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# Poverty: Measures and Targets

There are many difficulties inherent in defining and measuring poverty. This paper looks at these, and the Government's approach to monitoring poverty, together with a range of 'low income' poverty statistics.

The Government has set itself a target of reducing child poverty by a quarter by 2004. This paper follows progress towards the target, and considers whether it is likely to be met.

This target is a first step towards the 'eradication' of child poverty by 2020. A consultation process has recently led to a new measurement of child poverty that will be used to monitor progress towards future targets.

Ian Townsend

ECONOMIC POLICY AND STATISTICS SECTION

Steven Kennedy

SOCIAL POLICY SECTION

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## Summary of main points

In September 1999 the Government published its first annual *Opportunity for All* report setting out its strategy for tackling poverty and social exclusion. Earlier that year, the Prime Minister had stated that the Government would commit to eradicating child poverty within 20 years. In November 1999, the Chancellor of the Exchequer announced an intermediate goal of halving child poverty by 2010. Then in 2000 a further target was announced to reduce the number of children in poverty by at least a quarter by 2004/05.

**Part I** discusses what is meant by ‘poverty’, how it relates to other concepts including ‘social exclusion’, and some alternative approaches to poverty measurement, highlighting some of the inherent problems and dilemmas. The present Government and previous Conservative Government’s approaches to poverty are outlined, as is the approach to monitoring poverty and social exclusion in the European Union.

The traditional approach to measuring poverty involves looking at how many people live in households below particular low income thresholds. The principal source of data on the extent of ‘low income poverty’ in Great Britain is the *Households Below Average Income* (HBAI) series produced by the Department for Work and Pensions (DWP).

**Part II** explains HBAI methodology and terms, with selected HBAI statistics (including trends over time) given in **part III**. International comparisons of low income poverty, based on EU and OECD sources, are presented in **part IV**.

The Government is measuring its 2004/05 child poverty target by looking at the number of children below 60% of median equivalised household income, as reported in HBAI. **Part V** looks at progress so far. Final figures will not be available until spring 2006. However, independent projections suggest a broad consensus that measures to date – in particular the new tax credits, and the forthcoming increase in the child element of the Child Tax Credit – are likely to ensure that the 2004/05 target is met, at least when income is measured before housing costs. The Government has itself stated that meeting the target when income is measured after housing costs will be ‘more challenging’.

In April 2002 the DWP began a consultation exercise on a new child poverty measure to be used to judge whether the Government’s future targets for halving child poverty by 2010, and eradicating it by 2020, are met.

Final conclusions were announced in December 2003. Success in meeting these medium- and long-term child poverty targets is to be gauged using a ‘tiered approach’, with three separate measures: an income poverty measure based on a low income threshold fixed in real terms; a measure based on a relative low income threshold which rises if overall living standards increase; and a further measure combining both low income and material deprivation. Poverty is to be regarded as falling when all three indicators are moving in the same direction. **Part VI** summarises the consultation exercise, and looks at some of the issues raised by it. It also gives initial reactions to this new child poverty measure.

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# I Definition and measurement of poverty

## A. Concepts and definitions

### 1. What is 'poverty'?

There is no single, universally accepted definition of 'poverty'. Indeed, in his study of how governments in ten countries set minimum income standards, Professor John Veit-Wilson identified no fewer than seven different ways of conceptualising poverty.<sup>1</sup> The fact that there are so many different ways of thinking about poverty means that debates – even between experts in the field – often generate more heat than light. There is also a political dimension since, as Professor David Piachaud noted, the term 'poverty' carries with it '...an implication and moral imperative that something should be done about it.'<sup>2</sup>

Textbooks on the subject often start with the distinction between 'absolute' and 'relative' poverty. The distinction is essentially one between physiological and social concepts of poverty. It is also therefore one between needs which remain - broadly - fixed, and those which change as societies develop and grow more prosperous. Absolute poverty refers to a lack of the needs for physical subsistence: what Seebohm Rowntree called the minimum necessary for the 'maintenance of physical health' and 'physical efficiency'. Relative poverty extends the concept of poverty to consider individuals as social beings, who have psychological needs to participate in a society and share in its customs and norms.

While the terms 'absolute' and 'relative' poverty are used frequently, some commentators argue that the distinction is unhelpful, or even meaningless.<sup>3</sup> The Child Poverty Action Group's reference volume, *Poverty: the facts*, argues:

All the notions of 'absolute' definitions of poverty which suppose it to be a state of lacking all but a given list of physiological requirements ('minimum subsistence' measures) are impracticable in real human societies. No human lives like that, on physiological requirements alone, and even if they did, the variables are too immense for any one list to include them all. Human societies vary greatly over time and space. No conceivable definition of 'difference' or 'lack of resources' could encompass all the variables. By the same token, all approaches to definition must be relative to society, time, place and observer. Thus there can be no absolute definitions: they are all relative.<sup>4</sup>

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<sup>1</sup> John Veit-Wilson, *Setting adequacy standards: How governments define minimum incomes*, Joseph Rowntree Foundation, 1998

<sup>2</sup> David Piachaud, 'Peter Townsend and the Holy Grail', *New Society*, 10 September 1981

<sup>3</sup> Rowntree is often cited as an exponent of the absolute poverty concept. However, as John Veit-Wilson has shown, Rowntree himself did not consider his 'primary poverty' measure a viable definition of minimal adequacy; rather it was a tool to enable him to demonstrate that a significant proportion of the poor did not even have enough money to satisfy physical, let alone social, needs. For further background see John Veit-Wilson, 'Paradigms of Poverty: a rehabilitation of B S Rowntree', *Journal of Social Policy*, 15(1), 1986, pp69-99

<sup>4</sup> Child Poverty Action Group, *Poverty: the facts* (4<sup>th</sup> edition), 2001, p20

The idea that there is an ‘irreducible core’ of poverty remains, however. The 1995 UN world Summit on Social Development defined:

Absolute poverty [as] a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services.<sup>5</sup>

The Summit’s definition of ‘overall poverty’ was however somewhat broader:

Poverty has various manifestations, including lack of income and productive resources to ensure sustainable livelihoods; hunger and malnutrition; ill-health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments and social discrimination and exclusion. It is also characterised by a lack of participation in decision making and in civil, social and cultural life. It occurs in all countries: as mass poverty in many developing countries, pockets of poverty amid wealth in developed countries, loss of livelihoods as a result of economic recession, sudden poverty as a result of disaster or conflict, the poverty of low-wage workers, and the utter destitution of people who fall outside family support systems, institutions and safety nets.<sup>6</sup>

In the UK and in most of the developed world, poverty is usually understood as being defined, at least in part, by relating the living standards of an individual to those of the society around him or her.<sup>7</sup> In his influential study *Poverty in the United Kingdom*, Peter Townsend argued:

Poverty can be defined objectively and applied consistently only in terms of the concept of relative deprivation. [...] Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs or activities.<sup>8</sup>

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<sup>5</sup> Cited in David Gordon, ‘Measuring absolute and overall poverty’, in D. Gordon and P. Townsend (eds.), *Breadline Europe: The measurement of poverty*, 2000, p49

<sup>6</sup> *ibid.*, pp49-50

<sup>7</sup> A notable exception is the United States, where the official poverty line is an absolute measure based on research carried out in the 1960s into minimum food budgets. Some statistics are given in section IV(D), for detail of this research see Gordon M. Fisher, *The Development of the Orshansky Poverty Thresholds and Their Subsequent History as the Official U.S. Poverty Measure*, revised April 2003; <http://www.census.gov/hhes/poverty/povmeas/papers/orshansky.html>

<sup>8</sup> Peter Townsend, *Poverty in the United Kingdom*, 1979, p31



A similar definition was adopted by the European Commission in 1984:

...‘the poor’ shall be taken to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live.<sup>9</sup>

## 2. ‘Poverty’ and ‘social exclusion’

The terms ‘poverty’ and ‘social exclusion’ are sometimes used interchangeably. This was certainly the case with debates at European level during the late 1980s.<sup>10</sup> The two terms are however not necessarily synonymous.

The term ‘social exclusion’ first emerged in France in the 1970s in relation to people who fell outside the scope of the social insurance system, such as disabled people, lone parents and the young unemployed. Concern for groups such as these reflects the tradition in mainland Europe – and in France in particular – which emphasises the need for ‘solidarity’ and ‘social cohesion’.<sup>11</sup>

Exactly what ‘social exclusion’ means, however, is open to debate. Indeed, Professor Tony Atkinson of Oxford University has argued that the term has gained in currency partly because it has no precise definition, meaning all things to all people.<sup>12</sup> He identifies three common strands in academic attempts to define the concept. First, there is *relativity*. Exclusion must be from a particular society, in a particular place and time. While poverty – at least absolute poverty – may be viewed by looking at a person’s circumstances in isolation, social exclusion cannot and needs to consider the individual’s estrangement from a particular society. Second, there is what sociologists call *agency*, the actions of people and institutions. Social exclusion requires a degree of agency. This can be either on the part of excluded individuals themselves, who may opt out of the labour market or choose to commit a crime, or on the part of institutions, for example banks which refuse to provide an individual with credit or a bank account, or employers who refuse to employ individuals because of their age. Finally, social exclusion is underlain by *dynamics*, a consideration of the future as well as the present. People, and

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<sup>9</sup> Council Decision 85/8/EEC of 19 December 1985 on Specific Community Action to Combat Poverty

<sup>10</sup> It has been suggested that the main reason for this was that British Conservative politicians did not acknowledge the existence of poverty. The use of the term ‘social exclusion’ enabled discussions on social policy matters to continue at the European level whilst avoiding this delicate issue. See for example J. Berghman, ‘Social Exclusion in Europe: Policy Context and Analytical Framework’, in G. Room (ed.), *Beyond the Threshold: The Measurement and Analysis of Social Exclusion*, 1995

<sup>11</sup> H. Silver, ‘Reconceptualising Social Disadvantage’, in G. Rodgers *et al*, *Social Exclusion: Rhetoric, Reality, Responses*, ILO, 1995

<sup>12</sup> ‘Social Exclusion, Poverty and Unemployment’ in A.B. Atkinson and J. Hills (eds.), *Exclusion, Employment and Opportunity*, CASEpaper 4, 1998; <http://sticerd.lse.ac.uk/dps/case/cp/Paper4.PDF>

their children, are excluded not just because they have low income or no job, but because they have little prospect of improving their situation.<sup>13</sup>

The European Commission's recent *Joint Report on Social Inclusion* makes the following distinction between 'poverty' and 'social exclusion':

**Poverty:** People are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty they may experience multiple disadvantage through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalised from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted.

**Social exclusion:** Social exclusion is a process whereby certain individuals are pushed to the edge of society and prevented from participating fully by virtue of their poverty, or lack of basic competencies and lifelong learning opportunities, or as a result of discrimination. This distances them from job, income and education opportunities as well as social and community networks and activities. They have little access to power and decision-making bodies and thus often feeling powerless and unable to take control over the decisions that affect their day to day lives.<sup>14</sup>

In the UK, the term social exclusion gained greater prominence in the late 1990s, and in December 1997 the Government established the Social Exclusion Unit (SEU).<sup>15</sup> The SEU's March 2001 report, *Preventing Social Exclusion*, set out the Government's understanding of the term:

**1.2** Social exclusion is a relatively new term in British policy debate. It includes poverty and low income, but is broader and addresses some of the wider causes and consequences of poverty. The Government has defined social exclusion as:

*"a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime, bad health and family breakdown"*

**1.3** This is a deliberately flexible definition, and the problems listed are only examples. Many other dimensions of exclusion could be added.

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<sup>13</sup> *ibid.*, pp7-8

<sup>14</sup> European Commission, *Joint Report on Social Exclusion summarising the results of the examination of the National Action Plans for Social Inclusion (2003-2005)*, COM(2003) 773 final, 12 December 2003; [http://europa.eu.int/comm/employment\\_social/soc-prot/soc-incl/joint\\_rep\\_en.htm](http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/joint_rep_en.htm)

<sup>15</sup> The SEU was originally part of the Cabinet Office, but is now located within the Office of the Deputy Prime Minister; see <http://www.socialexclusionunit.gov.uk/>

1.4 The most important characteristic of social exclusion is that these problems are linked and mutually reinforcing, and can combine to create a complex and fast-moving vicious cycle. Only when this process is properly understood and addressed will policies really be effective.<sup>16</sup>

## B. Measuring poverty

To measure the prevalence of poverty it is necessary to be able to distinguish the poor from the non-poor. The traditional approach involves establishing an income threshold and calculating how many individuals, families or households fall below it. The question is how to establish the income threshold. There is no single correct approach; a wide range of methods has been used in different countries and at different times. Moreover, there is the question of whether income itself is a reliable indicator of living standards. As noted above, most modern definitions of poverty look beyond income to consider various dimensions of disadvantage.

A brief description of some of the best known approaches to poverty measurement helps to highlight some of the issues and dilemmas.

A common approach involves using an income threshold set at a particular **fraction of mean or median income** (see part II(C)). This approach has been used by international bodies such as the European Union and the OECD. The EU's statistical agency Eurostat, for example, publishes income poverty figures for the EU Member States based on a threshold of 60 per cent of median income in each country.<sup>17</sup> Figures based on the 60 per cent of median income threshold in the UK's official *Households Below Average Income* series also tend to be given prominence by commentators here, although the publication gives figures based on various thresholds and the Department for Work and Pensions stresses that no single measure should be given particular weight.<sup>18</sup>

The main problem with using a poverty threshold based on a proportion of mean or median income is that any such threshold is essentially arbitrary. There is no inherent reason why any particular proportion should be considered the threshold below which people can be said to be in poverty.<sup>19</sup>

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<sup>16</sup> See [http://www.socialexclusionunit.gov.uk/publications/reports/html/pse/pse\\_html/index.htm](http://www.socialexclusionunit.gov.uk/publications/reports/html/pse/pse_html/index.htm)

<sup>17</sup> See, for example, Ian Dennis and Anne-Catherine Guio, *Statistics in focus: Poverty and social exclusion in the EU after Laeken – part 1*, 8/2003, 27 February 2003; [http://www.eudatashop.gov.uk/statistics\\_in\\_focus/downloads/KS-NK-03-008--N-EN.pdf](http://www.eudatashop.gov.uk/statistics_in_focus/downloads/KS-NK-03-008--N-EN.pdf)

<sup>18</sup> Department for Work and Pensions, *Households Below Average Income: An analysis of income distribution 1994/5-2001/02*, March 2003; <http://www.dwp.gov.uk/asd/hbai/hbai2002/contents.asp>

<sup>19</sup> Recent research carried out for the Department for Work and Pensions did however find evidence of systematic differences in the circumstances of families in the UK above and below the 60 per cent of median income threshold: S. Vegeris and J. Perry, *Families and children in 2001: Living standards and the children*, DWP Research Report 190, 2003; <http://www.dwp.gov.uk/asd/asd5/rrep190.asp>. This might not however be the case at different points in time, or in different countries.

Income thresholds based on **social assistance benefit rates** (or, more often, benefit rates plus a margin) have sometimes been used to estimate the prevalence of poverty.<sup>20</sup> Poverty thresholds based on benefit levels have some authority in that they show how many people have incomes below that the state itself considers the minimum adequate level. However, this assumes that benefit levels themselves are sufficient to avoid poverty. In the UK this is by no means clear. It is a common misconception that benefit rates in the UK are based on some regular systematic estimate of minimum needs. In fact the last time such an exercise was conducted officially was by Seebohm Rowntree in 1938. The National Assistance<sup>21</sup> rates set in 1948 were based (loosely) on Rowntree's figures and it is not clear, given subsequent uprating policies and changes to benefit structures, what if any rationale exists for benefit levels today.<sup>22</sup>

There have however been more recent attempts to establish thresholds based on estimates of minimum needs. The **budget standard** approach, developed by Professor Jonathan Bradshaw of the University of York and his colleagues at the Family Budget Unit, seeks to establish 'low cost but acceptable' or 'modest but adequate' budgets for different family types.<sup>23</sup> For each family type, a list of goods and services necessary to meet the relevant minimum standard is drawn up. The individual items are then priced, and the overall budget can be used as a poverty threshold for the family type.

The main problem with this approach is that it inevitably involves judgments about minimum needs. While those drawing up the list of goods and services can draw upon scientific and behavioural evidence about human needs, the ultimate decision about what goes into the basket can never be entirely objective. Disputes about what is to be included in a particular budget are inevitable, and different research methods can result in different budget figures.<sup>24</sup>

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<sup>20</sup> See for example B. Abel Smith and P. Townsend, *The Poor and the Poorest*, 1965. Between 1972 and 1985 the UK Department of Health and Social Security also published the 'Low Income Families' series which gave figures for people living on, below or just above Supplementary Benefit scale rates. This was never intended to be an official 'poverty' series however. For further details see DHSS, *Low Income Families 1985*, DEP 3955, 1998. The series was replaced by 'Households Below Average Income' in 1988, but the Institute for Fiscal Studies continued to produce the figures for the House of Commons Social Security Committee until 1995; see *Low Income Statistics: Low Income Families 1989-1992*, 22 May 1995, HC 254 1994-95

<sup>21</sup> National Assistance was renamed Supplementary Benefit in the 1960s; Supplementary Benefit was in turn renamed Income Support in the 1980s.

<sup>22</sup> For background see Library standard note SN/SP/845, *Income Support rates*, May 1999. The only official study of the adequacy of benefits in the UK was carried out by the National Assistance Board (NAB) in the 1960s. It used various different methods to establish adequate minimum income levels. The results suggested that the existing National Assistance rates were seriously inadequate. The study was however kept secret, and the report was never published. For further details, see J. Veit-Wilson, 'The National Assistance Board and the 'rediscovery' of poverty', in H. Fawcett and R. Lowe (eds.), *Welfare policy in Britain: the road from 1945*, 1999.

<sup>23</sup> See for example J. Bradshaw (ed.), *Budget Standards for the United Kingdom*, 1993, and Family Budget Unit website at <http://www.york.ac.uk/res/fbu/>

<sup>24</sup> Department for Work and Pensions, *Measuring child poverty consultation: Preliminary conclusions*, May 2003, paras 16-19; <http://www.dwp.gov.uk/consultations/consult/2003/childpov/index.asp>

Another approach involves asking members of the public directly about the adequacy or inadequacy of different income levels. The **subjective poverty line** approach has been used by researchers in the UK and Australia, but it has a longer tradition in Europe, and in the Netherlands and Belgium in particular.<sup>25</sup> The main problem with such studies is that they ask respondents to assess needs outside their own experience. A further issue is that subjective approaches have tended to result in poverty lines substantially higher than those derived from other approaches.<sup>26</sup> This has led some to question the usefulness of the subjective approach.<sup>27</sup>

The **deprivation indicator** approach was pioneered by Peter Townsend in his 1979 study, *Poverty in the United Kingdom*. It was subsequently refined by Mack and Lansley in the 1980s<sup>28</sup> and Gordon and Pantazis in the late 1990s<sup>29</sup>, and the approach was also used in an analysis of the 1999 *Poverty and Social Exclusion Survey* carried out for the Joseph Rowntree Foundation (JRF).<sup>30</sup> The DWP consultation paper on *Measuring child poverty* summarised the approach adopted in the JRF study as follows:

The analysis sought to identify enforced lack of necessities by presenting respondents with a list of items and asking them to distinguish items they thought were necessary in Britain today (i.e. that all adults should be able to afford and not have to go without) and those that were not. They were then asked to sort the same items into three groups: those they had, those they did not have but did not want, and those they did not have and could not afford.

Items were selected into the list of necessities if over 50 per cent of people deemed them necessities. There were 35 items in this basket ranging from beds and bedding, refrigerator, two meals a day to an outfit for social occasions and a holiday away from home once a year. Unweighted deprivation scores were ranked against income to produce a poverty threshold. The authors consequently defined 'poverty' as lacking two or more items.<sup>31</sup>

The deprivation indicator approach as used in the JRF study is seen as attractive because the public themselves choose what they consider to be necessities.<sup>32</sup> However, the original list of items and activities presented to them still has to be selected by the researcher. In addition, because items are accepted as 'necessities' on the majority view, in some cases particular items will be included in the list which are not in fact considered

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<sup>25</sup> D. Gordon *et al*, *Poverty and social exclusion in Britain*, Joseph Rowntree Foundation, 2000, p73

<sup>26</sup> H. Deleeck *et al*, *Poverty and the Adequacy of Social Security in the EC*, 1992

<sup>27</sup> Child Poverty Action Group, *Poverty: the facts*, 2001, p24

<sup>28</sup> J. Mack and S. Lansley, *Poor Britain*, 1985

<sup>29</sup> D. Gordon and C. Pantazis (eds.), *Breadline Britain in the 1990s*, 1997

<sup>30</sup> D. Gordon *et al*, *Poverty and social exclusion in Britain*, 2000;

<http://www.jrf.org.uk/knowledge/findings/socialpolicy/930.asp>

<sup>31</sup> Department for Work and Pensions, *Measuring child poverty: a consultation document*, April 2002, p24; <http://www.dwp.gov.uk/consultations/consult/2002/childpov/childpoverty.pdf>

<sup>32</sup> Gordon *et al*, *op cit.*, p72

necessities by a significant proportion of the population. Finally, there is the issue of how the list of indicators should be updated to take account of changing needs.

