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

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Abstract

In 1999 Tony Blair, the UK Prime Minister, promised to end child poverty within a generation. What does this mean? Can it be achieved? What progress has been made so far? The paper starts by placing UK child poverty at the end of the 20th Century in historical and international context. It reviews the policies that have been introduced in order to meet specific interim targets - of reducing child poverty by one quarter by 2004/5 and halving it in ten years - and discusses the prospects for success in meeting these targets. The second part takes a step back and reflects on why child poverty - rather than poverty more generally - has become the political and policy focus. It then considers whether such an emphasis - together with the particular policy directions that have been taken - may be counter-productive in meeting the eventual goal of ending child poverty. The 'end to child poverty' has now been translated as meaning having achieved a relative child poverty rate that is 'among the best (i.e. lowest) in Europe'. The final part of the paper considers what this might involve. To what extent can the policy approaches taken by the current 'best in Europe' countries be seen as recipes for success for the UK, or indeed elsewhere?

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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 Spain 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.

Table 1. International comparison of relative poverty rates

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

Source: Luxembourg Income Study (US) Key Figures accessed at www.listproject.org, 5 July 2005.

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. However, starting in March 1998 a series of measures was announced 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

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by a quarter between 1998-99 and 2004-05.[2] 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' (Department of Work and Pensions (DWP) 2003). The low income measure is similar to that used in Table 1, with the implication that the UK 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 this 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%) 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

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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 Jäntii (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).

2. Policy Measures 1997-2005

Against that background, the UK government has announced and implemented a wide range of measures that have emerged piece-meal rather than as a comprehensive 'war on child poverty', nevertheless addressing most of the issues identified as contributing to childhood poverty.

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.

The government also introduced Britain's first National Minimum Wage. Its level in mid-2004 was 43 per cent of median full-time earnings, 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

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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

Generally in the UK the parameters of the tax and benefit system are adjusted annually 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, there have been some major additional reforms which have made the system more generous to those on low incomes, particularly for families with children. Important elements of this include:

- A modest 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; and with tax concessions for families. Under the Child Tax Credit (CTC) system all of the 30 per cent of families with children with gross incomes under £13,500 per year[3] 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 (WTC), going to parents working for 16 or more hours a week, and now to others without children working at least 30 hours per week, if they have low incomes. Associated with the WTC, 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.
- Various income tax allowances have been withdrawn (such as the allowance for married couples, and partial tax relief for mortgage interest for home-buyers), and the main rate of income tax was cut, although in April 2003 rates of social insurance contributions paid by

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employers and employees were each increased by one percentage point, with the revenue earmarked for higher spending on the National Health Service.[4]

While politically, great stress has been put on the way in which the reforms 'make work pay', significant extra resources have gone to the *non-working* poor, as well as to the working poor and it has been these that have lifted 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 the underlying causes of poverty and deprivation:

- The *Sure Start* initiative is a community-based intervention aimed at 'joining up' health, social and care services for families with children aged under four in low-income areas.
- 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.
- A new system of *Child Trust Funds* for all children born from September 2002 pays £250 (about AUD 620) 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 up to an annual limit. The funds can then be drawn down at 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 2004; Hills and Sutherland 2004).

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3. Impacts

Some of these initiatives - such as Sure Start or the Child Trust Funds - can only be expected to have their main effect on the long term life chances of today's children rather than directly impacting on their risk of poverty during childhood. We can, nevertheless, assess the immediate impacts of the measures affecting current incomes up to 2003-04, the date of the most recent currently available household survey data.

Figure 1 and Table 2 show the trends in child poverty in the UK using both a relative and an absolute measure, placing the period since 1997 when New Labour came to power, in the context of trends since 1979 when Labour was last in power. In relative terms, child poverty rose from 12 per cent in 1979 to peak at 27 per cent in the early 1990s. Since then it has fallen unevenly, down to 25 per cent in 1996-97. It then fell to 21 per cent in 2001-02 and has stayed at that level up to 2003-04. 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.[5] There was little change between 2001-02 and 2003-04 in either relative or absolute poverty measures.

