Can Child Poverty be Abolished? Promises and Policies in the UK

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1. Introduction

In May 1997, the “New Labour” government of Tony Blair came into office in the UK. At the time, the UK had one of the highest relative poverty rates amongst industrialised countries. As Table 1 shows, against a poverty line of 60 per cent of national median income, the UK’s overall relative poverty rate in the late 1990s of 21 per cent was behind only the USA, Australia, and Ireland of the countries shown at around the same time. For children, the UK’s position was worse, with its 27 per cent poverty rate falling below only that of the USA. Only when a very low relative poverty line is used, based on 40 per cent of median income, did the UK’s child poverty rate move towards the international mainstream, coming eighth out of the sixteen countries shown.

Table 1 International comparison of relative poverty rates

<table>
<thead>
<tr>
<th>Equivalised household incomes below 60 per cent of median</th>
<th>All</th>
<th>Children</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (2000)</td>
<td>23.8</td>
<td>30.2</td>
</tr>
<tr>
<td>United Kingdom (1999)</td>
<td>21.2</td>
<td>27.0</td>
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<tr>
<td>Italy (2000)</td>
<td>19.9</td>
<td>26.5</td>
</tr>
<tr>
<td>Spain (2000)</td>
<td>21.3</td>
<td>24.4</td>
</tr>
<tr>
<td>Australia (1994)</td>
<td>22.2</td>
<td>24.2</td>
</tr>
<tr>
<td>Canada (2000)</td>
<td>18.0</td>
<td>23.3</td>
</tr>
<tr>
<td>Luxembourg (2000)</td>
<td>12.5</td>
<td>18.3</td>
</tr>
<tr>
<td>Austria (2000)</td>
<td>13.6</td>
<td>16.2</td>
</tr>
<tr>
<td>Netherlands (1999)</td>
<td>12.7</td>
<td>14.8</td>
</tr>
<tr>
<td>France (1994)</td>
<td>14.1</td>
<td>14.3</td>
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<tr>
<td>Germany (2000)</td>
<td>13.2</td>
<td>14.3</td>
</tr>
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<td>Belgium (2000)</td>
<td>15.6</td>
<td>12.6</td>
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<tr>
<td>Sweden (2000)</td>
<td>12.3</td>
<td>9.2</td>
</tr>
<tr>
<td>Finland (2000)</td>
<td>12.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Norway (2000)</td>
<td>12.3</td>
<td>7.5</td>
</tr>
</tbody>
</table>


¹ Institute for Social and Economic Research, University of Essex. I am grateful to John Hills for his permission to draw heavily on our joint work in the first part of this paper. (Hills and Sutherland, 2004). The opinions expressed are my own.
The new government did not originally stress poverty reduction as one of its policy priorities – the only reference to it in Labour’s 1997 election manifesto had been in the contexts of reducing welfare dependency and helping people into jobs. Since Tony Blair had become leader of Labour in opposition, he had worked hard to shed its “tax and spend” image, and had studiously avoided the use of the term “redistribution”. One of Labour’s pre-election commitments had been that income tax rates would not be increased, and as a way of reassuring voters on this, it had added a commitment to stick to the (very tight) public spending plans of its Conservative predecessor for its first two years. New Labour’s first two years were therefore marked by fiscal constraint.

However, starting in March 1998 a series of measures was announced for later years that have both radically reformed and injected large additional resources into support for families with children through the tax and benefit system. In a lecture in March 1999, Tony Blair described levels of child deprivation in Britain as “frightening”, and made an unexpected pledge to “end child poverty forever” within 20 years (Blair, 1999). While a definition of this target was not given at the time, the context implied that this was a target for relative poverty, and indeed an immediate target was set of cutting child poverty against a relative target by a quarter between 1998-99 and 2004-05. The government has now said that for the longer term, success in eradicating child poverty could be interpreted as achieving measures of deprivation (families being unable to afford key items) that “approached zero” and “being amongst the best in Europe on relative low incomes” (DWP, 2003). The low income measure will be similar to that used in Table 1, with the implication that the UK

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2 Bradbury and Jäntii (2001), table 3.2. The US rate quoted here is based on income definitions that differ in certain respects from the official measure.

3 60 per cent of median household equivalised income. UK official statistics are produced both before and after deducting housing costs; trends on both bases are being monitored in measuring achievement of this target. The official UK statistics (as used in Table 2 and Figure 1) and our own calculations are based on slightly different definitions, notably a lower weighting on children when adjusting incomes for household size, than is used in Table 1.
would have to cut its child poverty rate on this basis from more than 25 per cent in the late
1990s to match the single figure rates of the Scandinavian countries by 2020.

Historically, income inequality and with it relative poverty, particularly for children
grew rapidly in the UK in the 1980s. In 1979 the proportion of children living in households
with income below 60% of the median was 12%. By 1996/97 it was 25%. What explanations
have been offered for the growth in child poverty in the UK and for our poor performance in
European and international terms?

- The combination of a high lone parenthood rate, and of very high poverty rates
  amongst lone parent families. Amongst twenty-five countries surveyed by Bradbury
  and Jäntii (2001, table 3.3) using Luxembourg Income Study data, the proportion of
  children living in lone mother households in the UK (19 per cent) was the highest, and
  the proportion of these families that were poor (40% against a standard of 50 per cent
  of national median income) was higher than in any of the countries apart from the
  USA, Canada, and Germany. In 1979 the UK proportion of children in lone parent
  families was 10% (Gregg et al, 1999; table 1)

- Overall, a fifth of all children in Britain lived in households where no-one had income
  from work in the mid-1990s, the highest of eighteen countries surveyed by Gregg and
  Wadsworth (2001, figure 3) and an increase from 8% in 1979. This is not all due to
  the high rates of lone-parenthood: the 1980s and 1990s were characterised by a
  polarisation of work among couple parents, with a rising numbers of dual earner and
  no-earner families (Gregg and Wadsworth, 2001).

