 20 years. Whilst over 60 per cent of single person households are projected to be people under 65, there will continue to be large numbers of older single people, especially formerly married women.
- *International migration:* The total number of people living in the UK grows whenever there are more inward migrants than people leaving the country. Although the global movement of people and jobs involves large numbers of UK citizens moving overseas, the movement overall is an inward one. International inward migration is a significant contributor to population growth. This is supplemented by refugees and those seeking asylum who are fleeing from violence and oppression in other countries. Recently, the Government Actuary's Department increased its figures for net inward migration to the UK from 95,000 to 135,000 people per year for the period to 2021.

None of these demographic changes need be seen in a negative light:

- Most of us want to live longer lives than our predecessors. And few of us – older or younger – want to share our homes all the time with other generations.

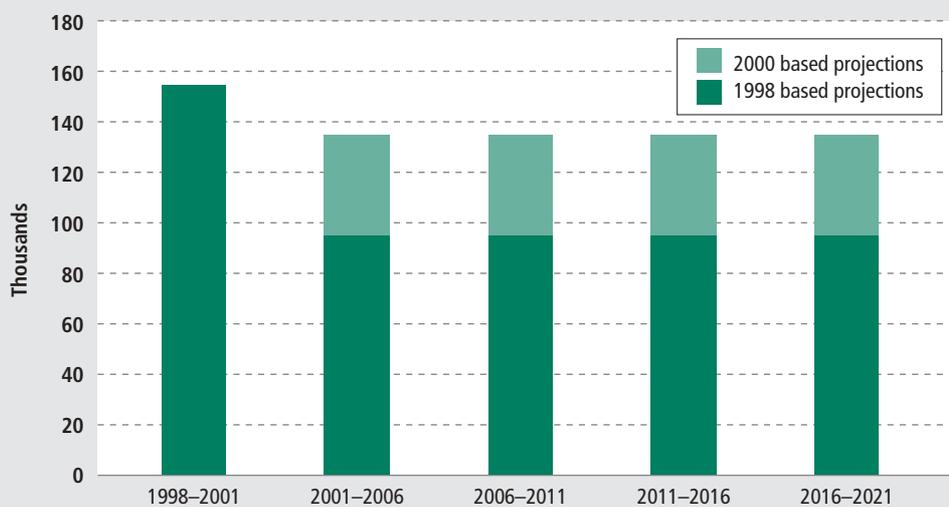
Figure 8.5 More single person households
 Changing proportion of population living in single person households by age and gender (1971–2021)



Source: Office for National Statistics (2001) *Social Trends*, London: The Stationery Office

- The growth in the number of single person households is important to the 'urban renaissance' agenda that requires the spending power and vitality that this group can bring to inner urban areas.
- International inward migration of younger households will redress some of the imbalances found in an ageing population (with the Japanese experience testifying to the problems in a country that has almost no immigration). New people are required for essential services, including doctors and health workers, and to sustain our economic growth, not least in the ICT sector. Furthermore, immigrants bring the cultural diversity that can invigorate and stimulate city life.

Figure 8.6 Projected annual net inward migration to the UK (1998–2021)



Source: GAD (2001) *2000-based Population Projections for the United Kingdom and Constituent Countries*; GAD (1999) *1998-based Population Projections*, London: GAD

Nevertheless, however positive these demographic trends, housing policies have to keep up with them.

How many new homes are needed?

Household projections, based on 1998 figures from the Government Actuary's Department and past trends in household formation, suggest that between 1996 and 2021, England will need to accommodate an extra 4.3 million households.²

However, this figure relates only to the *additional* households created in the period to 2021. It makes no allowances for the new homes needed to meet the backlog of existing need for groups including:

- *Households in bed and breakfast and other temporary accommodation* where local authorities have accepted them as homeless.
- *Concealed families and households* forced to share.
- *Would-be couples* who are having to live apart.
- *Hostel residents.*
- *Homeless people sleeping on the streets.*

Estimates suggest that the backlog in 1996 was approximately 650,000 households.³ It seems likely that the figure has increased over the last five years because supply has not matched demand.

There are several other factors to take into account when projecting the requirements for house building:

- *Demolitions* The current rate of demolition is approximately 16,000 homes per year.⁴ Whilst this rate is low in historical terms, the desirable rate is probably higher. Clearly all homes that are demolished need to be replaced to keep in touch with the housing target.
- *Conversions and changes of use* Overall, more conversions increase the number of homes (e.g. a single family house converted into two flats) than lead to a reduction (e.g. two flats converted into one): the net gain per annum is estimated at 12,700 homes.⁵
- *Secondary residences* Second homes must be accounted for when comparing the number of dwellings with household population. In the UK the numbers are relatively low – around 230,000 homes or 1 per cent of the total – and do not appear to be growing.⁶
- *Vacant dwellings* The Empty Homes Agency estimates that there are over 750,000 empty homes in England. If more empties could be permanently re-occupied there would be a corresponding reduction in the requirement for new homes. However, whilst estimates vary as to the amount that have been filled over the past decade, to date the problem has proved resistant to any lasting solution.

In *Housing Demand and Need in England 1996–2016*⁷ newly arising need for additional dwellings was put at about 225,000–230,000 a year in England alone. Since those estimates were published, further work by Alan Holmans for the Joseph Rowntree Foundation suggests that the 1998-based household projections, and the official 1996-based projections from which they were derived, over-stated the number of households relative to the population.⁸

The official estimates of households in 1999 were likely to be too high, by around 150,000: the most likely reason is that recent inward migrants are less likely to form separate households than the population as a whole.

Working in the opposite direction is the new and higher 2000-based population projections published by the Government Actuary's Department late in 2001. In the medium term, net inward migration to the UK is assumed to run at 135,000 a year, compared with 95,000 a year in the 1998-based projections.

The estimate of the annual net increase in households that takes account of the 2000-based population projections is 160,000, which implies that newly arising need for additional dwellings, will be about 210,000 a year.

If we look at output from the house building industry and from the social housing providers, we see a yawning gap opening up for the 20 years ahead. Taking an average output in England of 154,000⁹ homes over the last five years, and rolling this forward, the shortfall accumulates at some 56,000 homes a year. This suggests a shocking gap of over 1.1 million homes 20 years hence, in England alone.

With the problem disproportionately concentrated in particular areas – particularly those within London's travel-to-work area – the picture is one of impending crisis.

The Deputy Prime Minister's statement, following the Chancellor's Spending Review in 2002, indicates an acceptance of the nature and scale of these problems. There is now a public commitment to narrow the gap between demand and supply in the South-east, targeting potential growth areas and taking a firm stance on unnecessary planning restrictions (while simultaneously boosting housing market renewal efforts in the northern urban areas). But this chapter argues that major increases in the supply of affordable homes are extremely unlikely without the underpinning of adequate subsidy for production. It is by no means certain that the amounts of additional funding so far announced for the early 2000s will be sufficient to head off the impending, deep-seated crisis of housing shortage and homelessness.

The impact of geography

Simply counting numbers of households and numbers of homes, across the country, reveals only a partial picture. *Where* the people and the homes are located is all-important. If more people need or want to live in an area than there are homes to go round, housing shortages will appear in that place – even if there are vacant homes at the other end of the country.

The next 20 years is likely to witness a continued polarisation between areas. This has created places – particularly in parts of our major conurbations – where the stock of housing already exceeds the demand and is likely to continue to do so even if policies are successful in improving the economy of these places. The housing issues in these areas of low demand are not only about housing investment to support the process of reversing decline, but about facing up to the obsolescence of some neighbourhoods, with demolition or clearance of certain estates and streets, and the 'management of decline'.

Contrary to popular perception, however, the problems of high demand areas – most prominently the South-east – are not caused principally by mass migration from North to South. Those who have left the urban centres of the Midlands and the North have seldom moved far, and have created pressures on the countryside and services in their own regions. Nevertheless, the UK's housing problems do have a strong regional dimension.

Southern England

Although all regions are expected to see growth in household numbers, the greatest pressure will continue to be felt in Southern England (i.e. London, the South-east, South-west, and Eastern regions). For example, the population of the South-east region alone is expected to increase by 50,000 a year – about 1 million extra homes in the twenty years to 2021.¹⁰

Table 8.1 shows that the spatial pressures on the South in the 1990s came principally from:

- *Migration out of London*, since the capital city – just like the six major conurbations to the north – sees more UK citizens moving out than moving in each year. This net internal migration from London accounted for 50 per cent of the increase in population in the South of England.¹¹
- *Natural growth* (i.e. more births than deaths), which accounted for 25 per cent of the population change in the southern regions.
- The excess of *international inward migration* over internal outward migration from the regions (19 per cent).

Only eight per cent of the change is attributable to net *internal migration* from the North and Midlands and from Wales, Scotland and Northern Ireland.

London

London is a special case. Although on average about 50,000 more people leave London than move in from elsewhere in the UK each year, these population losses are balanced by far greater net inward *international* migration than for other areas. Those moving in from other countries include extremes of rich and poor, fuelling central London house prices on the one hand and the need for social housing on the other. As well as top financiers and professionals

	Number (thousands)	Annual average	percentage
Natural change (births minus deaths)	+183	+26	25
Internal Migration (net) from North and Midlands and Wales, Scotland and Northern Ireland	+61	+9	8
Internal migration (net) from London	+370	+53	50
International migration (net)	+137	+20	19
Other changes	-16	-2	-2
Total population change	+735	+105	100

Source: Bate, R., Best, R. and Holmes, A. (eds) (2000)
On the Move: The housing consequences of migration, York; Joseph Rowntree Foundation/YPS

from all over the world, the London Boroughs are currently accommodating over 50,000 people seeking asylum.¹²

So, although London's pattern of 'urban exodus' is similar to that of the other big cities, its losses are replenished in a way that seldom occurs elsewhere. At the same time, the younger population of London demonstrates a disproportionately high rate of natural population growth (i.e. births minus deaths), making for an overall expansion in the city's population.

Table 8.2 Where the extra people in London are coming from

Population change in London 1991–98 (thousands)

	Total	Annual average
Natural change (births minus deaths)	+273	+39
Internal migration (net) from London	-337	-48
International migration (net)	+335	+48
Other changes	+26	+4
Total population change	+297	+42

Source: Bate, R., Best, R. and Holmans, A. (eds) (2000) *On the Move: The housing consequences of migration*, York: Joseph Rowntree Foundation/YPS.

It seems likely that with the sustained growth of London as a world city, and the compound effect of natural change and international inward migration, the pressures recorded for the 1990s will become more acute over the next 20 years.

The increased demand for housing, especially in certain areas, will lead to acute shortages unless housing supply problems are tackled. It is to this potential shortage that we now turn, but there is an additional issue of solving outstanding problems of poor quality housing. This is discussed in the box 'Housing conditions'.

Housing conditions

The problems

Although housing conditions in the UK have improved steadily throughout the century, the number of homes that are unfit or in serious disrepair remains stubbornly high. Homes in poor condition are hazardous; cold and damp buildings are bad for health; poorly heated and insulated houses lead to 'fuel poverty', with occupiers spending disproportionately on keeping warm. They also contribute to wasteful energy consumption.