Table 2. Trends in income poverty in Britain

	1979	1987	1991/92a	1996-97b	2003-04
Relative poverty: Income below 60% of contemporary median (%)					
All	12	17	21	18	17
Children	12	21	27	25	21
Absolute poverty: Income below 60% of 1996-97 median in real terms(%)					
All	30	26	23	18	10
Children	34	31	30	25	11

Notes: a. Financial years 1991-92 and 1992-93 combined.
b. Financial year. This and later figures are for Great Britain only (earlier figures are for the UK).
Sources: DWP (2005), Tables H1, H2, H5, and H6. All figures are based on equivalent net income before deducting housing costs.

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Before considering the prospects for meeting the 2004-05 target for child poverty, it is useful to examine the reasons for the reduction in relative poverty that has been observed. 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 et al. (2003) suggest that little of it was due to demographic change, and that all types of families with children had lower poverty rates. 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.

An important factor behind the employment increases 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 18.4 per cent in 1997 to 15.7 per cent in 2005 (DWP 2005: 151).

The welfare-to-work and 'making work pay' agendas have played some role in the increases in employment. For example, a study by Gregg and Harkness (2003) attributes five 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. On the other hand, analysis of 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

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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.[7] Table 3 presents the impact of the policy changes alone: 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 instead of 25 per cent 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 reduced the child poverty rate from 27% to 15% and that the reduction is particularly dramatic for children in lone parent families (a fall from 47% to 22%).

Table 3. Modelled estimates of poverty in 2004-05: projected 2004-05 system and prices indexed 1997 system

	Individuals with income below 60% of population median			
	Whole population	All children	Children in lone parent families	Children in two parent families
Percentage in poverty				
1997 system	20	27	47	20
Projected 2004-05 system	14	15	22	13
Impact of reforms	-6	-12	-25	-7
Number in poverty (millions)				
1997 system	11.4	3.4	1.4	2.0
Projected 2004-05 system	8.1	1.9	0.7	1.3
Impact of reforms	-3.3	-1.5	-0.8	-0.7

Note: All incomes as modelled for 2004-05. The '1997 system' is based on parameters of tax and benefit systems as in April 1997, uprated for price inflation only. 2004-05 system based on tax and benefit system as announced up to Budget Statement of March 2004. Incomes are before housing costs.
Source: POLIMOD: Hills and Sutherland (2004).

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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 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 'no change' counterfactual, particularly for households with children.

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 will reduce child poverty significantly 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 reforms are not the only changes. 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. Figure 4 shows the cumulative household income distributions for children in relation to relative poverty lines in 1997 and 2004-05.[8] 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. Using a poverty line fixed as it was in real terms in 1997, there is a dramatic drop in child poverty from 25 per cent to 10 per cent. However, the real level of median incomes shifts up, again partly as a result of the policy

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reforms, some of which affect incomes at the median, 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.

Given the difficulty of chasing a moving target, 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 this, as well as the prospects of meeting each of the two longer term targets.

4. Prospects for meeting the targets

The reductions in child poverty rates that are required 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) are shown in Figure 5.

I Reducing relative child poverty by a quarter 1998-99 – 2004-05

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 (e.g. earnings) 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 (and still assume constant employment and household composition over the period)

The projected child poverty rates shown in Table 4 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 is 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.[9]

It is quite plausible that some further reduction will in fact occur, as the new Tax Credit system rolls out, and that the decrease in the child poverty rate will be closer to the target reduction than that occurring up to 2003-04. 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 (HM Treasury 2004; Brewer 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

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

	Whole population	All children	Children in lone parent families	Children in two parent families
Percentage in poverty				
1997	18	25	40	20
2004-05	14	15	22	13
Change	-4	-9	-18	-7
Number in poverty (millions)				
1997	10.2	3.1	1.2	1.9
2004-05	8.1	1.9	0.7	1.3
Change	-2.1	-1.2	-0.6	-0.6

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.
Source: POLIMOD: Hills and Sutherland (2004).

account of changes in employment to underestimate the improvements, given these changes have been generally positive.

