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JOSEPH
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JRF Programme Paper
Poverty

**POVERTY: THE ROLE OF
INSTITUTIONS, BEHAVIOURS
AND CULTURE**

**Susan Harkness, Paul Gregg and
Lindsey MacMillan**

June 2012

This paper:

- reviews evidence on the causes of poverty;
- considers the influence of family, employment, geography, education, addiction and debt; and
- evaluates the role of individual agency, institutional structures and culture.

**The Joseph Rowntree Foundation (JRF)
commissioned this paper as part of its programme
on [poverty in the UK](#), which aims to identify the root
causes of poverty and in justice.**

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Introduction

Poverty looks set to become an increasingly pressing issue over the coming years: in January 2012, the Office for National Statistics (ONS) reported that unemployment had risen to an 18-year high of 2.68 million while 1.3 million people were working part-time because they were unable to find a full-time job (the highest number since records began in 1992). For those in work, incomes have failed to keep up with inflation and earnings are being squeezed, with particular pressure for those on the lowest incomes, who face relatively high inflation rates (Hirsch, 2011). Meanwhile pressure to reduce public spending remains unabated and reform to the tax and benefit system is expected to push more families into poverty (Brewer et al., 2011). Yet, alongside these trends, recent evidence also suggests that public attitudes towards those living in poverty appear to be hardening: a rising share of people believe that unemployment benefit levels are too high and discourage work, while two out of three respondents to the British Social Attitudes Survey (2011) believe that some children live in poverty because their parents don't want to work.

This round-up undertakes a review of the evidence on the causes of poverty, looking in particular at how institutional structures (such as labour market opportunities and welfare provision), and individuals' characteristics and behaviours, as well as cultural factors, are related to being in poverty. Recent policy under the Coalition Government has become concerned with influencing individual 'agency', which is increasingly seen as being to blame for high levels of poverty and social exclusion in the UK. Particularly influential in setting the policy agenda has been the thinking of the Centre for Social Justice (CSJ) whose report *Breakdown Britain* highlighted five key areas seen as "pathways to poverty" (Centre for Social Justice, 2006). This report evaluates the role of individual agency, institutional structures and culture in influencing overall levels of poverty in relation to these five themes. These themes are chosen here because of their

prominence in current policy thinking. We also examine the geographical concentration of poverty, which has been widely debated in relation to poverty. The report therefore looks in turn at poverty and:

- family structure;
- employment and intergenerational worklessness;
- geographical concentrations of poverty;
- educational outcomes;
- addiction to alcohol and drugs; and
- debt.

Throughout we refer to levels of relative poverty (the most widely watched UK measure of poverty) and refer only to families of working age.

Background

By conventional European definitions UK poverty levels have risen dramatically since the late 1960s when the proportion of children living in relative income poverty was around 10 per cent. By 1996 this proportion had risen to a peak of just under 30 per cent. Poverty is not, however, an intractable problem and policy can make a difference: child poverty rates in the UK have fallen since the mid-1990s and employment policies and income transfers played an important role in achieving this reduction (Chen and Corak, 2008).

The drivers of poverty can be thought of as falling into three categories. First, structural features of the economy will influence the overall level of poverty: the level of wage inequality; employment opportunities (including for those from ethnic minority groups and disabled people who may otherwise face discrimination in finding work); barriers to work, such as high costs of childcare; and the tax and benefit systems all matter. Second, the characteristics of individuals also matter to their overall risk of being in poverty: for example, poverty is associated with characteristics such as low educational attainment or ill health as well as with family characteristics, particularly lone parenting. But the behaviours and attitudes of people in poverty (or their individual 'agency') may also matter and could provide a partial explanation as to why some individuals are living in poverty. Third, it has been argued that a 'culture of dependency' may exist. The literature has described cultures of worklessness existing both within families and being passed from one generation to the next (leading, for example, to intergenerational worklessness) or as persisting within geographical neighbourhoods. But it is also important to recognise the interrelationship between these drivers; government policy can, for example, influence behaviour by requiring claimants to engage in job search. Similarly, a lack of employment opportunities may alter the behaviour of those who are in poverty, as Wilson notes in *When work disappears* (Wilson, 1997). He argues that, when work opportunities are closed off as a consequence of an extremely weak local labour

market, people develop alternative lifestyle choices to cope (for example, choosing to have children earlier or as a lone parent), and cultural attitudes move away from a focus on work and education as a means of escaping deprivation. A particularly important current debate centres on whether poverty and worklessness are consequences of welfare dependence, the implication being that reducing the value of out-of-work benefits would reduce poverty by incentivising work. Similarly, welfare payments, rather than alleviating poverty and reducing the effects of deprivation on children's outcomes, have been seen as encouraging entire generations of families to become culturally disconnected from society, damaging their independence, ambition and motivation, and trapping them in poverty (Centre for Social Justice, 2006).

The policy prescriptions attached to each of these three explanations of poverty differ. The first suggests that poverty has structural causes and an appropriate policy response would be to expand employment opportunities, improve the financial incentives to work (for example, through tax credits or the minimum wage), reduce wage inequalities and tackle barriers to work. It also suggests a focus on supporting people into work through welfare-to-work programmes. On the other hand, where individual agency is considered to be a major cause of poverty then policy may need to intervene to alter behaviour; for example, the introduction of increased conditionality on the receipt of benefits for groups such as unemployed people or lone parents could be expected to alter their job-search behaviour. The third driver, while overlapping with the others, places an emphasis on dependency on the welfare system as a cause of poverty, and suggests cutting benefit entitlements, imposing time limits on welfare receipt and the introduction of behavioural requirements (such as requiring individuals to undergo training or participate in other activities such as voluntary work). In the following sections we explore these issues in more detail in relation to their influence on the five "pathways to poverty" set out above. We start by looking at the relationship between family structure and poverty.

Family structure

The Centre for Social Justice think tank has argued that, of the five pathways to poverty that they identify, “family breakdown is often at the heart of these other issues” (Probert and Callan, 2011: pp. 10). Others have argued that the welfare system has encouraged family breakdown (see, for example, Iain Duncan Smith speech, 3 October 2011). This section assesses the evidence on these claims by addressing two questions:

- What is the role of family structures in influencing overall poverty rates?
- What evidence is there that the provision of welfare benefits has an influence on the ways in which families choose to live?

Family structure and poverty

While there is a correlation between some family structures and the incidence of poverty, the extent to which this association is causal has been the subject of significant debate. For those with children, cohabitation and lone parenthood are both associated with higher risks of poverty than is marriage. In the UK, 46 per cent of children in lone-parent families were in relative poverty in 2009/10 compared with 24 per cent of those living with couples. Unfortunately official statistics do not yet give a breakdown by marital status. However, looking at very young children using Millennium Cohort Survey data, Kiernan et al. (2011) find that, when children were aged three, the likelihood of being in the bottom income quintile stood at 21 per cent for those whose parents were married, 38 per cent among cohabiters, and at 81 per cent for those living with lone parents. While incomes are lower for cohabiting mothers than for those who marry, the position of cohabiters is very different in the UK than the US, from where comparative evidence is often drawn. As Kiernan et al. (ibid.) note, “cohabiting mothers in the UK [are] only slightly more disadvantaged than their married counterparts,

cohabiting mothers in the US tend to be far worse off and more closely resemble lone mothers than married ones”.