- A high dispersion of earnings in OECD terms, with one of the largest increases in that
  dispersion between the early 1980s and late 1990s, and hence significant rates of low
  income even amongst families with income from work. Even children with both
parents in work experienced an increase in poverty risk in the late 1990s (Bradshaw, 2000).

- Social transfers to families with children were lower in the UK in the early 1990s than in most other Northern European countries, but more generous than in Southern Europe, Australia, and the USA (Bradshaw, et al., 1993, table 9.14). Overall, taxes and transfers in the UK resulted in a smaller proportionate reduction in child poverty rates from those generated by the market than in all but four of the twenty-two other countries surveyed by Bradbury and Jäntti (2001, figure 3.7). Compared with 1979 the real incomes of the poor had remained roughly constant, in dramatic contrast with the high rates of growth for average incomes.

- Other factors identified by the UK Treasury in a survey of the research evidence included: limited income mobility, both in the short-term and across generations; area concentrations of poverty and disadvantage; and large social differences in educational attainment, strongly linked to income differentials (HM Treasury, 1999).

### 4. Policy Measures 1997-2005

Against that background, the UK government has announced and implemented a wide range of measures bearing on these and related problems. These have emerged piece-meal rather than as a comprehensive “war on child poverty”, but cover most of the issues identified as contributing to childhood poverty and its consequences.

**Labour market measures**

One of the first actions of the government was to introduce welfare-to-work measures under the banner of the “New Deal”. Most of the funding has gone to measures for the under-25s, but there have also been New Deals for the long-term unemployed, for lone parents, for older workers, and for the partners of unemployed people. These tend to involve carrots
rather than sticks. For instance, lone parents receiving out-of-work benefits (Income Support) are now required to attend annual interviews to discuss finding work and the help available to do so, but do not have to take up work while they have a child aged under 16 years old (although interviews are more frequent once children are over 14).

The government also introduced Britain’s first National Minimum Wage. Its level in mid-2004 was 43 per cent of median full-time earnings for men and women combined, higher than in the USA (32 per cent), but lower than in France (57 per cent) or Australia (55-59 per cent) (Low Pay Commission, 2005, table A4.2).

This has been accompanied by a buoyant labour market and economic growth throughout the period since 1997. The government claims credit for this through sound macroeconomic management, pointing to the decision to give the Bank of England operational independence in setting interest rates, and managing the public finances to obey the “Golden Rule”, that over the economic cycle, government borrowing should not exceed net investment.

**Tax and benefit reforms**

As a default, the government has continued to adjust the parameters of the tax and benefit systems in line with price inflation. If nothing else had changed, this would have meant the living standards of those mainly dependent on benefits falling behind the rest of the population and large increases in tax revenue. In fact, several parts of the tax and benefit system have been made more generous to those on low incomes, particularly families with children. Important elements of this include:

- An increase in the real value of the universal weekly Child Benefit, paid for all children (but abolition of a special addition for lone parents).
- Amalgamation of the system of child allowances paid to out of work families with payments to those in work, but with low incomes. Under the Child Tax Credit (CTC)
system all of the 30 per cent of families with children with gross incomes under £13,500 per year⁴ are entitled to the same level (depending on the number of children) of refundable tax credit, whether in or out of work. This is then reduced (with a withdrawal rate of 37 per cent of gross income over the threshold) until the credit reaches a small flat rate amount that goes to all but the highest income families. This system was introduced in April 2003 and made more generous in April 2004.

- Additional tax credit payments are made in a child’s first year, and maternity benefits have been improved and entitlements lengthened.

- Increases in the generosity of other parts of the in-work benefit system to create the Working Tax Credit, going to parents working for 16 or more hours a week, and now to others without children working more than 30 hours per week, if they have low incomes. Associated with this, an additional tax credit also pays for up to 70 per cent of approved childcare costs.

- Reforms to social insurance contributions to reduce payments by the lower-paid.

- More generous support for low-income pensioners and, since October 2003, extension of means-tested support higher up the income scale.

- Various income tax allowances have been withdrawn (such as the previous across the board allowance for married couples, and partial tax relief for mortgage interest for home-buyers), and the main rate of income tax was cut, but in April 2003 rates of social insurance contributions paid by both employers and employees were each increased by one percentage point, with the revenue earmarked for higher spending on the National Health Service.

⁴ HM Treasury (2004), table 5.1. Figures for 2004-05. At the current exchange rate of 2.34 AUD to 1 GBP, this threshold is equivalent to about AUD 31,600.
• There have also been increases in various indirect taxes. These have tended to have a regressive effect, offsetting the progressive impact of the other measures described above to a small extent (Sutherland, Sefton, and Piachaud, 2003, section 5).

The overall effect on support for families with children has been a “levelling up” in the treatment of two-parent and lone-parent families, of younger and older children, and of those out of work and in low-paid work. Significant extra resources have gone to the non-working poor, as well as to the working poor. Politically, great stress has been put on the way in which the reforms “make work pay” and less on the way in which increases in out-of-work benefits lift the incomes of the majority of poor children.

Other support for families with children

As well as direct measures affecting family incomes, a series of other measures are part of a strategy to tackle underlying causes of poverty and deprivation:

• The Sure Start initiative) is a community-based intervention aimed at families with children aged under four in low-income areas. By 2008 the plan is for there to be 1700 Children’s Centres in all of the 20 per cent most disadvantaged electoral wards in England, making services available to the more than half of all poor children who live in such areas (HM Treasury, 2004, para. 5.24). There are manifesto commitments from the May 2005 election to double this number.

• As well as the indirect support through tax credits, direct support for childcare for both pre-school and school-age children has been increased. An explicit goal is to raise lone mothers’ employment rate to 70 per cent by 2010.

• To encourage 16-17 year-olds from disadvantaged backgrounds to stay on at school, a system of Educational Maintenance Allowances pay up to £30 per week (on a means-tested basis) to 16-17 year-olds from low-income families if they stay on at school.
• A new Connexions service offers support and advice to all young people aged 13-19. Its intention is to help reduce the proportion of 16-17 year-olds who are involved in none of employment, education or training.