There are problems of poor condition in all tenures: in numerical terms, the majority of unfit homes are found in the owner-occupied sector. These occupiers are likely to be poor, and the majority are elderly, finding it hard to pay for maintenance and essential repairs.¹³ Although local authorities have the powers to make renovation grants available to homeowners, in practice these are hard to obtain. While numerically much smaller, the private rented sector has much the largest proportion of its properties in poor condition (with

Figures 8.7 Unfit homes: most homes in disrepair are found in the owner-occupied sector



Source: Revell, H. and Leather, P. (2000) *The State of English Housing*, Bristol: The Policy Press/JRF

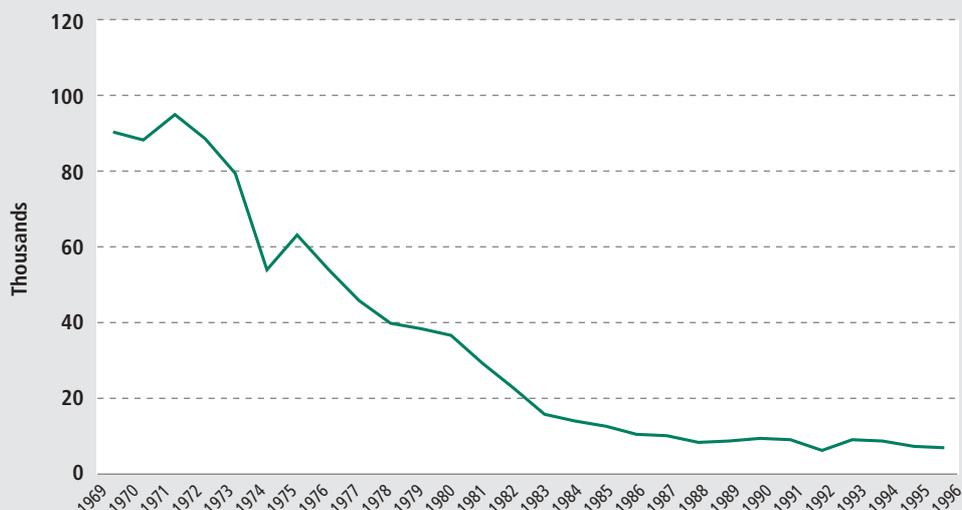
53.9 per cent of all homes in this sector being in serious disrepair). Recent research shows that the levels of rent received by landlords bears little relationship to the amount invested in repairs and improvements: so there are few incentives for improving conditions in this sector.¹⁴

In particular, there are continuing concerns about the state of some of the *houses in multiple occupation* – properties let in the private sector to a number of separate single people.¹⁵ Deaths from fires and sub-standard conditions have given this sector a bad name and government is committed to a scheme of compulsory licensing.

Council housing contains some estates that were not only inappropriately designed and badly built, but have also proved difficult to manage and maintain. Increased investment – through retention of the proceeds from ‘right to buy’ sales and from the private investment that follows transfer of the stock to new ownership – has been making an impact.

The rate of demolition of unsatisfactory housing in the UK is at an extraordinarily low level: at this rate, homes built today must stand for more than 2000 years. This pattern could change over the decades ahead and, if it does, this will add accordingly to the pressures for building more new homes. However, the level of individual home ownership in the UK creates difficulties for replacing existing stock: with adjacent homes in different hands, the cost and complexity of redeveloping outdated housing – let alone replacing low density homes in the suburbs with more housing – creates huge logistical problems. Even where council housing is mostly in a single ownership, the right to buy has often led to scattered individual owners around an estate, again inhibiting any plans for redevelopment. In the quest to find sites for higher density new housing, the only realistic option may often be the blocks of least popular council flats where existing residents can be at the heart of planning new accommodation for themselves as well as for others.

Figure 8.8 Demolitions of dwellings in England 1969–1996



Source: Revell, H. and Leather, P. (2000) *The State of English Housing*, Bristol: The Policy Press/JRF
DTLR (2001) *Housing Statistics 2001*, London: The Stationery Office
Notes: 1969–74 data applies to Great Britain, afterwards to the UK.
Data up to 1972 is for calendar years; after 1982 for financial years.

There is also a *race dimension* to the problems of house condition: in many localities, there are concentrations of houses – often pre-1919 terraces – in the worst conditions that are occupied principally by ethnic minority groups. Very poor housing conditions are adding to other tensions and inequalities in these neighbourhoods, making investment in home improvements – for owners, for private landlords, and for registered social landlords who buy and renovate such properties – a much higher priority.

In times past, Improvement Grants have been used to persuade owner occupiers and private landlords to bring their homes up to modern standards. But such untargeted subventions are out of favour and few local authorities are keen to use precious resources for this purpose. This inhibits the important work of home improvement agencies – ‘Care and Repair’ and ‘staying Put’ schemes – which assist poorer, usually older, owners to improve their properties.

However, opportunities exist in areas where property prices are at or above average levels to release some of the equity to pay for home improvements. Over the years ahead, more sophisticated financial instruments should be devised for this purpose.

Where whole areas suffer from low demand, modernising unsound individual houses is unlikely to address the underlying problem. Area-based regeneration initiatives that raise the quality of the whole neighbourhood will be required, in harness with measures to improve the economy. Housing associations and regeneration agencies, based on local partnerships, will often be at the centre of these initiatives. But Joseph Rowntree Foundation research, looking at areas of Birmingham that have been subject to investment in property improvements, has shown that investment in improved conditions is no guarantee of long-term regeneration for a neighbourhood.¹⁶

The shortfall of new homes

The overall requirement is for over 200,000 homes each year in England alone, and for a concentration of these in London and the South, as well as in rural areas within travel-to-work reach of other major centres and in some 'hot spots' around the country. The key question is therefore whether the growing economy will stimulate the market for more homes and supply increase accordingly.

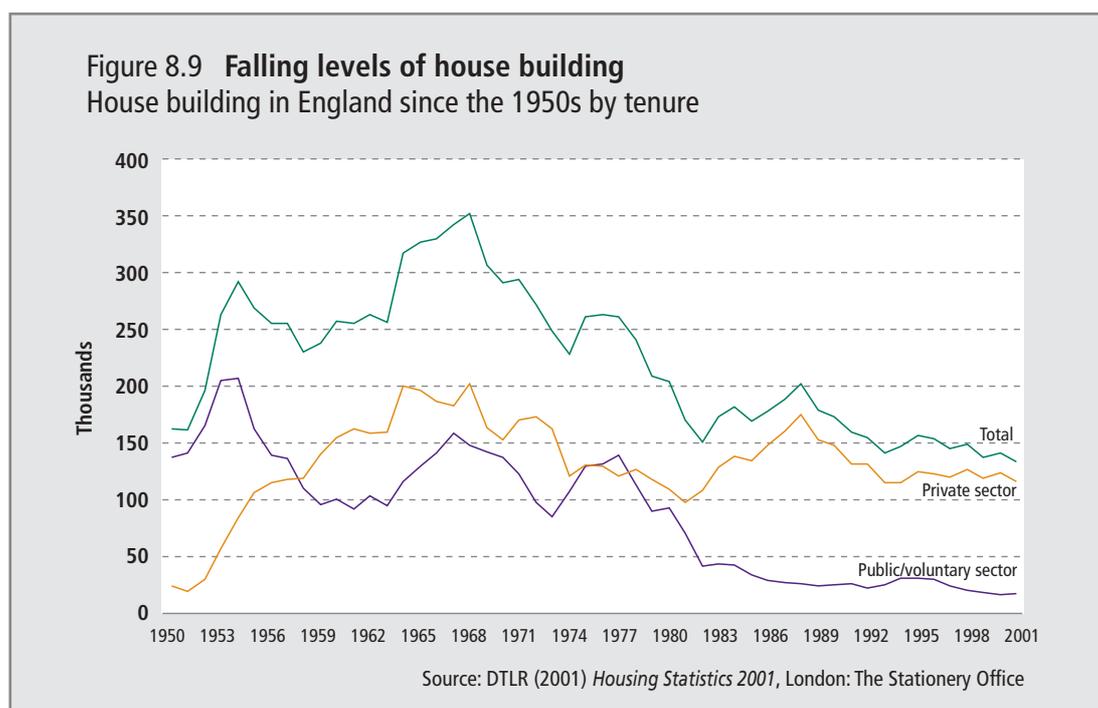
All the signs are that housing output will singularly fail to match the projections for housing demand and need. Instead, the gap between household numbers and available homes seems set to widen year by year.

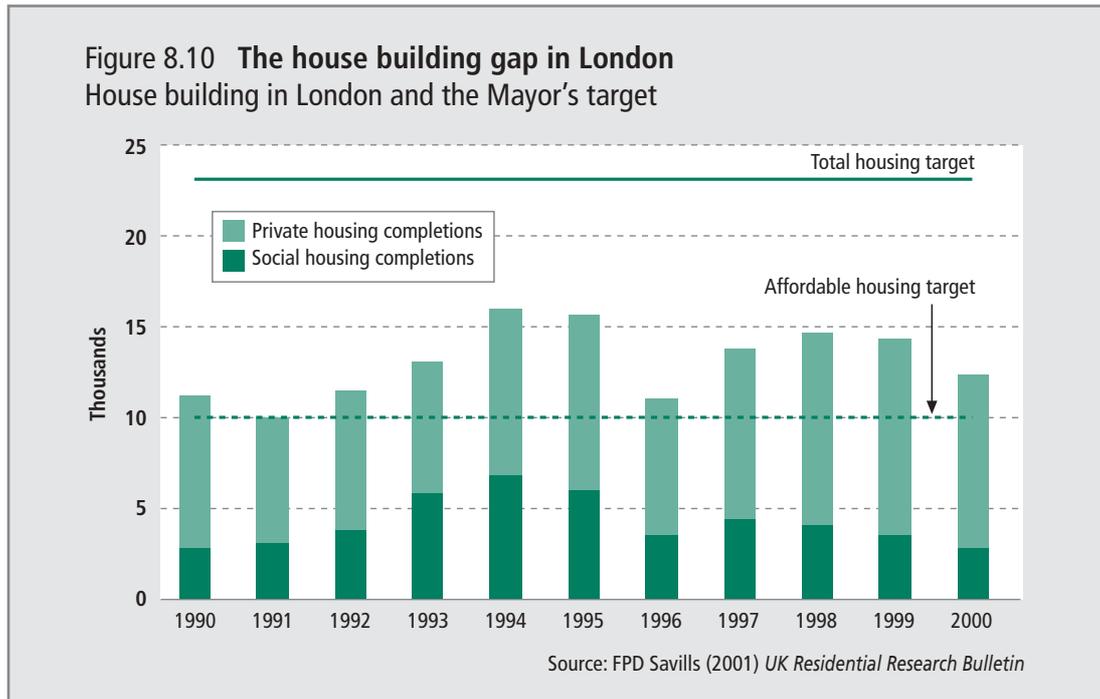
Despite the strong economy, housing production by both private developers and social housing providers has been falling. Around 175,000–185,000 homes per annum are being built in the UK, and between 140,000–150,000 in England. Even if conversions are accounted for, the figures for 2000/2001 (and recent years), are very low, not only in relation to need, but also relative to historical levels.

In London, for example, against a requirement estimated by the Mayor's Spatial Development Strategy of at least 23,000 homes per year, only 12,000 were built in 2000. Against 10,000 of these being required for social housing, only 2,743 extra homes were supplied in this sector in 2000.¹⁷

Causes of housing shortages

There is clear evidence that supply is not keeping pace with the requirements of the consumer because of industry, land supply and affordability problems. This paper now returns to its central theme – that supply is not keeping pace with the requirements of those seeking homes – and looks at these three areas.