However, these associations between family types and poverty tell us little about causality. The extent of causality is unclear for two reasons: first, groups such as lone parents or teenage mothers may have a greater risk of being in poverty not because of their family status per se but because they are more likely to have other characteristics, such as low educational attainment, which raise the risk of poverty. Second, family structures may not only be a cause but also a consequence of poverty.

In the UK, lone parents are on average younger and hold fewer qualifications than their married counterparts, while cohabiting mothers occupy an intermediate position (Kiernan et al., *ibid.*). Studies in the US have suggested that many lone parents would still be in poverty even if they were partnered because the earnings prospects of lone parents' potential partners (who are assumed to have similar characteristics, such as age and education, as lone parents) are often weak and would not boost incomes sufficiently to avoid poverty (Page and Stevens, 2004). The evidence on marriage too suggests that differences in the characteristics of married and cohabiting parents explain most of the observed differences in outcomes between children. Kiernan et al., for example, using data from the Millennium Cohort Survey show that, in the UK, cohabiting couples have fewer resources but similar levels of commitment to those that are married; this, they argue, may suggest that cohabitation is a “poor man’s marriage” (p. 9). Contrasting the US and UK, they find that financial returns to marriage are larger in the US. Comparing children in the UK born to married and cohabiting couples, Goodman and Greaves (2010) find that, while children in the UK do better on average at ages 3 and 5 if born to married parents, these differences disappear after taking account of observed differences between people, for example, in age and prior educational attainment. Bjorklund et al. (2007) also control for such differences and find no causal effect of marriage on Swedish children’s

educational outcomes. This, they suggest, implies that those children whose parents married in response to financial incentives saw no gain in educational outcomes. In the UK, Crawford et al. (2011) similarly find marriage to have no causal effect on improving the cognitive or socio-emotional development of children.

The discussion so far has assumed that it is family structures which influence individuals' vulnerability to poverty. Several researchers have, however, suggested that the relationship may work in the opposite direction, with structural features of the economy instead playing an important role in influencing family structures. In the US, there is now a significant amount of research that suggests that it is poverty and inequality that causes low rates of marriage, with the incentives of young lone women to commit to marriage declining as a result of the weak economic prospects of low-skilled men (Blau et al., 2000; Gould and Paserman, 2003). At the same time, improved employment and earnings opportunities for women have further reduced the financial advantages of marriage (Lundberg and Pollak, 2007). Among those that are married or cohabiting, financial hardship and unemployment increase the likelihood of divorce or separation (Lampard 1994; Blekesaune 2008). And, while policy has couched teenage pregnancy in terms of a problem to be solved (see, for example, the National Teenage Pregnancy Strategy, 1999), recent evidence suggests that teenage parenthood may be a rational response to inadequate outside opportunities for young women and that it does not in itself lead to worse outcomes for parents and children (Cater and Coleman, 2006; Alexander et al., 2010).

Welfare benefits and family structure

There are widespread "couple penalties" in the tax and benefit systems, with welfare benefits in particular imposing a tax on partnership (Adams and Brewer, 2010). Yet, in spite of these financial penalties to partnership, the risk of poverty

remains substantially lower among those living in couples than among lone adults. In the UK, the number of lone-parent families has grown substantially over recent decades, although there was a marked reduction in the growth of lone parents between 1999 to 2003 after New Labour's reforms (which raised both in- and out-of-work benefits for low-income families with children) compared with the mid-1990s (Gregg et al., 2009).

So what is the evidence that welfare provision has played a substantive role in influencing family breakdown? US evidence has shown a correlation between welfare benefits and lone motherhood (Moffit, 1998) but no evidence that this relationship is causal (Blau et al., 2004). Studies of in-work credits, on the other hand, have found a small but significant positive effect of such benefits on the probability of marriage for those on low incomes (see Dickert-Conlin and Houser, 2002; Eissa and Hoynes, 2003). Clearly the design of the tax and benefit system differs substantially between the US and UK. However, the results using UK data show similar trends. Anderberg (2008), for example, finds that in-work benefits, the WFTC (Working Families' Tax Credit), were associated with an *increase* in partnership, although increases to out-of-work benefits, by raising the couple penalty, to some extent cancelled this effect out. Looking at the change in the total stock of lone parents, Gregg et al. (2009) find no significant effect of policy changes between 1999 and 2003 on the total number of lone parents. Stafford and Roberts' (2009) review of international evidence on welfare and family structure finds that, on the basis of the reviewed literature, "there is no consistent and robust evidence to support claims that the welfare system has a significant impact upon family structure" (p. 6).

Overall, the UK evidence does suggest that individuals' partnership decisions are to some small extent influenced by financial incentives but the size of these effects are small: Anderberg (2008a) finds that even a substantial partnership penalty of £100/week would reduce the probability of a woman having a partner by about seven percentage points. He concludes that, in spite of a decade of

benefit reforms, the influence on the partnership rate has been much smaller than the influence of other external trends, leading him to conclude further that “the role of welfare benefits in understanding the long-run structural changes in society is clearly rather small” (p. 9).

Government and family structure: a role for policy?

The evidence presented here suggests that, while lone parents may be at a substantially greater risk of poverty than other family types, the extent to which this relationship is causal is much less conclusive. One specific argument has been that the provision of welfare benefits to families with children has encouraged the growth in lone-parent families. The evidence presented here suggests that welfare dependency as an explanation for the growth in family breakdown does not fit well with the facts. Indeed, the evidence presented here suggests that the growth in lone-parent families was at its most rapid prior to 1999 when the generosity of in-work benefits to families with children increased substantially. Moreover, since 1999 lone-parent employment has been increasing rapidly (in part because in-work benefits have improved the financial incentive to work), thereby reducing dependence on out-of-work benefits among this group (Gregg et al., 2009). As Lundberg and Pollak (2007) conclude, “the potential effectiveness of policies to promote marriage is [...] questionable. In the United States, state and federal welfare reforms that imposed time limits and work requirements, dramatically reduced welfare rolls and promoted employment among low-income women. These policies, however, do not appear to have had significant effects on marriage or the living arrangements of children” (p. 23).

An alternative explanation for family breakdown may lie elsewhere. In particular, evidence from the US suggests that low-quality economic opportunities for men have led low-income couples to delay marriage and low-skilled women to have children alone (Lundberg and Pollak, 2007). In the UK, lone parenthood has also been linked to rising male unemployment (Rowthorn and Webster, 2008). At the

same time, improved labour market opportunities for women have reduced the incentives for marriage. The declining value of marriage, according to Lundberg and Pollak (*ibid.*), may be an alternative explanation for increasingly diverse family forms. In the present economic environment, therefore, the very low economic prospects of young men, unemployment and increasing financial strain are likely to be important factors contributing towards a future growth in lone parenthood. Reducing the real value of out-of-work benefits is unlikely to lead to any reduction in these numbers.

In the following section, we turn to look at how patterns of household employment and wages influence overall poverty risks, and at how these have been influenced by policy.

