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findings

INFORMING CHANGE

Can current policy end child poverty in Britain by 2020?

The Government aims to eliminate child poverty by 2020. This study, by researchers in the Centre for Analysis of Social Policy at the University of Bath, looks at the major policy areas that will potentially deliver this aim. It examines the strengths and weaknesses of how policy works in 2005/06 and – using hypothetical models – examines how far these reduce poverty by 2020. The study found that:

- Government measures to assess the child poverty targets are problematic. Measuring income before housing costs is inconsistent with Government's adoption of after housing cost measures to ensure work pays for families with children. Additionally, the sole reliance on before housing cost definitions for poverty targets does not reflect actual disposable incomes for many poor families.
- In-work benefits and tax credits in 2005 'make work pay': in general, families with children are better off in work even at only 16 hours a week. But this does not ensure that families with children are not poor. There are large differences in poverty outcomes for families of different types on the same earnings level.
- Current trends in increased rents, council taxes and childcare costs threaten the success of anti-poverty policies based on incentives to work.
- Looking ahead to 2020, a couple with two children will not be poor at all using the Government's relative measure but will face five-and-a-half years of poverty taking housing costs based on a low social rent into account. Rent inflation worsens long-term poverty if measured after housing costs. However, the Government's target measure will still record families facing high rent levels as never poor.
- Over the same period, a lone-parent family with a single child could experience eight-and-a-half years in poverty, even using the Government's relative target measure, and eleven-and-a-half years of poverty after housing costs (assuming a low social rent).
- Overall, current taxes and benefits will not be increased sufficiently to ensure that low-paid families escape relative poverty by 2020. But, by 2020, most out-of-work families with children and reliant on benefits will pass the Government's absolute poverty target. This confuses a consistent policy message that seeks to present employment as the main route out of poverty.

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Background

The commitment to abolish child poverty by 2020 is a key aim of current social policy. The Government has adopted measures of child poverty that will be used to assess child poverty levels against this target. This research considers two of the measures used:

- **absolute low income** – defined as 60 per cent of median income in 1998/9 prices (£210 a week for a couple with two children) and then adjusted over time by prices;
- **relative low income** – 60 per cent of contemporary median income before housing costs.

All government indicators of poverty relating to the target will define income 'before housing costs' (BHC).

Choosing whether to measure poverty after housing costs (AHC) or before housing costs (BHC) results in important differences in defining poverty and poverty levels. AHC measures relate more closely to actual living costs and usually result in higher numbers of people being classed as in poverty and in greater 'poverty gaps'.

The research also considers:

- 'poverty gaps' – the difference between actual income and being measured as not in poverty; and
- 'poverty clearance' – the percentage someone earns over the poverty line.

Current policies to abolish child poverty

Out-of-work benefits
These give a couple with two children a 31 per cent poverty gap after housing costs and a 20 per cent poverty gap before housing costs. The same benefits give a lone parent with a single child an 18 per cent poverty gap after housing costs and a 4 per cent gap before housing costs.

Improved employment incentives
Aimed at 'making work pay', these are key to the Government's strategy of simultaneously improving parental employment and reducing poverty. But accurate measurement and appreciation of work incentives for families require income to be defined after housing costs. Poverty is measured before housing costs; this means that the Government's poverty and work incentive measures are not consistent. This could lead to confusion over the outcomes of in-work incentives and their impact on reducing poverty.

In-work benefits and tax credits
These do 'make work pay': families with children are better off in work even at only 16 hours a week. But there are large differences for families of different types but with the same level of earnings. Earning the minimum wage, a couple with two children needs to work the equivalent of 58 hours a week to clear poverty before housing costs (and 74 hours to clear poverty after housing costs). A lone parent with a single child working only 16 hours a week at the minimum wage is already above the poverty line both before and after housing costs. This is because tax credits levels are the same for single and couple parents, rather than more generous to lone parents.

Tax rates
The impact of working longer for low pay and/or of partners entering work is inhibited by very high marginal tax rates – between 96 and 70 pence for every pound earned.

Cost of living and inflation
The extent to which high marginal tax rates continue to operate as earnings rise depends on a number of external factors: levels of rent, council tax, childcare costs especially. These costs also affect disposable income – and thus the ability of families to cross the poverty line when working.

Inflation of rent, council tax and childcare costs has been outstripping prices (and in some instances earnings) since 1997. In some areas of the country – in particular London – high costs across a range of areas have a cumulative effect.

Government policy is primarily based on increasing benefits in line with prices; even the promise to increase the child element of tax credits in line with earnings is only temporary. This erodes the ability of fiscal support to combat relative poverty for low-paid families.

The effect of tax and benefits 2005-2020
The research used hypothetical family profiles to look at how the 2005/06 tax and benefit system would continue to help families between 2005 and 2020. For each family, their first child is born in 2005 and reaches 16 in 2021, when the promise is to have eliminated child poverty. The models looked at were:

- a couple family with two children, born in 2005 and 2007;
- a lone parent family with a single child born in 2005.