However, even if the target reduction is shown not to have been achieved when 2004-05 data become available in 2006, 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). Low income families whose income only just kept pace with this growth will have seen an improvement in living standards. Other evidence on family living standards confirms this picture. For example, findings from the Families and Children Study (FACS), which covers indicators of deprivation and financial stress show that 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 considered also dropped substantially, most by a

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third or more (Barnes et al. 2005). 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 between 1999 and 2002 (McKay and Collard 2003).

II Halving child poverty by 2010-11

Assuming that the 2004-5 target is met, what is required to then double the achievement? The 2010-11 goals 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 for 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 the market costs of it through the Tax Credits;
- Extensions to maternity and parental leave (on the argument that parents are more likely to retain a firm 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 commitments to increase benefit or credit levels in real terms, except that the level of 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

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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 would need considerable political commitment to continue to do the same if the economy began to falter.

A second constraint arises 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 participation of this combination has been weakly positive (Brewer et al. 2003). Continuing in the same way in future would mean either extending this range further – covering more earners – or increasing the effective marginal tax rates. Even if these did not have a major impact on willingness to work, they could have political costs.

'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

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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 would fall from 51% to 40%.[10] It helps but it does not solve the problem.

Nevertheless, it is clearly possible to design a package that lifts sufficient children out of poverty to meet the 2010-11 target, given some assumptions about a benign macroeconomic environment. 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 45 per cent on top of indexation, the target could be met (other things remaining the same).

III 2020: Eradication of child poverty

The income component of the long terms target is expressed as having a relative child poverty rate among the best in Europe. The latter has been variously interpreted as around 8% and around 5% (both are shown in Figure 5).

Looking as far as 15 years 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 is how to transform 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 to avoid poverty in parenthood. Having a policy to match Tony Blair's '20 year mission' inevitably involves both.

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. In 2001, if selected from the EU15 countries before enlargement, these were Denmark, Finland, Sweden, Belgium and Austria, according to the data shown in Figure 7 (pale part of the bars).

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 7 indicates this by comparing the child poverty rate in

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2001 with what it would be without the parts of the tax and benefit systems that are child-contingent (see Corak et al. 2005). This uses simulated incomes from EUROMOD, the European tax-benefit model.[11] The picture is not of what child poverty rates would look like were there no state support – in this event people would have to re-organise their lives in order to survive. 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.

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, and also in the nature of the support systems. The Austrian system is largely contingent on circumstances and it not primarily targeted by income, and yet the Austrian support system has a similar effect on child poverty as that in the UK (Levy et al. 2005). The UK approach to reducing child poverty is essentially to extend the dark part of the bar downwards. 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.

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. 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. 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.

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One conclusion is therefore simple: it <u>is</u> 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: 344) 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". Although they were referring to other aspects of Labour policy, this could arguably be said to apply to the halving of child poverty by 2010.

There are many questions raised by the UK experience and the UK approach to date. Two in particular stand out. How can more extra state incomes be targeted on children in low income households without firstly, making benefit and credit rates higher for children than for some adults and hence unbalancing the system, or secondly, loading too much onto the mean-tested system.

It is possible to argue for children receiving higher payments than adults 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. Indeed, 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 (Corak et al. 2005).

Further reliance on means-testing, as explained above, either involves extending means-testing further up the income scale or the withdrawal rates becoming steeper. Again, none of the 'best in Europe' countries rely on means-tested support as the main component of their income maintenance systems (although they all have social assistance schemes of last resort). There is a point at which a universal system starts to become an attractive option.

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Notes

[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 (Hills and Sutherland 2004). The opinions expressed are my own.

[2] The poverty line was set at 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 the calculations in this paper are based on slightly different definitions, notably a lower weighting on children when adjusting incomes for household size, than is used in Table 1.

[3] HM Treasury (2004), Table 5.1. Figures for 2004-05. At an exchange rate of 2.34 AUD to 1 GBP, this threshold is equivalent to about AUD 31,600.

[4] 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 et al.: Section 5).

[5] 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.

[6] See Redmond, *et al.* (1998). The model uses Family Resources Survey (FRS) data for 1999-2000. These data have been made available by 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.

[8] Using simulated incomes – this is explained below.

[9] On the alternative official basis used in the UK, 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 just on course to hitting the target for incomes after

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allowing for housing costs.