Employment

Work and poverty

Worklessness and poverty have a strong association: in 2009/10 two-thirds of working-age adults living in workless households were in poverty compared with 15 per cent of families where someone worked (HBAI, 2011). While traditionally employment policies have focused on unemployed people (those who are both looking for and available for work), today it is inactivity that is the main cause of worklessness. The economically inactive make up around $\frac{3}{4}$ of workless households in the UK (ONS, 2011), and “unemployment, per se, is irrelevant” (Nickell, 2003, p. 19). This is because rising non-employment has, since the 1970s, been heavily focused on those who are inactive and not on unemployed people. For example, among men aged 25–64, male unemployment was roughly the same in the 1970s and early 2000s, at around 5 per cent. On the other hand, male inactivity rates rose from around 4 per cent to 13 per cent, and for those with few qualifications unemployment rates fell while at the same time inactivity rates tripled (Nickell, *ibid.*). The rising number of workless households was driven, between 1979 and 1999, by two factors: rising inactivity among less-skilled men and the growing number of single-parent households. Since 1999, a series of policies have been put in place to encourage the inactive to move back into the labour market. While those in receipt of Jobseeker’s Allowance (JSA) have always been required to search for and be available to work, the extension of job-seeking expectations to those on other benefits was a major area of policy reform under New Labour, particularly from 2003 on. These ‘active labour market policies’ (ALMPs) focused on the economically inactive and placed new expectations on them to engage in job-search or work-related activities. Since 1999, single parents and those on incapacity benefits have been a particular focus for reform.

The activation strategies employed throughout much of the 2000s had relatively few conditions attached: for lone parents, for example, participation in New Deal programmes was voluntary and, while 'work-focused interviews' (rolled out from 2003) did require lone parents to attend for interview, work requirements were limited. More recent changes have increased conditionality, with lone parents with a youngest child aged over 12 being moved from Income Support (IS) to Jobseeker's Allowance (JSA) from 2008 onward. Since 2008, more lone parents have been moved to IS as the child's age threshold has been reduced: in 2011, all those with a youngest child aged 5 were moved on to JSA. While activation strategies have attempted to move those who were previously inactive into employment, at the same time a raft of initiatives was put in place from 1999 onwards to 'make work pay', with the extension of financial support to those in work through the tax credit system.

The evidence suggests that these policies had some success: for lone parents, employment rates rose from 42 per cent in 1992 to 56 per cent in 2005 (Gregg et al., 2009) and most evaluations have concluded that policy had a significant influence in raising the overall employment rate. For disabled people, however, the effect of policy appears to have been much smaller. Between 1979 and 1999 the number of Incapacity Benefit (IB) claimants grew from $\frac{3}{4}$ million to over 2.5 million. While the figure has stabilised since 1999 it has not shown any reduction (in spite of high employment rates). While the 2000s saw some small improvement in the employment rates of disabled people, when overall employment rates were high, the 'disability employment penalty' (the gap in employment probabilities between those with a disability and otherwise similar non-disabled people) has remained at around 28 per cent since 2000 (Berthoud, 2011). Several authors have noted that disabled people's employment prospects are much more responsive than others to local labour market conditions and employment opportunities (see, for example, Beatty and Fothergill, 2007; Berthoud, 2011). There is also a strong association between illness and disability and skill levels, with IB claimants more likely to have few qualifications (Nickell,

2003). Recent reforms have rolled out changes in the system of support for those previously claiming incapacity benefits. All claimants are to be required to undertake a Work Capability Assessment (WCA) and those who are considered too ill or disabled to work are to be migrated over to the Employment and Support Allowance (ESA) while others will be placed on JSA. While ESA was introduced for new claimants in 2008, the existing stock of IB claimants are due to undergo the WCA and migrate to ESA or JSA between 2010 and 2014. The full impact of these changes is yet to be evaluated.

While worklessness remains a considerable risk for poverty, recent policy changes for those who are out of work have been very much geared towards both activating claimants and rewarding work. In this sense, changes in the structures of the benefit system since 1999 have aimed to alter both expectations and behaviours around work. As Daguerre and Etherington (2009) have noted, the UK “is clearly in the top league of countries to place increased pressure on benefit claimants” (p. 1). It is also worth noting that while the value of out-of-work benefits, particularly for those with children, did increase under New Labour, the level of benefits for those out of work, and in particular for those without children, remains historically low.

Yet, while living in a household with someone in work substantially reduces the likelihood of being in poverty, work is not a panacea. Around half of those who are in poverty and of working age live in a household where at least one person works. At most risk are those families with a single earner in low-wage or part-time jobs, with families headed by one female earner (whether single or partnered) particularly likely to be in poverty (Harkness, 2010). On the other hand, in families with two earners fewer than 5 per cent are in poverty (HBAI, 2011). Female employment has been increasingly polarised: participation rates among the most educated women are rising while the employment rate among those with fewer qualifications is substantially lower, and women are much more likely to work part-time. The tax and benefit system has had a particularly strong

influence in limiting the work incentives for less-educated women with employed but lower-earning partners (see Evans and Harkness, 2010). Several authors have also noted that women whose male partners are unemployed have a low propensity to work (Layard et al., 1980; Gregg and Wadsworth, 1996, 2001; Bingley and Walker, 2001), although recent evidence has shown that this link between partners' employment may be weakening. This may partly be because women's economic position in the labour market has improved, with higher employment rates and relative earnings, and partly because the system of tax credits has improved the incentives for a single earner to work even when employment is part-time (of at least 16 hours) or low paid (Harkness and Evans, 2011). Evidence from the 2008/09 recession in the UK and US has shown that families are increasingly relying on women as breadwinners (Boushey, 2009; Harkness and Evans, *ibid.*; Smith, 2009) but that these families are at a heightened risk of poverty.

While working poverty is a substantial problem, it has been established that low pay is not the main cause of poverty for this group. Indeed, low-paid workers are not typically in poverty; just 14 per cent of low-paid workers live in households below the poverty line (see Gardiner and Millar, 2006). The low overlap between low pay and poverty has implications for anti-poverty policies; in particular, it suggests that policies which influence wage rates, such as minimum wages, will have only a small impact on poverty. Instead, underemployment is a major issue among households in working poverty, with most of them employed too few hours to escape poverty (OECD, 2009). Reducing in-work poverty is therefore likely to require interventions to improve vulnerable groups' labour market integration and, in particular, to ensure that those moving into work progress in their jobs (Crettaz and Bonoli, 2010).

Young people and employment

This recession has left a legacy of high youth unemployment, a common facet of most recessions affecting most countries. In hard times, young people face two hurdles to finding work. First, firms tend to hold onto their existing experienced staff and focus on reducing recruitment in order to lower staff numbers. This collapse in new vacancies hits young people hardest. Second, with more unemployment comes more choice of potential employees for firms who are hiring. Firms favour previous experience and this places young people in a catch-22 situation of not being able to get the experience they need to get work because they can't get the work in the first place. For young people, the labour market has also become increasingly competitive because of rising skill levels across the population: in 2000, the number of 25- to 50-year-olds with NVQ Level 4 qualifications or better stood at 28 per cent, but by 2010 this proportion had grown to 38 per cent (Aldridge et al., 2011). For the least educated or those who are unlucky enough to experience long periods out of work, it becomes increasingly hard to get that break which opens the door to the labour market. This locks many young people out of work for long periods and raises concerns over 'scarring' effects, where a period of unemployment or deprivation damages future employment and wage prospects (Gregg, 2001).