Industry problems

There are difficulties within the UK construction industry to which attention has been drawn by the Latham and Egan reports.¹⁸ Structural, technical and cultural change in the years ahead may lead to a sector better able to respond to the demands upon it. Pre-fabricated homes – built in clean, efficient, factory conditions not in the often chaotic circumstances of construction sites, in unpredictable and inclement British weather – may make for higher standards as well as a safer industry.¹⁹ Better procurement methods may mean less friction between clients, professionals and builders. Shortages of sufficiently *skilled labour*²⁰ may also be remedied, to some extent, by factory-building techniques; and government policies for skills and training may well make a difference.

Land supply

Of huge significance in constraining new house building, are the controls over the supply of land, largely dictated by the planning system. House builders claim that the planning system is failing to release sufficient sites, and is thereby fuelling shortages and inflation of house prices. Government has promised a review of the planning system,²¹ but the underlying problem remains the widespread and vociferous opposition to almost any development by those already well-housed.²²

In recent years, it has been not only those who wish to protect the countryside on grounds of amenity and aesthetics who have led campaigns against development, but also those concerned with environmental issues, like the impact of CO₂ emissions from traffic pollution, and the need to preserve natural habitats and bio-diversity. This powerful combination of emotion and scientific opinion seems likely to continue to buttress the natural opposition to all new housing that comes from those living near it – and their elected representatives.

Support from the planners and the public is much easier to obtain for development on 'brownfield' recycled land. But these sites tend to be available where housing demand is low –

e.g. in the older industrial cities – or where substantial expenditure is required before it can be put to use.

House builders make much of their profit from the enhanced value of the land they buy when it receives planning consent and is developed; such gains are harder to achieve on urban sites where prices are already at – or even above – development value.

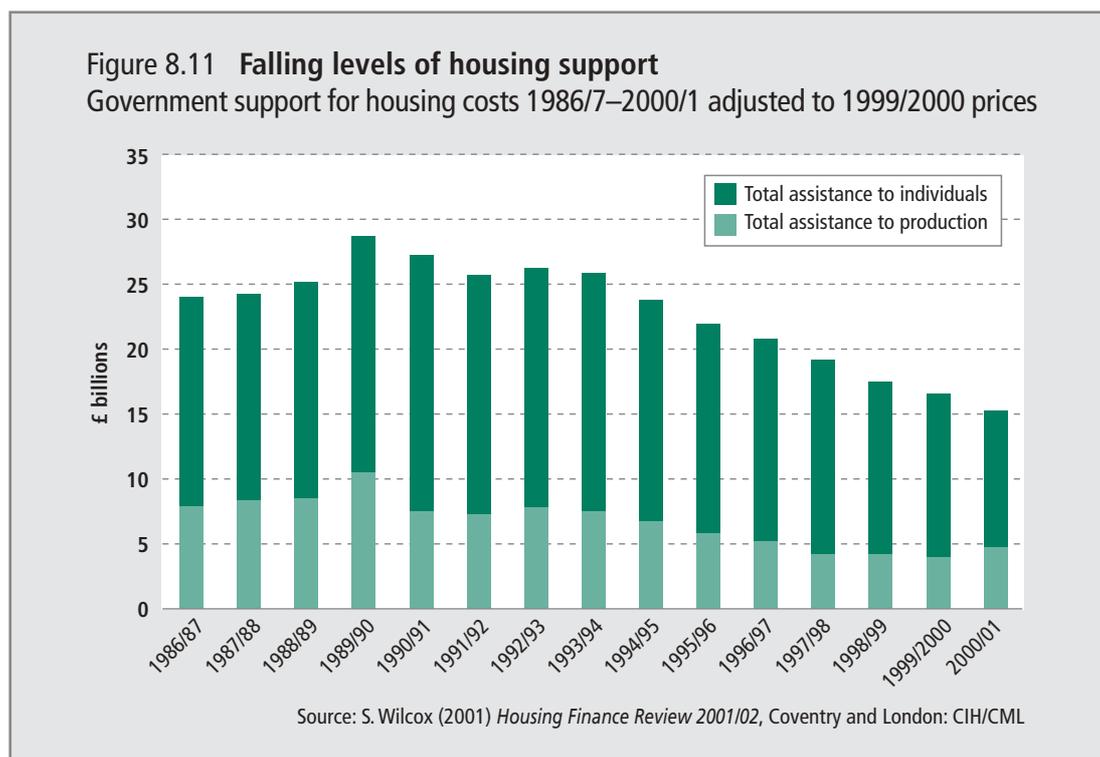
Affordability

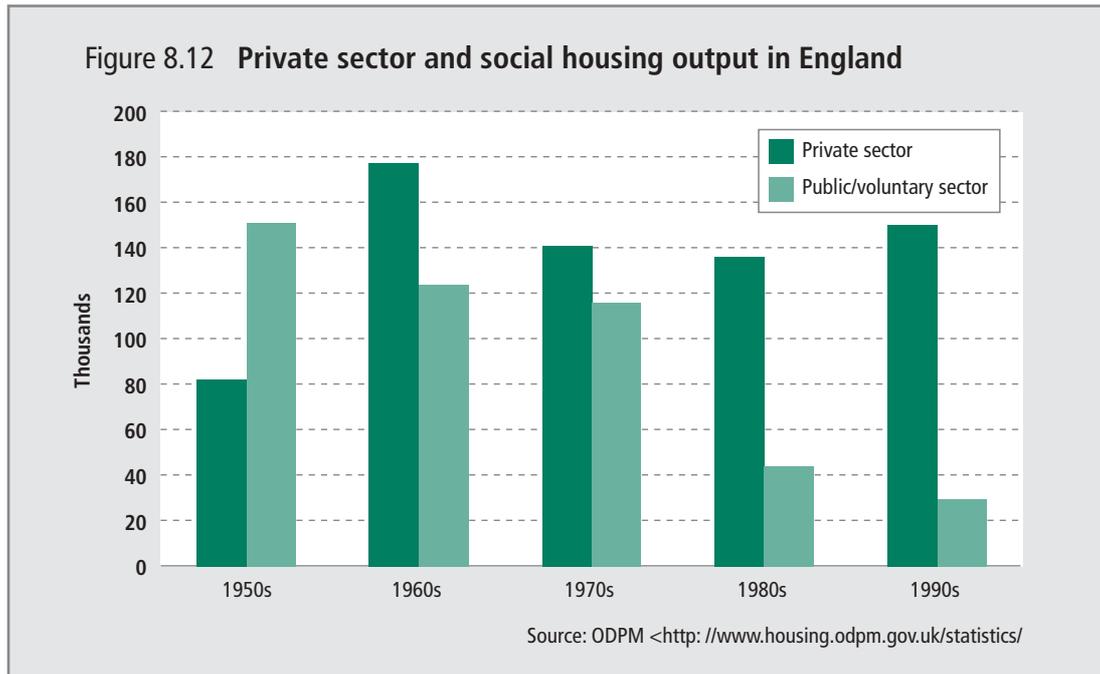
Finally, there are the constraints of *affordability* for purchasers or tenants. Even if the house building industry was to operate much more effectively in meeting the demands from those with reasonable incomes, the market cannot cater for those without any (or sufficient) resources to pay their way.

Subsidies to providers can mean homes produced at lower than market cost to the occupier (e.g. Social Housing Grant to registered social landlords). Alternatively, subsidies can go to individual occupiers to bridge the gap between what they can afford and the cost to them of renting or buying (e.g. Housing Benefit for tenants or Income Support for Mortgage Payments for owners). Lack of subsidy is the most direct influence on the production line for affordable housing. But both producer subsidies and personal subsidies have diminished over recent years.

Reductions in subsidies for housing production – which used to go to local authorities and now go to housing associations – explain the overall drop in the supply of additional homes. Private sector house builders may be operating at a somewhat lower level than in the past, but the difference is not dramatic: the factor that makes the real difference to the total figures for new homes is the massive decline in the supply of public/social housing.

It is unrealistic to expect private sector house builders to accelerate their output much above the levels they have averaged in more productive times. Share prices of those house





builders who hold land banks and are not pulling out all the stops to develop them, tend to be higher than for those companies who are not sitting on land holdings. Lower output by house builders has not damaged profitability. Even though house builders might be encouraged to step up their output to the level of their better years – not least by more streamlined planning decisions – this is unlikely to make a major impact on the housing deficit.

The only prospect of returning to much higher levels of house building overall comes through the re-introduction of a much bigger stream of supply of subsidised housing. (Currently that means supply through the registered social landlords, although in theory it could embrace other providers with access to subsidy.)

Changing our perceptions

If every household is to have the opportunity of a decent home, some fundamental changes will be needed, not just to the mechanisms we use to deliver new homes, but also to our planning system and our house-building industry in order to make both more effective. To enable these changes, we need to address our collective attitudes to certain problems that we face.

Greenfield sites: facing the truth

First, there needs to be a recognition that it is of the greatest importance to the nation's future health and happiness that a plentiful supply of new homes is facilitated. Only on a very short-term basis do we gain from preventing the new homes being built that are urgently needed. The house-building process, by reducing artificial shortages and moderating their inflationary impact, brings benefits for the whole of society.

We recognise that enhanced design and quality would help this general turnaround in our perception that new housing is undesirable.²³ Although new homes are better sited on brownfield urban sites as far as possible, there must be acceptance that not all of the homes of tomorrow can be built on recycled land. Even if the government's target of 60 per cent of new homes on such sites is realised, over one and a half million more homes will still need to go on greenfield land over the next two decades.

Urban living: recognising the value

Second, our attitudes to urban living will need to change over the years ahead. For a sustainable future, with sufficient homes for every household, we need to rediscover the positive aspects of urban living. The role of area regeneration and neighbourhood renewal, underpinned by employment opportunities, is important in preventing the migration of people out of our older urban areas. But even where there is a strong local economy, the national antipathy to living in towns and cities is preventing us from making good use of our urban fabric and infrastructure.

In the years ahead, the attractions of a city lifestyle may become more apparent to single person households and childless couples for whom there are fewer worries about schools or child safety. London – which remains as fashionable and popular a place to live as ever, despite the inherent hazards of metropolitan living – can set the pace. Development outwards from the city centres of conurbations like Birmingham, Manchester and Leeds hints at the possibilities for the elusive 'urban renaissance'. But sustained urban renaissance depends on the inner ring of suburbs being attractive to families, as well as the centres of conurbations being attractive to single people or childless couples.