There are a number of other approaches to measuring poverty in addition to those outlined above. There is however no single 'correct' approach; all have potential drawbacks.

## **C. Official views of poverty**

### **1. The Conservative Governments 1979-1997**

Under the Conservative Governments from 1979 to 1997 there was no officially defined poverty line. Indeed, in his famous 'end of the line for poverty' speech on 11 May 1989,<sup>33</sup> John Moore, then Secretary of State for Social Security, argued that absolute poverty no longer existed, and that relative poverty was no more than inequality. He pointed out that a poverty line linked to Income Support rates would result in meaningless estimates since the figures would automatically increase if benefit levels were made more generous. Claims that a third of the population were in poverty or on its margins were "bizarre", and given the evidence of the extent of ownership of consumer durables among the poorest fifth of families it was "utterly absurd" to claim that one in three people in Britain was in "dire need". He went on to argue that critics of the Government's policies were:

...not concerned with the actual living standards of real people but with pursuing the political goal of equality... We reject their claims about poverty in the UK, and we do so knowing that their motive is not compassion for the less well-off... Their purpose in calling 'poverty' what is in reality simply inequality, is so they can call western capitalism a failure.<sup>34</sup>

The following written answer from 1994 gives the views of the then Government about poverty definitions and measures:

**Mr. Gordon Prentice:** To ask the Secretary of State for Social Security what definition Her Majesty's Government use of absolute poverty.

**Mr. Burt:** No Government in the United Kingdom have ever accepted that it is possible to identify a single simple measure to define poverty in any meaningful way. A great many methods have been used by various academics to identify a "poverty line", but none has received general acceptance.

Rather than relying on narrow arbitrary definitions this Department publishes an extensive range of analyses and information of the incomes and characteristics of

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<sup>33</sup> Conservative Political Centre, *The end of the line for poverty: text of a CPC lecture delivered by John Moore at the St Stephens Club, 11 May 1989*

<sup>34</sup> *ibid.*, p14

people in the lower half of the income distribution. These analyses can be found in “Households Below Average Income”, the latest edition of which was published on 30 June 1993 covering the years 1979 to 1990. A copy is in the Library. The next edition is due to be published on 14 July covering the years 1979 to 1991-92.<sup>35</sup>

Part II of this research paper gives detailed information on the *Households Below Average Income* series methodology, while part III gives a range of statistics.

## 2. The Labour Government since 1997

The current Government’s position with regard to the definition and measurement of poverty is summarised by the following written answer from 10 December 2002:

**Huw Irranca-Davies:** To ask the Chancellor of the Exchequer what definition the government uses of (a) relative and (b) absolute poverty as applicable to government policy; and what plans the government has to review the utility and appropriateness of definitions of poverty in respect of government policy. [85760]

**Dawn Primarolo:** For the purposes of the Public Service Agreement target to reduce the number of children living in low income households by a quarter by 2004–05 compared to 1998–99, the Government measure the number of children in households with an equivalised income below 60 per cent. of the contemporary median, as reported in “Households Below Average Income”. This is a measure of relative income distribution; statistics on absolute measures based on income thresholds fixed in real terms are also published, as is information on pensioners and working-age adults.

Low income is central to poverty. But poverty is a complex multi-dimensional issue, related to many other aspects of people's lives—including health, housing, the quality of the environment, and opportunities to learn. A broader set of indicators related to poverty and social exclusion, going beyond income, is published in the annual report “Opportunity for all”.

Looking further ahead, the Government are committed to finding a measure of child poverty that will both underpin effective policy-making and enable the public to gauge progress towards the long-term goal of halving child poverty by 2010 and eradicating it within a generation. In April 2002 the Department for Work and Pensions launched a consultation exercise on measuring child poverty in the long-term. Preliminary conclusions are due to be published by spring 2003.<sup>36</sup>

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<sup>35</sup> HC Deb 13 July 1994 c642W

<sup>36</sup> HC Deb 10 December 2002 cc265-266W

A written answer in June 2003 stated that the new child poverty measure (see part VI) would not be applicable to other population groups:

**Mr. Sayeed:** To ask the Secretary of State for Work and Pensions pursuant to his answer of 9 June 2003, *Official Report*, column 703W, on poverty definition, whether the new general definition of poverty will be announced rather than the specific measurement of child poverty. [121262]

**Maria Eagle:** ‘Measuring Child Poverty: a consultation document’ was specific in its intention to cover only child poverty. We have a pledge to eradicate child poverty by 2020 and we need to ensure that we can monitor long-term progress in the best possible way. Our final conclusions will therefore centre on child poverty measures only.

‘Opportunity for all: fourth annual report’ (Cm 5598), sets out the Government’s strategy for tackling poverty and social exclusion and presents the latest information on the range of indicators used to measure progress against this strategy. The report includes over 50 indicators covering children and young people, people of working age, pensioners and communities. There is no “general definition of poverty” in this set.

All reports are available in the Library.<sup>37</sup>

### 3. Opportunity for all

The first *Opportunity for all* report was published in September 1999.<sup>38</sup> The report argued that poverty was a multi-dimensional issue and should not be seen solely in terms of limited income:

Poverty affects different aspects of people’s lives, existing when people are denied opportunities to work, to learn, to live healthy and fulfilling lives, and to live out their retirement years in security. Lack of income, access to good-quality health, education and housing, and the quality of the local environment all affect people’s well-being. Our view of poverty covers all these aspects.

Low income is an important aspect of poverty. But short spells of low income may not damage an individual’s well-being or their prospects in the longer term. Our strategy focuses on those who are, or are at risk of becoming trapped on low incomes for long periods, especially those who have limited opportunities to escape.

The problem is not restricted to limited income. Poverty exists when those on low incomes lack opportunities to improve their position. For example, compare the opportunities for a student on a low income and studying for a degree, with an

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<sup>37</sup> HC Deb 30 June 2003 cc87-88W

<sup>38</sup> Department for Social Security, *Opportunity for all: Tackling poverty and social exclusion*, Cm 4445, September 1999



unskilled person who is long-term unemployed. Without an improvement in opportunity, individuals are unable to take control of their own lives.<sup>39</sup>

The first report stated that the Government would monitor progress in tackling poverty and social exclusion by looking at a range of indicators:

We are prepared to be judged by results and we have, therefore, identified a broad range of indicators by which we can monitor our progress. Each chapter shows how the indicators are linked to the policy priorities we have defined for each age group (see Chapter 1). Poverty and social exclusion are complex problems. Our view is that they cannot be measured by a single indicator. Our approach has been to adopt a range of indicators capturing many of the aspects of poverty and social exclusion: income, employment, education, health, housing, and pension provision, for example. Income indicators form an important part of our range of indicators. Our approach to monitoring income is to use a range of indicators that capture our progress in raising the incomes of poorer people both in real terms and in relation to incomes of the population as a whole. By using a range of low income measures we should be able to provide a comprehensive assessment of our progress.<sup>40</sup>

The most recent (fifth) *Opportunity for all* report was published in September 2003.<sup>41</sup>

The indicators which are tracked in *Opportunity for all* reflect the Government's view that poverty is a multi-dimensional phenomenon. There are separate indicators for three population groups – children and young people, people of working age and older people – and an additional set of indicators for communities.<sup>42</sup> The indicators for children and young people, for example, comprise:

- Children in workless households
- Low income (relative, absolute and persistent measures)
- Teenage pregnancy (teenage conceptions, and teenage parents not in education, employment or training)
- Key Stage 1 (7-year-olds) attainment in Sure Start areas
- Key Stage 2 (11-year-olds) attainment
- 16-year-olds with at least one GCSE
- 19-year-olds with at least a Level 2 qualification
- Truancies

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<sup>39</sup> *ibid.*, p23

<sup>40</sup> *ibid.*, chapter 2, para 37

<sup>41</sup> Department for Work and Pensions, *Opportunity for all: Fifth report*, Cm 5956, September 2003; <http://www.dwp.gov.uk/ofa/reports/2003/index.asp>

<sup>42</sup> The report includes indicators for the UK, in relation to reserved matters, and for England only in relation to devolved matters. Separate reports including multi-dimensional indicators are produced by the devolved administrations. Further details in *ibid.*, chapter 3; <http://www.dwp.gov.uk/ofa/reports/2003/chapter3.asp>

- School exclusions
- Educational attainment of children looked after by local authorities
- 16- to 18-year-olds in learning
- Infant mortality
- Serious unintentional injury
- Smoking rates (for pregnant women, and children aged 11–15)
- Re-registrations on Child Protection Register
- Housing that falls below the set standard of decency

Appendix 1 to this paper gives the results for each of the three population groups and for communities from the 2003 *Opportunity for all* report.

While the *Opportunity for all* approach has received widespread support from academics and pressure groups concerned with poverty, there have been some criticisms of the choice of indicators. In a paper given in July 2000,<sup>43</sup> Professor Jonathan Bradshaw of the University of York argued that the initial set of indicators was too narrow in scope, and that not all were related to poverty as such. Some were concerned with inputs rather than outcomes, and the overall choice of indicators, he felt, reflected too closely the activities of Government departments. In addition, for some of the indicators data were either difficult to collect or not available on a sufficiently regular basis to enable progress to be tracked.

The Child Poverty Action Group's reference volume, *Poverty: the facts*, comments:

In view of the wide range of measures, there is a certain lack of clarity about what this combination of indicators actually tells us. And the wide range of indicators leaves it open for the Government to highlight the indicators that show the most favourable results. Nevertheless, an important start has been made in evaluating national progress to eliminate child poverty.<sup>44</sup>

Since 1998 the Joseph Rowntree Foundation has, in conjunction with the New Poverty Institute, published an annual report on *Monitoring poverty and social exclusion*. The report takes a similar approach to *Opportunity for all*, presenting data for 50 indicators covering income poverty, health, education, work, housing and crime. Separate sections concentrate on children, young adults, adults, older people and communities. The most recent report was published in December 2003, and is available from the JRF website.<sup>45</sup>

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<sup>43</sup> *Indicators of Progress: A discussion of principles to monitor the Government's strategy to tackle poverty and social exclusion*, Report of the workshop held on 19 July 2000 organised by the Department of Social Security and Centre for Analysis of Social Exclusion, LSE, CASE report 13, February 2001, p21; <http://sticerd.lse.ac.uk/dps/case/cr/CASEREport13.pdf>

<sup>44</sup> Child Poverty Action Group, *Poverty: the facts*, 4<sup>th</sup> edition, 2001, p66

<sup>45</sup> Guy Palmer *et al*, *Monitoring poverty and social exclusion 2003*, 9 December 2003; <http://www.jrf.org.uk/bookshop/details.asp?pubID=574>

There is also a complementary website to the annual report, which is updated on an ongoing basis.<sup>46</sup>

#### 4. European Union

Articles 136 and 137 of the Treaty establishing the European Community (consolidated version) provide, *inter alia*, that combating social exclusion is an objective of both the Community and the Member States, and that the European Community has a role in supporting and complementing the activities of the Member States in this regard. In March 2000 the Lisbon European Council agreed on the need to take steps to make a decisive impact on the eradication of poverty by 2010. It also agreed that Member States should co-ordinate their policies for combating poverty and social exclusion on the basis of the ‘Open Method of Co-ordination’. This is a new process which attempts to create a degree of commonality in policy approaches between Member States. It does not however involve coercive mechanisms beyond peer review and benchmarking.<sup>47</sup>

The process involves:

- The submission of ‘National Action Plans’ (NAPs) by each Member State setting out how they are working towards the common objectives<sup>48</sup> for tackling poverty and social exclusion defined by the December 2000 Nice European Council. The first NAPs were submitted by Member States in June 2001, and the second wave in July 2003. The UK’s 2003 *National Action Plan on Social Inclusion* is available at the DWP website.<sup>49</sup> It follows closely the approach set out in the *Opportunity for all* reports.
- The preparation of a joint Council/Commission *Report on Social Inclusion* in response to the Member States’ NAPs. The Commission has already published its *Joint report on social inclusion summarizing* in response to the July 2003 NAPs.<sup>50</sup> This will form the basis for the joint Council/Commission report, which is to be presented to the Spring European Council in 2004.
- A set of 18 common indicators to monitor progress in achieving the common objectives in each of the Member States.

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<sup>46</sup> See <http://www.poverty.org.uk/intro/index.htm>

<sup>47</sup> For further details see House of Lords European Union Committee, *The Future of Europe: “Social Europe”*, 7 April 2003, HL 79 2002-03, paras 20-26

<sup>48</sup> Further information on the common objectives at [http://europa.eu.int/comm/employment\\_social/soc-prot/soc-incl/com\\_obj\\_en.htm](http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/com_obj_en.htm)

<sup>49</sup> See <http://www.dwp.gov.uk/publications/dwp/2003/nap/index.asp>

<sup>50</sup> European Commission, *Joint report on social inclusion summarising the results of the examination of the National Action Plans for Social Inclusion (2003-2005)*, COM(2003) 773 final, 23 December 2003; [http://europa.eu.int/comm/employment\\_social/soc-prot/soc-incl/joint\\_rep\\_en.htm](http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/joint_rep_en.htm)

The list of common indicators was drawn up by the Social Protection Committee<sup>51</sup> in 2001. In its report the Committee argued that a range of indicators was appropriate given the ‘multi-dimensional’ nature of poverty and social exclusion, and that the indicators should be prioritized into three levels:

A large number of indicators are needed to properly assess the multidimensional nature of social exclusion. The Social Protection Committee suggests that these indicators should be prioritised by placing them in three levels. *Primary indicators* would consist of a restricted number of lead indicators which cover the broad fields that have been considered the most important elements in leading to social exclusion; *Secondary indicators* would support these lead indicators and describe other dimensions of the problem. Both these levels would be commonly agreed and defined indicators, used by Member States in the next round of National Action Plans on Social Inclusion and by the Commission and Member States in the Joint Report on Social Inclusion. There may also be a third level of indicators that Member States themselves decide to include in their National Action Plans on Social Inclusion, to highlight specificities in particular areas, and to help interpret the primary and secondary indicators. These indicators would not be harmonised at EU level.<sup>52</sup>

The Committee argued that the indicators should focus on social outcomes rather than the means by which they are achieved. Its report proposed the following set of indicators:

- Primary Indicators:**
1. Low income rate after transfers with low-income threshold set at 60% of median income (with breakdowns by gender, age, most frequent activity status, household type and tenure status; as illustrative examples, the values for typical households);
  2. Distribution of income (income quintile ratio)
  3. Persistence of low income
  4. Median low income gap
  5. Regional cohesion
  6. Long term unemployment rate
  7. People living in jobless households
  8. Early school leavers not in further education or training
  9. Life expectancy at birth
  10. Self perceived health status

- Secondary Indicators:**
11. Dispersion around the 60% median low income threshold
  12. Low income rate anchored at a point in time
  13. Low income rate before transfers
  14. Distribution of income (Gini coefficient)

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<sup>51</sup> The Social Protection Committee was established in 2000 in order to serve as a vehicle for co-operative exchange between the Commission and the Member States in relation to the modernisation and improvement of social protection systems. For details, see [http://europa.eu.int/comm/employment\\_social/social\\_protection\\_committee/index\\_en.htm](http://europa.eu.int/comm/employment_social/social_protection_committee/index_en.htm)

<sup>52</sup> Social Protection Committee, *Report on Indicators in the field of poverty and social inclusion*, October 2001; [http://europa.eu.int/comm/employment\\_social/news/2002/jan/report\\_ind\\_en.pdf](http://europa.eu.int/comm/employment_social/news/2002/jan/report_ind_en.pdf)

15. Persistence of low income (based on 50% of median income)
16. Long term unemployment share
17. Very long term unemployment rate
18. Persons with low educational attainment<sup>53</sup>

The Committee's proposals were endorsed at the Laeken European Council in December 2001. In February 2003 Eurostat produced two reports giving results for each of the 'Laeken indicators' for each Member State.<sup>54</sup> The Commission's December 2003 *Joint report on social inclusion* also includes a statistical annex on the Laeken indicators.<sup>55</sup>

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<sup>53</sup> *ibid.*, pp3-4

<sup>54</sup> Eurostat, *Poverty and social exclusion in the EU after Laeken – parts 1 and 2*, Statistics in Focus, February 2003; [http://www.eudatashop.gov.uk/statistics\\_in\\_focus/downloads/KS-NK-03-008--N-EN.pdf](http://www.eudatashop.gov.uk/statistics_in_focus/downloads/KS-NK-03-008--N-EN.pdf) and [http://www.eudatashop.gov.uk/statistics\\_in\\_focus/downloads/KS-NK-03-009--N-EN.pdf](http://www.eudatashop.gov.uk/statistics_in_focus/downloads/KS-NK-03-009--N-EN.pdf)

<sup>55</sup> SEC(2003)1425; [http://europa.eu.int/comm/employment\\_social/soc-prot/soc-incl/sec\\_2003\\_1425\\_jir\\_annex\\_en.pdf](http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/sec_2003_1425_jir_annex_en.pdf)

## II ‘Households Below Average Income’

### A. What is HBAI?

*Households Below Average Income* (HBAI) is an annual Department for Work and Pensions report that is the principal source of information on the size and characteristics of the low income population in Britain. It gives breakdowns showing the numbers and proportions of people living in low income households. It does this on the basis of various relative and absolute income thresholds of the mean and median household income, for income measured both before and after housing costs. Although it is not an ‘official’ poverty series, it gives data for those income thresholds that are widely used as poverty lines by commentators and in international studies.

Since 1994/5, low income data have been derived from the *Family Resources Survey* (FRS), and before that the smaller *Family Expenditure Survey* (FES).<sup>56</sup> The current edition of HBAI gives figures for Great Britain derived from the 2001/02 FRS.<sup>57</sup> At present, HBAI results are released around the start of the following financial year, with results for 2002/03 due out at the end of March 2004.

There are significant methodological differences between the two surveys, but certain time series are published spanning both surveys back to 1979 (see part III(B)).<sup>58</sup> One should bear in mind differences between the datasets: for example, the FES covered the whole of the UK, whereas the FRS has Great Britain coverage.<sup>59</sup>

In the past, concerns have been expressed regarding the treatment of self-employed incomes in HBAI, and prior to 2000/01 data were published both including and excluding the self-employed. The 2001/02 edition gives figures including the self-employed only. All figures within this paper are on this basis, unless stated.

### B. Equivalisation

The basic methodology behind HBAI is to calculate individuals’ net ‘equivalised’ household income, and then rank them using this. Income in HBAI includes: net earnings, profit/loss from self-employment (after income tax, national insurance and

<sup>56</sup> Because of this switch, HBAI uses specific notation to distinguish between FES- and FRS- sourced data: FRS results use the ‘1999x/y’ format, and FES results ‘199xx/yy’. This reflects the fact that, because of the small sample size of the FES, results for two financial years had to be combined. However, FRS results from 1999/00 onwards have reverted to the 19xx/yy date format.

<sup>57</sup> Department for Work and Pensions, *Households Below Average Income: An analysis of income distribution 1994/5-2001/02*, March 2003; <http://www.dwp.gov.uk/asd/hbai/hbai2002/contents.asp>

<sup>58</sup> No data are available for 1980 and the period 1982 through to 1986.

<sup>59</sup> Northern Ireland is to be included in the 2002/03 analysis (due spring 2004), allowing UK-wide coverage. See also Office of the First Minister and Deputy First Minister, *Low Income Households in Northern Ireland 1990-2002: Methodology and statistical tables*, August 2003; <http://www.ofmdfmi.gov.uk/research/annexa.pdf>

occupational pension contributions), all social security benefits and credits and pension income, along with some miscellaneous other forms of income. This income can be measured either before or after housing costs (BHC or AHC, see section E, below) have been taken into consideration.<sup>60</sup>

All members of a household are assumed to benefit equally from total household income, which is then ‘equivalised’, or adjusted to account for variations in household size and composition. This process attempts to transform net income into a more accurate measure of living standards, e.g. a single person on a given income is likely to enjoy a higher standard of living than a family of four on the same income.

The equivalisation process means that a particular level of equivalised income equates to different actual income levels depending on household composition. In 2001/02, 60% of median household income (BHC) was equivalent to £187 per week for a couple with no children, £114 per week for a single adult, and £273 per week for a couple with two children aged 5 and 11.<sup>61</sup>

### **C. Median and mean**

HBAI gives results according to various low income thresholds, but two measures in particular tend to be given prominence by commentators: 60% of median income, and 50% of the mean (average) income. The former measure is probably the most widely used today, and is the principal low income measure used by Eurostat to compare the EU Member States. Also, progress towards the UK Government’s 2004 target for child poverty reduction is being measured using the income threshold of 60% of the median (see part V for detail). Nevertheless, the 50% of mean income measure remains popular among some commentators.

Although in a sense the choice of a mean- or median-based measure is arbitrary, the median has gained preference in part because it is less vulnerable to uncertainty about high (and low) incomes as measured in surveys, and frequent changes in incomes at the upper end of the distribution.