In the UK, we can see from previous generations' experiences of youth unemployment that the longer individuals spent out of work as a youth the more time they also spent out of work later in life and, when in work, the lower their wages. It is possible that these legacies may not reflect just the pure effect of youth unemployment but also the fact that those experiencing more unemployment are less well-educated and come from deprived backgrounds. Evidence suggests that about half of the later lower wages and higher unemployment exposure stems from background differences between people and about half is a result of the unemployment itself (Gregg and Tominey, 2005). After accounting for these differences, a year of youth unemployment is found to

reduce earnings ten years later by about 6 per cent and means that individuals spend an extra month unemployed every year up to their mid-30s. These effects diminish slowly in later adult life but are still present well into people's 40s (see Gregg, 2001; Gregg and Tominey, 2005; Bell and Blanchflower, 2011). The evidence on scarring, then, shows that young people who are unemployed during a recession suffer long-lasting damaging consequences. While it is almost never the case that people affected by the recession never work, unemployment is more frequent and pay lower when they return to work after long-term unemployment. The collapse of work opportunities during a recession gives young people who enter the labour market at this point an adverse labour market record, and this counts against them even after labour market opportunities have improved.

Intergenerational worklessness

An increasing concern within the public domain and for policy-makers is that the effects of worklessness stretch further than just the individuals' own experiences. If workless spells are correlated across generations, then the poverty associated with weak attachment to the labour market will be highly persistent. Despite this interest, there has been very little evidence on this topic in the UK to date. MacMillan (2011) shows that, while only a small number of multi-generation households are completely workless, there is a strong intergenerational correlation in worklessness across generations in the UK. While it is difficult to distinguish whether these intergenerational correlations are driven by welfare dependency or are a consequence of deprivation (mainly as a result of a lack of work opportunities), comparative evidence on the intergenerational transmission of worklessness from the UK and the US suggests that the welfare dependency argument does not hold (Gregg and MacMillan, 2012).

MacMillan (2011) finds that one in five households in the UK have two or more generations of working age co-residing. Of these, 4 per cent (178,000

households) were in a position where every generation was workless at the time of interview. There are also many households where both generations have experienced sustained periods of worklessness: 141,000 households had two or more generations who had not worked for over a year at the time of interview. If this duration is increased further, to both generations spending five or more years out of work concurrently up to the point of interview, there are still 80,000 households in this position. However, contrary to some commentary on this subject, there are very few households where both generations have never worked. Only 15,000 households in the UK have two or more generations who report having 'never worked' and, of these, 35 per cent of the second generation have been out of education for less than a year. The current situation therefore is that 0.8 per cent of all households in the UK have two or more generations with significant time out of work, although for these families intergenerational worklessness is a real problem.

Looking beyond families that live in the same household, sons whose father was workless when the son was aged 11 and 16 in the National Child Development Study (or 10 and 16 in the Birth Cohort Study) spend on average 8–11 per cent more time out of work and education between the age of 16 and 23 than those whose father was employed at the same points in time. Sons with workless fathers are also 15–18 per cent more likely to spend a year or more in concurrent spells out of work and education over the same period. These effects are large, and evidence suggests a wage penalty at age 33 of between 10 and 22 per cent for those spending a year out of work compared with those experiencing no youth unemployment (Gregg and Tominey, 2005).

However, local labour market conditions can make a difference. In labour markets where the unemployment rate is high, sons with workless fathers in childhood spend on average 25–30 per cent more time out of work than sons with employed fathers in childhood in the same local labour market (MacMillan, 2011). By contrast, in tight labour markets where unemployment is low, there is

no difference in the labour market experience of sons whether their fathers were workless or employed during the sons' childhood. The fact that there is no intergenerational relationship in areas of low unemployment, and a strong relationship in high unemployment areas, suggests two potential mechanisms that drive the relationship: deprivation or dependency. The standard welfare dependency argument suggests that in areas with weak labour markets, a culture of acceptance of welfare means that claiming becomes less stigmatised than it might be in tighter labour markets. It is argued that the removal of welfare would incentivise people to move to find work who might otherwise not. The alternative may be that multiple deprivation in these areas with few jobs would lead marginal workers (those with the weakest attachment to the labour market) to suffer most in weak labour markets and become even worse off. MacMillan (2011) finds that, in addition to sons with workless fathers having lower cognitive skills and educational attainment, they also score worse on personality tests such as antisocial behaviour and extroversion. Evidence from Heckman et al. (2006) indicates that non-cognitive and cognitive skills are important for future employability.

It is very difficult to distinguish between the two competing explanations in this context. However, one way of distinguishing between the two competing hypotheses is to compare intergenerational workless correlations across time, where the welfare system has changed, or across countries that have different welfare systems in place. Recent evidence from Gregg and MacMillan (2012) compares the intergenerational correlation in workless spells of fathers and sons in the US and the UK. Access to unemployment insurance is quite different in the two countries, particularly for young men. Whereas in the UK, those seeking work are entitled to both contributory and income-based Jobseeker's Allowance (JSA), in the US unemployment insurance is typically only available on a contributory basis after the young male has worked in covered employment for at least five quarters. There are also time limits in place that vary state by state. It is therefore harder to access welfare if you are a young man in the US compared

with the UK. We might expect therefore that intergenerational workless correlations in the US would be weaker if the driver of this relationship was welfare dependency. The intergenerational correlations in the two countries are in fact very similar (0.11 in the US compared with 0.13 in the UK), suggesting that welfare dependency may not be driving this relationship.

Poor neighbourhoods have been linked to intergenerational patterns of worklessness. For example, Iain Duncan Smith has argued that “pockets in which social housing, once a support for families working hard to give their children something better, has too often become a place of intergenerational worklessness, hopelessness and dependency” (Iain Duncan Smith speech, 3 October 2011). However, the empirical evidence on long-term poverty and social exclusion finds that the numbers that are permanently excluded are very small (Burchardt et al., 2002).

Employment: policy implications

The discussion of work and poverty has emphasised the importance of employment opportunities for reducing poverty. In particular, it suggests that policies which enable women, and in particular mothers, to work can have a substantial influence on overall poverty rates (see also Bradshaw, 2006). Reports have suggested that the benefits system has disincentivised work and encouraged a culture of dependency (see, for example, Centre for Social Justice, 2007). However, the OECD (2011a) has shown that falling relative values of benefits have increasingly contributed to rising poverty rates across countries. Moreover, since 1999 the UK has pursued an aggressive policy of activating those who were previously outside the labour market, inactive groups including lone parents and disabled people. These changes, particularly for lone parents, alongside high levels of overall employment, have led to a rapid increase in employment rates across most disadvantaged groups. Recent reforms will put greater pressure on many to work: for example, reforms introduced in 2011

redefine all lone parents with children over 5 as jobseekers and leave few with the option of remaining outside the labour market. Similar reforms are also affecting those in poor health (see below). However, entering work may not be enough to avoid poverty: if policy is to address in-work poverty then issues of underemployment, lack of progression in work, and developing skills of the lowest paid will be important areas for policy in the future. Qualitative research among lone parents has highlighted how, in spite of lone mothers having a strong commitment to sustaining employment, they face difficulties in ensuring adequate income or progression to better pay. It also suggests that children of lone mothers are very supportive of their mothers being in work, both emotionally and practically, and does not support the hypothesis that attitudes towards work and benefit dependency attitudes are being passed down through generations (Millar and Ridge, 2009; Ridge and Millar, 2011).