• Finally, the Government has introduced a system of Child Trust Funds for all children born from September 2002. It pays £250 into an account for all children at birth, twice this for those from low-income families. This will build up with a further government endowment when children reach seven, and with contributions into the tax-free accounts allowed by parents, grandparents, etc. up to an annual limit. The funds can then be drawn down when people reach the age of 18.

Overall, this has amounted to an increase in spending equivalent to 0.6% of GDP on tax and benefit (cash income) increases on child contingent parts of the system and 0.3% on services for children (not including education spending) (Adam and Brewer; Hills and Sutherland, 2004).

3. Impacts

The measures described above are of different kinds. Some might be expected to have rapid impacts on income-based measures of poverty, but others would only have visible impacts over many years – for instance, the possible long run effects of initiatives such as Sure Start or the Child Trust Funds. Indeed these measures may have their effect on the long term life chances of today’s children rather than direct impact on their risk of poverty during childhood. For the measures that affect income and living standards more directly, to see what is happening we can use information from household surveys, the most recent of which is for 2003-04.

Figure 1 and Table 2 show the trends in child poverty in the UK against both a relative and an absolute measure. They illustrate the contrast between the period before and after 1993. In relative terms, child poverty rose from 12 per cent in 1979 to peak at 27 per cent (before housing costs) in the early 1990s. Since then it has fallen unevenly, down to 21 per
cent in 2001-02 and has stayed at that level up to 2003-04, compared to 25 per cent in 1996-97, the year before New Labour came to power. Against the absolute threshold, despite growth of nearly 40 per cent in average incomes over the period, nearly as many, 30 per cent, of children were below the line in 1992-93 as in 1979. Numbers have fallen since then, and strikingly, between 1996-97 and 2001-02, the proportion more than halved, from 25 to 12 per cent. There was little change between 2001-02 and 2003-04 in either relative or absolute poverty measures. Some further reforms that made tax credits more generous happened in April 2003, but these do not seem to be reflected in the child poverty rates.

Figure 1  Proportion of UK children below relative and absolute thresholds 1979 to 2003-04

Source: DWP (2005), tables H2 and H6 (BHC). Relative threshold is 60% of contemporary median. Absolute threshold is 60% of 1996-97 median in real terms. GB figures since 1994-95; UK figures earlier.

Table 2  Trends in income poverty in Britain

These figures and those in Figure 1 use net incomes before housing costs. Using the alternative official measure, after housing costs, relative child poverty fell from 33 to 28 per cent between 1996-97 and 2003-04, and absolute child poverty from 33 to 17 per cent.
Before considering the prospects for meeting the 2004-05 target for child poverty, it is useful to explore the reasons for the rather modest fall in relative poverty that has been observed, given the major increase in spending on poor children. Analysing what had contributed to the fall in child poverty against a relative line over the shorter period between 1996-97 and 2000-01, Sutherland, Sefton and Piachaud (2003) suggest that little of it was due to demographic change, and that all types of families with children had lower poverty rates, particularly lone parent families and couples with three or more children. Just over half the improvement was due to employment changes, and the rest to the impact of the tax and benefit reforms. Using a different approach and looking at a shorter period, Dickens and Ellwood (2003, table 4) suggest that the benefit effect was a greater proportion of the total. They suggest that all of a 3 percentage point drop in child poverty between 1997 and 2000 could be accounted for by improvements in benefits, but that one percentage point of this was offset by the impact of rising real wages on median incomes, and hence the relative poverty line. Demographics had a small adverse effect, reduction in wage inequality a small positive effect, and changes in work patterns accounted for one percentage point of the fall.

Not all increases in employment can be ascribed to the welfare-to-work initiatives by themselves: a more important factor has been good macro-economic performance. The UK
economy has continued to perform well under New Labour: overall unemployment (on ILO definitions) fell from over 10 per cent in 1993 and 8 per cent in 1996 to 5 per cent between 2001 and 2005. Long-term unemployment has fallen by more than four-fifths since 1997. The employment of lone mothers has also increased from about 44 per cent in 1996 to over 55 per cent in Autumn 2004 (HM Treasury 2005, chart 4.4). The proportion of children living in workless households fell from 18.5 per cent in 1997 to 15.9 per cent in 2004 (DWP 2004a, p.148).

An overview of analysis of the largest “New Deal” program, that for young people, concluded that total youth unemployment was between 35-40,000 lower than it would have been without the programme, less than half of the actual fall between 1998 and 2001 (White and Riley, 2002). Its employment effects may have been even smaller – a net increase in 17,000 on one estimate (Blundell, et al., 2003). Analysis of another part of the package, the voluntary New Deal for Lone Parents, suggests that its impact was to reduce Income Support (“welfare”) receipt by 2.5 percentage points after one year, rising to 3.3 per cent after 18 months (Hasluck, McKnight, and Elias, 2000). A more recent study by Gregg and Harkness (2003) attributes 5 percentage points of the 6.6 percentage point increase in lone mother employment in the four years from 1998 to 2002 to the effects of policy of all kinds (not just the New Deal).

Similarly, as far as “making work pay” is concerned, one econometric analysis suggests that the first stages of tax credit reform between 1997 and 1999 had a net positive effect on employment rates of 23,000 overall, less 0.1 per cent of the workforce (Brewer, et al., 2003). The effect was not larger partly because incomes of those out of work were increased, as well as those in work. For some groups work incentives increased, but for others they were reduced (including incentives to increase hours for those affected by the wider scope of means-testing). The main impact of reforms was not necessarily to boost
employment rates, but rather to reduce poverty in work. The best way of characterising the UK reform package as a whole therefore, is perhaps that it has had the substantial impacts on poverty outcomes described below without preventing the labour market improvements that have happened at the same time (as might have been expected from more straightforward redistributive packages).