Increasing supply

Urban extensions

In facing up to the necessity of new homes on greenfield sites, there is growing agreement that the most effective approach takes the form of *urban extensions*.²⁴ Such developments plug into the public transport routes and the existing schools, shops and facilities, much reducing the likely congestion and pollution of commuter traffic. By undertaking house building on a sufficient scale – with several hundred homes – highly significant 'planning gains' can be negotiated with landowners: reductions in the land price can then help to fund affordable housing and community amenities. This approach lends itself to the use of a Master Plan that engages the local authority creatively in the process of achieving sustainable designs and traffic taming. By concentrating new development in major schemes of this kind, the need for dozens of small and unsuitable extra schemes – or for free-standing communities that are set in countryside elsewhere, with adverse environmental impacts – are avoided.²⁵

Urban development: making it happen

After years of population loss from the major urban areas, attracting and retaining population in these places will only become a reality if there is considerable public and private investment. The various recommendations made by Lord Rogers' Urban Task Force could help this process, including:

- *The importance of reclaiming and re-using urban land.* Interventions, positive and negative, such as tax incentives, compulsory purchase orders and brownfield focussed planning guidance, are the only way we will meet the 60 per cent target of building on brownfield sites. A significant element of vacant brownfield land is owned by private sector industries, including the former public sector utilities. In some cases, these bodies are inclined to delay the release of land for future housing or mixed-use development because of inertia or lack of external pressure: use of CPO powers – perhaps through English Partnerships or Regional Development Agencies – can prevent this land remaining unused for further lengthy periods. Capturing such sites presents special opportunities for the master-planning of mixed tenure new communities, often with a not-for-profit organisation as the lead agency in a development partnership.
- *The opportunities created by higher densities.* This approach, without sacrificing public green spaces, often represents the best way of ensuring a sustainable and viable mixed use environment.
- *The potential, in high value areas, for higher buildings.* These can help the better-off single and childless households, rather than poorer families as was tried – usually unsuccessfully – in the 1960s and 1970s and can fit more homes into the same space.
- *More redevelopment will be necessary.* Much of the land for meeting tomorrow's housing requirements may need to come from recycling the low density, or less popular sites of existing housing, both unloved public sector estates and deteriorating, low-rise suburbs. Organising the 'intensification' of development in such areas – including some demolition and replacement – provides opportunities for engaging with existing residents in designing the new communities and will present major challenges for housing policy over the next 20 years.
- *The re-utilisation of empty properties and conversion of out-moded industrial and office buildings.* This may need more measures – such as comparable VAT rates to new house building – than those announced to date if we are to really address the 1.3 million empty properties that offer an important alternative to large-scale greenfield development.

Harnessing private sector resources

Much of the funding for tomorrow's housing could come from the private sector, if conditions are right. The Joseph Rowntree Foundation has invested in two 'CASPAR' developments of City-centre Apartments for Single People at Affordable Rents (in Leeds and Birmingham). These demonstrate that private investment in residential lettings can attract people back to the inner city while achieving very satisfactory returns, if the design targets middle income single people.²⁶ If even a fraction of the institutional investment that has been flowing into *commercial* developments took up the emerging opportunity in the *residential* sector, this form of unsubsidised urban regeneration would gather momentum.

Positive planning

In fulfilling the requirements of the future for both greenfield and brownfield development, there is an urgent need for 'positive planning'. Planning authorities – their elected members

and officers – need to take the bold step away from reacting, often negatively, to proposals from developers and housing associations. They must work pro-actively with central government, regional bodies and their own colleagues with housing responsibilities at the local level: they are at the centre of ensuring the massive task of meeting national needs and demand while ensuring the minimum environmental damage.

Intermediaries and partnerships

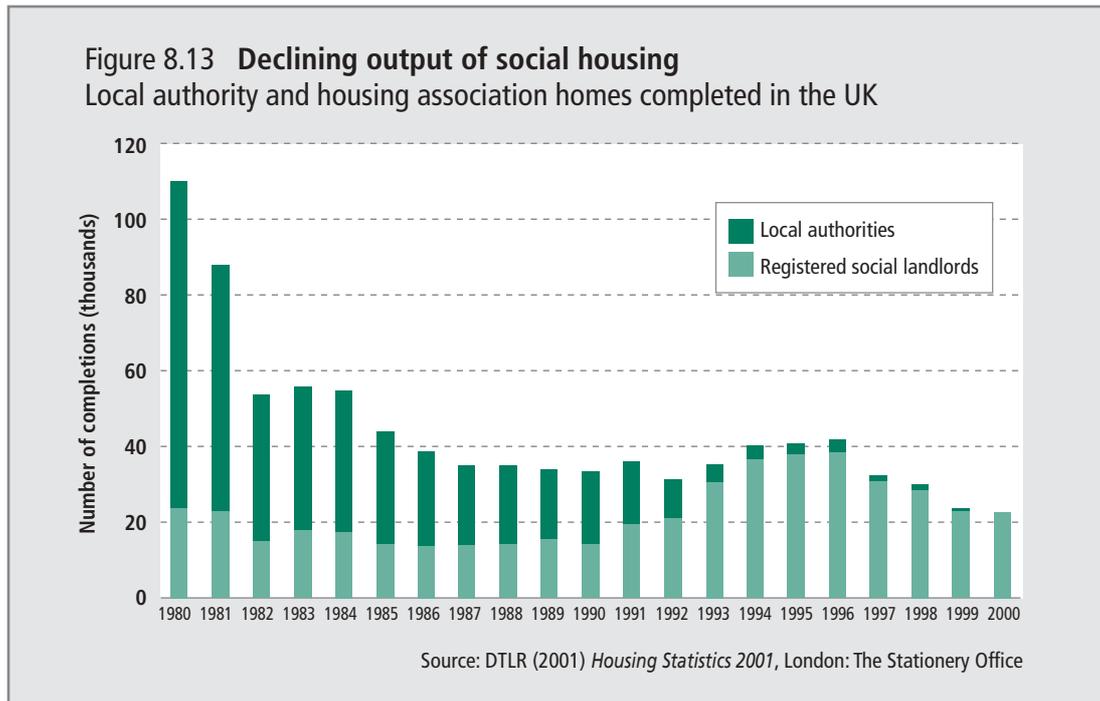
Few planning authorities still have the confidence and the skills to prepare Master Plans in-house. As a nation, we have become dependent upon private sector developers bringing forward their plans, with the role of planning authorities demoted to that of criticising proposals. It is unrealistic to expect the statutory planners to revert quickly to a role of bold master-planning on behalf of their communities. But reliance on private developers and house builders – whose expertise and financial interests lie in building for outright sale, not creating communities of mixed incomes and mixed tenures or of incorporating community facilities and public space that will require management for many decades to come – would seem inappropriate.

Regional agencies and local authorities need partners to produce Master Plans, in consultation with local communities, and to see that these are executed. House building for sale is likely to be a major part of any such Master Plan; and private house builders have considerable expertise in building to fixed costs and marketing their products. But the long term interests of a newly built community (and its neighbours) would seem better served by bringing in different intermediary bodies. Some of the major housing associations and charitable foundations are working in partnership with local authorities to prepare Master Plans and see through their delivery, including the rented homes, the public space and the local facilities. This approach can involve genuine and extensive local consultation, the active engagement of the local planning authority in the process, and a long-term commitment to sustaining the new development into the indefinite future.

Affordability

House prices and market rents would be affordable to a higher proportion of the population if supply was in balance with demand. Otherwise, even if incomes are increased or purchasers are given special grants, so long as there are the same number of homes to go round, then the cost of each will simply rise further. Help for poorer households – or for those chosen because they are working in a particular industry – will just displace those slightly better off. This is the danger of such schemes as the new Starter Homes Initiative, if these give grants to some key workers but do not increase the total number of homes.

However, it is vital to ensure that housing associations achieve a mix of incomes in any new development to guard against properties becoming stigmatised and occupiers becoming labelled. The single tenure, monolithic estate has had profound consequences throughout the UK. We now know about the consequences of separating and isolating those on low-incomes and the most disadvantaged, and must guard against it. Local cost home ownership, through schemes such as Homebuy or shared ownership can achieve a mix of incomes on otherwise all-rented estates, thereby ensuring against the occupiers being labelled and stigmatised, and creating a more sustainable long-term development.²⁷



Subsidies for production

If an adequate supply can be achieved, the problem becomes one of ensuring that all those who need accommodation can pay for it.

The simplest route for achieving more affordable homes is for the State to pay for these. But subsidies to local authorities for new production have been virtually abolished: and funding for registered social landlords – while substantially increased over the record low levels of the early 1990s – are still at historically modest levels, despite the success of these social landlords in harnessing private sector loans.

Social housing in itself eases overall shortages. But rising land, property and building costs mean that the same amount of public funding can result in fewer extra homes. There is no substitute here for increases in public investment, stretched by the private borrowing that is possible for registered social landlords.

Planning gains

Instead of the taxpayer subsidising production costs, developers can be required by the planners to make available a proportion of new homes on terms below market prices. Increasingly, this form of hidden subsidy – which is likely to be drawn mostly from the landowner's profit – is seen as the means of squaring the circle and achieving more affordable housing in the absence of sufficient State funding. But is it?

Certainly it can achieve the social gains of integrating tenants amongst homeowners – not segregating them in 'welfare housing'.

Planning gains also show more promise than previous forms of development taxation, such as Betterment Levy and Development Land Tax. They also 'ring fence' the proceeds for housing purposes, whereas there is no guarantee that other taxes will be hypothecated in this way.

However, using planning gains as a substitute for finance supplied through the State will not prove a panacea in the search for housing affordability:

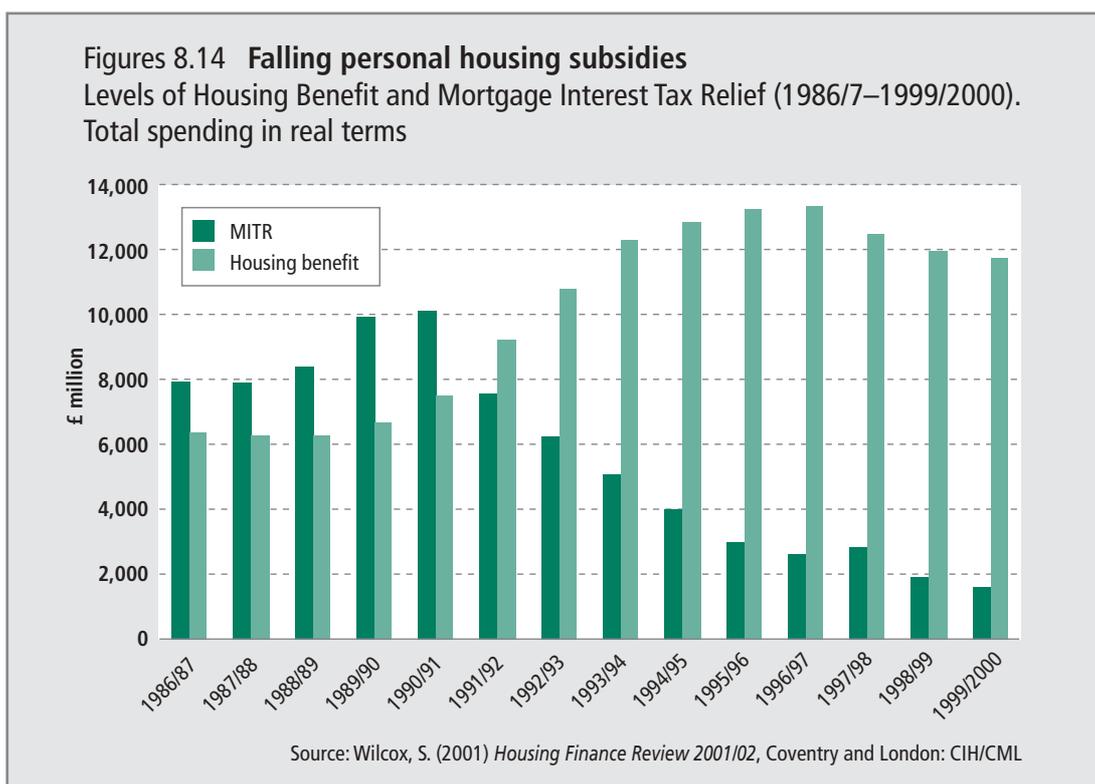
- The system is characterised by major inconsistencies and is in danger of being discredited if it becomes an instrument for too much delay, or suppresses legitimate development altogether.
- Its value is dependent on the increase in land value that results from planning consent: this often cannot achieve more than a small proportion of the subsidy required in many areas. Even where it can, if the market falters this form of 'taxation' will drop and fewer homes will result.