This is because the mean is calculated by adding all the values in a sample together and dividing them by the sample size, whereas the median represents the mid-point of a distribution, where 50% of the distribution is above it and 50% below. The mean is sensitive to very high incomes at the upper end of the income distribution. However, the median – being the mid-point of the income distribution – is more influenced by the order of individuals’ incomes within the income distribution than by their magnitude.

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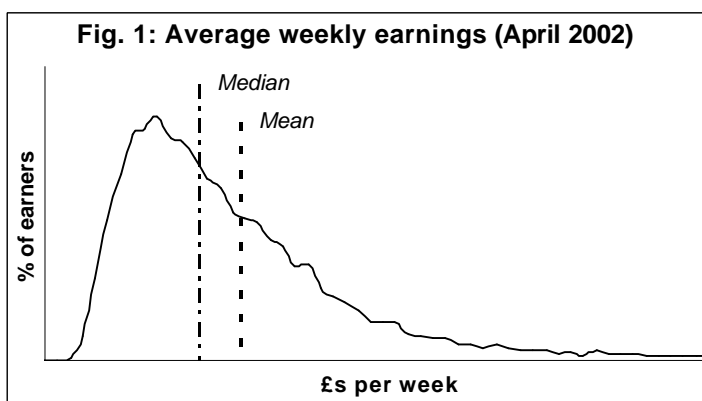
<sup>60</sup> See DWP, *HBAI 2001/02*, 2003, appendix 1, pp224-5

<sup>61</sup> National Statistics/DWP, *Households Below Average Income Statistics: First Release*, 11 April 2002, table 1; <http://www.dwp.gov.uk/mediacentre/pressreleases/2003/march/iad130303-hbai.pdf>

For most, earnings are the largest factor determining income. Figure 1 below shows a stylised earnings distribution for Great Britain. Here, the mean represents the ‘average’ wage of all earners, and the median the amount earned by the middle, or a ‘typical’, earner – the wage that exactly half of earners earn above and half of earners earn below.<sup>62</sup>

This shows a common characteristic of earnings (and incomes) distributions – a ‘hump’ at lower earnings levels, and a long ‘tail’ of high earners (‘positively skewed’).

In such cases, the mean will exceed the median because a relatively small number of very high earners ‘drag’ the mean up the income distribution.



HBAI statistics are presented for low income thresholds based on various proportions of the median (50%, 60% and 70%) and the mean (40%, 50% and 60%). This paper concentrates on the 60% of median threshold, but includes some data based on the 50% of the mean threshold for comparison.

#### **D. Relative and fixed low income measures**

There are two broad approaches to measuring low income for a given threshold. The most straightforward is ‘relative’ low income. A relative low income time series would use a given threshold of median or mean income in each year. Therefore, the threshold would vary from year to year throughout the period, depending on the income distribution in each year, and as such can be seen as a ‘moving target’.

An alternative measure of low income uses thresholds that are fixed over time. In HBAI, this is termed ‘absolute’ low income. However, this is distinct from, and should not be confused with, concepts of absolute poverty defined in terms of minimum or subsistence requirements, as outlined in part I. A fixed (or ‘absolute’) low income measure would use thresholds from a single year held constant over the period (allowing for inflation). This has the effect of alleviating the ‘moving target’ problem.

So, relative low income poverty refers to the numbers or proportions of people below a given threshold of median or mean household income in any given year: relative low income poverty in 2001/02 is based on thresholds based on the 2001/02 median or mean

<sup>62</sup> Source: National Statistics, *New Earnings Survey 2002*, 2002 (data for full-time employees on adult rates whose pay was unaffected by absence)



household income.<sup>63</sup> Fixed or (or ‘absolute’) low income poverty refers to the numbers or proportions of people in a given year below a threshold of median or mean household income **as it stood in an earlier year**, allowing for inflation. HBAI data uses 1996/7 median and mean income as the base year (although any base year could be used). Therefore, fixed (absolute) low income poverty in 2001/02 would be based on thresholds of the 1996/7 median/mean household income, held constant in real terms.

In times of generally rising incomes, such as through rapid economic growth, income thresholds based on contemporary mean income are also likely to rise. When incomes are falling generally, for example during a recession, the opposite will be true.

## **E. Housing costs**

The low income poverty indicator chosen – relative or absolute, mean or median – can be measured either before or after housing costs (BHC or AHC) have been deducted.

Housing costs in HBAI include:

- rent (gross of housing benefit);
- water rates, community water charges and council water charges;
- mortgage interest payments (net of tax relief);
- structural insurance premiums (for owner occupiers);
- ground rent and service charges.

Both measures have advantages and disadvantages, but one should bear in mind that:

- if housing costs vary only because of differences in housing quality, then income BHC would be a better measure of living standards; however, if variations are due to other factors (such as region), AHC income may be preferable;
- AHC measures put owner-occupiers and tenants on a more even footing;
- short-term housing costs for many people are fixed and cannot be varied to reflect changing circumstances.

The inclusion or otherwise of housing costs can have a significant effect, as Karen Buck MP noted in a Westminster Hall debate on urban deprivation:<sup>64</sup>

Housing costs have a massive impact on disposable income. Any measures that exclude property issues fail to reflect poverty levels [...] In many cases, households in London appear above the median solely because of differences in housing benefit, yet that tells us nothing at all about their income or quality of life.

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<sup>63</sup> Note: Relative thresholds also known as ‘contemporary thresholds’.

<sup>64</sup> HC Deb 17 December 2002 c195WH

Generally, low income poverty measured AHC will exceed low income poverty measured BHC because housing costs make up a greater proportion of the expenditure of low income households than higher income households.

## **F. Persistent low income poverty**

Alongside the various snapshot measures described above, persistent low income poverty offers a useful additional dimension.

It looks at how the composition of those living in low income poverty (beneath a given threshold) changes over time, and how many years they spend there. For example, as a group, pensioners may find themselves on low incomes for a number of years, while the unemployed may be on low incomes for only a short period.

One could argue that if low incomes are more transitory, and the composition of this group changes rapidly, then being on low income in any given year can be considered less of a problem:

How long people are in poverty and how often it recurs are obviously of major importance. Those children living in lone parent families, workless households or social housing or with no qualifications are more likely to experience persistent low income. And research shows that the chances of leaving low income fall the longer you have been poor.

There is obviously a relationship between time spent in low income and living standards. Recent analysis shows a clear and positive relationship between the recurrence of low income and the intensity of deprivation: families who spent longer periods living in low income experienced more severe deprivation.<sup>65</sup>

Although published alongside the relative and absolute low income data in HBAI, persistent low income data are derived from the *British Household Panel Survey* (BHPS), rather than the FRS. The BHPS is a longitudinal survey that gives the position in the income distribution of a representative sample of individuals in Great Britain in each year. It follows the same group of households from year to year, rather than looking at a different sample of households in each year, as the FRS does.

Generally, ‘persistence’ is defined as ‘being in a household below a given threshold for at least three out of the last four years’. As the BHPS collects insufficient data on housing costs, persistent low income data are available BHC only, using thresholds of 60% and 70% of median income.<sup>66</sup> Alternative measures of persistent low income based on time spent in the bottom 20% and 30% of the income distribution are also available.

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<sup>65</sup> DWP, *Measuring child poverty: Final conclusions*, December 2003, pp16-17

<sup>66</sup> This is in line with the relevant *Opportunity for all* indicators (see section I(C)3, above).

BHPS analysis is available in advance of FRS data, and is published in a DWP analytical paper *Low Income Dynamics* in August/September before being republished in HBAI the following spring. As a result the persistent low income poverty data in this paper go up to 2001, and are more recent than figures in the latest HBAI.<sup>67</sup>

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<sup>67</sup> DWP, *Low-Income Dynamics 1991-2001*, September 2003;  
[http://www.dwp.gov.uk/asd/hbai/low\\_income/paper\\_k.pdf](http://www.dwp.gov.uk/asd/hbai/low_income/paper_k.pdf)

### III HBAI statistics

HBAI presents low income statistics for thresholds based on three different proportions of median (50%, 60% and 70%) and mean (40%, 50% and 60%) income. Figures are given for each of these on relative (contemporary) and absolute (fixed) bases, and on before and after housing costs measures (BHC and AHC) for both bases. The following sections summarise these statistics, alongside data on persistent low income poverty.

#### A. **Headline figures**

The table below summarises some headline measures of low income poverty in Great Britain in 2001/02, using the two most widely used income thresholds (60% of median income and 50% of mean income):

**Table 1: Headline relative low income poverty, 2001/02**

*%, populations in millions*

	BHC (%)	Population (m)	AHC (%)	Population (m)
60% median	17	9.7	22	12.5
50% mean	19	10.6	23	13.3

Source: DWP, *HBAI 2001/02*, 2003, tables 3.5, p32-33 & p36-37

In 2001/02 there were 12.5 million people in Great Britain in households below 60% of median income (AHC), around 22% of the total population.

The median equivalised weekly income for the whole population was £311 (BHC) and £274 (AHC) in 2001/02, with a mean equivalised income of £384 and £338 respectively.

The latest persistent low income poverty figures suggest that 11% of individuals lived in households below 60% of median income (BHC) for at least three out of the four years from 1998 to 2001. This proportion has remained stable since the period 1992 to 1995.

On the alternative ‘below 70% of the median’ measure, 19% were in persistent poverty in 1998-2001, broadly unchanged since 1991-1994.<sup>68</sup>

#### B. **Trends over time**

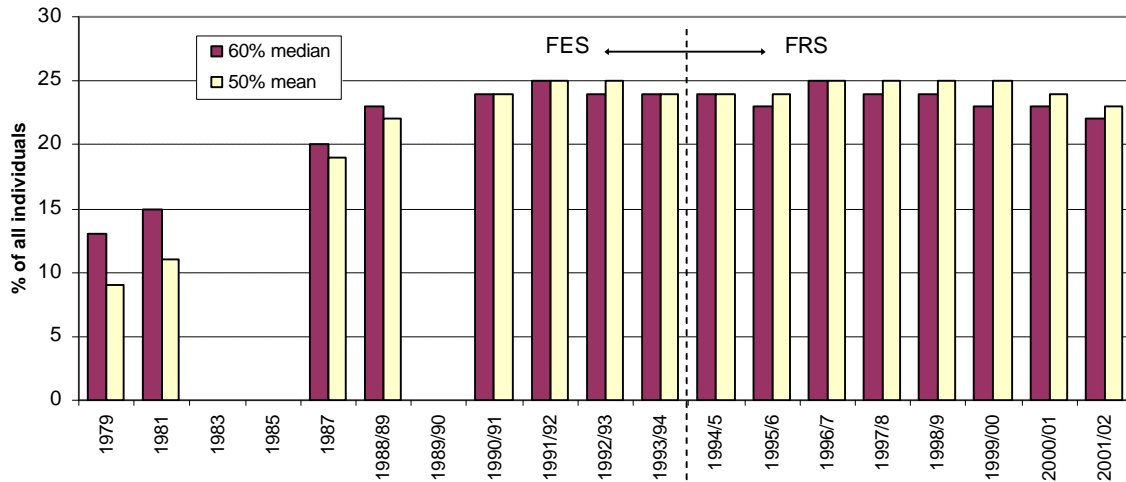
When considering trends in low income poverty over time, one must choose between relative and fixed (or ‘absolute’, in HBAI terminology) income measures (see part II(D)). HBAI gives time series back to 1979, though with a break in the series between 1992/93 and 1994/5, due to the switch to the FRS from the FES as the source for HBAI data.

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<sup>68</sup> *ibid.*, table 6, p18

Chart 1 shows how proportions in relative low income poverty have changed since 1979 for the two most often cited thresholds.

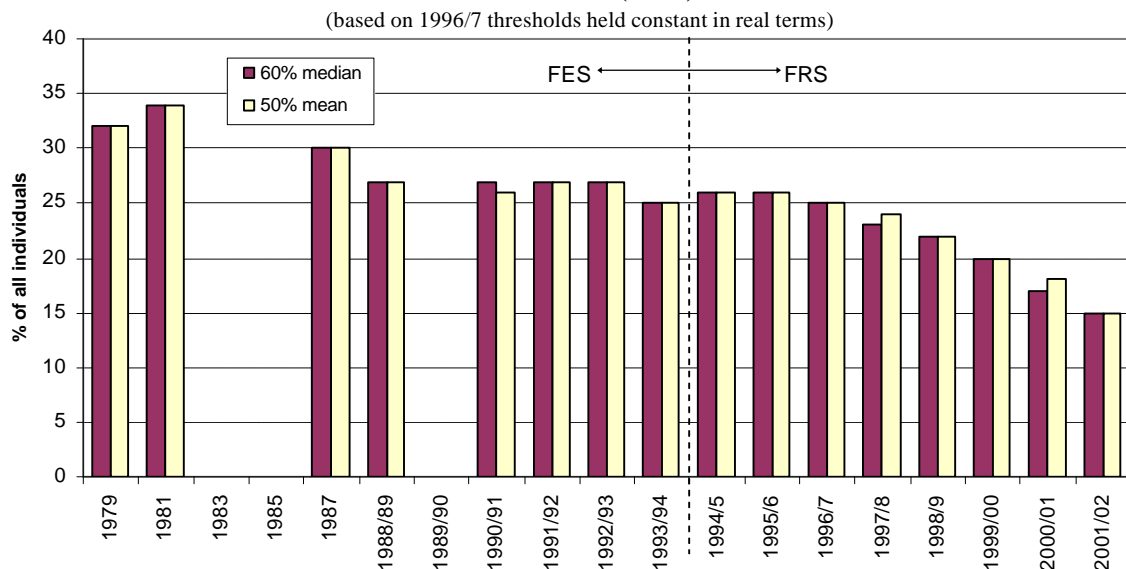
**Chart 1: Proportions in relative low income poverty, 1979-2001/02 (AHC)**



On the relative basis, the proportions of the population below these two thresholds have increased since 1979, for example on the 60% of the median measure (AHC) they rose from 13% in 1979 to 22% in 2001/02. On both of these measures, the proportions have declined slightly since 1996/7.

Chart 2 shows fixed (absolute) low income poverty for the same thresholds based on 1996/7 medians and means, held constant in real terms throughout the period.

**Chart 2: Proportions in fixed (or 'absolute') low income poverty, 1979-2001/02 (AHC)**



By contrast, the trend in fixed (absolute) poverty is downwards over the period, falling in each survey year since 1981, in contrast to the relative measure. On the 60% of the median measure (AHC), the proportion of the population living in fixed (absolute) low income poverty fell from its 1979 level of 32% to 15% in 2001/02. Since 1996/7,

proportions in poverty have fallen in each year, with both of the measures shown down 10 percentage points from 25% in 1996/7. As explained in part II(D), this divergence between relative and absolute measures is to be expected, because incomes were generally higher, in real terms, at the end of the period than at the beginning.

The underlying figures for the thresholds shown, and including BHC data, are given in appendix 2 (tables A2 and A3).

The table below shows numbers in low income poverty for some of the main measures, and total population, back to 1994/5, the first year of consistent FRS data, with changes over the whole eight years and since 1996/7:

**Table 2: Numbers in low income poverty, 1994/5 - 2001/02**

*total numbers, and numbers below various thresholds of income*

Year	Population (millions)	(i) of contemporary income				(ii) of 1996/7 income held constant*			
		60% median		50% mean		60% median		50% mean	
		BHC	AHC	BHC	AHC	BHC	AHC	BHC	AHC
1994/5	55.8	9.8	13.2	9.9	13.3	11.0	14.5	11.2	14.7
1995/6	56.0	9.4	13.0	9.7	13.5	10.7	14.5	10.8	14.7
1996/7	56.2	10.3	13.9	10.4	14.1	10.3	13.9	10.4	14.1
1997/8	56.4	10.3	13.5	10.6	13.9	9.9	13.1	10.0	13.3
1998/9	56.6	10.2	13.4	11.0	14.3	9.3	12.6	9.4	12.7
1999/00	56.7	10.0	13.3	10.7	14.0	8.3	11.4	8.4	11.6
2000/01	56.9	9.7	12.9	10.6	13.8	7.4	9.9	7.4	10.1
2001/02	57.0	9.7	12.5	10.6	13.3	6.2	8.4	6.3	8.5
Change:									
1994/5-2001/02	1.2	-0.1	-0.6	0.6	0.0	-4.8	-6.1	-4.8	-6.1
1996/7-2001/02	0.8	-0.6	-1.3	0.2	-0.7	-4.0	-5.5	-4.1	-5.5

Note: \* in real terms

Source: National Statistics/DWP, *HBAI First Release*, 13 March 2003, table 2.2

## C. Specific groups

HBAI also gives analyses of low income poverty among specific groups with certain characteristics, although it should be noted that there may be some overlap between these various groups. The full range of breakdowns, e.g. by gender, economic status, housing tenure, and even access to the internet, are available in the HBAI publication.<sup>69</sup>

<sup>69</sup> DWP, *HBAI 2001/02*, op. cit., range of tables in chapters 3, 4, 5 & 6

## 1. Children, working-age adults and pensioners

The Government's *Opportunity for all (OfA)* initiative, as outlined in part I, established a series of indicators to monitor relative, absolute and persistent low income poverty among three groups: children, adults of working-age and pensioners.<sup>70</sup>

Table 3 summarises relative and fixed (or 'absolute') low income poverty data for the three *OfA* groups for the two main income thresholds in 2001/02:

**Table 3: Proportions in low income poverty, 2001/02**

*% below various thresholds of income*

	(i) of contemporary income				(ii) of 1996/7 income held constant*			
	60% median		50% mean		60% median		50% mean	
	BHC	AHC	BHC	AHC	BHC	AHC	BHC	AHC
Children	21	30	23	32	12	20	13	20
Working-age adults	14	19	15	20	10	14	10	14
Pensioners	22	22	24	25	14	11	14	12
<i>All Individuals</i>	<i>17</i>	<i>22</i>	<i>19</i>	<i>23</i>	<i>11</i>	<i>15</i>	<i>11</i>	<i>15</i>

Note: \* in real terms

Source: DWP, *HBAI 2001/02*, 2003, p36; p64; p92; p114

On the 60% of median income (AHC) measure, although 22% were living in relative low income poverty overall, a larger proportion of children (30%) were living in low income poverty, while a correspondingly smaller proportion of working-age adults (19%) were in poverty on this measure. The figure for pensioners matched that for the overall population.

A similar pattern is seen for fixed (absolute) low incomes on the 60% of the 1996/7 median (AHC) measure, although the levels and the differentials between the three groups are slightly lower.

The latest data for persistent low income poverty among the three groups are shown in table 4 (overleaf).

Although just over a tenth of the overall population spent three of the four years from 1998 to 2001 in households below 60% of the median, 18% of pensioners and 16% of children found themselves in that situation. This compares with only 7% of adults of working age. Pensioners accounted for around 36% of all those in persistent poverty on this measure, split 50:50 between single pensioners and pensioner couples. Nearly one third of those in persistent poverty were children.

<sup>70</sup> For HBAI purposes, children are defined as individuals aged under 16 or unmarried 16 to 18 year olds engaged in full-time non-advanced further education. Pensioners are defined as those of state pension age (65 for men, 60 for women).

**Table 4: Persistent low income poverty, 1991-1994 & 1998-2001**  
*% below various thresholds of income, BHC only*

	60% median		70% median	
	1991 to 1994	1998 to 2001	1991 to 1994	1998 to 2001
Children	20	16	30	25
Working-age adults	8	7	13	12
Pensioners	16	18	33	33
<i>All Individuals</i>	<i>12</i>	<i>11</i>	<i>20</i>	<i>19</i>

Note: includes the self-employed

Source: DWP, *Low Income Dynamics 1991-2001*, 2003, table 6, p18

The risk of persistent poverty was lower in 1998 to 2001 than in 1991 to 1994 for all three groups, and overall, although the reduction is slightly more pronounced among children than the other groups.

## 2. Lone parents

Lone parent families represent a key group for which HBAI data are available.

There were 4.9 million individuals living in households defined as ‘single with children’ in 2001/02, compared with 4.6 million in 1996/7. An estimated 31%, around 1.5 million, were below 60% of the median income (BHC) in 2000/01. On an AHC basis the figures were somewhat higher, at 53% or 2.6 million.<sup>71</sup>

The median equivalised income for lone parent households was £212 per week (BHC) or £159 per week (AHC).<sup>72</sup>

Lone-parent households were more vulnerable to persistently low incomes than any other family type, with 30% of lone parent families spending three out of the four years from 1998 to 2001 below 60% of the median (BHC). This compares with single pensioners, which at 19% were the next most likely family type to be in persistent poverty, and with 11% in the population as a whole. Lone parent families made up just under a fifth of all those in persistent poverty on this measure.<sup>73</sup>

## 3. Workless households

HBAI also gives figures for the 17.7 million living in workless households in 2001/02. These were made up of 9.9 million in households where the head or spouse was aged 60 or over, 1.5 million where the head or spouse was unemployed, and a further 6.3 million

<sup>71</sup> Using 50% of the mean, the figures were: BHC 36% (around 1.8 million) and AHC 56% (2.7 million) (see DWP, *HBAI 2001/02*, op. cit., table 3.5, pp32-33).