This section has highlighted the long-lasting and damaging consequences of youth unemployment. Young people who are entering the labour market during the recession will need extra help in developing their skills if they are to avoid long-term 'scarring' effects. We have also explored the issue of intergenerational worklessness and found little evidence for the existence of families never working across generations (even among a single generation virtually no one has zero experience of doing paid work by middle age). However, there is a correlation in the experience of periods of unemployment of fathers and sons, with local labour market conditions an important factor driving this relationship. The following section explores further the influence of geography and neighbourhoods on poverty.

Geographical causes of poverty

Both in the UK and internationally, the geographical concentration of poverty increased over the 1980s and 1990s (see Glennester et al., 1999; Lupton and Power, 2004). More recent evidence does suggest that, while disparities between the most deprived and other areas have narrowed, the gap remains large (Hills et al., 2010). Analysis of the geography of poverty has been addressed in two ways: researchers have either looked at the influence of neighbourhoods on poverty or the impact of social housing (although clearly there is a strong overlap). Here we review the evidence on what has happened to poverty and worklessness across each of these dimensions and look at the evidence as to whether poverty within these neighbourhoods has led to a 'culture' of poverty.

Poverty and place

In the UK, areas in poverty are characterised in two ways: areas that were 'built poor' (for example, to house low-paid workers or for slum clearance) and have stayed so; or those that have become deprived over time (for example, areas of cheap rent which were occupied by immigrants as cities expanded and the rich moved to the suburbs: see Lupton, 2003). Economic decline has been an important factor in the concentration of poverty; the loss of industry and jobs, combined with low-quality housing stock, has failed to draw new workers to these areas. In England, cities and regions in the North of England and the Midlands have experienced some of the worst consequences of decline (Lupton, 2005). There is also evidence that, across areas, the division between 'work-rich' and 'work-poor' households is increasing (Wheeler et al., 2005).

While worklessness and poverty rates differ by region, there is a long-running debate as to whether living in a particular neighbourhood has any influence on an individual's job prospects. Cheshire et al. (2003) argue that, "[The poor] are not

poor because of where they live; rather they live where they do because they are poor. And, indeed, the evidence shows that if they get less poor by improving their position within the labour market, they tend to move away from the most deprived areas to be replaced by households as deprived as they were recently themselves” (p. 85). Similarly, Gibbons et al. (2005) find that the low rates of employment of those in the most deprived wards would not change by much if they lived in better wards in the same city.

An issue strongly correlated with geographical concentrations of poverty is that of high rates of poverty and worklessness among those living in social housing. John Hills (2007), in his report to the Department of Communities and Local Government (DCLG), describes how the profile of those living in social housing has changed as the size of the sector has declined and provision has become increasingly focused on those with the greatest needs. As a result, those living in social housing have very high rates of poverty and worklessness: in 2006, two out of three heads of households in the social rented sector had no job. A key driver of this is the allocation policy for social housing. Those who are selected into social housing are among the neediest: relatively large proportions have a disability, are lone parents, are from ethnic minority groups, or are of pensionable age (Lupton et al., 2009; Hills, 2007). While these characteristics may help explain some of the differences in employment rates, other effects also appear to be at play. One issue, Hills suggests, is mobility: once individuals become tenants in the social rented sector they are very unlikely to move, and very small numbers of individuals living in social housing make employment-related job moves. This lack of spatial mobility in turn restricts employment opportunities for social housing tenants. A second issue is welfare dependency, with those on housing benefit and living in rented accommodation facing higher participation and marginal tax rates, and therefore a greater ‘poverty trap’, than those with other tenures. This, in turn, leads to particularly weak work incentives for this group of benefit claimants.

‘Cultures’ of poverty

The concentration of poverty among certain groups and areas has given rise historically to discussions of ‘cultures’ of poverty where “a subculture with its own structure and rationale, as a way of life which is passed down from generation to generation along family lines” (Lewis, 1967, quoted in Lister, 2004, p. 106) with those that were in poverty having feelings of being marginal to society. Wilson (1987) argues that the social norms and values which operate in deprived locations inform individual behaviour, with high levels of unemployment and crime encouraging the social isolation of communities and restricting social mobility.

Employment patterns are of particular importance; Wilson (1997) has argued that the impact of the absence of work is more than simply the poverty associated with not working – neighbourhoods with poverty and employed people are not the same as neighbourhoods with poverty and worklessness. As work disappears from an area, the individuals in these neighbourhoods face less access to employment; this creates an alternative culture, lacking routine, organisation and structure, all of which are skills valued by employers. These individuals also have weaker social networks to provide opportunities and access to sustainable employment. These “learned behavioural responses” to poverty in areas where there are no jobs may be changed but, it is argued, this takes time even in economic boom years (Glennester et al., 1999). As Layard (1997) notes, even during the mid-1990s when unemployment rates were low, large numbers were effectively not part of the labour market.

As discussed earlier, slack labour markets too have an important role to play in influencing the opportunities of the most deprived. Recent work on Incapacity Benefit argues that area-based employment opportunities are important both for individuals’ perceptions of ill health and to the employment consequences of it. Looking across areas, Beatty and Fothergill (2011) find that where labour

demand is high, such as in the South of England prior to 2008, people with health problems and disabilities were much more likely to work. But in more competitive labour markets with weak labour demand, such as old industrial Northern towns and the Welsh valleys, ill health had a much stronger influence in determining who did or does not work. Claims for incapacity benefits have as a result become increasingly concentrated by area, with reforms to incapacity benefits expected to lead to significant loss of income while having little effect on employment (Beatty and Fothergill, *ibid.*). In a similar vein, Wheeler et al. (2005) note that location can be as important as qualifications in influencing the kind of jobs people do.

While employment opportunities have an important role to play in determining how individuals within poor neighbourhoods fare, there is little evidence of a 'culture' of poverty in the UK (see previous section). As Low (2011) notes, the evidence shows that "most excluded neighbourhoods may be characterised by acute tensions and problems, but they are not 'broken' or 'dislocated'. Most residents living there share values and aspirations similar to the rest of us: fairness, hard work and responsibility" (p. 1). Recent work supported by JRF, which examined six low-income neighbourhoods in England, Scotland and Wales, found not only that values there were similar to those elsewhere, but also that "many people cared deeply about their neighbourhoods, and liked living there" (Low, 2011: p. 2) in spite of problems of antisocial behaviour and gangs. The idea that these communities are dislocated from the rest of society was not, in this study, born out by the evidence (see Cole et al., 2011).