We can estimate the direct effect on child poverty of the tax-benefit policy changes between 1997 and 2004-05 using the microsimulation model, POLIMOD.\(^6\) This compares poverty rates under the actual tax and benefit system in 2004-05 with those that would have been expected if the tax and benefit system New Labour inherited in 1997 had been left unchanged (apart from price indexation of its parameters). This gives a measure of the impact of policy change by itself - against this particular counterfactual.\(^7\) Table 3 presents the results of doing this. If the tax and benefit system of 1997 had still applied in 2004-05 poverty rates would have been higher in 2004-05 than they had been in 1997 – for example, 27 per cent of children would be poor (before housing costs) instead of 25% as shown in Table 2. In other words, if nothing had been done, relative poverty would have increased. In fact, the modelled estimates suggest that tax-benefit changes alone reduce the child poverty rate from 27% to 15% and that the reduction is particularly dramatic for children in lone parent families (a fall of from 47% to 22%).

<table>
<thead>
<tr>
<th>Individuals with income below 60% of population</th>
</tr>
</thead>
</table>

\(^6\) See Redmond, *et al.* (1998). The model uses Family Resources Survey (FRS) data for 1999-2000. These data have been made available by the Department for Work and Pensions (DWP) through the UK Data Archive. The DWP and the Data Archive bear no responsibility for the analysis or interpretation of the data reported here. Pre-tax and transfer incomes are updated to 2004-5 levels and backdated to 1997 levels using a method described in Sutherland, *et al.* (2003) and revised to reflect latest statistics and forecasts. Take-up of means-tested benefits and credits is assumed to be incomplete and to reflect the rates of take-up estimated by DWP (2004b) and Inland Revenue (2003).

\(^7\) Hills and Sutherland (2004) consider the alternative counterfactual of linking benefit levels and tax thresholds to average earnings.
<table>
<thead>
<tr>
<th></th>
<th>Whole population</th>
<th>All children</th>
<th>Children in lone parent families</th>
<th>Children in two parent families</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentage in poverty</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997 system</td>
<td>20</td>
<td>27</td>
<td>47</td>
<td>20</td>
</tr>
<tr>
<td>Projected 2004-05 system</td>
<td>14</td>
<td>15</td>
<td>22</td>
<td>13</td>
</tr>
<tr>
<td>Impact of reforms</td>
<td>-6</td>
<td>-12</td>
<td>-25</td>
<td>-7</td>
</tr>
<tr>
<td><strong>Number in poverty (millions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997 system</td>
<td>11.4</td>
<td>3.4</td>
<td>1.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Projected 2004-05 system</td>
<td>8.1</td>
<td>1.9</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Impact of reforms</td>
<td>-3.3</td>
<td>-1.5</td>
<td>-0.8</td>
<td>-0.7</td>
</tr>
</tbody>
</table>


The overall distributional effect of the policy reforms is shown in Figure 2, which shows the average percentage change in income in each decile group (by equivalised household income) comparing outcomes under the projected 2004-05 system with those under the price-adjusted 1997 system. The changes are shown both for all individuals and for children in particular. All decile groups up to the eighth gain on average, and the gains are somewhat – although not dramatically – larger for children than in general. The extent of the changes is considerable: real household incomes for children in the bottom decile group are 28 per cent higher than they would have been, and more than 15 per cent higher for the second and third decile groups. The final pair of bars show that overall effect of the policy reforms was to increase aggregate household income by comparison with the counterfactual, particularly for households with children.

**Figure 2** Average percentage difference in income: Projected 2004-05 system compared to price-indexed 1997 system
Of course, there are losers as well as gainers from the overall reform package. Figure 3 shows the proportions of children in each income decile group who are in households that gain or lose. There are virtually no losers in the bottom half of the distribution and only in the top two decile groups do losers outnumber gainers. Large gains (more than £10 – approximately 25 AUD per week) are concentrated in the bottom two-fifths of the distribution, and large losses in the top fifth.

These pictures cast the impact of the policy changes in a very positive light. They redistribute resources towards children in general, and children in low income households in particular. The vast majority of low- and middle-income households with children are net beneficiaries. The British government’s own claim that its policies have reduced child poverty would appear to be justified.

So why is the reduction in child poverty up to 2003-04 shown in Figure 1 so modest? The answer lies in the fact that tax and benefit policies are not the only things that are changing. In particular, as well as changes in employment and household composition, growth in incomes generally – particularly earned income – is pushing up the median against which the poverty line is measured. The policy changes are chasing a moving target. Figure 4 shows the cumulative household income distributions for children in relation to relative poverty lines in 1997 and 2004-05 (using simulated incomes – this is explained below). It shows how the 2004-05 distribution has shifted well to the right of the 1997 distribution as a result of other income growth as well as the impact of policy changes. If one uses a fixed real poverty line as it was in 1997, there is a dramatic drop in poverty from 25 per cent to 10 per cent for children. However, the real level of median incomes shifts up, again partly as a result of the policy reforms and partly due to market income growth, resulting in the rightward movement in the relative poverty line. Using this relative measure, child poverty falls by only
two-thirds as much, to 15 per cent. The difference shows the difficulty of chasing a moving target. Given that, is it possible that child poverty can fall enough in one year to meet the 2004-05 target of a reduction of a quarter since 1998-99? The next section considers the prospects of meeting each of the three targets in turn.

**Figure 4** Cumulative income distribution and relative poverty lines under 1997 and 2004-05 policies and incomes: Children

![Graph showing cumulative income distribution and relative poverty lines under 1997 and 2004-05 policies and incomes for children.](image)


**4. Prospects for meeting the targets**

Figure 5 shows what is required to reduce the relative child poverty rate to meet each of the targets, or the parts of the targets that are specified in terms of proportions below 60% of current median income (before housing costs).
Figure 5: Child poverty rates: actual and targeted levels

Source: DWP (2005), table H2. Relative threshold is 60% of contemporary median.