<sup>72</sup> The weekly mean incomes were BHC £244 and AHC £195; *ibid.*, table A5, pp137-138

<sup>73</sup> DWP, *Low Income Dynamics 1991-2001*, op. cit., tables 7 & 8, pp19-20



classified as ‘other inactive’, e.g. long-term sick, disabled people and non-working single parents.

The risk of low income poverty was highest for unemployed workless households, at 64% (BHC) and 75% (AHC). Notably, although the difference in proportions in poverty on the two housing costs measures was small in the case of those workless aged 60 or over, the proportion rose was 42% for ‘other inactive’ workless (BHC) compared with 63% (AHC).

Among the different types of workless household, median equivalised weekly incomes were highest for ‘workless aged 60 or above’ households (£242 BHC and £220 AHC) and lowest for ‘unemployed workless’ households (£168 BHC and £121 AHC).

When considering economic status of households, workless households were also the most vulnerable to persistent poverty, with a 33% risk of being below the 60% of the median threshold in three of the four years between 1998 and 2001. Workless households made up almost a third of all those in persistent poverty in those four years.<sup>74</sup>

#### 4. Ethnic groups

Since the 2000/01 edition, HBAI has presented income poverty by ethnic group, based on the ethnicity of the household head (see table 5 below). However, as this breakdown is based on small sample sizes, year on year comparisons are not recommended.

**Table 5: Relative low income poverty by ethnicity\*, 2001/02**

*% below various thresholds of contemporary income, populations in millions*

	Population (millions)	60% median income		50% mean income	
		BHC	AHC	BHC	AHC
Black Caribbean	0.8	24	35	27	37
Black Non-Caribbean	0.6	29	45	30	46
Indian	1.0	21	27	23	28
Pakistani/Bangladeshi	1.0	55	63	57	65
Other	1.5	27	38	28	39
White	52.1	16	20	17	22
<i>All Individuals</i>	<i>57.0</i>	<i>17</i>	<i>22</i>	<i>19</i>	<i>23</i>

Notes: \* based on the ethnicity of head of household; includes the self-employed

Source: DWP, *HBAI 2001/02*, 2003, table 3.5, pp32-3

This shows that those living in those households where the head was from a non-white ethnic group are more likely to suffer income poverty on all four of the low income poverty measures shown.

However, the risk of being in low income poverty in households where the head of household was non-white varies greatly between the different groups. It is lowest for the

<sup>74</sup> DWP, *Low Income Dynamics 1991-2001*, op. cit., tables 7 & 8, pp19-20

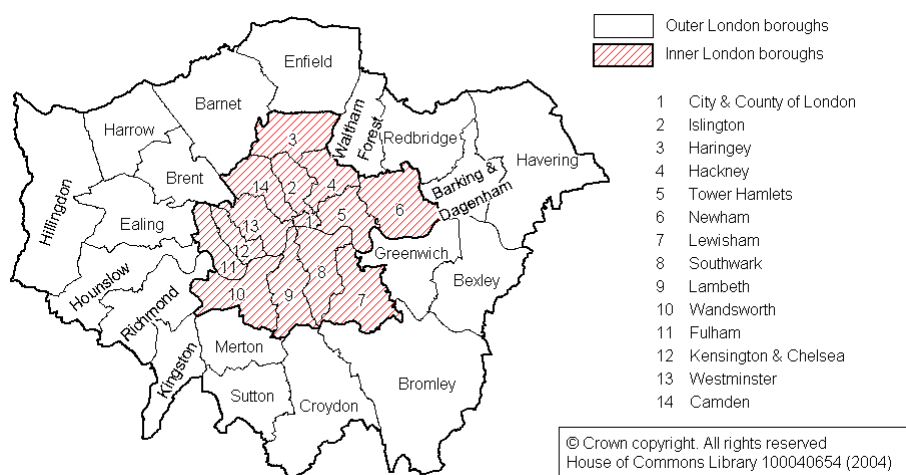
Indian ethnic group (27% in relative low income poverty, defined as 60% of median AHC), but much higher among Black non-Caribbean (45%) and Pakistani/Bangladeshi (63%) ethnic groups.

The table also shows that for some groups the numbers in low income poverty based on AHC measures are substantially higher than for BHC measures. For those of Black Non-Caribbean origin, this difference was some 21 percentage points, and for both Black Caribbean and 'other' was 11 percentage points (based on the 60% of the median measure).

No persistent low income poverty analyses are produced by ethnicity.

## D. The geography of income poverty

Geographic breakdowns of income poverty are available at the region/country level for the whole population and the three *OfA* groups. Since 2001/02, because of the large population living in the capital, HBAI has given Inner and Outer London breakdowns:<sup>75</sup>



These figures are expressed as percentages of the total in the relevant group; numbers are not published because robust estimates are not possible. Regional data were first published for 1998/9, but year on year comparisons are discouraged, as sampling error could exceed any differences between years.<sup>76</sup>

<sup>75</sup> 2000/01 figures were published (alongside other statistics) in Mayor of London, *London Divided: Income Inequality and Poverty in the Capital*, November 2002; [http://www.london.gov.uk/mayor/economy/london\\_divided.jsp](http://www.london.gov.uk/mayor/economy/london_divided.jsp)

<sup>76</sup> See DWP, *HBAI 2001/02*, op. cit., p20 (box). There are comparability issues between 1998/9 data and subsequent HBAI data: 1998/9 regional data were published for the three *OfA* groups (no headline figures), for three thresholds of the mean **excluding** the self-employed (2001/02 data are all **inclusive** of the self-employed).

The FRS survey is not large enough to produce reliable figures for areas smaller than regions, such as Parliamentary constituencies or local authority areas.

At present, the only related datasets available for small areas are the various ‘indices of deprivation’ for small areas within England, Wales, Scotland, and Northern Ireland. There is no nation-wide index, although each country’s indices include some form of income-based deprivation, tending to use benefit receipt as a proxy measure for this, alongside a number of other ‘domains of deprivation’. However, one should note that the concepts of ‘deprivation’ and ‘low income poverty’ are quite different.

For further information see Library Standard Note *Indices of deprivation* (SN/SG/2142).<sup>77</sup>

## 1. Headline figures

Table 6 summarises four of the main low income poverty measures for all individuals for the regions of England and countries of Great Britain, and Inner/Outer London:

**Table 6: Relative low income poverty by region/country, 2001/02**

*% below various thresholds of contemporary income, populations in millions*

	Population (millions)	60% median income		50% mean income	
		BHC	AHC	BHC	AHC
England	49.1	17	22	18	23
North East	2.7	19	23	21	24
North West & Merseyside	7.1	19	23	21	25
Yorkshire & the Humber	4.9	20	24	22	26
East Midlands	4.3	19	22	21	23
West Midlands	5.1	19	23	20	24
Eastern	5.1	12	18	13	19
London	7.6	16	25	17	26
Inner London	2.9	21	33	22	34
Outer London	4.7	13	20	14	21
South East	7.8	13	18	14	19
South West	4.5	16	21	18	23
Scotland	5.0	18	21	19	23
Wales	2.9	20	25	22	26
<i>Great Britain</i>	<i>57.0</i>	<i>17</i>	<i>22</i>	<i>19</i>	<i>23</i>

Notes: includes the self-employed

Source: DWP, *HBAI 2001/02*, 2003, table 3.6, pp34-35

The areas with the highest proportions of the population living in low income poverty are London and Wales (25%), with the lowest proportion in the South East region (18%), based on the 60% of the median income (AHC). Using the same threshold BHC, Wales still has the highest low income poverty rate (20%) along with Yorkshire and the Humber, with the South East region again the lowest.

<sup>77</sup> See also Neighbourhood Renewal Unit pages at <http://www.neighbourhood.gov.uk/indices.asp>

The London breakdown shows that, taken together, the inner boroughs suffer from higher low income poverty than any of the regions (AHC), whilst the outer boroughs are among the lowest. If one uses a BHC measure the disparity between inner and outer London is still apparent but less marked.

## **2. Children, working-age adults and pensioners**

Breakdowns for the three *Opportunity for all* target groups are shown in table 7 (page 40). For clarity, this table gives data on the 60% of the median income measure only.

### **a. Children**

The data for children show that the greatest risk of low income poverty (AHC) is found in London. Nearly half of the estimated 700,000 children living in Inner London are living in low income poverty on this measure – substantially higher than the rate for Great Britain. The lowest rate (24%) was found in the Eastern and South-East regions.

On a BHC basis, London has the same low income poverty risk as Great Britain as a whole, although if Inner London is considered separately it had the highest risk (30%). Otherwise, the highest low income poverty risk (BHC) is in Scotland, Wales and Yorkshire and the Humber, where a quarter of all children are in low income poverty. The lowest was the Eastern region (13%).

The disparity between BHC and AHC levels of child poverty is greatest in Inner London (18 percentage points), and 14 percentage points for Inner London alone.

### **b. Working-age adults**

Among the regions, the highest risk of working-age low income poverty (AHC) was in Wales (23%), although if one takes Inner London separately its rate was higher (at 27%). The lowest risk of low income poverty was 15%, found in the South East and Eastern regions.

On a BHC basis, Yorkshire and the Humber and Wales were highest, although Inner London had the same proportion (17%) – London as a whole was below the Great Britain level of 14%. However, four regions were only one percentage point behind the two regions. The lowest levels were again in the Eastern and the South East regions, with 10% of those of working age living in poverty.

### **c. Pensioners**

The region with the highest risk low income poverty (AHC) among pensioners was London (26%). Inner London was somewhat higher, at 35%, which compares with all-GB levels in Outer London. The lowest levels were found in Scotland and the Eastern region of England, where a fifth of pensioners were living in low income poverty on this

measure. However, three regions (the North East, the South East and the South West) were only one percentage point higher.

Using the BHC measure, the highest risk was 28% in the East Midlands, with London (Inner, Outer and overall) below the Great Britain level; Scotland had the lowest risk (18%).

Although in London the difference in proportions in poverty on the two measures was some 15 percentage points, in many regions – North East, North West and Merseyside, Yorkshire and the Humber, East Midlands and South West – there were actually fewer pensioners in poverty on the AHC measure than the BHC measure.

**Table 7: Risk of low income poverty among *OfA* groups, by region/country, 2001/02**  
*% below 60% median income, populations in millions*

	(i) children			(ii) working-age adults			(iii) pensioners		
	Numbers (millions)	BHC	AHC	Numbers (millions)	BHC	AHC	Numbers (millions)	BHC	AHC
England	11.1	20	30	29.5	14	19	8.6	23	23
North East	0.6	24	31	1.6	16	20	0.5	24	21
North West & Merseyside	1.6	24	32	4.3	16	20	1.2	23	22
Yorkshire & the Humber	1.1	25	32	2.9	17	21	0.9	23	22
East Midlands	1.0	22	29	2.5	16	19	0.7	28	24
West Midlands	1.1	24	32	3.1	15	19	0.9	24	25
Eastern	1.1	13	24	3.0	10	15	0.9	20	20
London (all)	1.7	21	35	4.7	13	21	1.1	20	26
Inner London	0.7	30	48	1.9	17	27	0.4	20	35
Outer London	1.0	15	26	2.9	11	17	0.8	19	22
South East	1.8	14	24	4.7	10	15	1.3	21	21
South West	0.9	16	28	2.6	13	18	1.0	24	21
Scotland	1.1	25	30	3.0	16	19	0.9	18	20
Wales	0.6	25	31	1.7	17	23	0.6	22	23
<b>Great Britain</b>	<b>12.8</b>	<b>21</b>	<b>30</b>	<b>34.2</b>	<b>14</b>	<b>19</b>	<b>10.0</b>	<b>22</b>	<b>22</b>

Notes: includes the self-employed

Source: DWP, *HBAI 2001/02*, 2003, tables 4.8 (p60-1), 5.8 (pp88-9), 6.6 (pp112-3)

## IV Low income poverty: international comparisons

### A. EU data

#### 1. Whole population

The EU has adopted 18 common statistical indicators of social inclusion to help combat poverty and allow monitoring of progress towards its reduction in Member States.<sup>78</sup> Relative low income poverty indicators are derived from the longitudinal European Community Household Panel (ECHP) survey. No measure allowing for housing costs is produced, although statistics are presented both before and after the effect of direct social transfers on household income (such as pensions, unemployment benefits, invalidity payments and family allowances) has been taken into account.

Data for the proportion of the population below the 60% of the national median income in each country for 1997 and 2001 are below:<sup>79</sup>

**Table 8: Risk of relative low income poverty in the EU, 1997 & 2001**  
*% below 60% of total (post-social transfer) national median income*  
*figures presented for incomes before & after direct social transfers\**

	1997		2001	
	Before (a)	After	Before (a)	After
Ireland	32	19	30	21
Greece	23	21	23	20
Portugal	27	22	24	20
Spain	27	20	23	19
Italy	22	19	22	19
UK	30	18	29	17
France	26	15	24	15
Belgium	26	14	23	13
Luxembourg	22	11	23	12
Austria	24	13	22	12
Denmark	27	9	21	11
Germany	22	12	21	11
Netherlands	23	10	21	11
Finland	23	8	19	11
Sweden	28	9	27	10
EU15 (b)(c)	25	16	24	15

Note: \* i.e., old-age and survivors pensions, unemployment benefits, invalidity payments, family allowances; (a) Includes pensions; (b) Weighted average; (c) Eurostat estimate  
 Source: Eurostat, *Structural Indicators* (see text for reference)

<sup>78</sup> Eurostat, *Poverty and Social Exclusion in the EU after Laeken – parts 1 & 2*, February 2003; for part 1 (financial exclusion), see [http://www.eu-datashop.de/download/EN/sta\\_kurz/thema3/nk\\_03\\_08.pdf](http://www.eu-datashop.de/download/EN/sta_kurz/thema3/nk_03_08.pdf); for part 2 (other dimensions), [http://www.eu-datashop.de/download/EN/sta\\_kurz/thema3/nk\\_03\\_09.pdf](http://www.eu-datashop.de/download/EN/sta_kurz/thema3/nk_03_09.pdf)

<sup>79</sup> Eurostat, *Structural Indicators* database, ‘social cohesion’ domain; <http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=struct-EN&mode=download>

In 2001, an estimated 15% of EU citizens were at risk of relative low income poverty on the after social transfers measure. The highest risk of low income poverty was found in Ireland (21%), with Greece and Portugal on 20%, and the UK ranking 6 (on 17%). The lowest risk of relative low income poverty was found in Sweden (10%), although four countries had an at-risk rate only one percentage point higher.

Using instead the ‘before social transfers (including pension income) measure’, the UK had the second highest risk (29%), behind Ireland (30%), in 2001. This compares with an EU-wide estimate of 24%, and a low of 19% in Finland.<sup>80</sup>

As these figures are all based on national medians, they are relative in the sense that national incomes vary widely between EU states. Using 1999 data, the highest national income in the EU was 2.8 times the lowest national income (Luxembourg, with 173% of the EU average, compared with Portugal, on 61% of the average).<sup>81</sup>

Data published for 1996, but not updated since, showed the proportions in poverty in each country compared with a single EU-wide income threshold. On this basis, low income poverty varied from highs in Portugal (47%) and Greece (39%) down to 5% in Denmark and Austria. The UK was on 14%, compared with the EU average of 17%.<sup>82</sup>

As the ECHP is a longitudinal study, it also gives persistent low income poverty data for EU countries. The definition of persistence used by Eurostat is living below 60% of national median income in the current year and at least two of the preceding three years. Chart 3 (overleaf) shows the risk of persistent low income poverty, alongside the relative low income poverty (after transfers) figures for 2001 given in table 8 above.<sup>83</sup>

The risk of persistent low income poverty was greatest in Greece (14%) and lowest in Denmark and the Netherlands (5%), compared with an estimated 9% for the EU as a whole.

A thorough analysis of relative and persistent low income poverty in the EU based on data up to 1997, with a range of breakdowns, is available in the 2003 Eurostat report *European Social Statistics: Income Poverty and Social Exclusion, 2<sup>nd</sup> report*.<sup>84</sup>

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<sup>80</sup> *ibid.*

<sup>81</sup> Eurostat, *Poverty and Social Exclusion in the EU after Laeken – part 1*, op. cit., p2

<sup>82</sup> Average for 13 EU states (no data for Finland or Sweden). Luxembourg had only a 2% risk, but due to its small population this figure is less sound (Source: Eurostat, *European social statistics: income, poverty and social exclusion 2000*, 29 January 2001).

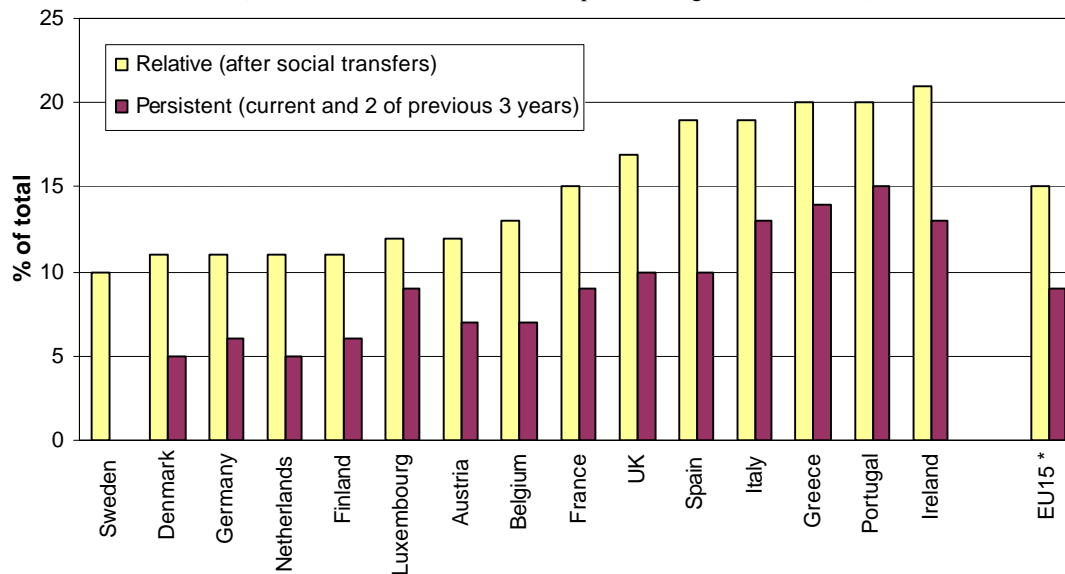
<sup>83</sup> No data available for Sweden.

<sup>84</sup> Released 27 August 2003 (not available online).



**Chart 3: Relative & persistent low income poverty in the EU, 2001**

(below 60% of national median, \* - persistent figure excl. Sweden)



## 2. Children

The table below shows figures for the proportions of children at risk of low income poverty in EU countries in 2001.<sup>85</sup>

**Table 9: Risk of child\* low income poverty, 2001***% below 60% of national median equivalised income*

	%
Portugal	27
Ireland	26
Spain	26
Italy	25
United Kingdom	24
France	18
Greece	18
Luxembourg	18
Netherlands	16
Germany	14
Belgium	13
Austria	13
Sweden	10
Finland	6
Denmark	5
EU15 average	19

Note: \* Aged under 16

Source: DWP/Eurostat, *European Community Household Panel*

<sup>85</sup> Figures published in DWP, *Measuring Child Poverty*, 18 December 2003, figure 2, p11

In 2001, the UK had the fifth highest level of child poverty in the EU15, behind Ireland, Italy, Spain and Portugal. At 5%, Denmark had the lowest poverty risk, followed by Finland (6%). Both of these countries had child poverty risks somewhat lower than that of the country with the next lowest rate, Sweden (10%).

Data for persistent poverty among children are also available:<sup>86</sup>

**Table 10: Risk of persistent child\*  
low income poverty, 2001**  
*% below 60% of national median equivalised income*

	%
Portugal	22
Italy	18
Spain	16
UK	16
Ireland	15
Luxembourg	13
Greece	10
France	10
Netherlands	9
Germany	7
Austria	7
Belgium	6
Finland	1
Denmark	0
<b>EU average**</b>	<b>12 (a)</b>

Note: \* Aged under 16; \*\* No data available for Sweden

(a) population-weighted average of available national values

Source: Eurostat, *European Communities Household Panel Survey*, Nov 2003

The risk of persistent poverty among children in 2001, using the European definition of 'persistence', was highest in Portugal (22%) and lowest in Denmark (0%). The UK ranked 4 (16%) out of the 14 EU countries for which data were available, against an average for those countries of 12%.

## **B. EU accession and candidate countries**

Data for the risk of poverty in the population as a whole have also been published for accession countries (apart from Hungary and the Slovak Republic) and candidate

<sup>86</sup> This, and further breakdowns, available in European Commission *Draft Joint Inclusion Report - Statistical Annex* (SEC(2002)1425), 12 December 2003;  
[http://europa.eu.int/comm/employment\\_social/soc-prot/soc-incl/joint\\_rep\\_en.htm](http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/joint_rep_en.htm)

countries (Bulgaria, Romania and Turkey).<sup>87</sup> These data are only available for the whole population, with no separate breakdown for children available.