Geography: policy implications

The review has highlighted worklessness and low levels of economic growth as particular problems for deprived communities. Many of the areas in which poverty has become concentrated today have suffered because of economic decline. While in boom times economic growth and high employment rates may provide

some relief, the beneficial effects are often slow to be felt. Economic growth does not always translate into an even improvement in the quality of local labour markets. If economic growth does not reach these areas then there must be interventions to reduce the concentration of poverty. Efforts to address regeneration of neighbourhoods will need to pay attention to the links between areas from business perspectives and the travel-to-work area and population concentrations that provide labour supply to firms. Policies which improve the attractiveness of these areas to the better-off, such as investment to improve the quality of housing stock and local facilities, could help to reduce further segregation of those in deprived communities from the mainstream (Power, 1997). A lack of local leadership and political representation are also barriers to these communities and JRF has argued for greater investment in support and advice services for community organisations (Low, 2011). Young people are at particular risk in the current economic downturn and policies targeted on young people in the most deprived areas will be essential to promote social cohesion in future years.

Poverty and educational failure

A large body of existing research shows that children from poorer backgrounds do less well in a number of dimensions than their peers. But, in the context being discussed here, it is important to assess whether this is due to a lack of income itself, a lack of parental education or similar, or a set of attitudes and behaviours that lead to poorer parenting associated with poverty and welfare dependence.

In the US, a significant amount of research has been carried out on welfare reforms and the effect they have on children. Duncan and Chase-Lansdale (2001) use results from a large number of experimental interventions and conclude the main findings for pre-school children were: “welfare reform packages can have positive impacts on children’s achievement and behaviour”; and “there is little evidence to suggest that elementary school-aged children are harmed by the welfare reform packages built into the experiment” (p. 18). The difference between the programmes that gave earnings supplements (and therefore increased incomes) and the programmes that had mandatory work requirements (boosting employment without increasing income) are noticeable. This suggests a strong link between increased income and child outcomes, suggesting in turn that policy should focus on financial incentives rather than work requirements alone. These experimental interventions offer powerful evidence that income has sizeable effects on attainment for those aged under 6 and (statistically significant) income effects of similar magnitude but less clear for teenagers, whereas work without income gains has no, or slightly negative, effects on children’s educational attainment. However, this evidence is limited to small income gains for low-income lone-parent families and it is not clear how this would translate to wider populations.

While money is rarely given randomly via experiments, income shocks do occur naturally through economic recessions or tax and welfare changes. Dahl and

Lochner (2005) explore the impact of income changes resulting from the US Earned Income Tax Credit. They suggest that an extra \$1,000 (£700) a year in tax credits over three years raises reading and maths scores by about 3 per cent of a standard deviation. This appears similar to the experimental evidence described above but averaged over all school-age children. They also suggest that the effect is larger for poorer families. In the UK, evidence also suggests that raising the incomes of the families in poverty could substantially reduce the gap in educational attainment between those on free school meals and other children (Gregg, 2008).

In addition to income, the level of education of the mother has significant effects on child outcomes. Magnuson and McGroder (2002) explore US welfare experiments that focus on raising mothers' education levels rather than on work. While these programmes were not successful in raising mothers' employment or income, the estimated effect of mothers' education on children's outcomes showed higher levels of maternal education to be significantly correlated with children's academic school readiness and negatively associated with children's academic problems. In a similar vein, Dickson et al. (2011) looked at the effect on children born to parents affected by the raising of the school leaving age in 1973 in the UK. This meant about one-third of children stayed on for an extra year in school and about 7 per cent gained some qualifications that they otherwise would not have achieved. The effects for their children were substantial: the educational boost for these parents raised their children's attainment scores, with GCSE grades among those of the next generation being raised by five grades in total.

Aspirations, attitudes and behaviours of parents and children matter to their achievements too, and play a potentially important role in explaining why those from low-income families perform less well. Gregg and Goodman's report (2010) finds key differences between children from poorer and better-off homes for pre-school children, those at primary school and children of secondary school age.

For those under 5, Gregg and Goodman identify differences in health and well-being (e.g., birth weight, breastfeeding and maternal depression); family interaction (e.g., mother–child closeness); parenting styles and rules (e.g., having regular bedtimes and mealtimes); and the home learning environment (e.g., reading to children and presence of books). As children go to primary school, the gap between children from poor backgrounds and others grows further. Differences in parental attitudes and educational aspirations for their children, and the greater behavioural problems in children of primary school age from low-income backgrounds, are found to explain around one-third of the difference in progress made between rich and poor children between the ages of 7 and 11.

While the gap in attainment between rich and poor children grows less rapidly once children reach secondary school, by the age of 16 (when children take their GCSEs) the accumulated gap is large: for the poorest fifth of children only 21 per cent gain five ‘good’ GCSEs (grade C or above) compared with 75 per cent from the richest quintile. While much of this gap is attributable to early factors in children’s upbringing, differences in parental attitudes and children’s beliefs in their own academic ability also matter to children’s overall attainment. The conclusion that Goodman and Gregg reach is that policy can make a difference to reducing educational inequalities by improving the home learning environment, raising parents’ educational expectations and aspirations. Children’s own attitudes can also be influenced by addressing behavioural problems and encouraging children from poorer backgrounds to have greater belief in their own academic abilities. While the evidence provides strong support for early interventions to improve children’s outcomes, late interventions during teenage years may also have beneficial effects and prevent those from poor backgrounds from falling further behind.

Thus, a large body of research explores how work, income and parental education influences children. Nearly all studies suggest that raising incomes for poorer families makes a difference to children’s educational attainment. Although

the studies vary in their findings on the size on these effects, they all suggest that the magnitude is too small to reasonably expect welfare benefits alone to close the educational gap between poor and rich children, but it does help. Work among lone mothers which does not boost income, however, does not benefit children; this suggests that worklessness isn't the main issue in this domain. Education of parents is a major structural barrier to children's development and reforms or programmes that raise parents' education, particularly among those with low attainment, can make a large difference to children.

Addiction

The Centre for Social Justice has highlighted alcohol and drug addiction as one of their five “pathways to poverty” (Centre for Social Justice, 2006). This analysis describes these behaviours both as causes and consequences of poverty, leading to a cumulative cycle of deepening poverty that needs to be broken. Yet, while poverty affects more than one in five of the population, serious problems of drug and alcohol addiction are of a different order of magnitude. Best estimates of the number of problematic drug users (‘PDUs’, defined as users of crack cocaine or opiates), for example, suggest that 0.89 per cent of the population is affected (Hay et al., 2011) while 3.8 per cent of the adult population (1.6 million people) is estimated to be dependent on alcohol (this group is identified using the Adult Use Disorders Identification Test, NICE, 2011). Overall, the total number of adults who are either dependent on alcohol or are PDUs is therefore estimated to be less than 4.7 per cent of the population (as there will be some overlap between PDUs and those with alcohol disorders). While there are no direct estimates of drug and alcohol misuse among people in poverty, of those that are in receipt of out-of-work benefits, Hay and Bauld (2008, 2010) estimate that just over ¼ million are problem drug users, and around 160,000 claimants are estimated to be dependent drinkers, equating to 7 per cent and 4 per cent of those claiming benefits respectively.