Achieving this would require a fall in child poverty rate of three percentage points in one year. One perspective on whether this is possible is provided by simulating the situation in 2004-05, again using the microsimulation model, POLIMOD, but this time estimating the changes in other incomes and costs (e.g. housing costs), as well as benefits and taxes. This time we include the effects of income growth pushing up the median but still do not model any changes in employment or household composition over the period.

8 These figures and those in Figure 1 use net incomes before housing costs. Using the alternative official measure, after housing costs, relative child poverty fell from 34 to 28 per cent between 1996-97 and 2002-03, and absolute child poverty from 34 to 17 per cent.

9 See Redmond, et al. (1998). The model uses Family Resources Survey (FRS) data for 1999-2000. These data have been made available by the Department for Work and Pensions (DWP) through the UK Data Archive. The DWP and the Data Archive bear no responsibility for the analysis or interpretation of the data reported here. Pre-tax and transfer incomes are updated to 2004-5 levels and backdated to 1997 levels using a method described in Sutherland, et al. (2003) and revised to reflect latest statistics and forecasts. Take-up of means-tested benefits and credits is assumed to be incomplete and to reflect the rates of take-up estimated by DWP (2004b) and Inland Revenue (2003).
Such projections are subject to significant uncertainties. In particular, not only can many hard-to-predict factors affect the incomes of the poor population (such as employment rates and trends in low pay), but also many others can affect the level of the median from which the relative poverty line is calculated. These particular projections embody, for instance, the assumption that average earnings continue to grow at the same rate as in the most recent year for which we have data, that is, at 3.7 per cent. This is slower rate of growth in real terms than for several years. If actual earnings growth were to be faster, the relative poverty line would be higher, and with it the proportion measured as in relative poverty. The projected relative child poverty rates in Table 4 represent best estimates, but no more than that.  

Table 4  Modelled estimates of relative poverty in Britain, 1997 and 2004-05 (%)  

<table>
<thead>
<tr>
<th></th>
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<th>Children in lone parent families</th>
<th>Children in two parent families</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentage in poverty</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>18</td>
<td>25</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>2004-05</td>
<td>14</td>
<td>15</td>
<td>22</td>
<td>13</td>
</tr>
<tr>
<td>Change</td>
<td>-4</td>
<td>-9</td>
<td>-18</td>
<td>-7</td>
</tr>
<tr>
<td><strong>Number in poverty (millions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>10.2</td>
<td>3.1</td>
<td>1.2</td>
<td>1.9</td>
</tr>
<tr>
<td>2004-05</td>
<td>8.1</td>
<td>1.9</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Change</td>
<td>-2.1</td>
<td>-1.2</td>
<td>-0.6</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Note: Poverty line is based on modelled current incomes. 2004-05 incomes based on projections including tax-benefit system as announced up to Budget Statement of March 2004 (HM Treasury, 2004). Incomes are before housing costs. Population composition as in 1999-00. Differences are affected by rounding.


They suggest that relative child poverty in 2004-05 will be substantially lower than that shown in figures for 2003-04 and that the total fall since 1996-97 will 9 percentage
points, or more than a third (and a reduction of 1.2 million). On this basis the government will hit its target of cutting child poverty by a quarter between 1998-99 (when it was slightly lower than in the base year used in the table) and 2004-05.\textsuperscript{11}

It is quite plausible that some further reduction will in fact occur, since there were some increases in Tax Credits during 2004-05, since there is some evidence that the take-up of Tax Credits might be increasing from a lower-than-expected base (Brewer et al., 2005) and of lone parent employment continuing to rise slowly. However, it is also quite possible that modelling of the sort carried out here – and by the UK Government as well as other independent modellers in the UK (Brewer 2004; HM Treasury 2004) – over-estimates the decrease in child poverty rates. Exactly why remains to be investigated since, other things being equal, one would expect modelling that took no account of changes in employment to underestimate the improvements, given these changes have been generally positive.

At the same time, even if the number of poor children is not shown to have been reduced by a quarter when 2004-05 data become available next year, as pointed out by Stewart (2005) it is important to remember that the relative income target was “an ambitious choice”. Real incomes rose by 17% between 1996-97 and 2003-04 (DWP, 2005). As well as shifting the median upwards, families whose income kept pace with this growth saw an improvement in living standards. Hills and Sutherland (2004) found that the median child

\textsuperscript{11} On the alternative official basis, after allowing for housing costs, the reduction is much the same (8 percentage points), but amounts to around a quarter of the higher base, so in these terms the target would be just achieved (unless there are further economic changes affecting 2004-05 incomes). Brewer (2004) similarly projects that the Government will comfortably hit its target on a before housing costs basis, and is on course to hitting the target for incomes after allowing for housing costs.

\textsuperscript{12} This is actually a slightly smaller fall in overall poverty against an absolute line than Table 2 shows had already occurred by 2002-03. This is because the modelling does not take account of improvement in employment rates over the period.
poverty gap ratio (the proportion of income at the poverty line by which the median poor child fell short) fell between 1996-97 and 2004-05 (using modelled results) suggesting that the incomes of the poorest half of poor children are indeed moving up towards the poverty line. Other evidence on family living standards confirms this picture. Table 5 presents findings from a new survey, the Families and Children Study (FACS), which asks about indicators of deprivation and financial stress. Figures for lone parents are available on a consistent basis from 1999 to 2003. This three-year period coincided with the years when the Government started improving cash transfers to low income families with children. The findings are striking. On all of the deprivation indicators there has been a substantial and continuing fall in the proportions reporting that they do not have and cannot afford various items.