As both methodology and reference year vary between the countries featured (all the headline figures for EU countries were 2000-based), these figures should be treated with some caution. National incomes may also vary considerably between the countries shown, and so like-with-like comparisons are difficult.

**Table 11: Risk of low income poverty in accession/candidate countries, 1999**

*% below 60% of national median equivalised income*

	Social transfers	
	Before (a)	After
Turkey	26	23 (1994)
Estonia	26	18 (2000)
Lithuania	22	17
Cyprus	18	16 (1997)
Latvia	22	16
Romania	22	16
Malta	21	15 (2000)
Poland	28	15
Bulgaria	17	14
Slovenia	18	11
Czech Republic	19	8 (1996)
Accession countries (b)	27	14
EU15 (b)	24	15

Note: \* unless otherwise stated;

(a) income including pensions; (b) weighted average

Source: Eurostat, *Monetary poverty in EU Acceding & Candidate countries, 2003*, appendix, p6

On this basis, for the accession countries where data were available, relative low income poverty is broadly in line with that in the EU, although slightly higher on the before social transfers measure. Among all accession and candidate countries, after social transfers have been accounted for the risk of poverty was highest in Turkey (23%, although this is based on 1994 data) and lowest in the Czech Republic (based on 1996 data).

Some 2001 data for certain accession/candidate countries and Norway are available online.<sup>88</sup> No persistent low income poverty data are available for these countries.

<sup>87</sup> Eurostat, *Monetary poverty in EU Acceding and Candidate countries*, 7 July 2003; also includes statistics on alternative thresholds of the mean and the poverty gap;

[http://www.eu-datashop.de/download/EN/sta\\_kurz/thema3/nk\\_03\\_21.pdf](http://www.eu-datashop.de/download/EN/sta_kurz/thema3/nk_03_21.pdf)

<sup>88</sup> Eurostat, *Structural Indicators* database, op. cit.

## C. OECD countries

### 1. Whole population

In its annual *Human Development Report*, the UN brings together poverty and income-related datasets for a number of the more developed OECD countries including non-EU countries. This includes the proportion of national populations below half of median adjusted household disposable income, shown in table 12.<sup>89</sup>

These figures should be treated with some caution, as they represent the most recent data available from the period 1990-2000, and are therefore not strictly comparable. Also, these figures are presented for thresholds of national income, and national median income will vary considerably between these countries.

**Table 12: Proportions living in low income poverty, 1990-2000\***  
*% below 50% of national median disposable household income*

	%
Russian Federation	20.1
United States	17.0
Australia	14.3
Italy	14.2
Israel	13.5
Canada	12.8
United Kingdom	12.5
Ireland	12.3
Estonia	12.3
Japan	11.8
Austria	10.6
Spain	10.1
Switzerland	9.3
Denmark	9.2
Poland	8.6
Slovenia	8.2
Netherlands	8.1
Belgium	8.0
France	8.0
Germany	7.5
Norway	6.9
Hungary	6.7
Sweden	6.6
Finland	5.4
Czech Republic	4.9
Luxembourg	3.9
Slovakia	2.1

Note: \* Data for most recent year in period

Source: UN, *Human Development Report 2003*, 2003, table 4, pp248-9

<sup>89</sup> See [http://www.undp.org/hdr2003/indicator/pdf/hdr03\\_indicators.pdf](http://www.undp.org/hdr2003/indicator/pdf/hdr03_indicators.pdf), table 4; also includes proportions on less than \$11 a day (the US poverty line) and less than \$4 a day.

Bearing the methodological proviso in mind, the UK has levels of low income poverty on a par with Canada and Ireland, along with Australia, Estonia, Italy and Israel. Russia has the highest levels of child poverty, with over a fifth of children below 50% of national median income, followed by the US. Lower risks of low income poverty tend to be found in EU countries, although Slovakia, the Czech Republic, Hungary and Norway are also in the lowest ten rank positions on this measure.

## 2. Children

UNICEF has published *A league table of child poverty in rich nations* (2000).<sup>90</sup> This compares poverty rates both before and after benefits and transfers have been taken into account. The table below data ranked by the ‘post taxes and transfers’ measure:

**Table 13: Children in low income poverty\***  
% below 50% of national median household income\*\*

	Taxes & transfers	
	Before	After
Mexico	..	26.2
United States	26.7	22.4
Italy	24.6	20.5
United Kingdom	36.1	19.8
Turkey	..	19.7
Ireland	..	16.8
Canada	24.6	15.5
Poland	44.4	15.4
Australia	28.1	12.6
Greece	..	12.3
Spain	21.4	12.3
Japan	..	12.2
Germany	16.8	10.7
Hungary	38.1	10.3
France	28.7	7.9
Netherlands	16.0	7.7
Czech Republic	..	5.9
Denmark	17.4	5.1
Luxembourg	22.2	4.5
Belgium	17.8	4.4
Finland	16.4	4.3
Norway	15.9	3.9
Sweden	23.4	2.6

Note: \* Based on data for various years (see report for details)

\*\* post-tax and transfer income

Source: UNICEF, “A league table of child poverty in rich nations”, *Innocenti Report Card 1*, June 2000, p4 & p15

<sup>90</sup> UNICEF, “A league table of child poverty in rich nations”, *Innocenti Report Card 1*, June 2000; <http://www.unicef-icdc.org/publications/pdf/repcard1e.pdf>; report also includes child poverty measures on an absolute basis (using US poverty lines in national currencies) and among lone parent families.

Rates of relative low income poverty (after taxes and transfers) among children range from below 3% in Sweden to a high of over 26% in Mexico. The UK ranked fourth highest among the 29 countries considered, for which after social transfers and tax data were available.

For those countries where pre-tax/transfer data were available, social transfers had the most marked effect in Poland and Hungary, with a 29 and 28 percentage point difference respectively, and Sweden, which saw taxes and transfers reduce poverty on this measure from over 23% to less than 3%. The least marked effect was found in the US and Italy (less than 5 percentage points each).

The report concluded that one sixth of children in the 23 OECD countries considered were 'poor' based on 50% of national median incomes, an estimated 47 million children in total.

#### **D. Poverty in the US**

The US approach to measuring poverty is quite different to that used in the UK and the EU:

The US Government adopted the official poverty line in 1968 drawing on research by Mollie Orshansky. She determined a minimum food budget for a family of four and noted that this amounted to around a third of family expenditure. The food budget was therefore multiplied by three to obtain the overall minimum budget, and those with incomes below this were counted as poor. Since then the US poverty line has been updated in line with prices. It is therefore an absolute measure, with a fixed real value, that has not taken account of changing consumption needs. By the mid-1990s the poverty line had fallen to an equivalent of less than a third of median household income.

A recent review of the official poverty measure convened by the National Research Council suggested that it should be revised to reflect not only price change, but also changes in the consumption of basic necessities. Using that report as its start, in 1999, the Bureau of the Census issued an 'experimental' new version of poverty figures. However, changing the US poverty line is not a straightforward matter. Because the funding of many social programmes is linked to poverty rates methodological changes would have different financial implications for different States.<sup>91</sup>

This is closer to a true absolute, or subsistence measure of poverty, rather than one based on low incomes thresholds alone.

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<sup>91</sup> DWP, *Measuring child poverty: A consultation document*, April 2002, p16. For 2002, the two sets of alternative indicators are based on (i) alternative inflation measures and (ii) alternative income definitions (see <http://www.census.gov/prod/2003pubs/p23-201.pdf>)

The US Census Bureau publishes the official US poverty statistics.<sup>92</sup> This approach does not include analysis based on amounts of tax paid or housing-related costs, unlike the HBAI approach used in the UK. As a result, data for the main poverty measure are based on gross incomes on a before housing costs basis.<sup>93</sup>

There were 34.6 million people living under the official US poverty line in 2002, an increase of 1.7 million on the 2001 figure of 32.9 million. Expressed as a rate, 12.1% were officially in poverty in 2002, compared with 11.7% in the previous year.

The number of families in poverty rose from 6.8 million in 2001 to 7.2 million in 2002, or from 9.2% of all families to 9.6%.<sup>94</sup> Although the poverty rate for children was unchanged (at 16.7%), the number of children in poverty increased from 11.7 million in 2001 to 12.1 million in 2002.

The differing methodologies make any direct comparisons of poverty between the UK and the US difficult. However, the US poverty line is somewhat further down the income distribution than level of '60% of median income; used in the UK. The median household money income for 2002 was \$42,409, and the poverty line for a couple aged under 65 with one child was \$12,400 in 2002. This is around 29% of the median household income figure.<sup>95</sup>

## E. Less developed countries

The eradication of extreme poverty and hunger is one of the eight UN *Millennium Development Goals*. The target set for this goal is to reduce by half the proportion of people living on an income of less than one US dollar a day between 1990 and 2015.<sup>96</sup> Progress is monitored in the annual UN *Human Development Report* (HDR), with a statistical appendix of Millennium Development Goal indicators.<sup>97</sup>

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<sup>92</sup> These are derived from the Annual Social and Economic Supplement to the Current Population Survey of incomes; links from <http://www.census.gov/hhes/www/poverty.html>

<sup>93</sup> For thresholds in each year (up-rated by the Consumer Price Index, or CPI-U) see <http://www.census.gov/hhes/poverty/threshld.html>. There are also 'poverty guidelines', an administrative version of the poverty threshold, multiples of which are used to determine eligibility for certain programmes; (<http://aspe.hhs.gov/poverty/03poverty.htm> and <http://aspe.hhs.gov/poverty/03fedreg.htm>).

<sup>94</sup> See US Census Bureau, *Poverty in the United States: 2002*, September 2003; <http://www.census.gov/prod/2003pubs/p60-221.pdf> figures, charts and tables are available from <http://www.census.gov/hhes/poverty/poverty02/pov02hi.html>

<sup>95</sup> The US threshold is estimated to be around 30% of overall (all household types) national median income (Source: Dickens and Ellwood, "Child poverty in Britain and the United States", *The Economic Journal* 113, June 2003, F221).

<sup>96</sup> Expressed in Purchasing Power Parity (PPP) terms; see <http://www.undp.org/mdg/> for detail, and <http://www.undp.org/mdg/goal1.pdf> for this particular goal.

<sup>97</sup> UNDP, *Human Development Report 2003*, 2003; see <http://www.undp.org/hdr2003/>

The HDR2003 also includes a wide range of development indicators, including data on income poverty in those ‘developing countries’ for which data were available,<sup>98</sup> alongside OECD, Eastern European and CIS countries,<sup>99</sup> together with a Human Poverty Index for both.

The World Bank also publishes an annual *World Development Indicators* report, with a range of internationally comparable, non-income based poverty indicators. These include fertility rates, infant mortality, child malnutrition, mother’s body mass index, and the proportion of babies delivered in the presence of medically trained staff. Some data are available online.<sup>100</sup>

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<sup>98</sup> *ibid.*, p245-247; see [http://www.undp.org/hdr2003/pdf/hdr03\\_HDI.pdf](http://www.undp.org/hdr2003/pdf/hdr03_HDI.pdf) (includes proportions on less than a dollar a day, \$2 a day and below the national poverty line, where applicable/available)

<sup>99</sup> *ibid.*, p248-249 (proportions below 50% of national median income and below \$11 and \$4 a day)

<sup>100</sup> See links to various chapters from <http://www.worldbank.org/data/wdi2003/>



## V The Government's child poverty target

In his Beveridge Lecture at Toynbee Hall in March 1999, the Prime Minister pledged to eradicate child poverty within 20 years. This Chancellor of the Exchequer followed this with an announcement in his Pre-Budget Statement on 9 November 1999 of an intermediate goal to halve child poverty by 2010.<sup>101</sup>

In July 2000, the Government announced that it would, among other goals, “make substantial progress towards eradicating child poverty by reducing the number of children in poverty by at least a quarter by 2004.”<sup>102</sup>

### A. The 2004 target

The Government has stated that progress towards the 2004 target for reducing child poverty, as the first step towards halving it by 2010 and eradicating it by 2020, will be measured using HBAI low income poverty data.

#### 1. Background

The 2004 target is a joint Department of Work and Pensions/HM Treasury Public Service Agreement (PSA) target. The Government outlined details of the measurement of the PSA target in December 2002:<sup>103</sup>

For the purposes of the Public Service Agreement target to reduce the number of children living in low income households by a quarter by 2004–05 compared to 1998–99, the Government measure the number of children in households with an equivalised income below 60 per cent. of the contemporary median, as reported in “Households Below Average Income”.

As HBAI output is on a financial year basis, the results for 2004/05 will be used to judge whether the target has been met, and the Government has also stated that the target will be judged on the same methodology used in the 1998/9 HBAI data. The 2004/05 HBAI data are expected to be available in spring 2006.

The target is therefore to be measured by numbers living in households below **60% of median equivalised household income** in 2004/05 compared with 1998/9 on a **relative basis**, i.e. based on the contemporary median income in each year.

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<sup>101</sup> HC Deb 9 November 1999 c883

<sup>102</sup> HM Treasury, *Spending Review 2000: Public Service Agreements 2001-04* [Cm 4808 2001-02], July 2002 box 3.1; [http://www.hm-treasury.gov.uk/spending\\_review/spending\\_review\\_2000/](http://www.hm-treasury.gov.uk/spending_review/spending_review_2000/)

<sup>103</sup> HC Deb 10 December 2002 cc265-266W; PSA technical note available: [http://www.dwp.gov.uk/publications/dss/2000/psa\\_tech/psatech.pdf](http://www.dwp.gov.uk/publications/dss/2000/psa_tech/psatech.pdf)

The PSA target does not specify a preference for either the before or after housing costs (BHC or AHC) measure, indeed as the Government stated in a written answer,

Progress is being measured on both a before housing costs and an after housing costs basis.<sup>104</sup>

The Treasury's performance monitoring page for this PSA target charts the BHC measure, alongside commentary for both measures,<sup>105</sup> whereas DWP documentation gives equal weight to both measures.<sup>106</sup>

As 3.1 million children were living in relative low income poverty in 1998/9 (BHC) the target for 2004/05 is 2.3 million or fewer. On an AHC basis, 4.2 million children were in poverty in 1998/9, so the target for this measure would be 3.1 million or fewer.<sup>107</sup>

The PSA target is linked to an *Opportunity for all (OfA)* indicator to reduce proportions of children living in poverty against a 1996/7 baseline, though this has no numerical target. The *OfA* indicator has three aspects – relative, absolute (based on 1996/7 income thresholds fixed in real terms) and persistent low income poverty. Three different proportions of median income are monitored, although 60% of median income (BHC/AHC) receives emphasis.<sup>108</sup> There are similar *OfA* indicators for working-age people and pensioners

## 2. Progress

Chart 4 and table 14 (overleaf) show progress on both a BHC and an AHC basis in reducing relative low income poverty between the 1998/9 target baseline and 2001/02, along with figure back to 1996/7 also.

On the BHC measure, the number of children in relative income poverty had fallen by 500,000 between 1998/9 and 2001/02, leaving 2.7 million children still in poverty in 2001/02. With a target for 2004/05 of 2.3 million or fewer, this leaves a further 300,000 still to be lifted from poverty.<sup>109</sup>

Using the AHC measure, relative low income poverty among children had fallen by 400,000 over the same period, leaving some 3.8 million children still in poverty. This compares with a target of 3.1 million or fewer, leaving a further 700,000 still to be lifted out of poverty.

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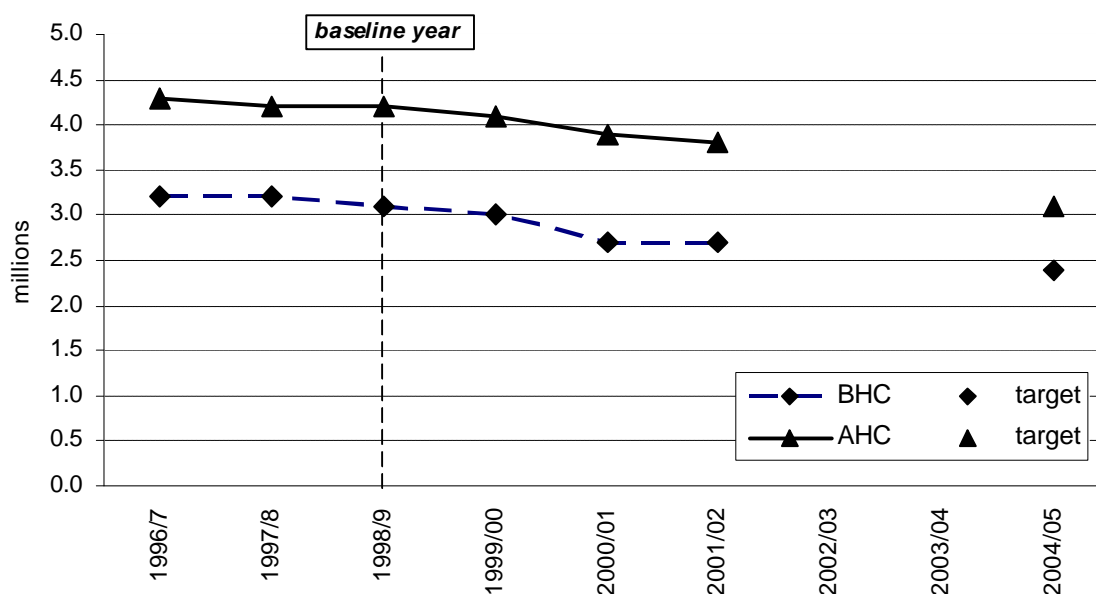
<sup>104</sup> HC Deb 11 February 2003 c650W

<sup>105</sup> HM Treasury PSA performance monitoring page at [http://performance.treasury.gov.uk/T119\\_I0038.pdf](http://performance.treasury.gov.uk/T119_I0038.pdf)

<sup>106</sup> See <http://www.dwp.gov.uk/publications/dwp/2003/autumnreport/children/target1.asp>

<sup>107</sup> HC Deb 12 December 2002 c467W

<sup>108</sup> Persistent income poverty among children was formerly a headline indicator in the Government's UK sustainable development strategy, but this has been replaced with relative income poverty in line with the PSA target; <http://www.sustainable-development.gov.uk/indicators/headline/h4.htm>.

**Chart 4: Progress against the 2004/05 child poverty target**

**Table 14: Children in relative income poverty, 1996/7 - 2001/02**  
*below 60% of contemporary median income, % (numbers in millions)*

Year	BHC		AHC		all children
	%	numbers	%	numbers	
1996/7	25	3.2	34	4.3	12.8
1997/8	25	3.2	33	4.2	12.8
1998/9	24	3.1	33	4.2	12.8
1999/00	23	3.0	32	4.1	12.8
2000/01	21	2.7	31	3.9	12.8
2001/02	21	2.7	30	3.8	12.8
<i>Changes:</i>					
OfA: 1996/7 - 2001/02		-0.6		-0.5	0.0
PSA: 1998/9 - 2001/02		-0.5		-0.4	0.0

Notes: including the self-employed; changes may differ from other figures due to rounding  
 Source: DWP, *HBAI First Release*, 13 March 2003, p1 & tables 3.1 & 3.2

After having been a third of the way towards the target in a third of the time in 2000/01,<sup>110</sup> the 2001/02 data show a slight slowing in progress. The 2003 *Pre-Budget Report* gave an up-beat assessment:<sup>111</sup>

The most recent data show that between 1998-99 and 2001-02 the numbers of children in low-income households fell by 0.4 million after housing costs (AHC) and by 0.5 million before housing costs (BHC), from 4.2 million and 3.1 million respectively. The Government has therefore succeeded in arresting and reversing the long-term trend of rising child poverty and is making steady progress towards

<sup>109</sup> These figures do not sum due to rounding .

<sup>110</sup> HC Deb 12 December 2002 c467W

<sup>111</sup> HM Treasury, *Pre-Budget Report*, Cm6042 2003-04, December 2003, para 5.7, 5.9-5.10, pp96-97

the 2004-05 PSA target. These data do not reflect the effect of increased support from the introduction of the new tax credits in April 2003 [...]

The reduction in the proportion of children in low-income households is particularly notable as it has been achieved during a period of high growth in household incomes. Between 1998-99 and 2001-02 average annual real median income growth was nearly 4 per cent BHC and nearly 5 per cent AHC. This income growth reflects the wider success of a range of Government economic policies, but it means that progress against a purely relative measure of poverty is particularly difficult.

This is underlined by the substantial progress made against an absolute low-income measure. Between 1998-99 and 2001-02, the number of children in absolute low-income households fell from 2.8 million to 1.6 million BHC, and from 4.0 million to 2.5 million AHC.

It has been suggested that progress towards the target has been hindered by low take-up rates for benefits and tax credit entitlements. However, as the most recent available poverty statistics only cover policy measures implemented before April 2002, this is difficult to judge. The effect on incomes of increases in the Working Families' Tax Credit in 2002/03 will be shown in the 2002/03 FRS results, due at the end of March 2004. Changes to low incomes due to the new Working and Child Tax Credits introduced in April 2003 will only be known when the 2003/04 FRS data are available in 2005.