These numbers show the problem of addiction, while severe for those affected, is not common among those that are in poverty – only a small fraction are affected. The scales of the problems of poverty and addiction among parents, for example, are of completely different orders of magnitude: one-in-four working age adults living in a couple with children are poor, but fewer than 3 per cent are alcohol dependent and less than one percent drug dependent (HBAI, 2011 and Gould, 2006). Yet, in spite of this, the public perception appears to be that these problems are a common cause of poverty: recent data from the British Social Attitudes Survey (2011) found the factor most commonly cited as a reason for

child poverty was drug and alcohol addiction, 75 per cent thinking it was a reason for children living in poverty while drug and alcohol addiction has been cited as an argument against increasing the incomes of people in poverty (see, for example, Iain Duncan Smith's speech to the London School of Economics, 1 December 2011).

What is the link between drug and alcohol misuse and poverty? The evidence on drug use and alcohol consumption suggests that both are widespread in society; for the most part, consumption bears little relationship to social class or income. Looking at alcohol consumption, the BMA (2008) reports that those in work drink more than those who are unemployed and that average consumption rises with income. Marmot (1997) presents similar evidence for 'heavy' drinking (those regularly drinking above the recommended daily allowance) which shows lower levels of heavy consumption among unemployed people than among those in work, with the greatest incidence among those in professional and managerial occupations. He concludes that survey evidence does not "lend support to the popular conception that it is the poor and unemployed who are disproportionately represented among heavy drinkers". Similarly, data on drug use shows that, while experimentation with drugs is widespread among young people (one-half of all 16- to 24-year-olds report having used drugs at some time), there is little variation by socio-economic circumstances or correlation with poverty and social exclusion (British Crime Survey data, see The Poverty Site, <http://www.poverty.org.uk/38/index.shtml>).

Overall therefore, general patterns of drug use and alcohol consumption exhibit little correlation with poverty or social class. But these average statistics do not deal with the extremes in the population: alcohol misuse and the incidence of PDUs are much higher among marginal groups such as the prison population, young offenders, and homeless people (see Shaw et al., 2007). These groups are often excluded from household survey data. These extreme cases, as Marmot (ibid.) describes them, "may well be unemployed and of lower socio-

economic status, perhaps as a consequence of their drinking”. But “just as the issue of socio-economic influences on health is not confined to those at the bottom of the distribution, so is the problem of alcohol in society not confined to the relatively small proportion at the extreme of heavy intake. At less extreme levels of consumption, the data does not suggest that there are higher levels of consumption among those in less fortunate socio-economic circumstances.”

For those at these “extremes”, however, alcohol and drug misuse is undoubtedly a serious problem, which has associations with unemployment and social exclusion. Good quality data on drug and alcohol misuse is sparse. The evidence that does exist, however, notes a relationship between addiction with poverty and social exclusion. Alcohol Focus Scotland, for example, notes the stark socio-economic gradient in alcohol-related deaths and hospital admissions: “people from the most deprived areas in Scotland are six times more likely to be admitted to hospital with an alcohol-related diagnosis than people from the most affluent areas, while in 2005, 64 per cent of alcohol-related deaths were amongst the most deprived members of society”. They also report that the heaviest drinkers (those drinking more than 50 units per week) are concentrated in the lowest income quintile.

Problematic drug use (PDU) is also correlated with poverty, as Shaw et al. (2007) report, with those at the “margins” of society most at risk, such as those in care, excluded from school and in contact with criminal justice or mental health services, and homeless people. Shaw et al. also report evidence which suggests that the poorest communities and those with high levels of unemployment are most affected by PDU. Causal effects include poor social capital within communities and weak family networks. Others link PDU to limited opportunities and structural disadvantages: Buchanan (2004, reported in Shaw et al., 2007) argues that PDU may be a “socially constructed phenomenon that has less to do with individual choice or physical dependence, and much more to do with the structural disadvantages, limited opportunities, alternatives and resources”. In

particular, he suggests that disadvantage and exclusion were major issues preceding a drugs habit for PDUs.

Pudney (2003) reports similar findings, concluding that policies directed at reducing social deprivation may have the most success in reducing the prevalence of the most damaging drugs. Shaw et al. (ibid.) conclude in their review of poverty and drug use that:

“a central message emerging from this literature review is that, although there appears to be no direct causal link between drug-related problems and poverty per se, the current evidence demonstrates strong associations. Despite these strong associations, over the last 10 years the UK ‘drug problem’ has been increasingly reframed as a ‘crime problem’ – part of a growing trend towards the ‘criminalization’ of a range of policy areas such as youth work and urban regeneration. By prioritizing these policy areas in relation to their crime control potential, a range of inequalities are being exacerbated.”

The Coalition Government has advocated an approach to addressing addiction “rooted in the concept of recovery and reintegration; a process through which an individual is enabled to overcome the symptoms and causes of their dependency and reintegrate back into society” (Hay and Bauld, 2010). However, in the context on employment it has been argued that welfare-to-work programmes may be less suitable for these groups. Kemp and Neale (2005) find that drug users, for example, require other personal, health, lifestyle, and other problems to be addressed prior to participating in welfare-to-work programmes or taking up employment. Such findings are echoed by Bauld et al. (ibid); they recommend a stepwise approach to reintegrating those who misuse alcohol back into employment, with treatment and recovery from alcoholism being a first step.

Debt

The final pathway to poverty that the Centre for Social Justice (2006) identifies is personal debt. While those with low incomes are at greatest risk of debt, research for JRF has shown that what sets apart borrowing by those on low incomes from the rest of the population is not the fact that they use credit (growing indebtedness over the last decade was widespread as a 'culture' of borrowing grew) but rather that their indebtedness often arose because their income levels made borrowing a necessity in order to meet basic day-to-day needs (Dearden et al., 2010). Six in every ten adults living in the poorest income quintile turn to borrowing over a 12-month period (Collard and Kempson, 2005). For many, serious debt problems result from an accumulation of debt over time as a result of persistently low levels of income. Work on Minimum Income Standards (MIS) shows that, for those on benefits or with relatively low earnings, incomes are likely to be insufficient to meet the current standard: in 2011, MIS equated to £15,000 gross earnings for a single adult, £18,243 for a lone parent with one child, and £36,800 for a couple with two children, both working full-time. (Note: MIS is calculated on the basis of what members of the public think people need to achieve a minimum socially acceptable standard of living.) In terms of the resulting net incomes, for those on benefits, payments fell short of meeting these standards by 60 per cent, 36 per cent and 38 per cent respectively (Hirsch, 2011). For those in full-time work the average wage would need to be substantially greater than the current minimum wage in order to bring in the minimum income. As a result, those whose incomes are persistently low – whether in or out of work – are likely to fall further into debt in order to meet day-to-day expenses. This, in turn, reduces their ability to meet existing debt payments and leads to an increasing reliance on credit and further indebtedness. Other research supports the link between low income and borrowing for essentials; for example, Dearden et al. (2010) find that over-indebtedness is typically a result of inadequate income rather than profligate consumption.