[10] This analysis used the UK's 'after housing costs' measure of income to define poverty.

[11] For more information see Sutherland (2000) and http://www.iser.essex.ac.uk/msu/emod/emod.php

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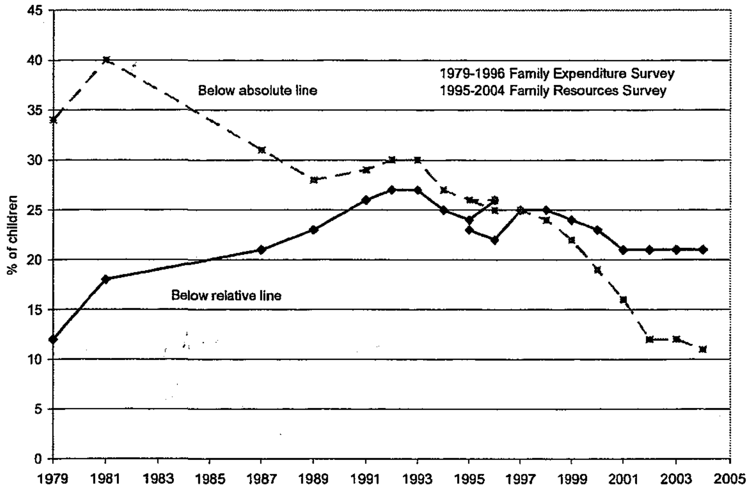
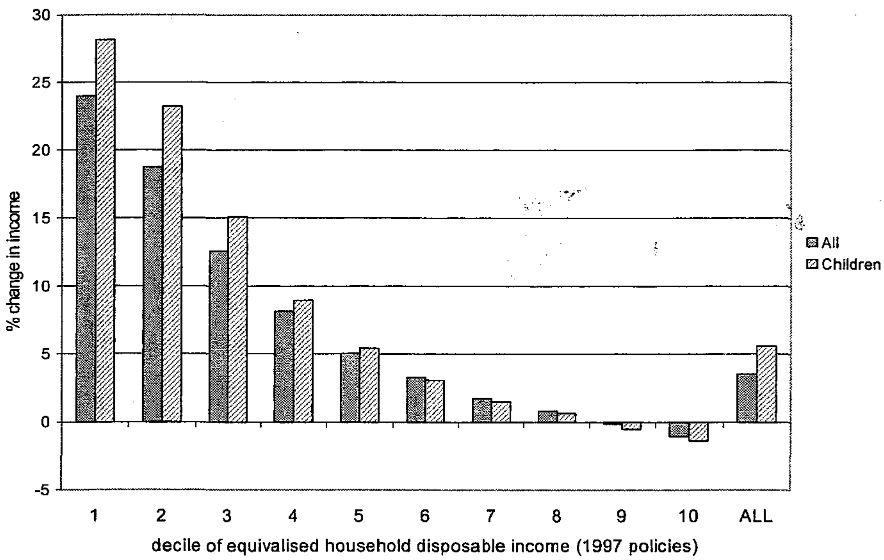
Figures

Figure 1. Proportion of UK children below relative and absolute thresholds 1979 - 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.*

Figure 2. Average percentage difference in income: Projected 2004-05 system compared to price-indexed 1997 system.



Source: POLIMOD: Hills and Sutherland (2004).