Asked in May 2003 to outline the Government's strategy for tackling child poverty, the Paymaster General, Dawn Primarolo, listed the principal measures taken to increase family incomes:

As outlined in the December 2001 paper 'Tackling child poverty: giving every child the best possible start in life' the Government's strategy to tackle child poverty includes:

- helping to ensure a decent family income, with work for those who can and support for those who can't;
- delivering excellent public services for all neighbourhoods and targeted interventions for those with additional needs;
- support for parents so that parents can provide better support for their children; and
- harnessing the power and expertise of the voluntary and community sectors, providing support for innovation and good practice.

The main measures the Government have taken to increase family incomes to relieve child poverty include:

- The introduction of the new Child and Working Tax Credits from April this year, to tackle child poverty and make work pay, ensuring that those who need the most help receive the greatest support. Nine out of 10 families with children are expected to benefit, those with incomes of up to £50,000 will receive at least £545 a year. From April 2004, the child element of the Child Tax Credit will be uprated at least in line with earnings rather than prices for the rest of the Parliament;
- The child care element available through the Working Tax Credit, which has been extended from April 2003 to include approved child care in parent's own home, provides additional support for families for whom the cost of child care is a barrier to work parents

can receive up to 70 per cent. of eligible child care costs up to £135 a week for one child, up to £200 for two;

- Increases in the rates of Child Benefit—this April rates were increased in line with prices from £15.75 to £16.05 a week for the first child in every family, and from £10.55 to £10.75 a week for subsequent children. The rate for the first child is now 25 per cent. higher in real terms than it was in 1997;
- Increases in the children's allowances in Income Support and other income related benefits, with rates for children under 11 rising by 80 per cent. in real terms since 1997;
- The introduction of the National Minimum Wage in 1999. By October this year, lowest paid workers will have seen an increase in their wages of 25 per cent. since 1999.
- Active Labour Market Programmes, such as the New Deal for lone parents, which provides help with training, education and child care, to help lone-parents into work. The employment rate of lone-parents has increased to 54 per cent. year (sic) compared to 46 per cent. in 1997.<sup>112</sup>

At the time of the 2003 Budget the Government estimated that its policies had led to 1.5 million fewer children living in relative low income households in 2003/04 than if policies as they stood in 1997 had only been up-rated in line with prices.<sup>113</sup>

### 3. *Pre-Budget Report 2003 measures*

Research carried out by the Institute of Fiscal Studies (IFS) in 2003 demonstrated that the most cost effective policy means to achieve the target would be to increase the 'per child' element of the Child Tax Credit, as this was best targeted on poorer households with children.<sup>114</sup>

In his Pre Budget statement on 10 December 2003, the Chancellor announced that the per child element of the child tax credit would be increased by £3.50 per week, to £1,625 per year, from April 2004. By comparison, Child Benefit would only increase in line with inflation, from £16.05/£10.75 a week for the first/additional child, to £16.50/£11.50 a week.

This £3.50 increase represents an additional increase of £2.50 per week on top of the earnings growth-related increase already committed, at a cost of £885 million. The Government claims that this will benefit some 7.2 million children in 3.7 million families,<sup>115</sup> and that:

<sup>112</sup> HC Deb 15 May 2003 c 373W; includes reference to HM Treasury, *Tackling child poverty: giving every child the best possible start in life*, December 2001, <http://www.hm-treasury.gov.uk/media/CA8CB/TacklingChildPoverty.pdf>

<sup>113</sup> HM Treasury, *Red Book 2003*, HC500 2002-03, 9 April 2003, para 5.8, p104; this includes children in households lifted above the income level, and those who would have otherwise fallen below it as median real income and earnings have increased.

<sup>114</sup> Brewer, M. and Kaplan, G. "What do the child poverty targets mean for the child tax credit?", *IFS Green Budget: January 2003*, 2003; chapter 4, table 4.2, p51; <http://www.ifs.org.uk/gb2003/ch4.pdf>

<sup>115</sup> HC Deb 30 January 2004 c600W

As a result of the new investment, the Government is on track to meet or exceed its PSA target [...] on a BHC basis [...] The target is more challenging on an AHC basis. The nature of the target means that there are uncertainties either way. Analysis by the Institute for Fiscal Studies suggests that this increase will enable the Government to make substantial progress on an AHC basis.<sup>116</sup>

The PBR also stated that the family element of Child Tax Credit and the Child and Working Tax Credit income thresholds would be frozen for 2004/05. The IFS calculated that this saved £240m, declaring that

Overall, the changes will redistribute support from middle- and higher-income families with children to low-income families with children.<sup>117</sup>

The PBR 2003 also included announcements of a tax exemption for employer-supported childcare from April 2005, expansion of childcare centres and an increased supply of 'affordable childcare'.<sup>118</sup>

#### **4. Will the target be met?**

When asked to forecast numbers of children in relative low income earlier this year, the DWP noted that this was problematic, being dependent on median household income growth, which was in turn dependent on:

[...] a number of factors, including the rate of earnings growth, demographic changes, changes in household composition and employment patterns, and changes to the tax and benefit system. Consequently, there is inherent uncertainty in any estimates produced, which is exacerbated the further into the future you attempt to model. For this reason, while our estimates allow us to provide a broad indication of progress toward the 2004-05 PSA target to inform policy decision, point estimates are not sufficiently robust to be put in the public domain.<sup>119</sup>

Independent bodies have nevertheless made assessments as to whether the Government will meet its 2004/05 target. Each assessment is based on various assumptions regarding income growth and changes to the tax-benefit system, to roll forward existing data to estimate the levels of relative low income poverty among children in the target year.

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<sup>116</sup> HM Treasury, *Pre-Budget Report*, 2003, para 5.20, p98

<sup>117</sup> "Pre-Budget Report analysis", *IFS Press Release*, 10 Dec 2003, p2;  
<http://www.ifs.org.uk/press/pbr03.pdf>

<sup>118</sup> <http://www.gnn.gov.uk/gnn/national.nsf/IR/1C41750348F6003880256DF80053F77F?opendocument>

<sup>119</sup> HC Deb 30 January 2004 c600W

For example, the IFS have published a series of reports on progress towards the target.<sup>120</sup>

Initial research based on the 2001/02 FRS results suggested that there would be around 200,000 more children in relative low income poverty in 2004/05 the target of 3.1 million (AHC). This took into account the Government's commitment to increase the per child element of the Child Tax Credit in line with earnings, rather than prices, for the life of the current Parliament.

Updated figures released around the time of the *Pre-Budget Report* in December 2003 reached the same conclusion, despite using the newer 2001/02 data as a base and revised assumptions: the target (AHC) was likely to be 'narrowly missed' by the same number of children (200,000).<sup>121</sup>

Although it acknowledged significant uncertainties in such projections, the IFS noted that this 'central forecast' suggested that more spending would be needed to meet the AHC target, "unless economic and demographic changes that we have not modelled reduce child poverty".<sup>122</sup>

As this analysis included the pre-announced increase in the per child element of the Child Tax Credit in line with average earnings growth (rather than prices), the IFS looked at a number of options, each costing roughly £1 billion with one exception:

### **Table 15: Effect of changes to tax/benefit system from April 2004**

*£ and numbers*

	Annual Cost, £m (2004 prices)*	Number of children lifted out of poverty (AHC)**
CTC: per child element		
£3 pw increase	£1,040	240,000
£5 pw increase	£1,750	395,000
Income support adult allowances: £2.50pw increase	£1,040	55,000
CTC: £16.25 pw child element premium (for 3+ children)	£1,010	210,000
WTC: £11.75 increase for families with children	£1,040	150,000

Notes: \* rounded to nearest £10 million

\*\* 60% of median threshold, rounded to nearest 5,000

Source: IFS, *Briefing Note 42*, table 2, p9 (see source for detailed methodology)

<sup>120</sup> Brewer, M. "What do the child poverty targets mean for the child tax credit? An update", *IFS Briefing Note 41*, December 2003, table 1, p5; <http://www.ifs.org.uk/inequality/bn41.pdf>. This updates Brewer, Goodman and Shepherd, "How has child poverty changed under the Labour government? An update", *IFS Briefing Note 32*, March 2003 (<http://www.ifs.org.uk/inequality/bn32.pdf>) and Brewer, M. and Kaplan, G. in IFS, *Green Budget: January 2003*, op. cit.

<sup>121</sup> *ibid.* table 1, p5; Note: Although some 700,000 children are raised from relative low income poverty by changes to the tax/benefit system, the number required to meet the target, 200,000 of these are pushed back below the 60% of median income threshold due to the growth of earnings.

<sup>122</sup> *ibid.*

As the required reduction is of around 200,000 children, an increase of the per child element of Child Tax Credit of at least £3 per week *in addition to the earnings growth-related increase* would be sufficient to meet the AHC target.<sup>123</sup> The proposed ‘large family’ Child Tax Credit premium would also come close.

As noted above, the *Pre-Budget Report* included an announcement of a £2.50 per week increase in the per child element of the child tax credit over and above the pre-committed earnings-related increase. As IFS economist Mike Brewer noted:

This is marginally less than the cost of the £3 a week increase we estimate would be needed for the Government to be on course to hit its child poverty target in 2004/5, measuring income after housing costs [...] <sup>124</sup>

However, the IFS pointed out in its report that survey-derived HBAI data were inevitably subject to sampling error, with a standard error of around 66,000 in these estimates:

[...] if HBAI estimates child poverty to be 3.1 million or 3.2 million in 2004–05, we would not be able to tell for certain whether the target had been met. For example, it could be (correctly) argued that an estimated child poverty level of 3.2 million in HBAI is not statistically different from 3.1 million, and therefore consistent with the target being met. Similarly, if HBAI showed that child poverty fell to 3.1 million, this could be argued to be not statistically different from 3.2 million, and therefore consistent with the target not being met.

We present this discussion not because we seriously think that the government will appeal to sampling error if it appears to miss its target for 2004–05 narrowly (nor because we expect that the government’s critics will appeal to sampling error if the government appears to meet its target), but to emphasise the point that care needs to be taken when making inferences based on estimated differences in child poverty of less than 150,000. Given the possibility of sampling and other errors, it is certainly possible that the government could hit its 2004–05 target without increasing the per-child element of the tax credit by £3 a week. Equally, it could implement the increase and still end up missing the target. But uncertainty does not absolve policymakers of the need to make policy, and our best judgement remains that a £3-a-week increase is necessary to make achievement of the target by a narrow margin the most likely outcome.<sup>125</sup>

The Government highlighted this point in the 2003 *Pre-Budget Report*,

There is an inevitable uncertainty over such estimates; as the IFS acknowledge the Government could lift 0.2 million children over the threshold and still miss the target.<sup>126</sup>

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<sup>123</sup> The earlier IFS research had suggested a figure between £3 and £5 per week (see Brewer and Kaplan, *IFS Green Budget 2003*, op. cit., table 4.2, p51).

<sup>124</sup> “Pre-Budget Report analysis”, *IFS Press Release*, December 2003, op. cit., p2

<sup>125</sup> IFS, *Briefing Note 41*, op. cit., pp11-12 (further detail given in source)

<sup>126</sup> HM Treasury, *Pre-Budget Report 2003*, op. cit., para 5.8, p97



Statements made since concentrate on the BHC measure, which is closer to being achieved, whilst acknowledging that the AHC measure is ‘more challenging’.<sup>127</sup>

Research published in October 2003 on behalf of the Joseph Rowntree Foundation looked at the effects of policy and changing incomes between April 1997 and 2003/04, using FRS data up to 2000/01.<sup>128</sup> Although the report did not project figures for 2004/05, comparing its projections for 2003/04 with 1997 it estimated that numbers of children in relative low income poverty would fall by around a million on both BHC and AHC bases:

The proportional reduction is 33 per cent on a BHC basis and 24 per cent on an AHC basis. Thus – other things being equal – the 2004/5 target for reduction by one-quarter on an AHC basis could be met with a combination of indexing benefit incomes to keep pace with average income growth over the year plus some modest further policy initiatives in 2004. If the target was measured in terms of BHC incomes it appears that it would already be more than met under 2003/4 policies.<sup>129</sup>

Therefore, the Government “could just succeed in reaching its first milestone of reducing poverty by a quarter by 2004”,<sup>130</sup> as (subject to a number of assumptions):<sup>131</sup>

[...] child poverty will be about a quarter below its 1998/9 level by 2004, in line with the government’s target, unless other factors change in an unfavourable direction in which case more redistributive measures will be needed.

The study also noted that

[...] greater employment, or ‘work for those who can’, has made a real contribution to reducing poverty. But there is a limit to the amount of employment increases that are possible.<sup>132</sup>

It appears, then, that a consensus is emerging that the target will probably, or at least partially, be met.

The Work and Pensions Select Committee is currently holding evidence sessions as part of its inquiry into child poverty and Government strategy to eradicate it.<sup>133</sup> Uncorrected

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<sup>127</sup> See, for example, HC Deb 12 February 2004 c1591W (and chart 4, above)

<sup>128</sup> Sutherland, Sefton and Piachaud, *Poverty in Britain: The impact of government policy since 1997*, 2003, p7; <http://www.jrf.org.uk/bookshop/eBooks/1859351522.pdf>. This report updates Piachaud, D. and Sutherland, H. *Changing Poverty Post-1997*, CASE Paper 63; <http://sticerd.lse.ac.uk/dps/case/cp/CASEpaper63.pdf>

<sup>129</sup> *ibid.*, p30

<sup>130</sup> See ‘Findings’ at <http://www.jrf.org.uk/knowledge/findings/socialpolicy/043.asp>

<sup>131</sup> Sutherland, Sefton and Piachaud, *Poverty in Britain*, op. cit., p62; the IFS have also commented on this report (see *IFS Briefing Note 41*, op. cit., box 1, p6)

<sup>132</sup> *ibid.*, p63

transcripts of one evidence session suggest that unpublished research by the IFS and the Cambridge University Microsimulation Unit supports the consensus that the target will probably be met.<sup>134</sup>

## B. Some issues with the current target

The 2004 target has been the subject of much media and academic interest. This section summarises commentary on the measure itself, with part VI examining the Government's new child poverty measure, which has been, in part, a reaction to some of these issues.

### 1. Relative and fixed thresholds

Commentators have noted that a relative poverty target, one which moves each year with changing median income, makes the Government's task more difficult than if it had instead opted for an 'absolute' or fixed threshold set at 60% of median incomes threshold as it stood in 1998/9.<sup>135</sup>

As the 2004 target is to be judged on a relative basis, benefits will need to rise at least as fast as median incomes, as opposed to inflation, just to stand still. As the IFS have noted, median income has risen almost 15% in real terms between 1997/98 and 2001/02:

This rather slow decline in child poverty is partly a reflection of the government's measure of child poverty being a relative one, because income growth has been particularly strong across society in the period over which the government has set its target. The government is, then, managing to increase the living standards of low-income households with children, but the gap between them and the rest of society is perhaps not closing as fast as the government would like. Rectifying this may require additional resources to be directed to families with children in the forthcoming Budget.<sup>136</sup>

As one commentator put it, "Trying to pull the poorest up over a moving line while the richest soar away is like running up a down escalator."<sup>137</sup>

Table 16 gives figures similar to those in table 14, but instead on a fixed (absolute) basis using 1996/7 median income fixed in real terms as the base year.<sup>138</sup>

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<sup>133</sup> [http://www.parliament.uk/parliamentary\\_committees/work\\_and\\_pensions\\_committee/wap22010703.cfm](http://www.parliament.uk/parliamentary_committees/work_and_pensions_committee/wap22010703.cfm) (see <http://www.publications.parliament.uk/pa/cm/cmworpen.htm> for evidence and transcripts)

<sup>134</sup> Work and Pensions Committee, *Child Poverty in the UK*, 14 January 2004, HC 85-iii 2003-04, uncorrected evidence from Professor Holly Sutherland and Alissa Goodman, Institute for Fiscal Studies, Q235. **Note: This is uncorrected evidence, and is not yet an approved formal record of these proceedings.**

<sup>135</sup> This is noted in HM Treasury, *Pre-Budget Report 2003*, op. cit., para 5.9, p97

<sup>136</sup> Brewer, Goodman and Shepherd, *IFS Briefing Note 32*, op. cit., p6

<sup>137</sup> Toynbee, P. "Comment: Poverty of ambition", *The Guardian*, 14 March 2003, p21

<sup>138</sup> Had the target been on a fixed (absolute) basis, it is likely that 1998/9 median income would have been used. However, HBAI only gives figures for the 1996/7 median income baseline.

**Table 16: Children in fixed (absolute) low income poverty, 1996/7 - 2001/02**  
*below 60% of 1996/7 real terms median income, % & millions*

Year	BHC		AHC		all children (numbers)
	%	numbers	%	numbers	
1996/7	25	3.2	34	4.3	12.8
1997/8	24	3.1	32	4.2	12.8
1998/9	22	2.8	31	4.0	12.8
1999/00	19	2.4	28	3.6	12.8
2000/01	16	2.0	24	3.0	12.8
2001/02	12	1.6	20	2.5	12.8
<i>Changes:</i>					
OfA: 1996/7 - 2001/02		-1.6		-1.8	0.0
PSA: 1998/9 - 2001/02		-1.3		-1.5	0.0

Notes: including the self-employed; changes may differ from other figures due to rounding  
Source: DWP, *HBAI First Release, 13 March 2003*, tables 3.1 & 3.2

These figures show that the number of children in fixed (absolute) low income poverty has fallen substantially on both BHC and AHC measures since 1998/9, and more so since 1996/7. In both cases, the reductions in the number of children living in poverty on a fixed (absolute) basis are greater than those on a relative basis.

## 2. Choice of threshold and the ‘poverty gap’

Although the 60% of median income has been concentrated upon, and is in line with European practice, it is still essentially arbitrary as a cut-off point for defining low income poverty, and this has been criticised. As the IFS have noted:

[...] continuing to target a poverty measure defined exclusively in terms of incomes may skew the policy response excessively towards tax credit and means-tested benefits changes, and away from improving public services for children which might have a greater impact on their well-being over the longer term. By way of example, the extra spending that we think is needed for the government to meet its target for 2004–05 would pay for the current Sure Start programme – which aims to improve the health and well-being of families and children aged under 5 in disadvantaged areas – to be doubled in size.<sup>139</sup>

The table below shows number of children in relative low income poverty on the three different thresholds of the median that are given in HBAI, alongside estimates of 2004/05 poverty levels from the most recent IFS report, shown in table 17 (overleaf):

<sup>139</sup> Brewer, M. *IFS Briefing Note 41*, op. cit., pp1-2

**Table 17: Children in relative low income poverty, 1996/7 - 2001/02 (& projections)**  
*% below various thresholds of contemporary median income*

Year	BHC			AHC		
	50%	60%	70%	50%	60%	70%
1996/7	1.6	<b>3.2</b>	4.6	3.0	<b>4.3</b>	5.4
1997/8	1.6	<b>3.2</b>	4.6	3.0	<b>4.2</b>	5.2
1998/9	1.6	<b>3.1</b>	4.5	3.0	<b>4.2</b>	5.3
1999/00	1.5	<b>3.0</b>	4.5	2.8	<b>4.1</b>	5.2
2000/01	1.4	<b>2.7</b>	4.2	2.5	<b>3.9</b>	5.0
2001/02	1.3	<b>2.7</b>	4.3	2.4	<b>3.8</b>	4.9
2001/02 - 2004/05 change (for 25% reduction since 1998/9)						
	-0.1	<b>-0.3</b>	-0.9	-0.2	<b>-0.6</b>	-1.0
Estimates for 2004/05*						
	..	..	..	1.8	<b>3.3</b>	4.6
2001/02 - estimated 2004/05* change						
	..	..	..	-0.6	<b>-0.5</b>	-0.4

Note: Figures may not sum due to rounding; .. not published

\* estimates not on exactly the same basis as figures above

Source: IFS, *Briefing Note 32*, table 1, p3 (top)

IFS, *Briefing Note 41*, table 1, p5 (bottom)

As these figures show, relative low income poverty has fallen on every measure shown between 1998/9 and 2001/02, and by more between 1996/7 and 2001/02.<sup>140</sup> The fall since 1998/9, the target baseline, is more marked on the 60% of median measure BHC/AHC than on the 50% measure, but less marked than on the 70% measure.

On the basis of the 2004/05 estimates, as modelled on 2001/02 HBAI figures and before Pre-Budget 2003 announcements, the Government is forecast to overshoot on a 'target' of 50% of the median and to narrowly miss on the actual target. By contrast, a 70% of the median 'target' measure would have been missed by some way. This suggests that changes to the tax/benefit system are benefiting low income families, perhaps unsurprising when one considers the Government's commitments to raise the per child element of the Child Tax Credit.

Although progress is being made on a range of measures, it has been argued that focusing on a threshold does not address the 'poverty gap', the aggregate difference between a given low income poverty threshold and the household incomes of those below it. The poverty gap can also be thought of as the extent to which people fall below the poverty line, or the 'depth' of poverty. Measures of the 'depth of poverty' include:<sup>141</sup>

<sup>140</sup> The picture is similar for thresholds of the mean (see National Statistics/DWP, *HBAI First Release*, 2003, op. cit., table 3.2).

