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Article (Published version) (Refereed)

Original citation:

Piachaud, David and Sutherland, Holly (2001) *Child poverty in Britain and the New Labour government*. [Journal of social policy](#), 30 (1), pp. 95-118. ISSN 0047-2794

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Child Poverty in Britain and the New Labour Government

DAVID PIACHAUD and HOLLY SUTHERLAND

ABSTRACT

The new Labour government in Britain has made the reduction of child poverty one of its central objectives. This article analyses the circumstances of children in poverty and describes the specific initiatives involved in Labour's approach and weighs them up in terms of their potential impact. The impact on child poverty of policies designed to raise incomes directly is analysed using micro-simulation modelling. A major emphasis of current policy is on the promotion of paid work, and we explore the potential for poverty reduction of increasing the employment of parents. The policies that address long-term disadvantage are also discussed and finally the whole programme is assessed and future strategy is considered.

INTRODUCTION

Over the course of Conservative governments from 1979 to 1997 the number of children in poverty tripled. The latest figures for 1997/8 show that 14 million people were living below half the mean level of income on an 'after housing costs' basis. This represents one-quarter of the population. Of this number, 4.5 million were children; one in three children were living in poverty.

Acknowledgements

David Piachaud is Professor of Social Policy at the London School of Economics and an Associate of the Centre for Analysis of Social Exclusion and Holly Sutherland is director of the Microsimulation Unit in the Department of Applied Economics at the University of Cambridge. We are grateful to the UNICEF International Child Development Centre, Florence for financial support and to John Hills, John Micklewright and Brian Nolan for helpful comments on an earlier draft. We are also grateful to Lavinia Mitton for research assistance. However, the errors that remain, as well as the opinions expressed, are the authors' responsibility. Data from the Family Expenditure Survey are Crown Copyright. They have been made available by the Office for National Statistics (ONS) through the Data Archive and are used by permission. Neither the ONS nor the Data Archive bears any responsibility for the analysis or interpretation of the data reported here. POLIMOD is the tax-benefit microsimulation model constructed by the Microsimulation Unit, originally funded by the ESRC (R000 23 3257). Parts of this paper first appeared in the Centre for the Analysis of Social Exclusion Paper 38 in March 2000 and parts have been used in the UNICEF, Innocenti Research Centre Report on *Child Poverty in Rich Nations*, June 2000.

Britain¹ had the third highest proportion of children in poverty overall and the highest of any European country (Bradbury and Jantti, 1999). The rate was more than twice that in France or the Netherlands and over five times that in the Nordic countries. The proportion of children with lone mothers in Britain was the highest of any country and the poverty rate of such children among the highest. While most of the countries studied had child poverty rates that had changed little in the last decade or so, only Britain and Italy of the EU countries had a fast growing poverty rate.

Before its election in 1997 after eighteen years of Conservative government the growth in relative poverty and the damage to society of widening inequality were constant themes of Labour politicians. Before he became prime minister, Tony Blair said that unless a new Labour government succeeded in raising the incomes of the poorest it would have failed. Yet prior to the election there were few policy commitments and no specific emphasis on child poverty. This has now changed. In March 1999 Tony Blair said: 'Our historic aim will be for ours to be the first generation to end child poverty... It is a 20 year mission' (Blair, 1999). The chancellor of the exchequer has called child poverty 'a scar on the nation's soul' (Brown, 1999). A plethora of policy initiatives and series of review documents show the priority that the government now gives to reforming and modernising the welfare state in general and to tackling child poverty in particular.²

The purpose of this article is to describe the initiatives taken up to the end of January 2000 and to weigh them up in terms of potential impact – how much substance lies behind the fine words and noble aspirations? First, the extent of the problem and its causes are set out, then in Part 2 the new Labour government's overall approach is described. The methodology on which the empirical analysis is based is set out in Part 3. The circumstances of children in poverty are reviewed in Part 4. Then policies designed to raise incomes directly are described and their impact is analysed using micro-simulation modelling in Part 5. In Part 6 policies to increase paid work are described and their possible impact on poverty is simulated. The policies that address long-term disadvantage are discussed in part 7. Finally the whole programme is assessed and future strategy is considered.

THE GOVERNMENT'S APPROACH TO CHILD POVERTY

The Labour government 'is committed to tackling poverty and its causes'. In the first of what are to be annual reports on poverty and social exclusion it stated:

Poverty affects different aspects of people's lives, existing when people are denied opportunities to work, to learn, to live healthy and fulfilling lives, and to live out their retirement years in security. Lack of income, access to good-quality health, education and housing, and the quality of the local environment all affect people's well-being. Our view of poverty covers all these aspects. (DSS, 1999a, p. 23)

The definition of poverty has been subject to extensive discussion. During the years of Conservative government (1979–97) there was no official concession that poverty existed and no definition of it was accepted (although statistics relevant to poverty continued to be published). Now Labour ministers talk openly about poverty. For the most part they concentrate on a narrower concept of poverty than that quoted above, namely income poverty. They use statistics often based on a poverty line of one-half of mean equivalised disposable income, which is used throughout this article. Such a relative definition of poverty has continued to be used by most of the academic community and follows practice in most other countries; it is used throughout this article. Details of the methodology are discussed further in Part 3 and by the Department of Social Security (1999b).

