

What will it take to end child poverty?

The Government aims to halve child poverty by 2010, and to end it by 2020. It has made a promising start, but has a long way to go. The Joseph Rowntree Foundation brought together experts in this field to consider the policies needed to make further progress. This study included modelling work co-ordinated by the Institute for Fiscal Studies, which estimated the future effect of existing and new policies needed to reach government targets.

- Child poverty in the United Kingdom remains worse than in most other European countries. A child in the UK still has nearly twice as much chance of living in a household with relatively low income than a generation ago.
- Child poverty damages both those who suffer it and society more generally. The long-term cost appears to be rising: the harm to lifetime prospects associated with growing up in poverty has increased in recent years.
- Since the late 1990s, child poverty has started to fall, helped by rising parental employment and by large increases in tax credits and benefits paid to low-income families with children. However, present policies are unlikely to produce substantial further reductions in child poverty.
- The Government could meet its target of halving child poverty between 1998 and 2010 by spending an estimated £4 billion a year (0.3 per cent of GDP) more than currently planned on benefits and tax credits.
- Getting the second half of children out of poverty between 2010 and 2020 will be far harder. If the Government relied primarily on tax credits and benefits to achieve this, it would have to add about a further £28 billion (1.6 per cent of GDP) to planned annual spending, an unlikely scenario.
- The study concludes that, to make further inroads into child poverty, the Government will need to extend its policy of increasing redistribution to low-income families, but that this will not be enough on its own to meet the targets. In addition, this will require parents to fare better in the workplace, with improved pay and opportunities. Long-term policies working in this direction include better education and training for disadvantaged groups, improved childcare and the promotion of equal pay for women.



Background

In 1999, Tony Blair announced the historic aim of ending child poverty within a generation. In 2006, Conservative policy director Oliver Letwin announced that his party shares that ambition. En route to ending child poverty by 2020, the present Government has targets of cutting it by a quarter from 1998/9 to 2004/5 and halving it by 2010.

There are various measures of poverty, but this report focuses on the main measure of relative income, which defines someone as poor if their household is on less than 60 per cent of median income, adjusted for the composition of the household. The median is the income of the person in the middle of the income distribution.

While poverty in 2004/5 remained above the first target, falling by about a fifth rather than a quarter, this in itself represents a historic reversal of the previous upward trend. Improved benefits and tax credits for families with children contributed to the fall, as did a reduction in the number of out-of-work families, to which government policy contributed. It has not been clear, however, to what degree present policies would need to be extended to take all children out of poverty, moving beyond an initial reduction that helped a minority who are likely to have been the easiest to help. This study explores what policies may be needed to achieve the Government's bold ambitions.

Child poverty in the UK and the damage it causes

Child poverty in the UK remains higher in relative terms than in all but three of the 24 other EU countries, with 2½ -3½ million below the poverty line depending on the precise measure used. Evidence on the hardship faced by the country's poorest children shows that the scale of the problem is not just a statistical artefact. Children on low incomes are unable to enjoy the basic living standards that their peers take for granted. Some lack even fundamental necessities like adequate food and warm clothing, and certain groups – including homeless children and children of refugees – are particularly vulnerable to severe hardship. Moreover, most children in poverty experience it as a persistent rather than a temporary condition: over two-thirds of those below the poverty threshold at any one time have been in poverty for at least three of the past four years.

Nor does child poverty damage only those whom it affects directly. Society must pay for not ending child poverty. As well as the shame of allowing it in a rich country, more tangible costs include the cost of remedial services and the foregone taxes and benefits resulting from the reduced future employment and earnings prospects of those who grow up poor. Recent research has shown that the intergenerational 'knock-on' effect is escalating: those who grew up poor in the 1980s are suffering greater disadvantage in mid-life than those who grew up poor in the 1970s.

Trends in underlying factors influencing child poverty

Child poverty has been particularly high in the UK because of a combination of factors, including a high number of children living with lone parents, the relatively low percentage of lone parents who work, low relative pay and the limited extent of redistribution through the tax and benefit system.

Recent trends have brought improvement in some of these factors but not others. The percentage of lone parents in work has risen from 45 per cent to 56 per cent since 1997, and the number of children in non-working households has fallen by a quarter since the mid-1990s. However, the percentage of children with lone parents has continued to rise, albeit slowly, and the growth of overall pay inequality has at best levelled off. Benefits and tax credits to families with children have risen sharply, but the overall effect of such redistribution on child poverty remains weaker than in most other European countries with comparable inequalities in market incomes.