<sup>141</sup> For detailed discussion, see Osberg, L. "Trends in Poverty: The UK in International Perspective – How Rates Mislead and Intensity Matters", *ISER Working Paper 2002-10*; <http://www.iser.essex.ac.uk/pubs/workpaps/pdf/2002-10.pdf>

- the ‘poverty gap ratio’, the poverty gap divided by the poverty threshold, multiplied by the number of households defined as ‘poor’ on this definition, and
- the median poverty gap, being the difference between an income threshold (e.g. 60% of the median) and the median income of the poor so defined, expressed as a proportion of that threshold.

Generally, if two countries had the same relative low income poverty rate, then one could argue that the country with the smaller poverty gap had lower poverty. For example, 1999 Eurostat data indicate that the UK and Spain had similar proportions in relative low income poverty after transfers, although the median poverty gap was 27% in Spain, compared with 22% in the UK.<sup>142</sup>

Using 2000/01 data for families with children beneath the 60% of median threshold, the poverty gap has been estimated at some £4.4 billion (BHC), or £6.8 billion (AHC):<sup>143</sup>

If the government were able to target resources perfectly towards those with the lowest equivalised income, then these figures would represent the immediate cost of eliminating child poverty.

As the IFS noted in their submission to the Work and Pensions Select Committee’s inquiry into child poverty, the poverty gap has increased since 1996/7:<sup>144</sup>

22. If we could be sure that the FRS survey (the basis for the HBAI data-set) was recording incomes accurately, then we should be very concerned at this apparent problem of acute poverty associated with non-take-up of benefits. But this is not the case. Non-take-up of means-tested benefits certainly exists, and some children classified as poor by HBAI are in households awaiting the outcome of a claim for a means-tested benefits, suggesting that administrative delays make their contribution to child poverty. But there are a group of children in the HBAI dataset in households who appear poor and are not receiving means-tested benefits that may be less of a policy concern, for two reasons:

— The FRS records only snapshots of income, and some “rich” families may look “poor” purely on the basis of a reported weekly income which is low or even zero temporarily. Although this group may be entitled to claim benefits during their short period of low incomes, they are less of a public policy concern than those with more permanent low incomes.

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<sup>142</sup> Eurostat, *Poverty and Social Exclusion in the EU – part 1*, 2003, op. cit., statistical appendix, p6. Note: Spanish data in this publication are provisional.

<sup>143</sup> Brewer, Clark and Goodman, *IFS Commentary* 88, op. cit., p32 & box 8.1; Note: This is cash (cf. equivalised) income. Estimates are very sensitive to household incomes of families a long way from the poverty threshold.

<sup>144</sup> Work and Pensions Select Committee, *Child Poverty in the UK*, 22 January 2004, HC 85-II 2003-04 (CP-19); <http://www.publications.parliament.uk/pa/cm200304/cmselect/cmworpen/85/85we34.htm>

— There may also be some in the HBAI data whose incomes are wrong simply because their incomes have been reported, or perhaps recorded inaccurately.

23. Whatever the cause (which we believe merits further research), there are two implications for the Government's child poverty target:

— there are 1.2 million children in households in measured poverty but not receiving the main means-tested benefits, and this places a real limit on the ability of tax and benefit increases to reduce child poverty significantly in the future;

— some of these children would probably not be counted objectively (should such a thing be possible) as poor.

24. Overcoming these problems would involve either changing the HBAI methodology, or further progress on finding a better measure of child poverty.

This new child poverty measure is considered in detail in part VI.

## VI The child poverty measurement consultation

### A. The consultation document

On 18 April 2002 the Department for Work and Pensions published a consultation paper on progress towards the Government's child poverty targets for 2010 and 2020.<sup>145</sup> The introduction explained why the Government felt it necessary to consult on a new child poverty measure:

In March 1999, the Prime Minister announced the Government's commitment to eradicate child poverty within a generation. We have already made good progress but there is still a long way to go to achieve our goal. As we move forward, we want to be sure that we are measuring poverty in a way that helps to target effective policies and enables the Government to be held to account for progress.

This is far from straightforward. Debates about how to measure poverty have been going on for many years. Experts in the field differ in their views and a range of approaches has been adopted internationally. We have sought to learn from these differences and encouraged experts to engage with us in thinking about how theoretical debates can be turned into a practical blueprint for poverty measurement in the UK.

Three events have been especially helpful in this regard:

- a July 2000 workshop, which we co-hosted with the Centre for Analysis of Social Exclusion (CASE) at the London School of Economics (LSE);
- a November 2001 workshop hosted by the Institute for Public Policy Research (IPPR); and
- the launch of *Tackling child poverty: giving every child the best possible start* in life in December 2001.

The feedback from these events, and from commentators more widely, is that poverty is about much more than just low income at one point in time. This supports the multi-dimensional indicators approach in our annual *Opportunity for all* reports. However, at the same time some commentators have highlighted the merit in having a single measure to monitor progress towards the eradication of child poverty.<sup>146</sup>

The consultation paper outlined the desired features of a long-term measure of child poverty, that it should:

- encompass the different dimensions of child poverty;

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<sup>145</sup> Department for Work and Pensions, *Measuring child poverty: A consultation document*, <http://www.dwp.gov.uk/consultations/consult/2002/childpov/index.asp>

<sup>146</sup> *ibid.*, p7

- be readily summarised where appropriate so that overall progress can be identified and explained;
- be based on child outcomes rather than processes – for example, the number of children living in households where no adult works rather than the number of lone parents being helped to find work through the New Deals;
- be unambiguous in interpretation – if policies are working there should be an improvement in the indicator; and
- have longevity, being relevant now and to track long-term progress.

In addition, the detailed indicators and statistics that lie behind any approach should be:

- timely;
- open and robust to statistical scrutiny from experts;
- be credible with the public;
- be capable of generating a long-term robust time series;

and if possible:

- be capable of disaggregation by group and by locality; and
- be internationally comparable.<sup>147</sup>

Four different options were put forward:

- A **small set of ‘headline indicators’** covering low income, worklessness, educational attainment, health inequalities and housing standards. This would follow the approach adopted for *Opportunity for all*, but would concentrate on only a few areas.
- A **child poverty index**, combining the five headline indicators into a single measure.
- A measure of **‘consistent poverty’**, combining relative low income and material deprivation. Under this approach, individuals would be classed as poor if they were below a low-income threshold and had gone without certain material necessities because they were unable to afford them. This approach has recently been adopted by the Irish Government.<sup>148</sup>
- A core set of indicators which would show a ‘gradient of progress’. Under this **‘tiered approach’**, progress would be tracked at different levels. At the basic level, progress would be measured against an absolute low income threshold, fixed in real terms. A ‘consistent poverty’ measure combining relative low income and material deprivation would reflect progress during times of fluctuating growth rates, while a relative low income measure – with the threshold set perhaps

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<sup>147</sup> *ibid.*, p9

<sup>148</sup> For further details of the Irish poverty measure, see p18 of the consultation document



at 60 per cent of the median – would take account of rising living standards over time.

As part of the consultation, ‘workshops’ were held in London and Edinburgh with academics and organisations interested in child poverty measurement. A series of workshops was also organised throughout the UK, in partnership with pressure groups and voluntary organizations, involving children, young people and families.

## **B. The Government’s preliminary conclusions**

### **1. Options to be carried forward**

The Government’s preliminary conclusions from the consultation were published on 14 May 2003.<sup>149</sup> The following extract summarises responses to the four options:

#### **Option one – multi-dimensional headline indicators**

*A small number of headline indicators, such as low income, worklessness, educational attainment, health inequalities and housing standards.*

The majority of respondents who commented on this option neither supported nor opposed its implementation.

Those in support liked the broad range of indicators, including the inclusion of income measures. A number of those opposed to this option raised the issue outlined in the consultation document – that it does not present a single headline measure of poverty. Other criticisms were that, whilst the measure captures factors associated with poverty, it does not measure poverty itself. Timing was also an issue with this option in terms of the time lag between policies being introduced and their impact being picked up by indicators.

A number of those who responded thought that the shortcomings in the approach could be addressed by combining this option with a tiered approach (option four).

#### **Option two – a child poverty index**

*Amalgamating the indicators in the first option into an index to produce a single figure to track progress.*

This was the least popular of the four options, with very few respondents choosing it as their preferred option. Again, the majority of those who responded to this option had reservations about its effectiveness as a UK measure. However, some stated that it might be useful for international comparison.

Many thought the advantages of this approach (producing a clear headline figure) were outweighed by the challenges and even those who supported it agreed that

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<sup>149</sup> Department for Work and Pensions, *Measuring child poverty: Preliminary conclusions*, 14 May 2003; <http://www.dwp.gov.uk/consultations/consult/2003/childpov/index.asp>

weighting the components would be difficult. Some felt that an index would oversimplify the issue of poverty. Respondents also highlighted the difficulty of explaining progress if not all components moved in the same direction.

### **Option three – a consistent poverty measure**

*A headline measure of ‘consistent poverty’ (similar to the approach adopted by the Irish Government) that combines a measure of low income and material deprivation.*

Even though a large number of respondents saw this as an attractive option, there was also fairly strong opposition and many respondents did not believe that it would be enough on its own. Those who supported this option valued the fact that it provides a headline measure as well as capturing the multi-dimensional nature of poverty. Respondents also liked the inclusion of material deprivation as well as income as this was felt to reflect public perceptions of poverty.

Several respondents thought that an attractive feature of the indicators of material deprivation is that they also incorporate aspects of the severity and duration of poverty. For this reason it was argued that the third option is useful in assessing consistent, longer-term poverty, as well as its depth, by capturing the effects of living with a low income over time.

Notwithstanding the main advantages presented above, respondents highlighted a number of problems. Most important were those related to the choice of deprivation indicators and their number. In particular, both the selection of items and the establishment of a deprivation threshold (in other words, deprivation would be identified by how many items the household lacks) were believed to be rather arbitrary. The problem of updating a deprivation measure over time was also raised by a lot of respondents. Furthermore, it was questioned whether low income and deprivation should be simply combined, as in the methodology adopted by the Irish Government, or somehow weighted.

### **Option four – a tiered approach**

*A core set of indicators of low income and ‘consistent poverty’ to show a gradient of progress.*

This option also received strong support, albeit with a number of caveats, as well as a fair degree of criticism. It was considered to be a pragmatic approach that proposed a hierarchy of measures of increasing stringency. The crucial advantage highlighted by those in favour of this approach was that it captures more than financial and material deprivation by supplementing a core low-income and deprivation measure with data on different dimensions of poverty. However, there was no consensus as to whether all measures included in this option should be given equal weight.

Those who favoured this option felt that, by incorporating a ‘consistent poverty’ measure (option three) into a tiered approach, it would be possible to overcome some of the shortcomings of option three. Those critical of a tiered approach did not, however, agree with this.

There was also criticism that a tiered approach would still not provide clear measurement of progress that the public would understand. Additionally, the absolute low income tier could result in a loss of political credibility, as it would be expected to fall in all but the most adverse economic conditions.<sup>150</sup>

The *Preliminary conclusions* paper stated that the Government would not be ‘taking forward’ option two (the child poverty index), because the absence of any sound basis for attaching weights to the individual elements would mean that any summary index would lack credibility.<sup>151</sup> The ‘consistent poverty’ measure (option three) was also rejected as the sole measure, because of the difficulties involved in selecting a set of deprivation indicators. In addition, the Government argued that the need to revise the deprivation indicators on a regular basis would lead to discontinuities over time. It did not however rule out including a consistent poverty measure as one component of a ‘tiered’ measure.<sup>152</sup>

The paper identified a number of areas for further work, which would also involve the devolved administrations. These included:

- How to incorporate income into a long-term poverty measure
- The appropriate components and structure of a possible tiered approach
- Methodological and technical issues involved in measuring material deprivation
- A review of the multi-dimensional indicators in *Opportunity for all*<sup>153</sup>

A small group of academics with expertise in poverty measurement was also asked to look into the methodological and technical issues.<sup>154</sup>

## 2. Minimum income standards

A recurring theme which emerged during the consultation was the issue of minimum income standards. A number of those who took part suggested that the long-term child poverty measure should include some recognition of the minimum adequate income a family should be expected to live on.<sup>155</sup> The case for linking the child poverty measure to a minimum income standard was put forcefully by Professor John Veit-Wilson in a commentary on the child poverty consultation in the social security journal *Benefits*:

[...] neither income inequality nor indicators of worklessness or low school attainment are in themselves signs of poverty – the highest aspiration perhaps is to be a workless household on a high income, and even rich kids can fail exams. When presented with a statistic of income inequality, the journalist in the street

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<sup>150</sup> *ibid.*, pp4-5

<sup>151</sup> *ibid.*, p44

<sup>152</sup> *ibid.*, p44

<sup>153</sup> *ibid.*, p2

<sup>154</sup> HC Deb 30 June 2003 cc78-79W

<sup>155</sup> DWP, *Measuring child poverty: Preliminary conclusions*, p32

always asks the question, 'Yes, but what does that mean in pounds per week for the average family?'. Until the government faces the issue of how to establish what resource inputs are needed to avoid poverty (remembering Beveridge's statement that "freedom to spend is part of essential freedom", W.H. Beveridge, letter to B.S Rowntree, 18 August 1942), it will not satisfy the public credibility requirement of its poverty measure, nor will it include a key resource in its portfolio of necessary policies to be monitored.<sup>156</sup>

The Government did not however believe that it would be appropriate to include a minimum income standard in the long-term child poverty measure:

First and foremost, despite a wide range of research into budget standards, there is no simple answer to the question of what level of income is adequate. Different research methods tend to make different assumptions that are essentially subjective. Even methods that purport to define the cost of a 'scientifically determined diet' in effect have to make a number of subjective assumptions about needs. This can produce inconsistent answers to the same questions. For example, two pieces of analysis can produce different figures for a minimum income necessary for a lone parent with one child aged 5.

Even supposing adequacy could be defined on a fully consistent basis, it would be difficult to generate a long-term, robust time series, which is essential for measuring progress.<sup>157</sup>

The Child Poverty Action Group said that the Government's rejection of a minimum income standard for children was 'disappointing but perhaps not unexpected'.<sup>158</sup> CPAG was also disappointed at the Government had rejected the idea on an independent commission to monitor child poverty.<sup>159</sup>

## C. The Government's final conclusions

### 1. The new child poverty measure

On 18 December the Government published its final conclusions from the child poverty measurement consultation:

Following the consultation exercise, further methodological work and discussion with experts, we have decided that a **tiered approach** is the best way in which we can monitor progress on child poverty over the long term. This uses a set of inter-related indicators (tiers) capturing different aspects of poverty whilst

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<sup>156</sup> John Veit-Wilson, 'Policy Review: Measuring child poverty: the government's consultation', *Benefits*, Number 36, Volume II, Issue 1, pp 51-55

<sup>157</sup> DWP, *Measuring child poverty: Preliminary conclusions*, p44

<sup>158</sup> CPAG press notice, *Leading charity 'disappointed and concerned' at Government conclusions*, 14 May 2003

<sup>159</sup> See DWP, *Measuring child poverty: Preliminary conclusions*, p45

respecting the finding of our consultation that income is at the core of people's conception of poverty. Each has significance in its own right and our objective is to make progress against all indicators.<sup>160</sup>

The first two tiers would measure income poverty according to absolute and relative thresholds respectively, while the third would comprise both low income and material deprivation:

**Absolute low income** – to measure whether the very poorest families are seeing their incomes rise in real terms, we will monitor the number of children living in families with incomes below a particular threshold which is adjusted for inflation – set for a couple with one child at £210 a week in today's terms.

**Relative low income** – to measure whether the poorest families are keeping pace with the growth of incomes in the economy as a whole, we will monitor the number of children living in households below 60 per cent of contemporary median equivalised household income.

**Material deprivation and low income combined** – to provide a wider measure of people's living standards, we will monitor the number of children living in households that are both materially deprived and have an income below 70 per cent of contemporary median equivalised household income.

**Using this measure, poverty is falling when all three indicators are moving in the right direction.**<sup>161</sup>

The absolute measure would allow the Government and other interested parties to gauge progress towards improving the position of the poorest families.<sup>162</sup> A relative income measure was also necessary however, since the risk of 'social exclusion' increased when children fell further behind the typical family.<sup>163</sup> Looking at income alone would however be 'too narrow a focus'; this was generally accepted by those who took part in the consultation.<sup>164</sup>

There was strong support in the consultation exercise for some measure of material deprivation to form part of our overall long-term measure. Deprivation measures resonate well with the public perception of poverty and the view that a poverty measure should encompass some idea of the practical effects that result from living in low income. We also know that there is a strong relationship between material deprivation and persistent low income. As time spent in low income increases, the severity of deprivation increases.

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<sup>160</sup> Department for Work and Pensions, *Measuring child poverty: Final conclusions*; <http://www.dwp.gov.uk/consultations/consult/2003/childpov/final.asp>

<sup>161</sup> *ibid.*, p7

<sup>162</sup> *ibid.*, p9

<sup>163</sup> *ibid.*, p10

<sup>164</sup> *ibid.*, p4

There is not a perfect relationship between income and living standards and it is widely accepted that measured incomes do not always reflect living standards, especially at the bottom of the income distribution. Research looking at overlaps in dimensions of poverty clearly shows that those who are both income-deprived and materially deprived are very different from the non-deprived, and the difference is much more pronounced than when using one of these measures alone. This suggests the use of a combined income and deprivation tier may be especially informative.

Using both income and deprivation also overcomes the somewhat problematic issue for material deprivation measures – that of choice. By building in low income, we minimise the risk that those saying they cannot afford items may not be poor, but may instead be spending their money elsewhere on items not included in the material deprivation measure.

We have therefore concluded that a better measure of living standards can, at any point in time, be obtained by measuring both low income and material deprivation combined so that we can focus on households whose low incomes are leading to deprivation. This is similar to the approach used in the Republic of Ireland.<sup>165</sup>

The deprivation indicators to be used for the third tier poverty measure were arrived at by analysis of existing data sources. The set of indicators chosen were those which best discriminated between poor and non-poor families. A variety of methods was used to select the indicators:

A range of analytical methods was used to select the subset of questions. To begin with an extremely simple approach was used – just looking at those items that families were most commonly unable to afford. Then, more direct investigation of the ability of particular questions to discriminate between poor and non-poor families was undertaken by looking at the correlation between lacking individual items on the one hand, and low income and overall material deprivation on the other. An alternative perspective was provided by investigating which items the public regarded as essentials. Finally, more powerful statistical methods were used – factor analysis and latent class analysis. Ultimately, all these different methods essentially identified the same questions as having the greatest relevance, so we are confident the list of questions at Annex A will provide an accurate indication of levels of material deprivation.<sup>166</sup>

The deprivation questions – to be included in the *Family Resources Survey* from 2004, and so not available until the 2004/05 results are published in 2006 – are listed below. Families will be asked whether they have, and whether they are able to afford, each of the

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<sup>165</sup> *ibid.*, p13

<sup>166</sup> *ibid.*, p12

items. The survey will distinguish between families not having items because they cannot afford them, and those doing without particular items through choice.<sup>167</sup>

- |                          |   |
|--------------------------|---|
| <b>Adult deprivation</b> | <ul style="list-style-type: none"> <li>• Keep your home adequately warm</li> <li>• Two pairs of all-weather shoes for each adult</li> <li>• Enough money to keep your home in a decent state of repair</li> <li>• A holiday away from home for one week a year, not staying with relatives</li> <li>• Replace any worn out furniture</li> <li>• A small amount of money to spend each week on yourself, not on your family</li> <li>• Regular savings (of £10 a month) for rainy days or retirement</li> <li>• Insurance of contents of dwelling</li> <li>• Have friends or family for a drink or meal at least once a month</li> <li>• A hobby or leisure activity</li> <li>• Replace or repair broken electrical goods such as refrigerator or washing machine</li> </ul> |
| <b>Child deprivation</b> | <ul style="list-style-type: none"> <li>• A holiday away from home at least one week a year with his or her family</li> <li>• Swimming at least once a month</li> <li>• A hobby or leisure activity</li> <li>• Friends round for tea or a snack once a fortnight</li> <li>• Enough bedrooms for every child over 10 of different sex to have his or her own bedroom</li> <li>• Leisure equipment (for example, sports equipment or a bicycle)</li> <li>• Celebrations on special occasions such as birthdays, Christmas or other religious festivals</li> <li>• Play group/nursery/toddler group at least once a week for children of pre-school age</li> <li>• Going on a school trip at least once a term for school-aged children</li> </ul>                              |

The list will need to be re-assessed periodically to take account of changing public perceptions about deprivation.<sup>168</sup>

Children will be considered poor under the third tier measure if they are in households experiencing both low income and material deprivation. The low income threshold for the third tier will be 70 per cent of median income rather the 60 per cent used for the

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<sup>167</sup> *ibid.*, Annex A

<sup>168</sup> *ibid.*, p12

second tier. The Government argues that this will enable those families with certain ‘unavoidably high’ costs – such as those in areas where rents are high even for basic accommodation, or those facing extra costs because of disability – to be identified. Using a 70 per cent threshold will allow the Government ‘...to identify those families at the margins whose apparently higher income may not be commensurate with their standard of living’.<sup>169</sup> The Government also argues that using a different income threshold reduces the temptation for public policy to focus on those just below a single, arbitrary point in the income distribution.<sup>170</sup>

## **2. Issues**

### **a. *The PSA targets***

The new child poverty measure will be used to determine whether the Government meets the targets of halving child poverty by 2010 and eliminating it by 2020. The Government’s paper giving details of the new measure stated:

Using the tiered approach outlined in this document, we will be able to clearly measure the impact we are having on the poorest families, and to ensure that:

- their incomes are increasing;
- the gap is narrowing between their incomes and the incomes of more typical families; and
- their risk of material deprivation is falling.