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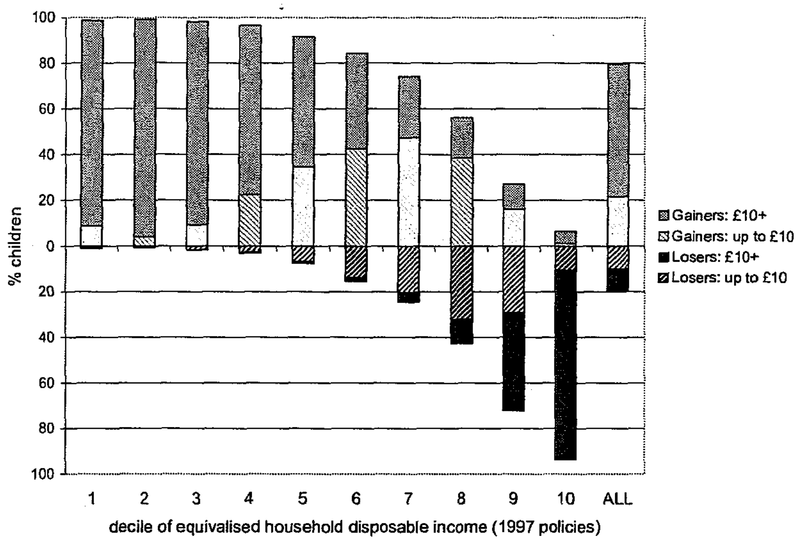
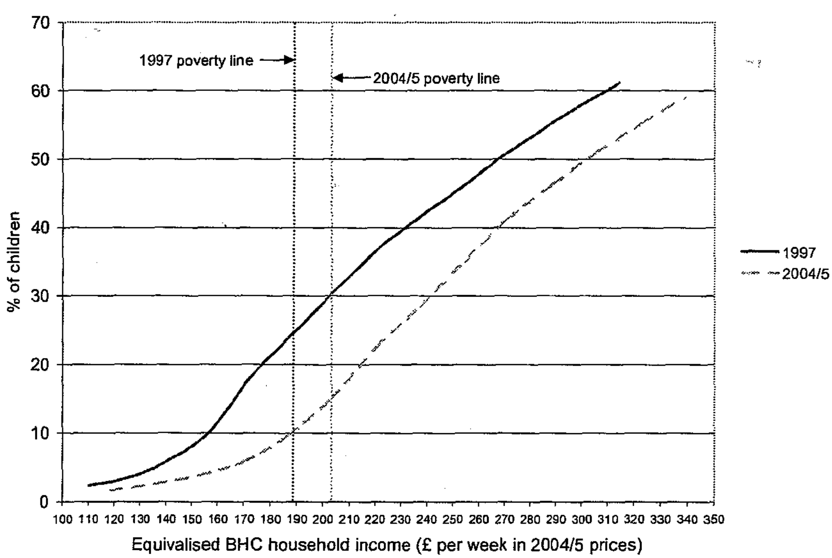
Figure 3. Proportions of children gaining and losing: Projected 2004-05 system compared to price-indexed 1997 system



Source: POLIMOD: Hills and Sutherland (2004).

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



Source: POLIMOD: Hills and Sutherland (2004).

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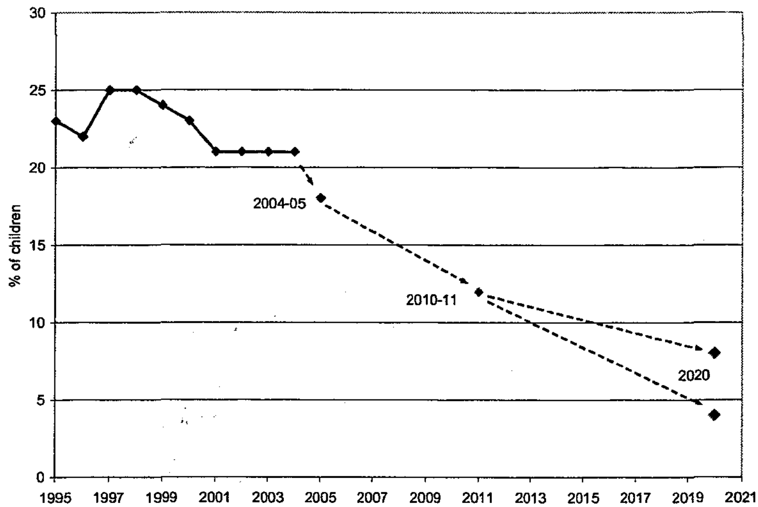
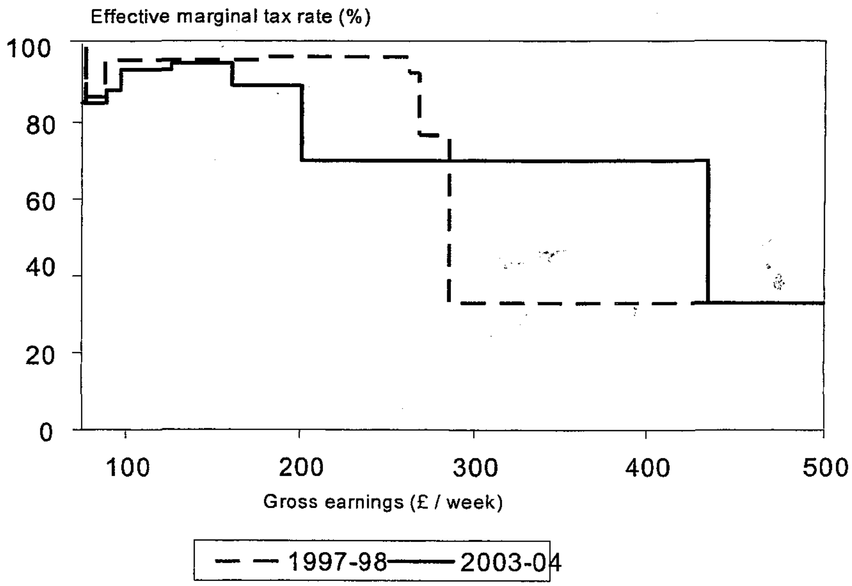
Figure 5. Child poverty rates: actual and targeted levels