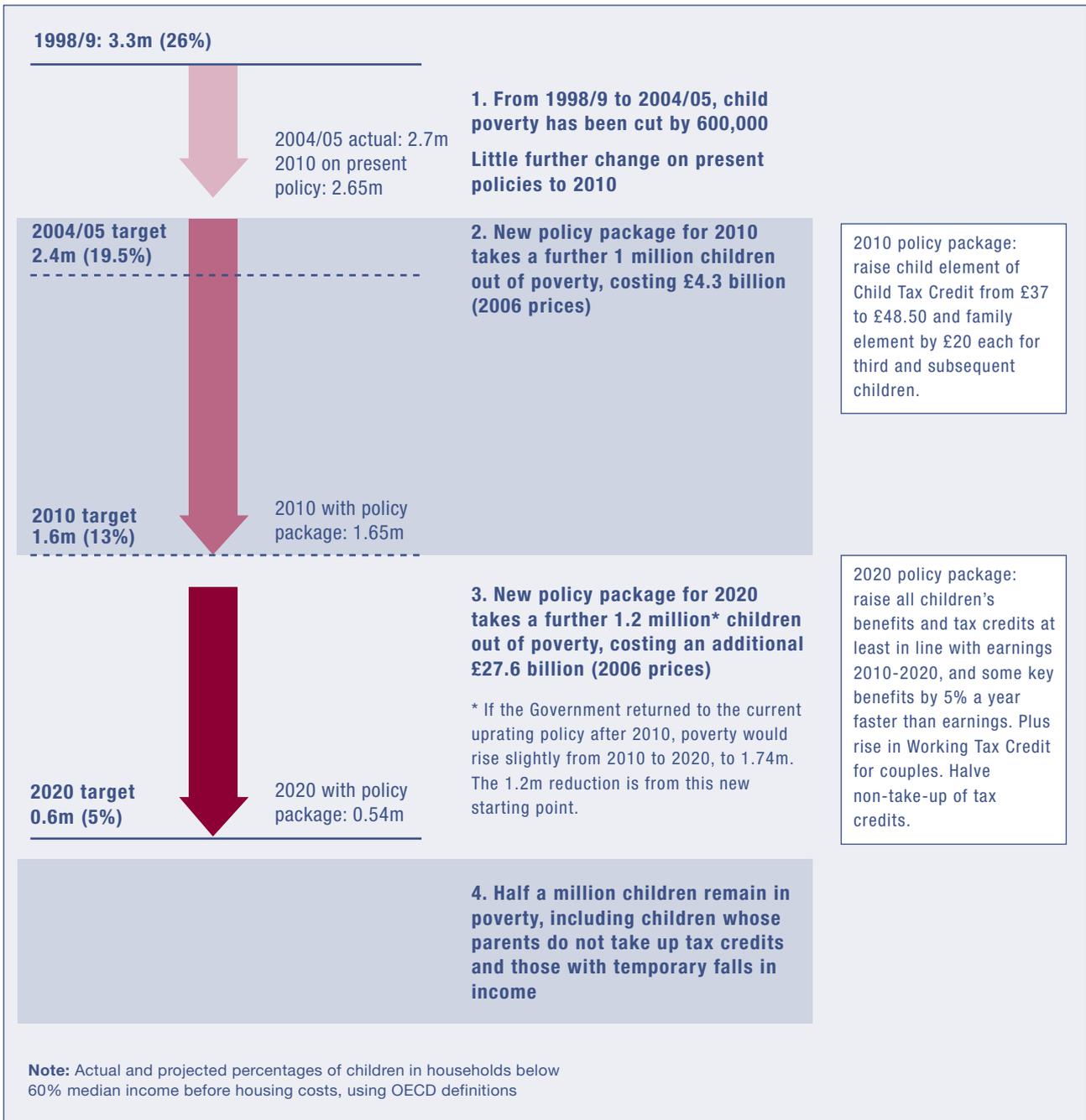
Future improvements will depend both on public decisions about redistribution and on opportunities for families with children. The opportunity for these families to do well in the labour market will be influenced by their ability to acquire education and relevant skills, especially among lone parents, many of whom have low qualifications. Another critical factor will be the ability of parents to reconcile work with the needs of their families. This applies especially to lone parents and to second earners in couples. Not all will wish to work, and the principle of choice is important. Policies supporting adequate childcare options and flexibility for those who do work will help promote a wider range of choices.