Personal subsidies

Mortgage interest tax relief – which was costing the Exchequer £10 billion per annum 12 years ago – has now been phased out. Spending on Housing Benefit has reduced considerably because of tougher rules and, more significantly, reductions in unemployment. Total spending on personal subsidies to help people with their housing costs, therefore, has fallen considerably over the last decade.

However, not only is Housing Benefit in need of reform to reduce disincentives to work, but many have argued for an extension of this safety net to home owners as well as tenants. Mortgage payment difficulties are a major cause of homelessness. Despite the currently benevolent economic environment, in recent years on average a thousand families have had their homes repossessed by lenders every fortnight.²⁸ The position could deteriorate much further if the economy falters, or interest rates rise again.²⁹

Rather than providing a tenure-neutral housing allowance for home owners as well as tenants – which could also provide support with costs of urgent repairs and maintenance for (often elderly) owners without sufficient income – governments since 1991 have favoured an insurance-based safety net for those with mortgages. This voluntary scheme of Mortgage Payment Protection Insurance has had relatively low take-up and covers only about 21 per



cent of those with mortgages (and just under 30 per cent of new borrowers).³⁰ Even amongst those who have taken out insurance risks still remain, since the cover does not include relationship breakdown or reduced income. If it were compulsory, many of the present problems with MPPI would be diminished. Universality would spread risk dramatically and therefore bring costs down, and it would enhance the regulation of policies that are at present, in many instances, inadequate. We do not see this scheme as a substitute for a more universal 'needs-related housing allowance'.

The introduction of the Working Families Tax Credit has served to reduce the numbers of tenant families who are dependent on Housing Benefit. By supplementing the incomes of those with low paid jobs there has been an indirect, positive attack on housing affordability problems. But the separation of Housing Benefit from the tax credit arrangements – which are due to be extended in 2003 – create serious disincentives to work. Integrated Housing Benefit (or a wider needs-related housing allowance) within the tax credit scheme could ensure that 'work pays' for many currently deterred from getting a job.

Conclusion

We have concentrated on the issue of whether or not sufficient homes will be available where they are required, at prices that those who need them can afford. Our conclusion is that this issue – crude housing shortage – may become one of the most significant social issues facing the UK over the next 20 years. Although a sufficiency of housing does not guarantee that every household finds a home, if there is insufficient housing then many will certainly be compelled to share or become homeless.

Our conclusions are that demographic and economic factors will generate substantial demand and need for additional accommodation, but that a matching supply is unlikely to be forthcoming. The shortages that can be predicted will lead to overcrowding and homelessness. They will also have significant knock-on effects for other groups too in the inflationary consequences that will inhibit economic growth and make it harder for good quality public services to be delivered. Already the numbers accommodated in bed and breakfast accommodation are rising. In areas of the highest pressure, local authority housing departments are finding it impossible to accommodate those classified as homeless within their own areas.

Inadequacies within the construction industry, and problems of skill shortages may well be remedied. But the issue of *land supply* is likely to remain crucial. The nation needs to recognise the importance of house building and must accept that some of tomorrow's new homes must go on greenfield sites; urban extensions may be the most effective approach. As a nation, we also need to rediscover the positive aspects of urban living. A series of measures could stimulate the much-needed 'urban renaissance', but these will require a step change in government intervention and investment.

The homes of tomorrow must also be affordable for those who need them. Reliance on 'planning gains' would be unwise. Adequate levels of grants for producers must be found. Moreover, the time is right for reforms to personal subsidies for individual households: a needs-related housing allowance that embraces poorer home owners as well as tenants, integrating the arrangements within new systems for tax credits, could combat the volatility and insecurity currently built into our housing systems.

The Deputy Prime Minister's statement, following the Chancellor's Spending Review in 2002, indicates an acceptance of the nature and scale of these problems. There is now a public commitment to narrow the gap between demand and supply in the South-east, targeting potential growth areas and taking a firm stance on unnecessary planning restrictions (while simultaneously boosting housing market renewal efforts in the northern urban areas). But this chapter has argued that major increases in the supply of affordable homes are extremely unlikely without the underpinning of adequate subsidy for production: it is by no means certain that the amounts of additional funding so far announced for the early 2000's will be sufficient to head off the impending, deep-seated crisis of housing shortage and homelessness.

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9 Tackling disadvantage: Care

Meeting the growing demand for long-term care

Richard Best

Poverty remains one of the distinguishing features of old age for many people. Retirement from the labour market typically brings with it a very substantial drop in income and an accompanying change in lifestyle. But the degree of disadvantage faced by many older people also depends on the quality, availability and affordability of care. While most older people will not encounter the requirement for expensive long-term care, for the minority who do the costs are unpredictable and can be immense. The effects can dramatically reduce the standard of living of many who have lived on relatively comfortable incomes for much of their lives, as well as for the persistently poor.

As this century progresses, the UK seems likely to face a considerable shortage of care resources. The resulting 'care inequalities' between those able to pay for a scarce resource, and those unable to do so, could well become one of the most pressing social issues in the years to 2022.

This chapter looks at the current position, at demographic projections for the future, at factors affecting demand for, and supply of care, and at ways of meeting the resulting costs. It concludes by urging more concerted action today to head off very serious social problems 20 years from now.

The current position

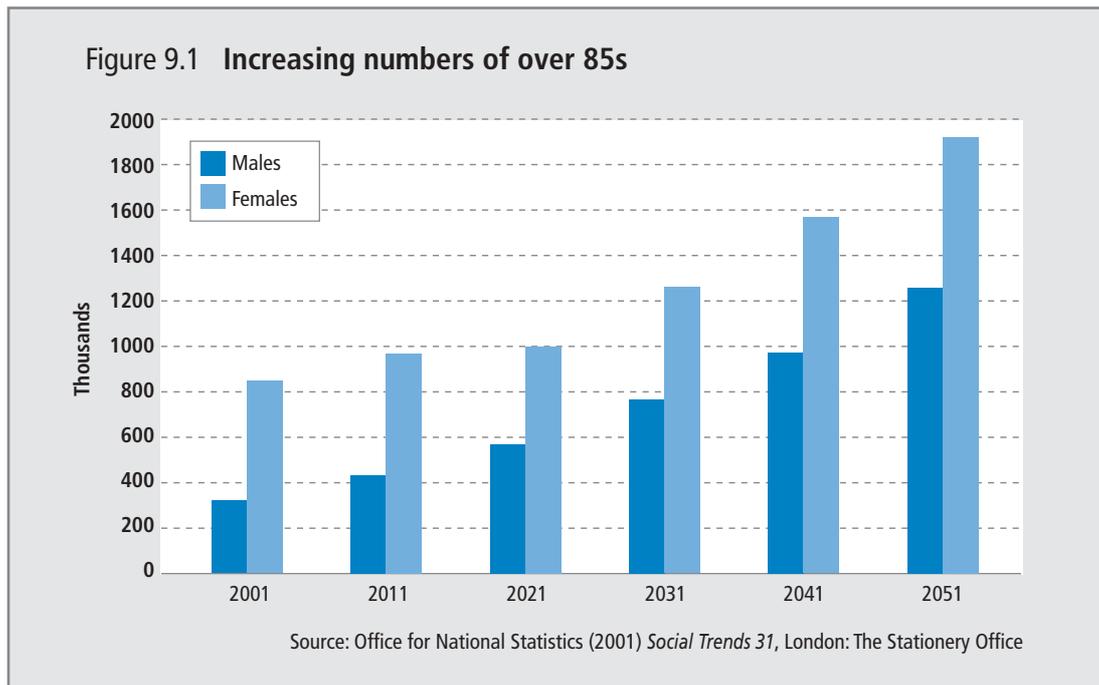
The UK is not yet experiencing the impact of a 'demographic time-bomb' and dramatic increases in the number of people over 75 or over 85 are not expected in the next decade or so. But the numbers of people aged over 75 are projected to increase more rapidly after 2020, as the post-world war II 'baby boom' cohort turn 75. There is likely to be a near doubling in the numbers of those over 75, and a near three-fold increase in the numbers of those over 85, by the middle of this century.

There is now a 'window of opportunity' in which to build up some of the financial resources for long-term care, which the population projections indicate will be needed later on.¹ However, despite the absence of an immediate crisis caused by demographic change, there are already signs of considerable strain on current resources for the provision of continuing care.

Residential and nursing care

Costs of care have been increasing by substantially more than the rate of inflation because of:

- *Higher staffing costs*, caused in some areas by the rise in the minimum wage (to £4.20 per hour for workers aged 22 and over, in January 2003) and elsewhere by competition for



staff. Vacancy rates for local authority care staff in 2001 were in excess of 20 per cent with turnover of 16.9 per cent.² With near full employment in many areas, the care sector can only recruit and retain staff by increasing wages.

- *Improvements in standards* required by government, in line with rising expectations. The Care Standards Act 2000 does not require full compliance until 2007, but some of the new standards will apply earlier and those operating nursing and residential care homes are looking ahead to substantial increases in costs, not least for undertaking major physical improvements to their buildings (for which public funds have been scarce).

Meanwhile, pressure on Social Services budgets led them to plan an overspend in 2001/02 of some 12 per cent (£900m) above the amount expected by government in the Standard Spending Assessments. Even then, a further overspend above budgets was expected of over £200m.³ These constraints led many local authorities to refuse to pay for the actual costs of care provision, sometimes failing even to increase the fees paid in line with inflation.

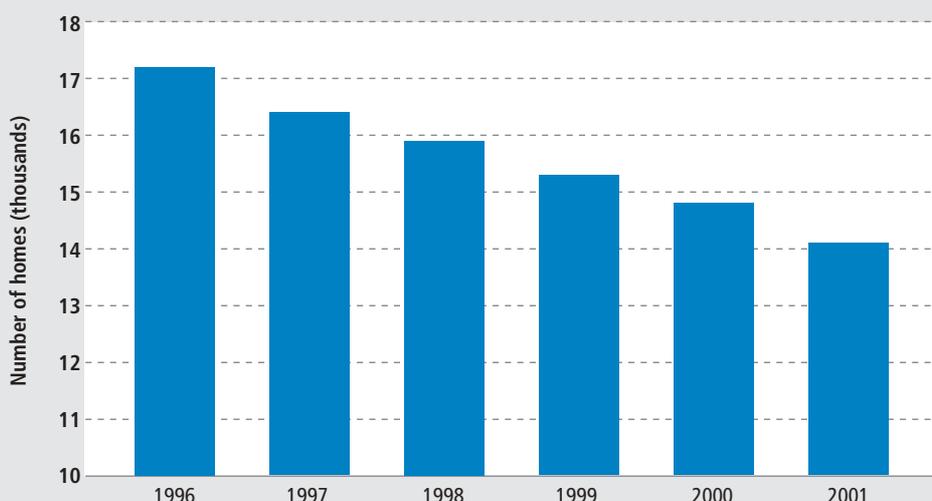
Work by Laing and Buisson for the Joseph Rowntree Foundation, published in June 2002, showed councils are paying between £75 and £85 a week, on average, below the costs of running a decent care home.⁴ Nationally, this adds up to an annual gap of around £1 billion between the amounts paid and the amounts required.

Rising costs and under-funding, unsurprisingly, have led to closures of residential and nursing homes without their replacement by new providers, with a net loss of some 10,000 places in 2001.

Although such closures might be seen as reflecting consumer demand for care at home, they deny the option of residential care as an option for many who would choose this.