Table 5  Trends in Deprivation Indicators for Lone Parents, 1999-2003

<table>
<thead>
<tr>
<th>Proportion unable to afford selected items</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooked main meal every day</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Phone (including mobiles)</td>
<td>9</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Weatherproof coat for each child</td>
<td>9</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Best outfit for children</td>
<td>20</td>
<td>19</td>
<td>15</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Toys and sports gear for children</td>
<td>24</td>
<td>21</td>
<td>15</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Two pairs all-weather shoes for each child</td>
<td>25</td>
<td>19</td>
<td>15</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Car or van</td>
<td>34</td>
<td>30</td>
<td>26</td>
<td>24</td>
<td>21</td>
</tr>
<tr>
<td>One week holiday, not with relatives</td>
<td>74</td>
<td>69</td>
<td>62</td>
<td>58</td>
<td>55</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial stress</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Problems with debts almost all time</td>
<td>15</td>
<td>13</td>
<td>10</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Always run out of money before end of week</td>
<td>27</td>
<td>24</td>
<td>21</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Not managing financially</td>
<td>35</td>
<td>30</td>
<td>24</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Situation worse in past 12 months</td>
<td>29</td>
<td>27</td>
<td>24</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Worried about money almost all the time</td>
<td>45</td>
<td>38</td>
<td>33</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>Never have money left over</td>
<td>48</td>
<td>40</td>
<td>34</td>
<td>17</td>
<td></td>
</tr>
</tbody>
</table>

The proportions of lone parents without and unable to afford a cooked main meal every day, a telephone, or toys and sports gear for their children, all more than halved in just four years between 1999 and 2003, and the proportions unable to afford the other items also dropped substantially, most by a third or more. Similarly, the indicators of financial stress all improved markedly. For instance, the proportion saying that they were “worried about money almost all the time” fell from 45 to 27 per cent. Most strikingly, the proportion saying that they “never have money left over” at the end of the week or month dropped from 48 to 17 per cent (in 2002).

The impact of government policy towards poverty and social exclusion is being monitored through a wider range of indicators across a wider range of aspects of well-being as well. The official report for 2004 (DWP, 2004a) suggests that the majority of the sub-set of 17 indicators relating to children and young people have been improving, not just over the most recent year for which data are available (typically around 2003 or 2004), but also over the medium-term (roughly since New Labour came to power). Three of these indicators are worsening in the medium-term, with two shown as worse in the most recent year (obesity and families in temporary accommodation).

These are, of course, the results from an officially-chosen set of indicators, open to the accusation that those easier to achieve had been selected, or that judgements as to which were “improving” were open to favourable shading. The picture given by independent analysis by the New Policy Institute (NPI) (Palmer et al., 2004), is not quite so favourable, but is none the less encouraging. Of the 45 indicators they choose across six domains, 18 are reported as improving and 15 as steady in the medium-term (and not worse in the latest year). They suggest less favourable trends for 12 of their indicators. For children, one indicator has improved consistently and four have been improving and were steady over the last year. Only two are worse in the medium term (children in young offender institutions and low birth
weight babies). The picture is still a positive one – and can be contrasted with the NPI’s 1998 report, when four of nine indicators for children had been deteriorating over the medium term before Labour was elected.
II  2010-11: Halving child poverty

Assuming that the 2004-5 target is met, what is required to then double the achievement? The 2010-11 goals were recently changed – or clarified - a little to reflect the results of a consultation exercise (DWP, 2003) and now consist of a tiered approach based on three indicators:

• Relative poverty measured using 60% median;

• Absolute low income using 60% of the real value of the 1998-99 median as the poverty threshold;

• A combination of relative low income using 70% median as the threshold, and deprivation, which is measured using inability to afford certain goods and services.

The target is to halve the value of both the first and third of these. Since the precise form of the deprivation indicator is still to be established, and the data on which the indicator will be calculated have yet to be released, we consider this second target in terms of the first measure only.

The strategy halving child poverty seems to rely mainly on increasing the employment of parents such that their in-work incomes – a combination of earnings and Tax Credits – bring them above the poverty line. Recent initiatives in this direction have included:

• plans to extend support for childcare - by providing it directly through Childrens’ Centres as well as helping meet that market costs of it through the Tax Credits;

• extensions to maternity and parental leave (on the argument that parents are more likely to retain their connection to the labour market if they are supported through the periods of time when they need or wish to be at home with their children).

There are no explicit plans to increase benefit or credit levels in real terms, except that the child tax credit will be indexed to earnings in the medium term. This will only help those on low income keep pace, it will not help move them across the relative poverty line. Making
progress in reducing poverty against the moving target of a relative poverty line is difficult, as we have seen. If the default position is that cash benefits are only price-linked, even standing still on relative poverty rates, all other things being equal, requires “new resources” to be committed every year. The buoyancy of tax revenues with income growth creates the potential finance to do this at least, and even to make further progress on relative poverty, if the benefits of fiscal drag continue to be applied in this direction. In a benign macroeconomic environment, with living standards rising at all income levels, this has been politically feasible. It might need considerable political commitment to continue to do the same if the economy began to falter.

A second constraint comes from the degree to which means-testing has been extended. The strategy has managed to keep overall tax levels down, while improving incomes for those out of work and in low paid work, and in a way that has achieved modest improvements in the return from working. But the cost of doing this has been the creation of a wide income range over which people face effective marginal tax rates of up to 70 per cent. Figure 6 illustrates the effective marginal tax rates (from means-tested benefit and tax credit withdrawal, income tax, and employee social insurance contributions) facing a two-child family at different earnings levels. It compares those under the actual 2003-04 tax and benefit system with what would have applied under the 1997-98 system (uprated for price inflation).

There is now a much shorter income range over which people face effective marginal tax rates of approaching 100 per cent, but a much wider one where they face a rate of 70 per cent. This extends in the case shown beyond median adult average earnings (which were just under £400 per week). The Treasury estimates (2005, table 4.2) that the number of working households facing effective marginal tax rates over 80 per cent has been cut from 300,000 in 1997-98 to 165,000 in 2005-06. However, the number facing rates “over 60 per cent” (mostly facing 70 per cent) has risen from 760,000 to 1.73 million. The evidence so far is that the net
effect on work incentives of this combination has been positive (Brewer, et al., 2003). However, continuing in the same way in future would mean either extending this range further – covering more earners – or increasing the effective marginal tax rates (without any offsetting reductions elsewhere in the system). Even if these did not have a major impact on willingness to work, they could have political costs.