The future under present policies

What will child poverty be in 2010 and 2020 under present policy? Not all effects can be predicted, but a model used in this project estimated the effects of current and planned welfare to work policies combined with existing policies for increasing tax credits and benefits, taking account of the effect of demographic changes. The results show that the net effect of such policies will be to keep child poverty roughly at its present level by 2010 and reduce it by only 260,000 by 2020. Far from 'ending' child poverty, this would only be enough to reach the missed 2004 target.

Thus, without further efforts, progress in cutting child poverty could stall. One factor is that the potential for moving out-of-work families into work is reducing. Most couples still out of work include at least one disabled adult, and many non-working lone parents have very young children. Even if the Government achieves its ambitious target of getting 70 per cent of lone parents into work by 2010, child poverty will not fall much. This is partly because employment gains would be offset by declining relative incomes, particularly among those remaining out of work, under present uprating policies. Although one part of the Child Tax Credit is being increased in line with average earnings, other tax credits and benefits are frozen or rising only with prices.

Figure 1: **Getting three million children out of poverty**



What would it take to halve child poverty by 2010?

The research investigated what additional changes to tax credits and benefits would be capable of reducing child poverty to the target level by 2010. The results, illustrated in Figure 1, estimate that a package taking an extra million children out of poverty would cost just over £4 billion extra a year. This package would combine extra payments targeted directly at children in poor households with extra payments targeted at children in large families. The latter have a high risk of poverty, and by treating all large families on low and middle incomes generously, the potential damage to work incentives would be reduced.

The £4 billion price tag is high but not unaffordable; it means spending just 0.3 per cent of GDP more than presently planned. And since present plans would reduce the share of national income paid to families with children, the 2010 package would require only a relatively small increase in the share of national resources paid to these families compared to today. It would cost only £1.7 billion or 0.1 per cent of GDP more than if all these payments kept pace with average earnings.

What would it take to ‘end’ child poverty by 2020?

No country has fully wiped out child poverty, and some households will always experience very low incomes in a given year, if only through temporary business losses. This project interpreted the target as meaning fewer than 5 per cent of children below 60 per cent median income, around the lowest ever achieved in any European country. The cost of doing this through tax credits and benefit payments alone, given projected demographic trends and employment gains, is extremely high. This requires not just tax credits but Income Support for parents to rise steeply. It would also require the Government to ensure better take-up of tax credits (the project assumed that the Government could halve non-take-up by 2020).

The estimated cost of such a package, as shown in Figure 1, is nearly £28 billion a year in additional spending, or around £20 billion more than it would cost to raise benefits and tax credits for families with children in line with earnings. While this requires society to allocate less than one year’s worth of economic growth to ending child poverty in the next 14 years, it would require huge payments to families with children, which could be seen as unjust or likely to cause distortions in behaviour. A more balanced policy, not relying so heavily on income transfers, would therefore be preferable.

Conclusion: firing on all cylinders

This research has shown that child poverty is unlikely to fall to anywhere close to target levels with existing policies. A further boost in tax credits and benefits by 2010, which would in fact be smaller in scale than the large increases previously provided by the present Government, could succeed in halving child poverty by that date. However, far larger hikes would be needed to reach the target for 2020. A more realistic scenario is that substantial increases in benefits and tax credits are combined with other measures to improve parents’ incomes. Many of the parents of 2020 are still at school today, and a decisive effort to improve educational outcomes for disadvantaged groups, narrowing the gap

with other groups, could help improve opportunities in tomorrow’s labour market. At the same time, the Government needs to renew efforts to improve women’s pay and access to childcare, which can also help future parents to thrive in the labour market. The scale of the long-term challenge, demonstrated in this study, shows that no single approach will be enough to meet it. Only by “firing on all cylinders” can this historic mission be achieved.

About the project

The Joseph Rowntree Foundation brought together a range of experts to discuss the requirements for meeting Government targets. They produced papers on a wide range of social and economic factors related to child poverty and on how these relate to government policy. The papers can be downloaded at www.jrf.org.uk/child-poverty. Modelling work carried out at the Institute for Fiscal Studies by Mike Brewer and James Browne, working with Holly Sutherland from the University of Essex, used microsimulation to project future levels of child poverty and public costs under different policy scenarios. Six feedback events held in London, Sheffield, Liverpool, Glasgow, Belfast and Cardiff tested the responses of people experiencing poverty and those working with them to the JRF analysis. All these strands are brought together by the report on which these *Findings* are based.

For further information

The full report, **What will it take to end child poverty? Firing on all cylinders** by Donald Hirsch, is published by the Joseph Rowntree Foundation.

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