While these structural features – in particular insecure and low-paid jobs alongside low benefit levels – are important factors leading to indebtedness among those with low incomes, there are also other important ‘triggers’ which lead to over-indebtedness. Dearden et al. (ibid.) point to: high levels of consumer temptation leading to credit card expenditure among the young, with this debt then carried over into adult life; important life shocks such as having children or relationship breakdown; the onset of disability or ill health; or large unexpected expenditure shocks.

For those on low incomes the cost of being indebted is often much higher than it is to those on higher incomes and with more serious consequences:

“The poor pay more for many things – but, arguably, it is the extent to which they pay more for credit that puts the greatest strain on their budgets. In fact, levels of credit use vary little with household income. But, in contrast to people who are better off, people on low incomes borrow more often for necessities and use sources of credit that have higher charges.”

(Collard and Kempson, 2005: p. 1)

In spite of credit being more easily available in 2005 than a decade earlier, even in these times of high borrowing availability of “high-street” credit was still severely constrained for people on low and insecure incomes. Six in ten of those in the lowest income quintile felt that borrowing from mainstream lenders was not an option (Collard and Kempson, ibid.). Instead many turned to the sub-prime credit market, with annual percentage rates (APRs) typically between 100 and 400 per cent (see Collard and Kempson, ibid., and references therein). Those living in deprived areas, in particular, suffered “a double disadvantage, especially if they live in a high-rise block of flats or an area of high crime” with licensed lenders unwilling to do business in these areas. This lack of mainstream credit, alongside inadequate incomes, has meant that many are vulnerable to being

targeted by lenders offering loans with high rates of interest, and with default often incurring high charges. Among the poorest fifth of the adult population, Collard and Kempson estimate that of the 6.7 million adults aged 18–64 in these households, 1.8 million had borrowed money over the previous year: of these, 1.1 million had borrowed from a high-cost lender, with 0.5 million using catalogues and 0.5 million borrowing from moneylenders (also known as home credit services). For many who borrowed default was common, and around one in four of those on low income had an adverse credit record. Since the ‘credit crunch’ further increased conditions on lending – and as incomes have continued to be squeezed, particularly for low-income households (see Hirsch, 2011) – reliance on these types of loans may have grown. Dearden (*ibid.*) notes that “given that many households have no choice but to borrow on an ongoing basis, it would seem likely that their borrowing will shift to less formal and less regulated providers”.

The policy response has called for the greater regulation of lenders and better financial education. But raising incomes among those in poverty and helping to smooth income flows, particularly around transition periods such as divorce or separation, are also important for reducing the current problems of severe personal debt. There is a widespread consensus that regulation is needed to ensure people in poverty have access to affordable credit, but implementing this remains problematic. The previous government expressed an interest in exploring mechanisms that would allow profitable loans to be made through the voluntary and private sector to those on a low income at lower rates of interest (Collard and Kempson, *ibid.*). However, a study examining the feasibility of a not-for-profit home credit service found that implementing such a service would be difficult (Kempson et al., 2009). While demand for such a service is high among those with low incomes, high rates of default and the potential for ‘adverse selection’, with those with the worst payment problems most likely to take up the scheme, present particular challenges to implementation. The authors calculate that – even on a not-for-profit basis and with substantial subsidies – the cost of

provision would still remain high if the service was to be financially sustainable. For example, with an £18 million subsidy to the provider, the APR that would need to be charged on an average 56-week £288 loan would be 123 per cent (compared with 183 per cent commercially), saving customers £50. Partly as a result of these high interest rates, but also because of high rates of default among high-risk borrowers and the threat this would place on providers' financial sustainability, the authors found that existing third-sector lenders "had limited appetite for delivering the service".

Hirsch (2011) reports that the "squeeze in living standards is hitting those on low incomes particularly hard, in part because of relatively high inflation rates but also because of policy decisions that have restricted their net incomes". This continued squeeze on those who are least able to bear the cost means that indebtedness is likely to become an increasing problem in the next few years. As credit continues to be constrained, particularly for those on low incomes, it seems likely that many will be forced to borrow from high-cost providers, deepening the debt cycle. Finally, at present many of those on low incomes are repaying loans from the Social Fund. The Social Fund is a cash-limited fund available to those on qualifying benefits, with loans being provided interest-free in order to pay for essential items such as furniture, beds and bedding, and white goods. The Welfare Reform Bill 2011 has proposed that the Social Fund be replaced with local provision; this may lead to reduced provision and increase further the burden of indebtedness among those on low incomes.

Conclusion

This review has highlighted the role of structures, individual agency and 'cultures of poverty' in influencing overall poverty rates, and the ways in which they interact.

The evidence reviewed here on the structural causes of poverty suggests an important role for policy. The provision of family-related benefits, the incentives provided for work (through, for example, tax credits but also through the provision of measures to support parents at work, such as childcare), and the availability of jobs all play a very important role in influencing poverty. The availability of jobs, in particular, matters not just for individual poverty but also to communities, with the geographical concentration of worklessness and unemployment among the young posing particular problems of 'scarring'. A lack of economic opportunities for men has also been shown to influence family forms, reducing the value of marriage for women to marry and increasing the likelihood of becoming a lone parent (see Lundberg and Pollak, 2007; Rowthorn and Webster, 2008).

Benefits too can make a difference to poverty; the rise in market-income poverty, which has been happening across countries since the mid-1980s, has to some extent been offset by government redistribution (OECD, 2011a). However, a specific charge against the provision of welfare benefits is that they have led to a growing dependency culture. The interaction of agency and structure, in this context, is argued to have led to a breakdown in personal responsibility, a rise in family breakdown and lone parenthood, and the growth of a culture of dependency and intergenerational worklessness (Centre for Social Justice, 2006). The evidence for this is much less clear. Welfare dependency as an explanation for the growth in family breakdown does not fit well with the facts; Lundberg and Pollak (2007) conclude that "the potential effectiveness of policies to promote marriage is [...] questionable. In the United States, state and federal welfare reforms that imposed time limits and work requirements dramatically

reduced welfare rolls and promoted employment among low-income women. These policies, however, do not appear to have had significant effects on marriage or the living arrangements of children” (p. 23). Similarly, the evidence on intergenerational worklessness does not provide support for the idea that there are a large number of families never working across generations: even among a single generation virtually no one has no experience of doing paid work by middle age.

Policy may also be able to intervene to influence behaviour and, over the longer term, attitudes towards work. For example, the increased ‘activation’ of groups of workers who previously had few expectations of work placed on them may both raise current employment levels but may also change attitudes towards work over the longer term. The introduction of increased conditionality on the receipt of benefits for groups, such as lone parents, will also alter their job search behaviour and their chance of moving into work. Reforms to the benefit system have placed greater conditionality on both lone parents and other groups including those previously claiming Incapacity Benefit and can be expected to raise employment and contribute towards reducing poverty. Set against this, however, is the currently weak economic picture where unemployment has been rising. The rise in unemployment is likely to be the greatest barrier to poverty reduction in coming years. This structural challenge to poverty is not being addressed under current policy reforms, which emphasise supply-side changes and the role of agency in determining overall poverty rates.

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