**Figure 6  Effective marginal tax rates under 1997-98 and 2003-04 systems**

![Graph showing effective marginal tax rates under 1997-98 and 2003-04 systems](image)

*Source: Hills (2005), figure 10.7. 1997-98 system adjusted to 2003-04 prices. Example is for one earner tenant couple with two children aged under 11.*

“Making Work Pay” policies have had some positive effects on employment, particularly of lone parents, but it is worth reflecting on the feasibility of attempting to reach the current target of 70% of lone parents in work, as well as the effectiveness of certain forms of this in reducing child poverty. First of all, meeting the employment target would involve nearly all lone parents who did not have babies or disabled children (or who were themselves disabled) entering work. It may therefore be difficult to meet the target (Sutherland, 2002).
Secondly, the target is expressed in terms of any employment. Low hours of work on low wages are not sufficient to bring a lone parent family out of poverty. Even when expanding lone parent employment to 70% doing work sufficient to qualify for the Working Tax Credit (16 hours) on the minimum wage, Sutherland (2002; table 7) found that child poverty in lone parent families fell from 51% to 40%. It helps but it does not solve the problem.

The sustainability of a strategy that relies on low waged subsidised employment also must be questioned. How vulnerable is it in a downturn?

Nevertheless, it clearly would be possible to design a package that lifts sufficient children out of poverty to meet the 2010-11 target, given some assumptions. Sutherland (2002) designed a package that would meet the target if the whole tax-benefit system were also indexed to median income growth. On top of this, if one half of the target increase in lone parent employment were achieved and the child rates for the Child Tax Credit were increased by £12 per child per week, the target could be met (other things remaining the same).13

It is also worth noting that, while unanticipated changes – such as either increased unemployment or unexpected growth in the median, or some combination of the two - may throw any strategy off course, they may also help drive down child poverty rates. Such changes might include a fall in the birth rate among low income parents or an increase in the rate of take-up of Tax Credits and means-tested benefits.

III 2020: Eradication of child poverty

The target for eradication of child poverty is now being expressed as both the elimination of child poverty based on deprivation combined with having income below 70% of the contemporary median and having a relative child poverty rate among the best in

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13 This analysis used the UK’s “after housing costs” measure of income to define poverty.
Europe. The latter has been variously interpreted as around 8% and around 5% (both are shown in Figure 3).

Looking this far in advance we are now on rather different territory. In particular, the people who will be poor (or not poor) children in 2020 are mostly not yet conceived. Most of their parents are still children themselves. So the issue has been seen as one of how to turn those children into adults who do not have poor children. And this has inevitably become confused with debate about whether policy for children should be about the quality of their lives as children now, or about how to provide them with the opportunities such that they turn into productive good citizens and parents who can support their children. Having a policy to match a “20 year mission” inevitably involves the latter.

A thorough consideration of what becoming the “best in Europe” might involve would consist of an analysis of the ways in which children are protected from poverty – or are never at any risk of it - in the most “successful” countries, which were in 2000, according to data from the European Community Household Panel (ECHP) shown in Figure 7, Denmark, Finland, Sweden, Belgium and Austria.

**Figure 7: Relative Child Poverty rates in the European Union 1997 and 2000**
A taste of what one might want to investigate is provided by looking at the extent to which the existing tax-benefit systems protect children from poverty. Figure 8 shows this in terms of what the relative poverty rate was in 2001 and what it would be without the parts of the tax and benefit system that are child-contingent (see Corak, Lietz and Sutherland, 2005). This uses simulated incomes from EUROMOD, the European tax-benefit model.\(^\text{14}\) The picture is not of what child poverty rates would look like were there no state support – people would have to re-organise their lives in order to survive, in this event. Instead, it is a measure of the importance of state support to household incomes in keeping children above the poverty line. Countries are ranked by the child poverty rate using 60% of the national median as the poverty line. (Source and reference date differences explain discrepancies between Figures 7 and 8.)

**Figure 8: Child poverty rates in the European Union 2001, with and without child-contingent incomes**

\(^\text{14}\) For more information see Sutherland (2000) and http://www.iser.essex.ac.uk/msu/emod/emod.php
State support has the largest absolute effect on child poverty reduction in the UK, followed by Luxembourg and Austria. The latter is one of the five countries with the lowest child poverty rates, once state support is included. Child contingent state support is also important in the other four countries, particularly in Finland and Belgium. But it is not the case that the successful countries depend more heavily than the UK on the child contingent system for keeping their children above the poverty line. The differences lie in the level of poverty risk before child contingent support, which is much lower in the Nordic countries and Belgium at least, and also in the nature of the support systems. The UK approach to reducing child poverty is essentially to extend the red (dark) part of the bar downwards. Supporting work through the Tax Credits means that without them there would be more working poor families. If the UK wants to become like the “successful” countries then the bar as a whole needs to be shorter. Work needs to be supported through enabling strategies – like childcare, so-called family friendly work arrangements and higher rates of pay – rather than being
directly subsidised through a means-tested system. Is encouraging employment in jobs that have to be subsidised to bring incomes up to the poverty line the way to get from “here” to Swedish- or Danish-sized levels of child poverty? More broadly, is getting parents into (any) work and (just) across the poverty line a sustainable approach that will land us where we need to be in 15 years time? In a compendium of research findings for the Joseph Rowntree Foundation, Hirsch and Millar (2004) advocate “A more comprehensive approach that would not only help people make that move [from out of work into work], but also pay greater attention to helping people thrive and develop on each side of the divide (page 10)”. They suggest that as well as “welfare to work policies” and earnings topped up by tax credits, what is needed is a greater recognition of unpaid participation in caring, learning etc. out of work, the promotion of job quality, security, training and progression and balance between work and the rest of life. They conclude “If work is the best form of welfare, public policy needs to pay close attention to the welfare of people in work (page 10)”.  