Following recommendations from the Royal Commission on Long Term Care, government provided subsidies to cover the healthcare costs for those in nursing homes (but not personal care or the 'board and lodging' fees) and to pay for 'intermediate care' for those needing

Figure 9.2 Total number of care homes



Source: Laing & Buisson Ltd (2002) *Care of Elderly People UK Market Survey 2002*, London: Laing & Buisson Ltd

Joseph Rowntree Housing Trust care homes

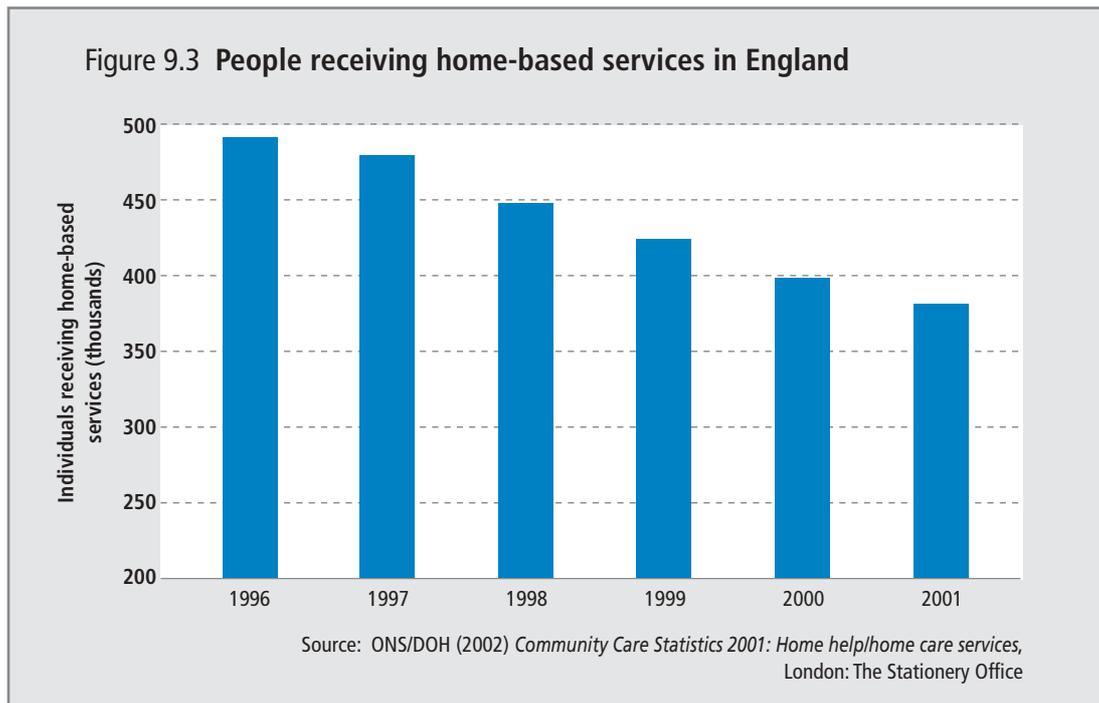
An example of the shortfall experienced by care-home providers comes from the Joseph Rowntree Housing Trust (JRHT), which provides residential care in York. The costs of providing satisfactory care are some £75 per week higher than the amount available from the Social Services Department (SSD); the funding gap for nursing care is around £115 per week (2001).

The following figures demonstrate the worsening position over the last three years for the JRHT's main care homes:

<i>Residential</i>	2000	1999	1998
JRHT charges	315.00	303.00	291.00
SSD payment rates	238.50	234.40	230.37
Funding gap	76.50	68.60	60.63
<i>Nursing care</i>	2000	1999	1998
JRF charges	446.53	429.45	411.46
SSD payment rates	331.00	326.00	320.39
Funding gap	115.53	103.45	91.07

This funding gap has resulted in the JRHT taking a policy decision to offer no further places to those referred from Social Services Departments. This is despite the fact that it is a charity with a particular interest in supporting people on low incomes. The JRHT is unwilling to cover the shortfall out of charitable funds.

Such shortfalls mean other charities are pulling out – or have already done so – from care provision; by one estimate, charities are topping up the fees they receive from local authorities to the tune of £184 million p.a. from charitable sources.⁵



temporary residential support before returning to their own homes. These changes were welcomed – the first producing extra money for nursing home operators as much as savings for residents, and the latter reducing NHS costs of bed-blocking – but these measures have failed to make a noticeable difference to the availability and cost of residential and domiciliary care.

In response to these pressures, the government announced in the 2002 Budget and Spending Review that social services resources will rise by 6 per cent in real terms in 2003/4. By 2006 there will be an extra £1 billion for services for older people in England. Extra resources could head off an immediate crisis by enabling higher fees to stabilise the residential and nursing home market in the short term. Extra resources will go toward rehabilitation services, intensive home-care services and support for informal carers. The outstanding question is whether the extra funds will prove of only very short-term consequence set against the likely escalation in future costs.

Domiciliary care

It is not the case that the decline in residential and nursing care is being mirrored by a growth in the number of people receiving support for care in their own homes. Indeed, in the five years to 2001, the number of residents receiving home care reduced by 22 per cent (to 381,200).⁶ Costs have not fallen commensurately, because the number of hours of care for each home visited has gone up by around 11 per cent over this period: this follows a policy of targeting those in the greatest need of the highest levels of care at home. But this brings the danger that Social Services Departments are failing to supply the lower level care that can prevent a more intensive service becoming necessary.

The Chancellor's Public Spending statement in the autumn of 2002 talked of narrowing the gap between the requirement for Social Services spending and the revenues available from central government; but it remains uncertain whether this will make sufficient difference to resolve this growing problem.

The current position, therefore, hardly represents an attempt to get ahead while demographic trends are still relatively favourable. On the contrary, it shows rising costs – propelled by spending on staff and on higher standards to meet growing expectations and government requirements – coupled with significant levels of under-funding by the State (principally via local authorities).

Demographic change

In Part I we noted the ageing of the population throughout the developed world. Longer lives represent one of the great benefits of advanced societies. While those born at the turn of the last century could expect to live only 45 or 49 years (for men and women respectively), these figures will soon reach 80 and 84 years.⁷ New research indicates that a girl born today stands a 50:50 chance of reaching 100 years; the same will be true for a boy, well before 2022.⁸ The key reasons for the greater proportion of older people in the UK results from:

- The ageing of two ‘baby boom’ generations, one from the immediate post-war years and, more significantly, one from the 1960s; this will include a significant proportion of people from minority ethnic backgrounds who arrived in Britain in the 1950s and 60s.
- Fewer babies being born, proportionately, leading to fewer young people as a proportion of the total population.
- Improvements in hygiene, diet and health care, leading to longer lives.

As a result, the average age for those living in the UK is expected to reach about 42 years by 2022, compared with about 38½ years today.⁹

However, the UK has already experienced a shift in the percentage of older people and it is in other countries – particularly Japan – that this trend will now become most dramatic. In the UK the number of older people increased by 400 per cent during the last century and has doubled since 1931. The more significant changes yet to come relate to the dramatic rise in the numbers aged 85 or over: already almost half of those who are over 65 are aged at least 75.

The significance of the expected increase in the over 75s and, in particular, the over 85s, lies in the association between older age and increasing dependency. In general, the oldest cohorts are most likely to have health and care needs, and least likely to have surviving partners or other close family members to provide support. As noted in the introductory paper of this series, over 70 per cent of those who are more than 80 years old have a disability and, in particular, the incidence of dementia rises exponentially with age, and doubles in each five-year age-band over 65. Thus although only one in 60 of those aged 65 are affected, one in five people aged over 80 are likely to have problems with dementia, so the numbers affected could well double over the next 50 years.

But will this change? Is it likely that the extension of *life* expectancy could be accompanied by an extension of *health* expectancy?

Other factors affecting the demand for care

Health education

Some put their faith in improved health education, and this is clearly of importance. The health needs of the older population could be improved not only by preventive interventions, but also

by younger adults learning to lead healthier lifestyles. The growing affluence of the population overall gives more people the resources to afford healthy living; but one of the paradoxes of growing wealth is the increase of both obesity and of malnutrition. Moreover, the resources to live healthy lives are not distributed equally; people who have poor access to other financial and material resources are also less likely to have access to the resources that contribute to the healthiest lifestyles.

Medical and technical change

There has been a long-standing academic debate about the potential for the 'compression of morbidity'.¹⁰ In reviewing the evidence, the Royal Commission on Long Term Care concluded that there is some evidence that the onset of morbidity and disability may be compressed into a brief period towards the end of life, and may not last much longer even if life itself is longer. The Commission's underlying assumptions, therefore, were based on the premise that the proportion of years spent with some disability will remain roughly the same in relation to overall life expectancy.¹¹

The extent to which we will need care in old age will be greatly affected by further scientific developments. Scope for advances in medical science is considerable. We are on the cusp of developments in the use of stem cells and other genetic interventions that could transform the pattern of morbidity. Currently, much of the debate around such matters has focused on issues relating to fertility, and to ante-natal interventions. Alongside these applications (and their profound ethical considerations) is the scope for intervention in many chronic and debilitating diseases that so often accompany old age. Major scientific breakthroughs in the treatment of dementia, and of conditions such as Parkinson's disease *could* transform the future pattern of care needs relating to old age.

However, this remains an area of much uncertainty. For example, initially promising results with Parkinson's disease have so far been set back by experimental treatments that have led to irreversible deterioration, rather than improvements, among people treated with implanted foetal cells.¹²

Technological advances

Some important progress is being made in exploiting new technology to enable older people to maintain their independence for longer. The Joseph Rowntree Foundation has experimented with Smart Home technology, which can allow independent living to be sustained for longer, with less recourse to costly home-care services. Many day-to-day chores can be automated and remotely controlled, and conditions in the home can be monitored from afar to allow speedy intervention when – but only when – it is needed. The downside of enhanced technology in the home, however, is that it cannot substitute for the benefits of personal contact, which many older people value highly.

The design of new homes, following the Joseph Rowntree Foundation's work in creating *Lifetime Homes*, will now always incorporate easier access into and around the accommodation, as required by the government's extension of Part M of the Building Regulations. These changes, affecting all new homes in the future, mean that wheelchairs users, or those with mobility difficulties, will be able to enter the accommodation and move around within it with relative ease. The hazards of unnecessary front steps, narrow corridors

and an absence of toilet facilities on the ground floor, are removed, making it easier for frailer older people to stay longer in their own homes.

Preventive support

The need for long-term care would also be reduced if preventive, low-intensity support was available before people reached crisis point. As noted above, however, this is currently a low priority for cash-strapped local authorities, and the traditional home-help service is being run down in many areas. While there is good evidence that a relatively modest input of early support can save the substantial costs – to the State as well as to individuals – of residential care, this lesson has not yet been learnt. A body of work by the Joseph Rowntree Foundation has demonstrated that low level help – e.g. with housework – can sustain self-respect and confidence, which in itself may prevent or delay the need for residential care.¹³

An understanding of the real priorities for older people themselves may emerge from the monitoring of how Direct Payments are used in place of prescribed services. This approach also extends choice and autonomy, which in turn can reinforce independent living.¹⁴

Promisingly, in terms of the preventative factors that may reduce the need for care, the government is investing in 'intermediate care'. As noted in the box below, Joseph Rowntree Foundation work on this theme indicates that the availability of places in residential care for those discharged from hospital not only reduces expenditure on hospital beds and cuts the number of emergency re-admissions for those discharged where insufficient help is available, but may well prevent the need for permanent admission to residential care. Such services also give respite to carers who might otherwise be unable to sustain their important work.