We believe that this measure will endure for the long term, and provides the right balance between clarity and comprehensiveness.<sup>171</sup>

The document does not however state which measure or measures will be used to determine whether the Government has met its targets. It appears that child poverty will only be considered to be falling if all three indicators are moving in the same direction. Beyond that, however, it is not clear at this stage exactly how progress overall is to be quantified. The relevant Public Service Agreement (PSA) targets and technical details are to be set out ‘as part of successive Spending Reviews’.<sup>172</sup>

### **b. *Eradicating child poverty?***

As noted above, the commitment made by the Prime Minister in March 1999 was to eradicate child poverty within 20 years. Some commentators have however detected a subtle change in the Government’s position. The *Measuring child poverty* paper states:

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<sup>169</sup> *ibid.*, pp13-14

<sup>170</sup> *ibid.*, p14

<sup>171</sup> *ibid.*, p19

<sup>172</sup> *ibid.*, p20



Whereas in 1997 our child poverty ranked amongst the worst in Europe, the position is now improving and we will strive to be eventually amongst the best. Of course, it is not feasible to reach a level of zero on any survey-based income measure – the ‘snapshots’ recorded will always classify as poor some with high living standards but transitory low incomes. So, even Scandinavian countries like Denmark and Sweden, which have long been judged to have the world’s best record on child poverty still have some children in relative low income. Material deprivation, by contrast, is not as affected by transitory changes in income, and so it is feasible to approach zero on this measure.

Success in eradicating poverty could, then, be interpreted as having a material deprivation child poverty rate that approached zero **and** being amongst the best in Europe on relative low incomes.<sup>173</sup>

A footnote adds:

Possible ways to define being ‘amongst the best in Europe’ could include: having a relative child poverty rate no higher than the average of the best three countries in Europe; having a relative child poverty rate no higher than the average of the best four countries in Europe; and, having a relative child poverty rate that was within 2 percentage points of the average of the best three countries in Europe. Achieving any of these on current definitions would mean having a poverty rate between that of Sweden and Denmark.<sup>174</sup>

In 2001 around 5 per cent of children in Denmark were living in households with incomes below 60 per cent of the national median.<sup>175</sup> If the child poverty rate in the UK were reduced to this level, around 600,000 children would still be in poverty.<sup>176</sup>

Martin Barnes, Director of the Child Poverty Action Group, has commented:

The Government has still set itself ambitious goals, but the aim to be amongst the best in Europe on relative child poverty falls far short of a pledge to eradicate it. By 2020 we should as a minimum aim to be the best in Europe not amongst the best.<sup>177</sup>

The Director of the End Child Poverty Coalition, Jonathan Stearn, said that it appeared that the Government had ‘abandoned’ its pledge to end child poverty by 2020.<sup>178</sup>

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<sup>173</sup> *ibid.*, p20

<sup>174</sup> *ibid.*, p20

<sup>175</sup> *ibid.*, p11

<sup>176</sup> Work and Pensions Committee, *Child Poverty in the UK*, 14 January 2004, HC 85-iii 2003-04, uncorrected evidence from Alissa Goodman, Institute for Fiscal Studies, Q268

<sup>177</sup> CPAG press notice, *Campaign group gives mixed response to new child poverty measures*, 18 December 2003

<sup>178</sup> End Child Poverty Coalition press notice, *Government abandons pledge to end child poverty*, 18 December 2003

In evidence to the Work and Pensions Committee on 11 February 2004, the Secretary of State for Work and Pensions said that “eradicate” meant “to pluck by the roots and obliterate”.<sup>179</sup>

*c. Equivalence scales*

To compare in any meaningful way the incomes of different families it is first necessary to make an adjustment to take account of variations in the size and composition of households.<sup>180</sup> This is achieved using ‘equivalence scales’. The *Households Below Average Income* series currently uses the ‘McClements scale’.<sup>181</sup> The Government proposes however that the future child poverty analyses will use the Modified Organisation for Economic Co-operation and Development (OECD) equivalence scale. This change, it is argued, will promote greater consistency with the methodology used by Eurostat (the EU’s statistical agency) and will facilitate international comparisons.<sup>182</sup>

Compared to the McClements scale, the modified OECD scale assumes that the cost of raising younger children is significantly greater. The change will result in an increase in the number of families with younger children counted as poor, and a small increase in proportion of families overall counted as poor. The DWP states however that the effect of switching to the modified OECD scale has a ‘broadly neutral’ effect on low income thresholds. Beyond this, however, it is not clear what effect moving to the new scale will have on child poverty estimates in the medium to long term.

*d. Housing costs*

The *Households Below Average Income* series gives results both before and after housing costs (BHC and AHC). There are arguments for and against both measures, as the Government’s *Measuring child poverty* paper noted:

Deducting housing costs from income measures can understate the relative standard of living that some individuals may have by paying more for better quality accommodation. Conversely, income measures that do not deduct housing costs may overstate the living standards of those people whose housing costs are high relative to the quality of their accommodation.<sup>183</sup>

However, commentators tend to concentrate on after housing costs measures.<sup>184</sup>

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<sup>179</sup> Work and Pensions Committee, *Child Poverty in the UK*, 11 February 2004, HC 65-vi 2003-04, uncorrected evidence from Rt Hon Andrew Smith MP, Q470

<sup>180</sup> See Part II.B

<sup>181</sup> See DWP, *HBAI 2001/02*, op. cit., appendix 5, pp255-262 for further information on the McClements and OECD equivalence scales.

<sup>182</sup> DWP, *Measuring child poverty: Final conclusions*, p8

<sup>183</sup> *ibid.*, p9

<sup>184</sup> See for example Work and Pensions Committee, *Child Poverty in the UK*, 14 January 2004, HC 85-iii 2003-04, uncorrected evidence from Mike Brewer, Institute for Fiscal Studies, Q237

The Government proposes that the new child poverty measures will only use income before housing costs. The principal justification for this in the *Measuring child poverty* paper appears to be that the modified OECD equivalence scale focuses on income BHC.<sup>185</sup> The Government points out that its deprivation indicators will nevertheless include measures of housing quality, and will also help identify families where deprivation is caused by excessive housing costs. It also leaves open the possibility that work currently being carried out by the Office for National Statistics on regional price indices could feed into future analyses of poverty.<sup>186</sup>

The proposal to drop AHC measures has however attracted strong criticism from certain quarters. This is principally because, at present, estimates of child poverty on a BHC basis are considerably lower than estimates on an AHC basis.<sup>187</sup>

The End Child Poverty Coalition argues that the plans to discontinue AHC measures for child poverty purposes should be scrapped. A press notice issued by the coalition on 11 February 2004 stated:

Latest figures indicate that 3.8 million (1 in 3) children are living in poverty in Britain but the number drops to 2.7 million if housing costs are ignored.

Plans to use before housing costs figures will apparently make it easier for the government to hit its target to halve child poverty by 2010 and end it by 2020. Government minister Chris Pond already admits that achieving the child poverty reduction target for 2004/5 'is more challenging on an after housing costs (AHC) basis'.

Plans to ignore housing costs will be most dramatic in London. Ignoring housing costs would, on paper, reduce the number of children at risk of poverty in inner London from nearly half (48%) to less than one third (30 per cent).

End Child Poverty director Jonathan Stearn said:

*'The government has made an historic and admirable commitment to end child poverty within a generation. But it needs to meet that commitment by truly removing children from poverty not just removing them from the statistics.'*

*'To avoid any suggestion that the government is moving the goalposts the secretary of state should today commit to including housing costs in all top line figures on child poverty both now and in the future.'*

The government is developing more detailed measure of child poverty but claims it is making the change to before housing costs to bring UK figures in line with

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<sup>185</sup> *ibid.*, p9

<sup>186</sup> *ibid.*, pp9,13

<sup>187</sup> See table 14 in part V(A)2 of this paper for relative low income poverty figures.

Europe. But housing costs tend to be higher in the UK and ignoring the high cost of housing will also ignore a major cause of child poverty.<sup>188</sup>

Both *Opportunity for all* and *Households Below Average Income* will however continue to include analyses based on incomes after housing costs.<sup>189</sup>

## **D. Meeting the long-term child poverty targets**

An ‘issues paper’ on *The future of social exclusion* prepared for a Cabinet Office Strategy Unit/Social Exclusion Unit seminar in May 2003 outlined some of the difficulties in combating social exclusion, such as demographic trends and changing patterns of employment.<sup>190</sup> It noted that many existing policy initiatives, including those tackling childhood disadvantage, unemployment, and low skills, are showing “encouraging signs of progress”, though challenges lay ahead:

The government continues to build on its policies in these areas, learning lessons from evaluations. Early evaluation evidence suggests that initiatives in key areas such as employment and poverty have so far helped those closest to the threshold, i.e. the least disadvantaged. The need to adopt more widely effective strategies for the hardest to help may, therefore, be an issue of increasing importance as caseloads become more dominated by the hard to help.

And some of the successes to date may lead to bigger gaps between the worst-off and the rest. For example, initiatives aimed at supporting those who cannot work have had less impact than those supporting a move into a work. This may lead to an increased concentration of poverty and social exclusion among those who are left behind.

Related to the above two issues, it is possible that the efficacy limits of some key policy instruments are being reached. For example, take up of some means tested fiscal measures remains low and further means-tested support of in-work incomes could undermine (or could already be undermining) the incentive of households to enhance their own earnings.

In addition, emerging or new demographic, behavioural or economic drivers – including an economic downturn - may make the task of addressing social exclusion in the future more difficult. The key challenges for policy will be to build on current progress and develop policy in a way that is robust enough to withstand future pressures.<sup>191</sup>

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<sup>188</sup> End Child Poverty Coalition press release, *Plans to wipe 1 million children from poverty stats should be scrapped*, 11 February 2004

<sup>189</sup> Work and Pensions Committee, *Child Poverty in the UK*, 14 January 2004, HC 85-iii 2003-04, uncorrected evidence, Q514

<sup>190</sup> See *The future of social exclusion: drivers, patterns and policy challenges*, May 2003; <http://www.number10.gov.uk/files/pdf/socexissues.pdf> (Note: This paper highlights issues for discussion, and is not a statement of Government policy)

<sup>191</sup> *ibid.*, p14

In his April 2003 Budget speech, the Chancellor of the Exchequer announced a Treasury review into how the 50% reduction in child poverty by 2010 and abolition of child poverty in a generation could be achieved. Further detail was given in a Commons debate in July 2003, and stated more recently in the *Pre-Budget Report*:<sup>192</sup>

In Budget 2003, the Chancellor announced a Child Poverty Review, which will set out the further welfare reform and public service changes required to meet the Government's long-term goal on child poverty. The Review is working across Government, drawing on expertise from the research community and the voluntary sector, and will inform the 2004 Spending Review. It intends to set out the policies necessary to:

- increase employment opportunities, raising incomes for those who can work, including looking at issues such as ethnicity and access to labour markets through public transport;
- support those who cannot work;
- improve the effectiveness of public services in tackling deprivation, for example housing and services to tackle debt and financial exclusion;
- increase the contribution of public services to improving the future life chances of children in households suffering low income, for example education, parenting and early years support, and ensure public services and the welfare system work well together when families face crisis points; and
- improve services for children and their families living in deprived areas, including targeted programmes.

The results of the review, part of the forthcoming 2004 Spending Review, are expected in the spring, and will take into account the new child poverty measure.

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<sup>192</sup> HM Treasury, *Pre-Budget Report 2003*, op. cit., para 5.25, pp100-1 (and HC Deb 7 July 2003 c778)

## Appendix 1 *Opportunity for all* indicator summary

**Table A1: *Opportunity for all* indicator progress summary**

Indicator	Trend since baseline	Direction of latest data	Coverage	
<i>(i) Children &amp; young people</i>				
<b>Children in workless households</b>	✓	=	GB	
<b>Low income:</b>	Relative	✓	=	GB
	Absolute	✓	✓	GB
	Persistent	=	=	GB
<b>Teenage pregnancy:</b>	Teenage conceptions	✓	✓	England
	Teenage parents not in education, employment or training	✓	✗	England
<b>Key Stage 1 (7-year-olds) attainment in Sure Start areas</b>	△	△	England	
<b>Key Stage 2 (11-year-olds) attainment</b>	✓	=	England	
<b>Attainment: 16-year-olds' achievement</b>	✓	✓	England	
<b>Schools below floor target</b>	✓	✓	England	
<b>19-year-olds with at least a Level 2 qualification</b>	✓	=	England	
<b>School attendance</b>	=	=	England	
<b>Educational attainment/participation of children looked after by local authorities</b>	△	=	England	
<b>16-18-year-olds in learning</b>	=	=	England	
<b>Infant mortality</b>	△	△	England	
<b>Serious unintentional injury</b>	✓	=	England	
<b>Smoking rates for:</b>	Pregnant women	△	△	England
	Children aged 11-15	✓	=	England
<b>Re-registrations on Child Protection Register</b>	✓	=	England	
<b>Housing that falls below the set standard of decency</b>	△	✓	England	
<i>(ii) People of working age</i>				
<b>Employment rate</b>	✓	=	GB	
<b>Employment rates of disadvantaged groups:</b>	People with disabilities	✓	✓	GB
	Lone parents	✓	=	GB
	Ethnic minority people	✓	=	GB
	Older workers	✓	✓	GB
	Lowest qualified	=	=	GB
<b>Working-age people in workless households</b>	✓	=	GB	
<b>Working-age people without a qualification at NVQ Level 2 or higher</b>	✓	=	England	
<b>Long periods on income-related benefits</b>	✓	=	GB	

*(continues overleaf...)*

Data moving in...	✓ right direction	✗ wrong direction	= broadly constant trend/no significant movement
	△ only baseline data available/insufficient data to determine trend		

**Table A1: Opportunity for all indicator progress summary**

Indicator		Trend since baseline	Direction of latest data	Coverage
<i>(ii) People of working age (cont...)</i>				
<b>Low income:</b>	Relative	=	=	GB
	Absolute	✓	✓	GB
	Persistent	=	=	GB
<b>Smoking rates:</b>	All adults	✓	=	England
	Manual socio-economic grou	✓	=	England
<b>Death rates from suicide and undetermined injury</b>		=	✓	England
<b>Rough sleepers</b>		✓	=	England
<b>Use of Class A drugs</b>		=	=	Eng & Wa
<i>(iii) Older people</i>				
<b>Low income:</b>	Relative	✓	=	GB
	Absolute	✓	✓	GB
	Persistent	=	=	GB
<b>People contributing to a non-state pension</b>		△	=	GB
<b>Amount contributed to non-state pensions</b>		△	△	UK
<b>People making continuous contributions to non-state pensions</b>		✓	=	GB
<b>Healthy life expectancy at age 65</b>		△	=	England
<b>Being helped to live independently:</b>				
	Receiving intensive home ca	✓	✓	England
	Receiving any community-ba	✓	✓	England
<b>Housing that falls below the set standard of decency</b>		△	✓	England
<b>Fear of crime</b>		✓	=	Eng & Wa
<i>(iv) Communities</i>				
<b>Employment rates in deprived areas</b>		✓	✓	GB
<b>Rate of domestic burglary</b>		✓	✗	Eng & Wa
<b>Housing that falls below the set standard of decency</b>		△	✓	England
<b>Households in fuel poverty</b>		△	✓	England
<b>Life expectancy at birth</b>		=	=	England
<b>Attainment gap at Key Stage 2 (11-year-olds)</b>		✓	✓	England
<b>Road accident casualties in deprived areas</b>		△	=	England

Source: DWP, *Opportunity for all: Fifth report*, September 2003, pp159-161

Data moving in... ✓ right direction ✗ wrong direction = broadly constant trend/no significant movement  
△ only baseline data available/insufficient data to determine trend

Baseline year varies between indicators.

Individual indicator summaries are available from the DWP website's *Opportunity for all* pages, see <http://www.dwp.gov.uk/ofa/indicators/complete.asp>.

## Appendix 2 **Headline poverty over time (figures)**

**Table A3: Proportions in absolute low income poverty, 1979 - 2001/02**  
% below various thresholds of 1996/7 income\* (AHC)

Year	40%		50%		60%		50%		60%		70%	
	mean	median	mean	median	mean	median	mean	median	mean	median	mean	median
1979	17		32		47		19		32		45	
1981	19		34		48		22		34		46	
1983	-		-		-		-		-		-	
1985	-		-		-		-		-		-	
1987	17		30		39		19		30		38	
1988/89	16		27		36		18		27		34	
1989/90	-		-		-		-		-		-	
1990/91	16		26		35		18		27		33	
1991/92	17		27		35		19		27		34	
1992/93	16		27		35		18		27		34	
1993/94	15		25		34		16		25		32	
1994/5	15		26		35		17		26		33	
1995/6	14		26		35		16		26		33	
1996/7	15		25		33		16		25		32	
1997/8	14		24		31		15		23		30	
1998/9	13		22		31		14		22		29	
1999/00	11		20		29		12		20		27	
2000/01	10		18		26		10		17		24	
2001/02	8		15		23		9		15		21	

Note: \* held constant in real terms; includes the self-employed  
Source: DWP, *HBAI 2001/02*, 2003, Table H5, p219

**Table A2: Proportions in relative low income poverty, 1979 - 2001/02**  
% below various thresholds of contemporary income (AHC)

Year	40%		50%		60%		50%		60%		70%	
	mean	median	mean	median	mean	median	mean	median	mean	median	mean	median
1979	3		9		19		6		13		22	
1981	4		11		22		7		15		24	
1983	-		-		-		-		-		-	
1985	-		-		-		-		-		-	
1987	8		19		29		11		20		29	
1988/89	11		22		30		14		23		30	
1989/90	-		-		-		-		-		-	
1990/91	14		24		32		15		24		30	
1991/92	14		25		32		16		25		31	
1992/93	14		25		33		16		24		31	
1993/94	13		24		32		15		24		30	
1994/5	13		24		33		15		24		31	
1995/6	13		24		33		14		23		31	
1996/7	15		25		33		16		25		32	
1997/8	15		25		33		16		24		31	
1998/9	15		25		34		16		24		31	
1999/00	15		25		33		15		23		31	
2000/01	14		24		33		15		23		30	
2001/02	14		23		32		14		22		29	

Note: includes the self-employed  
Source: DWP, *HBAI 2001/02*, 2003, Table H1, p215



## Appendix 3 Consumer durables

As noted in section I, income is only one component of living standards, with a range of other contributing factors.

HBAI includes an analysis of access to various consumer items both for the whole population, and also by quintile (five equally sized bands, each containing a fifth of the overall population). However, care should be taken when drawing conclusions from this kind of analysis, given the influence of consumer preference over the purchase of certain goods.<sup>193</sup> The table below gives figures allowing comparisons between overall access, and access among the bottom and top 20% of the population, and the overall population, for selected consumer durables:

**Table A4: Access to consumer durables (selected), 2001/02**  
*selected quintiles of income distribution and total (BHC)*

Item	Bottom quintile (poorest 20%)	Top quintile (richest 20%)	Total Population
Central heating	89	97	93
Colour TV	98	99	99
Freezer/fridge freezer	94	97	96
Home computer	40	80	58
Internet access (at home)	27	72	47
Microwave	83	90	88
Telephone (not mobiles)	87	98	94
Video	87	96	92
Washing machine	93	98	96

Notes: including the self-employed

Source: DWP, *HBAI 2001/02*, 2003, appendix 3, table 3.1, pp240-241

Although the poorest fifth of the population have access to durables today that would have been envied by the richest in the past, the table shows great variation in levels of access to certain items that many take for granted. Notably, 11% of the poorest 20% lack central heating (compared with 3% of the richest fifth and 7% generally), whilst 6% do not have a fridge/fridge freezer (compared with 4% in the whole population), although only 2% lack a colour television.

The difference in access between the poorest and richest fifths is greatest for home computers and the internet at home (40 percentage points or more), although even the richest 20% have much lower access rates for these than the other items shown here.

This is a relatively undeveloped area, with indicators concentrating on social exclusion rather than poverty *per se*.

<sup>193</sup> AHC data are also available (see DWP, *HBAI 2001/02*, op. cit., appendix 3, table 3.1, pp242-3).