5. Lessons and questions from the UK

Eight years after new Labour came to power, and in its third term of office, there are many pieces of evidence that suggest improvement for children in low income households. Emerging evidence on material deprivation and financial stress amongst families with children suggests very significant improvements between 1999 and 2003. Wider indicators of child well-being have also generally been improving, and more are moving in the right direction than in 1997. Child poverty in terms of relative income has fallen, and the target of a reduction of a quarter by 2004-05 looks possible to achieve. Real levels of income have risen.

These improvements have accompanied – and in some cases followed from – a very active policy environment. Since Tony Blair’s 1999 pledge to “end child poverty within a
generation”, substantial resources have gone into improving taxes and transfers for families with children, particularly those with low incomes. A benign macroeconomic environment and a variety of active labour market measures have increased employment rates, and worklessness has decreased. At the same time real cash benefits for non-working families with children have increased by almost as much as for the working poor.

One conclusion is therefore simple: it is possible for a (rich) country with a high level of child poverty to reduce it, even in relative terms, and it has been politically possible (although not easy) for a government acutely sensitive to perceived constraints on tax levels from public opinion to find significant additional resources to achieve this. Second, most of the new spending has gone into cash transfers. It is these that have driven the progress that is being made in reducing child poverty. In other words, cash can make a difference. The British experience suggests that cash transfers and employment promotion are not alternatives: both are needed.

Thirdly, targets provide an important focus and involve the government in holding itself to account, and in providing information such that progress can be assessed. They can of course distort policy development and political discourse. (Is just missing a target worse than never getting close?) And, as Hills and Stewart (2005) note “… a target is not in itself a policy, and there are areas where policy (let alone impact) appears to be lagging behind analysis and target setting (page 344)”. Although they were referring to other aspects of Labour policy, this could arguably be said to apply to the halving of child poverty in 10 years, just 5 years from now.

But there are some questions raised by the UK experience and the UK approach.

Firstly, how can more extra state incomes be targeted on children in low income households without (a) making benefit and credit rates higher for children than for some adults (this is already the case in some circumstances)? It is possible to argue for this on the
basis that children require investment as well as consumption – but it is difficult to justify in individual cases, where the level of support falls when the person passes a particular birthday. Similarly a lifecourse perspective can usefully be applied in the case of a lone parent, supported by tax credits while her children remain legally dependent, but with a huge fall in income once they reach a particular birthday – at which point they may or may not remain financially dependent.

Or (b) loading too much onto the mean-tested system. As explained above this either means that means-testing must extent further up the income scale or the withdrawal rates must become steeper. There is a point at which a universal system starts to become an attractive option.

Secondly, and leading on from this, is the question whether a generous means-tested system can be sustainable and also meet ambitious targets for relative child poverty, keeping pace with income growth and maintaining income levels during periods of high worklessness.

Thirdly, and related to the first point, why child poverty? Clearly the deservingness and blamelessness of children makes this particular war on poverty acceptable across the political spectrum. Adults who are parents also benefit. And in fact, the elderly have seen their risk of poverty fall by as much or more (depending on the measure used) due to increases in both the flat-rate and means-tested state pensions. It is working aged childless people – or rather, as suggested earlier, people without children who are currently dependent – who are left out of the picture and who, on some measures have seen their risk of poverty rise. We do have to ask if this is logical, given that children become adults and adults live some or all of their working lives without children. And is an emphasis on child-targeted measures the most effective approach? One feature of the “successful” countries in Europe is that relatively large parts of their benefit systems are not child-contingent but nevertheless succeed in keeping children as well as adults out of poverty. If adult incomes can be assured
regardless of parenthood status the needs of children can be accommodated more easily. As things stand, some adults are effectively being supported by child-contingent benefits.

Fourthly, do children benefit from increases in household income? There is some evidence from household budget survey data that the recent increases in family incomes are being spent disproportionately on items for children – clothing, footwear, toys and games – and not on tobacco or alcohol (Gregg et al., 2005). More generally, it would be interesting to know whether the labelling of income “for children” is what has this effect, or whether any additional income would be spent in this way.

More broadly, the way household income is spent, and how this depends on the way it is brought into the household is relevant not only to understanding who will benefit, but also to the effects on incentives and individual behaviour. In particular, the person to whom it is paid, the name and the expressed intention of income and the people in the household on whom eligibility depends may all have an effect. Child Tax Credit (CTC) is paid to the “main carer” in the family. In couples this is usually the mother. It replaces a system where the out-of-work benefit was often (although not necessarily) paid to the male partner and the in-work component was paid to the main earner (more often the man). So there has been a switch in payment of benefit for children from (generally) fathers to (generally) mothers. The justification for this was the well-established belief that mothers are more likely to spend this income on the children. While there is no particular reason to dispute this there are two concerns. The first is that this income from the CTC may substitute for income that would otherwise have transferred within the household from man to women. She gets the credit so she needs less from other sources (Goode et al., 1998). The second concern is about her incentive to take up paid work, or increase the amount she works. The conventional wisdom is that the system of credits or benefits assessed on family income damages the incentives to work of second earners, particularly if the family is operating in the “tapered” section of the
system. Their extra earnings result in a withdrawal of some of the benefit/credit from the very first pound earned. Conventionally, the household is thought of as a single unit – if his tax credit payments are reduced if she earns, that damages her incentives to work. But what if people cared more about the income they received themselves than about the income received by others. Then the woman might prefer to go to work, preferring her own earnings to him receiving a greater tax credit. But with the new system of paying the child credit to her, it will be her that sees the reduction in the credit if she earns an income. The new system might deter “main carers” from taking paid work more than the old one did. We don’t know. We ought to find out.

In practice, such incentives may not be operating at all – they may be masked and distorted by the way the new system is being administered. It is being handled by the tax authorities and is assessed on the previous year’s income, with adjustments year-to-year as well as within year when circumstances change. This is having the effect of huge unanticipated swings in income for some families. In the end, reliability and transparency of income over time may matter as much as the level at any one time. Again, this remains to be seen and to be studied.
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