Joseph Rowntree Housing Trust non-residential care

The Joseph Rowntree Housing Trust's (JRHT) Continuing Care Retirement Community has provided an opportunity to see the extent to which residential and nursing care can be used for short periods of 'intermediate care'. The community has residential care and nursing care provision at the centre of a complex of 152 individual bungalows.

- Twenty-nine of the community's 200 bungalow residents spent at least one night in this community's Care Home over the 12 months to December 2000.
- They paid 41 visits to the Care Homes, staying a total of 714 nights.

The JRHT estimates that the availability of this facility within the community saved 374 'bed nights' in hospital last year. This is of considerable importance to the York Health Trust, which estimates that the number of people who are unwillingly 'bed blocking' rose from 52 to 70 at the York District Hospital, 2001.

In the majority of cases, the saved hospital bed nights came from people being discharged from hospital earlier than would have been possible but for the provision of this 'intermediate' care. Additional hospital bed nights were saved because of provision of *short-term nursing care* (although in the above calculation only a third of the nights have been counted when beds were occupied by bungalow residents for this reason).

It is worth noting that admissions from our sample into the intermediate care facilities

represent a *lower* take-up than would apply to a general intermediate care scheme elsewhere. This is because the JRHT offers an alternative to residential care by providing high quality domiciliary care (for up to 21 hours per week) for those who prefer to return directly to their bungalow, rather than going into intermediate care.

This suggests that even greater savings in relation to bed blocking could be expected for those not living in a 'retirement village', if good domiciliary care was readily available.

There is scope, therefore, for reducing the scale of demand and needs that an older population presents to health and care services. But advances in medical care, even if they extend life expectancy, are not certain to cut the number of years of ill health. As things stand, the relationship between dementia and old age leads to predictions of considerable increases in the number of people with dementia; dramatic breakthroughs in the relevant medical science may not be imminent. Technology too can help; but this is a 'high touch' – rather than 'high tech' – service industry, and so much care provision depends entirely on the availability of human resources.

The supply of care

Workforce shortages

The social care sector is already experiencing acute shortages of nurses and insufficient care workers of other kinds.¹⁵

A recent King's Fund Care and Support Inquiry highlighted the difficulties of recruiting and retaining the employees – often unqualified and poorly paid – who are responsible for the vast bulk of care to people, both in the community and in residential and nursing homes. It concluded that this is an enduring and intensifying problem. Imaginative and innovative solutions are required if the care crisis is not to be compounded.¹⁶ Part of the solution must lie in paying realistic remuneration for hard and often highly demanding work. Pay and conditions must compete with other areas of the service sector. Moreover, if people are to choose such work in preference to, for example, working in a supermarket or DIY outlet, there needs to be a change to the image and status of these roles. Adoption of the more person-centred approaches advocated by the JRF and others may increase the opportunity for job satisfaction for support workers and personal assistants. But wider recognition of the importance of these employees is also needed.

The government has set a target of 50 per cent of care home staff and 50 per cent of domiciliary staff being properly qualified within five years. This contrasts with the current position, where 86 per cent of care staff in local authority homes have no qualifications.¹⁷ The approach of the General Social Council and TOPSS¹⁸ is to reduce barriers to access, including for those with educational disadvantage: but nothing will change unless there is adequate funding for education and training.

The need for more training will increase costs, as will the necessity for pay to rise to the levels necessary to attract and retain staff. But there is a growing realisation that essential staff in care support roles must be more highly valued.

Among the changes needed is an encouragement for a richer and more diverse mix of staff than has been traditional. This will involve recruiting men as well as women, and not only

middle-aged but both younger people and those who may have retired early but have experience and skills to contribute, as well as people from a variety of cultural and ethnic backgrounds.

And finally, in easing the problems of an absence of staff, there is scope for better and more imaginative use of volunteers, not as a cheap substitute for a fully trained and skilled workforce, but in support roles where time spent in personal contact – even just sitting and talking – can make such a difference.

Changes to informal care

At present, over 70 per cent of care is provided on an unpaid basis. Changing this balance has very significant financial implications. There are some reasons to take a favourable view of the outlook of the supply of informal care over the next two decades. The proportion of older people with a surviving spouse is predicted by the Government Actuary's Department to rise. And women reaching late old age will have lower levels of childlessness over these two decades. But these factors look less positive after 2020.

There are several grounds for expecting the amount of informal care – nearly half provided by spouses and most of the remainder by (elderly) children – to diminish:

- Increased mobility means children living further from their parents. But already the number of older people receiving care from children who live in the same household has fallen from some 42 per cent in 1962 to 14 per cent in 1986 and a good deal less today.¹⁹
- Demographic change means there are fewer middle-aged women, who have traditionally acted as the main carers of their parents, compared with the numbers of older people.
- Culturally, older people increasingly express the desire 'not to be a burden' to their families, avoiding the past practice of moving in with relatives and increasing the expectations of receiving paid help.
- More women go out to work and a smaller proportion are prepared to devote themselves to becoming full-time carers.
- There are signs of cultural change within some minority ethnic communities where there has been a stronger tradition of expecting the next generation to look after parents in their old age.
- The higher age of having a first child, and the greater period spent in education, means more people who might have been carers of parents in their 80s still have dependent children.
- Some observers also predict less support in old age as a result of more people never marrying and the higher incidence of marital/relationship breakdown.²⁰

Perhaps surprisingly, the available evidence suggests that the provision of informal care by family members is not petering out. Support for carers – paying for respite care to give people a break, providing support and services specifically for the carer, and giving financial and fiscal incentives – could prevent a collapse of this vital work. But relatively small changes to the level of care provided informally – because it represents such a high proportion of the whole – could have disproportionate impacts on the costs of paid-for care. Based on the (contestable) thesis that each hour of informal care would be replaced by an hour of paid-for care, the

current split of costs at roughly 70 per cent informal and 30 per cent formal implies that a drop of just 10 per cent in informal care would lead to expenditure on formal care rising by a third. Even if this is an exaggeration, it is clear that there will be severe consequences of falling levels of family/informal care.

The quality of care

In thinking ahead to questions of service quality 20 years hence and beyond, there are various dimensions that need to be addressed. First is the question of the quality of staffing (i.e. appropriately skilled and trained staff). Second is the issue of objective and material standards of service.

National developments, including the Care Standards Act 2000 (which for the first time provides a framework for the regulation of social care), and the publication of minimum national standards (such as in care homes), are welcome and significant steps forward. Some of the elements of how quality will be defined in the future can be anticipated: greater comfort, improved privacy, and higher physical standards are obvious candidates, and the speed of change over the last decade or so is apparent.

There has been a transformation in attitudes to the quality of care that should be provided in care homes. In the past, a bed in a geriatric hospital might have been deemed sufficient to meet the need for residential care; then a shared room in an old people's home was enough; but today most people want to look forward to their own room with en suite facilities.²¹ This development has directly paralleled the experience of consumers in other areas, and the rising material expectations of society as a whole. If this trend continues, a logical extension will be from an expectation of a bed-sitting room in a residential care home to having your own front door. The need for institutional care will be increasingly questioned. Demand will rise for alternatives, such as retirement communities – like the JRHT's continuing care retirement community north of York – where care is delivered from central facilities, or better domiciliary care in people's own homes.

We cannot begin to second-guess all the dimensions of quality that may emerge in the future. An obvious example would be the increased expectations stemming from the spread of ownership of 'white goods' within the home. The massive expansion of ownership of microwave ovens, video recorders, home computers, and mobile phones is apparent to all. The transition from luxury good to essential equipment is a rapid one, and the profile of what is 'normal' in 20 years will probably be very different. In the same way as we have argued in previous chapters that the incomes of the most disadvantage must be considered in relation to contemporary living standards, so must the provision of care.

But material standards are only the beginning of the story. The National Minimum Standards for Care Homes for Older People focus on the impact of facilities and services in a home under a number of key dimensions on the people living there. These include dimensions of: choice of home, health and personal care, daily life and social activities, complaints and protection, environment, staffing, management and administration.²² The standards are intended as proxies for judging the *quality of life* of service users. High material standards are not good enough without parallel attention to the issues that service users have identified as the things that matter most.

The last decade has seen a substantial growth in research evidence about what matters to service users, and the outcomes that are of most importance. The evidence is consistent in highlighting, issues such as:

- staff reliability and continuity
- kindness and understanding of care staff
- cheerfulness and demeanour of staff
- competence in carrying out care
- flexibility to respond to individual needs
- being treated with respect and feeling valued
- choice and control resting with the service user
- activity and engagement.²³

Such considerations are likely to become more explicitly demanded with the ageing of cohorts who are used to 'having it all' and being assertive in ways that may be less true of current older groups (particularly older women). A further factor that is likely to be a major determinant in driving the changing pattern and quality of services is the rise of the consumer, and the power of the service user. User-led and person-centred services will cost more because of the extra quality and benefits they will deliver, although the evidence suggests they are better than traditional models from a cost–benefit perspective. Increasingly, Direct Payments – given a boost by the Secretary of State for Health's statement in July 2002 – and similar schemes that place the service user at the centre of the process, are likely to see services obliged to respond more directly to the individual needs of users.

Questions of cultural responsiveness, and services that are sensitive to the diverse needs of black and minority communities, men and women, and people of different sexual orientation will also become of growing importance if further inequalities are to be avoided. Despite good examples of locally developed specialist services often evolving out of grassroots activity, overall the evidence indicates that many groups are significantly disadvantaged as service users (and often as care providers). Mainstream services typically provide a poor range and choice of provision, and are often unable to make culturally appropriate responses (whether in relation to food, culture, language, or gender considerations). While local black and minority ethnic groups have often been at the forefront in developing innovative and highly valued services, there remains an urgent challenge to ensure that mainstream services are able to meet the needs of people from all backgrounds.²⁴

Changes in the composition of the older population will create significant pressures in this area as black and minority ethnic groups age and grow as a proportion of the older population. Future cohorts will include many more minority ethnic older people and there will be growing challenges if the issues of 'triple jeopardy' – the cumulative disadvantage due to race, age, and social class – are not to become of greater significance.²⁵

The development of an improved infrastructure of health and care services in the coming years would make a fundamental difference to the lives of millions of older people. This means improving the present system on five key fronts:

- 1 *Coherence*, with the barriers between different types of service breaking down.
- 2 *Responsiveness* to the needs of individuals, whether by putting more resources in the hands of clients or in managing them in ways that are more client-centred.²⁶
- 3 *Accessibility* to all who need services, rather than making provision dependent on resources available in a particular area.
- 4 *Quality* of provision, by creating a regime in which incentives are focused much less than at present on low price.
- 5 *Professionalism*, through the development of a well-paid, well-trained set of carers, and an awareness that this is likely to be one of the most important professions of the 21st century.

This brief survey of care quality illustrates the need for planning funding requirements beyond an extrapolation based simply on the ageing population having the current level of provision. The present system survives by creating barriers through eligibility criteria that exclude many who need care, and by paying very low wages to many who provide it. As well as tackling workforce shortage, it is going to be necessary to find much greater resources to meet the costs of care.

Meeting the costs of long-term care

A major contribution to understanding long-term care costs for older people, right up to 2051, has been published by the Institute of Public Policy Research (IPPR).²⁷ This uses work commissioned from the Personal Social Services Research Unit (PSSRU) at the London School of Economics and the Nuffield Community Care Studies Unit (NCCSU) at the University of Leicester. It suggests a basis for comparing the effects of different assumptions against central base case projections of long-term care expenditure rising by around 260 per cent in the first half of this century. (It does not, however, take account of rising expectations.) It notes the considerable ‘funnel of doubt’ about future long-term care expenditure. But it implies that, with GDP likely to grow by, for example, 2.25 per cent per year, and projected increases in home ownership that could fund care costs, the total level of expenditure need not represent a Doomsday scenario. It is not impossible for the nation to fund future care costs, provided we see this as a major priority and set in place sensible mechanisms.