The Lifetime Opportunities and Incentives Simulation (LOIS) was used to profile these families and to see how policy would perform using both:

- the 'before housing costs' measure: the new relative Government target measure (OECD equivalent 60 per cent of median income); and
- the 'after housing costs' measure: the long-established AHC definitions using the McClements' equivalence scale.

Comparing these two measures provided a comparison of the lowest and highest levels of poverty respectively over periods of childhood.

The **baseline results for a couple family** show they experience no poverty using the before housing costs measure but five-and-a-half years of poverty using the after housing costs measure. 'Poverty clearance' is on average 19 per cent using the before housing costs measure but only 14 per cent using the after housing costs measure.

The **baseline results for a lone-parent family** show they experience eight-and-a-half years in poverty using the before housing costs income measure and eleven-and-a-half years of poverty using the after housing costs measure. The family's average 'poverty clearance' is 15 per cent (before housing costs) and 12 per cent (after housing costs) and average 'poverty gap' 6 per cent and 9.5 per cent respectively.

High rents increase poverty after housing costs for both the couple and lone-parent family. The couple have 17.5 years (out of 18) in child poverty and the lone parent 15.25 years (out of 16). But Government BHC poverty target measures continue to measure both families as never being in poverty even if they have high rents. Paying for **childcare** was also found to increase poverty risk if this was taken from disposable income.

Simulating any period of **unemployment** (more common in low-paid work) increased both poverty gaps and the incidence of poverty using all kinds of measures.

Simulating separation and divorce increased poverty for much of the subsequent years of childhood. Poverty is assured if the remaining parent takes time out of work to remain at home with children for a period. Simulating payment of maintenance reduces poverty incidence and improves poverty clearance and reduces poverty gaps when in poverty.

Policy options 2005-2020

The LOIS simulations were used to examine potential policy interventions or changes.

Imposing sanctions on lone parents' benefits for not undertaking work-related activity when out of work increased poverty gaps from 19 per cent to 27 per cent. However, financial premiums for lone parents who take steps to actively improve their employability could reduce poverty gaps to 5 per cent.

Wage levels

Finding a wage level that ensures elimination of child poverty throughout childhood is difficult: the needs of families change over time as do their levels of earnings and of increases in earnings.

- Overall, a couple family with two children would need 1.5 times the minimum wage to clear Government poverty target definitions throughout childhood but twice the minimum wage using McClements AHC definitions. However, most of the effect of these higher wages is through moving the family out of poverty during the period when the children are of pre-school age and the family relies on single earnings while the mother is out of work

- A wage level to eliminate child poverty for the lone parent will have most effect if she works part-time prior to her child moving into secondary school. The levels of wages needed to beat poverty are 1.5 times the minimum wage before housing costs (using OECD definition) and twice minimum wage after housing costs (using McClements AHC definition).

Increasing skills

LOIS also simulated the potential anti-poverty effect of raising skills and earning capacity or of eventually getting a better paid job after parental unemployment occurred. Raising earnings to 1.5 times or twice the level of minimum wage was shown to reduce child poverty after returning to work after unemployment.

Increasing credit and benefits

Increasing tax credits and child benefits in line with earnings would also help the couple families to avoid poverty during the period when they rely on a single earner – the period when the children are of pre-school age. However, keeping their incomes above relative poverty using AHC measures would require rents to rise below earnings. This approach works better for the lone-parent family: measuring both before and after housing cost there was subsequently no child poverty while the parent was working, even part-time.

Conclusions

Only the Government's **relative target** fits with their aim of using parental employment to reduce poverty. The absolute target will be beaten by 2020 for families on out-of-work benefits purely by the differential up-rating of Child Tax Credit by earnings.

The Government's move to **measure child poverty using income before housing costs** also makes it confusing to compare outcomes from work incentives, 'making work pay' and poverty initiatives. Measuring before housing costs may help international comparison to assess whether we are catching up with our European peers but ignores important policy, institutional and national differences that more accurately identify the living costs for the poorest.

Over time, the current system of **in-work support** does not keep its value to ensure that families will not be in relative poverty. This is because increases do not allow disposable incomes after taxes and benefits to keep up with rising median income. The situation is even worse when other trends in fiscal, economic and social policy are considered: these mean that rent, childcare and other essential costs are rising for low-income families. These regressive pressures on low-income families puts the aim of eliminating relative poverty further at risk – especially when considering incomes after housing costs and other direct assessment of resulting living standards.

About the project

The research was carried out by Martin Evans and Jill Scarborough in the Centre for Analysis of Social Policy at the University of Bath. The researchers used cross-sectional tax-benefit modelling using the Government's own Tax-Benefit Model Tables and additionally used a simulation programme, the Lifetime Opportunities and Incentives Simulation, or LOIS, to illustrate how policy will evolve for families between 2005 and 2020.
All simulations are based on hypothetical cases.

For more information

The full report, **Can current policy end child poverty in Britain by 2020?** by Martin Evans and Jill Scarborough, is published by the Joseph Rowntree Foundation.

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