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

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



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.

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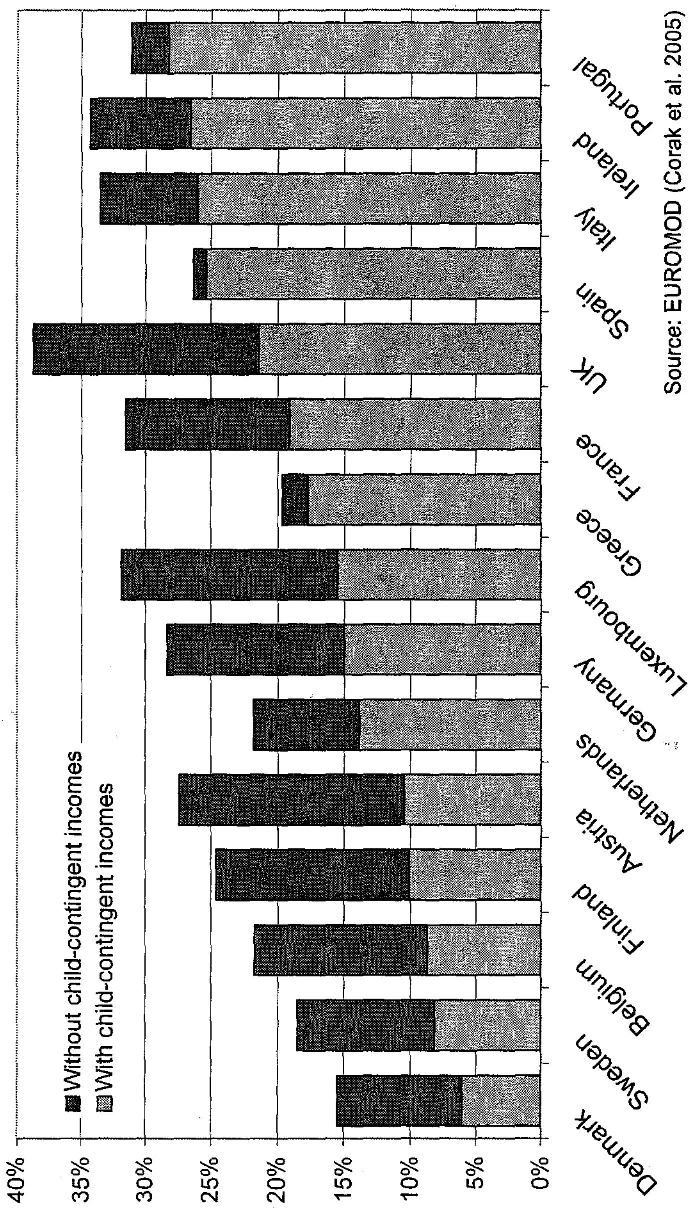
Figure 7. Child poverty rates in the European Union 2001, with and without child-contingent incomes



Source: EUROMOD (Corak et al. 2005)

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