This chapter has described the strains that will emerge, if these mechanisms are not in place, in that those with high spending power in retirement would be able to afford the quality of care they want. But those dependent on the State – or on friends and neighbours – are already finding it harder to get the services they need.

While the picture overall is one of shortages of resources, the sense of injustice at the situation is felt most acutely by those who have accumulated modest assets in their lifetime and now find themselves unexpectedly having to dispose of these to pay for care. Sometimes the burden falls on the younger generation, but more often the hardship is experienced by those who must sell all they have accumulated in their working lives – often invested in their home – to pay for care.

Many people expected social care, like health care, to be provided free. They have not seen a clear distinction between suffering from dementia and suffering from cancer, as pointed out by the Royal Commission on Long Term Care.²⁸ The gradual withdrawal of government from

much traditional care provision and the increases in charges as local authority budgets have reduced, has provoked a sense of a 'broken contract' between the citizen and the State.

Amidst an atmosphere of suspicion, there are fears that Social Services Departments deliberately delay assessing older people's care needs; that those assessed as in need of residential care are forced to wait until a sufficiently cheap place becomes available, within unrealistically low limits set by the local authority; that there are perverse incentives on Social Services Departments to move people into residential care so that their vacated home can be sold to pay the bills. Against this background, the Royal Commission's central recommendation to the government was that all personal care, as well as nursing care in residential settings, should be free at the point of delivery and paid for by general taxation.

However, while the government accepted many of the subsidiary proposals of the Royal Commission, it rejected its key recommendation. Instead, it followed the line of two members of the Commission who produced a Note of Dissent. They argued that, partly because of the expense of this recommendation, partly because it could lead to reductions in informal care, and partly because it would not apply additional resources to helping those with the least assets, only nursing care in nursing homes should be available free, without any means-test.

Would the provision of free personal care dramatically shift the balance between informal and formal care in the years ahead? In Scotland, with the impending provision of free care at the point of delivery – including home care – the assessment has been that costs might rise as a consequence by some 12 per cent. But abuse of the system could be avoided by personal care being dependent upon specific medical conditions, with strict definitions and subject to clear and rigid tests.

The passing of the Health and Social Care Act (2001) in England ended the anomaly of health services being charged for in nursing homes. But much of the extra support has not directly benefited the individuals, since hard-pressed nursing home owners have raised their charges in recognition of the availability of these extra resources (and the definition of 'nursing care' has been criticised for redefining as charged-for personal care, much of what nurses have previously provided in nursing homes).

Meanwhile in Scotland, the Scottish Executive announced in January 2001 that it had accepted the case for free personal care for older people. Measures were introduced in 2002 to cover not only the nursing, but also the social and personal care in residential settings, and the costs of domiciliary care. Nevertheless, because the accommodation costs of living in care homes must still be paid for on a means-tested basis, and those costs represent about half of the whole, the changed regime has not represented as dramatic a breakthrough as some had supposed: choice is still restricted for those unable to contribute half the costs of their care; and for those with a home to sell, or other assets to dispose of, it may still be necessary to erode most of a lifetime's savings to pay for care. However, experience from the Scottish scheme will produce significant information, for example confirming or denying the supposition in the minority report from the Royal Commission that free care leads to reductions in informal, family care.

Care insurance

In 1996, the Joseph Rowntree Foundation published the results of its Inquiry into Meeting the Costs of Continuing Care.²⁹ The Joseph Rowntree Foundation, like the Royal Commission, had

advocated that both health care and social care should be free at the point of delivery for all older people (while the accommodation costs of residential/nursing care should continue to be paid for on a means-tested basis). But the Joseph Rowntree Foundation Inquiry made recommendations to cover the costs of this change and to accumulate the resources to meet the accommodation costs as well as the care costs.

The Joseph Rowntree Foundation suggested that the nation should take advantage of the current 'window of opportunity' to build up funds for the time when the numbers of older people rises sharply. We should 'throw forward' some of the resources that are sure to be needed later. To do this, a funded *National Care Insurance* scheme should be established. A *National Care Council* would be established to set and review national standards of care entitlements and set levels of contribution rates – making 'in-flight' corrections to these as and when required.

The JRF Inquiry saw the advantages of a funded, regulated and *compulsory* care insurance scheme of this kind to be:

- A huge reduction in the costs of insuring against the potentially catastrophic risks of long-term care, because of the universal nature of the new national scheme: administration and marketing costs would be kept to a minimum because all citizens would be included as beneficiaries and all those in work would be contributors.
- An avoidance of 'free riders' who were capable of paying for their insurance but chose not to do so, rightly assuming that society will feel obliged to pick up the bill for them.
- Avoidance of 'cherry picking' by private insurers (which is likely to become more of a problem as genetic testing and other techniques reveal levels of individual risk): pooling the risks across the whole population allows everyone to benefit.
- An end to the anxieties about the loss of assets on the part of those who have saved during their working lives, rewarding those who have made provision for their old age and/or wish to pass on an inheritance to the next generation.
- Most important, the generation of substantial extra resources to supplement the input of the tax-payer (who would continue to pay for those unable to make provision for themselves): this would fund more and better care all round.

Contributions to be paid into the scheme recommended by the Joseph Rowntree Foundation would be compulsory at a rate which would ensure that someone on average earnings all their life would put in sufficient for insurance cover against the full cost of their continuing care. The Government Actuary has assessed this level at 1–1½ per cent of average earnings. (And the National Care Council would constantly review this rate in the light of increasing or falling costs.)

Such a scheme does not imply the present generation paying twice – once through their taxes, for today's older people, and once, through their contributions, for their own care later. There are gains to this generation too: those with parents with assets (principally owner-occupiers) would be protected from losing their inheritance, and they would also be able to pass on their own assets to the next generation if they required expensive care themselves.

Although the scheme was costed as increasing public expenditure at about £540 million per annum if introduced immediately – before insurance payments were available – it would

generate £3 billion annually. Payments out of the insurance fund would be small over the next 20 years, since they would relate specifically to those who have paid in: so a substantial capital fund of at least £50 billion would be accumulated in the period to 2022. Thereafter, the ring-fenced fund would pay out around half of all continuing care costs.

Since the 'free' care available would not cover accommodation costs, those wishing to avoid means-testing and loss of assets could top up their own insurance payments (for example by a single payment at the time they receive tax-free funds from their pension provision, or perhaps through partial equity release of a part of the value of their own home).

Whether or not the Joseph Rowntree Foundation's compulsory care insurance is regarded as a 'hypothecated tax by another name' is of little importance: the point is that it would free people at all income levels from the distress and insecurity of wondering how they will pay for potentially enormous care costs. Politicians and the electorate would see a major problem for the future not stored up, but dealt with in advance.

In conclusion

This chapter identifies serious under-funding of current provision, and the likelihood of substantially higher costs in the future, as a significant national issue. It is one that will cause growing anxiety to rising numbers within the electorate and one, therefore, which may become increasingly relevant to politicians of all parties. The recent research from the IPPR, however, suggests that it would be possible to fund future care costs, if sensible mechanisms are put in place.

The Joseph Rowntree Foundation stands by its earlier recommendations for a regulated, funded, compulsory, *National Care Insurance* scheme. But there may be other ways of squaring the circle and securing the resources that would pay for care free at the point of delivery. For example, for those unable to accept the case for compulsion, a preferable route might lie in the avoidance of means-testing for those who take out private insurance to cover the first £X,000, with the State paying any costs thereafter: but any scheme that is not universal will suffer problems of adverse selection, cherry-picking by insurers, higher marketing and administration fees, etc.

The Joseph Rowntree Foundation Inquiry scheme may not be the only solution, but care costs are set to rise significantly over the next two decades, even while the numbers of older people are not increasing very dramatically. Unless some major initiative is introduced of the kind advocated, we believe care inequalities will proliferate and inadequate care provision will mean insecurity and hardship for very large numbers of older people by 2022.

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Part III

Conclusion: A long-term commitment is affordable

Poverty and disadvantage are avoidable...

This report has argued that widespread poverty and disadvantage is a damaging and avoidable feature of 21st century Britain. The damage is not just experienced by those directly affected, but by the whole of society, not least because of the economic cost of having a large group of people who require expensive support and are unable to achieve their full potential.

A strategy to combat disadvantage therefore needs to start with a concerted effort to help everyone play full economic and social roles. This means enabling individuals to acquire skills and access paid work, but also valuing activities more widely and taking steps to help whole communities to flourish. At the same time, those who are unable to flourish in a market economy require support in a variety of forms.

In a number of areas this requires governments to adopt bold long-term policy objectives. Among the most important ones suggested by this report are:

- A decisive reorienting of the education system to ensure that it serves those who have in the past gained least from it.
- Measures to allow poorer groups to enjoy a higher than average rate of income growth in the coming years, primarily through better opportunities and more stable and generous support.
- A new attitude to housing supply, in which society accepts the importance of meeting growing overall demand, as well as of expanding provision for those unable to pay market prices.
- A system for paying for long-term care that gives everyone access to quality options.

...if they are tackled with persistence and co-ordination...

Of course, none of this can be achieved overnight. Yet if these principles are pursued over a long period, real progress is possible. Critically, this requires persistent, simultaneous action on a range of fronts, where sporadic or disjointed efforts would be ineffective.

One example is the pursuit of policies to enhance the incomes of people with low earnings from work. Efforts to raise productivity, progressive increases in the minimum wage and the use of tax credits to support the most needy families would each, as an isolated policy, encounter serious difficulties. Pursued together, they have a much better chance of succeeding.

Similarly, measures focusing on income enhancement will, over the long term, be more effective if combined with wider measures to improve access to things that disadvantaged people need. Improving the overall supply of housing, for example, is a long-term mission that is essential if one is to ensure that people can afford to pay for decent accommodation. With a chronic overall shortage, no policies to supply affordable homes or help people pay their rent will be adequate to eliminate housing disadvantage and associated hardship.

...and over the long-term these principles are affordable

This report has not produced a detailed, costed policy agenda. Instead it shows, first that in principle it is possible to tackle relative poverty over 20 years by diverting a relatively small percentage of economic growth to poorer groups. Second, the report argues that a higher proportion of the resources spent on services such as education should be concentrated on tackling disadvantage.

Will this require new money to be raised from the taxpayer? In the case of spending on key services, such as education, housing and health, the present government has already committed large increases. The important thing will be to sustain higher spending in these areas and to focus on tackling the problems identified in this report.

For raising the floor of incomes to the level recommended, some new resources may be needed. How much is required over the long-term depends on success in raising the capacity of disadvantaged groups to succeed economically. However, three factors make a degree of direct redistributive taxation look like a feasible option.

- 1 The present government has made a start. The past five years have shown that it is politically possible to have budgets that give disproportionately to poorer groups with some modest extra call on the means of richer ones.
- 2 Gradual movement in this direction over the long-term does not require anyone to have reduced disposable income – simply for some to become better off slightly more slowly.
- 3 The UK remains a relatively low taxed country, with most of its EU neighbours raising considerably more, especially in direct taxation.

This is not an argument for making redistributive taxation the centre of a strategy to combat poverty and disadvantage. But, alongside the other measures recommended here, it can play its part.

People consulted by JRF

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