The overall strategy of welfare reform has the aim of ensuring paid work for those who can, security for those who cannot. The principal measures to reduce child poverty may be divided conveniently into three categories:

- (1) Policies to alter income levels directly through the tax and benefit system. The aim is to provide direct financial support to all families, recognising the extra costs of children, while targeting extra resources on those who need it most.
- (2) Policies to promote paid work. The aim is to ensure that parents have the help and incentives they need to find work. Paid work is seen as the best long-term route to financial independence for families. The government aims to reduce the number of working-age people in families claiming Income Support or income-based Job-Seekers' Allowance for long periods of time.
- (3) Measures to tackle long-term disadvantage.

METHODOLOGY

Our particular concern is children living in poverty and the extent to which Labour's policy can reduce the prevalence and severity of this experience. Our empirical analysis is based on Family Expenditure Survey (FES) data for 1994/5 and 1995/6 updated to 1999/00 prices and

incomes. The starting point of our analysis is the statistics on Households Below Average Income (HBAI) produced by the government (DSS, 1999b).³ We would like to be able to answer the question: how many fewer children will be counted as poor in these statistics once the package of Labour's policies that we have modelled has taken effect? The household income variable has been deliberately defined to be very similar to that used in the HBAI statistics, using the 'before housing costs' (BHC) measure. However, there are some minor differences due to the fact that we must simulate taxes and benefits in order to evaluate changes in the rules that govern them.⁴

In Parts 5 and 6 we carry out a quantitative exploration of the impact of Labour's policy on child poverty. We make use of POLIMOD, a static tax-benefit model to simulate the effect of tax and benefit changes on household incomes. This model uses representative household survey micro-data to calculate taxes and benefits before and after policy reforms (see Redmond *et al.*, 1998, for more information). To model the immediate effect on incomes, POLIMOD calculates liabilities (or entitlements) to income tax, National Insurance contributions (NICs), child benefit, Family Credit (FC) or Working Families Tax Credit (WFTC), Income Support (IS) – including income-related Job Seekers' Allowance and pensioners' Minimum Income Guarantee, Housing Benefit (HB) and Council Tax Benefit (CTB). Otherwise, elements of income are drawn from the recorded values in the FES dataset.

We attempt to capture the effects of non-take-up of means-tested benefits (FC/WFTC, IS, HB and CTB) by applying the take-up proportions estimated by the Department of Social Security (DSS, 1999c). For example, we assume that some 20 per cent of lone parents do not receive the FC (or WFTC) to which they are entitled, and 15 per cent of people of working age do not receive the IS to which they are entitled. In general we assume that take-up behaviour is not affected by changes in the size of benefit entitlements. We also model the effect of the minimum wage assuming that all with hourly earnings below the relevant minimum are brought up to it and that working hours do not change. Resulting changes in earnings then affect tax and benefits.

Similar exercises – with differences in coverage and emphasis – have been carried out by Immervoll *et al.* (1999), the Institute for Fiscal Studies⁵ and by the government itself (HM Treasury, 1999). The present analysis is distinguished by its attempt to capture the effects of all the main policy changes and commitments since the Labour government came to power in 1997 that are appropriate to model in this way. The policy changes that are simulated include those that will reduce the incomes

of families with children, as well as those designed to increase them. In addition, we are able to offer more detailed breakdowns of the effects of the combined changes: to examine losses as well as gains, and to focus separately on children in lone parent and two-parent families. We also extend our analysis in section 5 by exploring the sensitivity of the results to changes in the labour force participation of parents.

We start with policy rules as they existed in April 1997 and uprate their values to April 1999 using the Retail Prices Index. This is the *counterfactual* – the policy we assume would have prevailed had Labour not come to power.⁶ The policy changes that are modelled are listed in detail in the Appendix. They include all those that have been announced up to and including Budget 2000, whether or not they are operational in 1999/00. New policy is set in terms of 1999/00 prices. The changes that we explore include those specifically targeted on children, discussed in the previous section. We also model some general changes to income tax (including rate reductions, the abolition of relief on mortgage interest and allowances for couples and lone parents) and National Insurance contributions (alignment of earnings thresholds with income tax thresholds), as well as the introduction of the minimum wage, and adjustments to benefit rates (apart from price indexation).⁷ Our estimate of the revenue cost to the government of the combination of these changes is £7.5bn per year (in 1999/00 prices).⁸

CIRCUMSTANCES OF CHILDREN IN POVERTY

Government policies have put much emphasis on very young children and young mothers, and on workless families. In this part we analyse child poverty in relation to these characteristics.

The extent or incidence of child poverty is shown in Table 1. Overall just over one-quarter live in families that are below half average income level (before housing costs).⁹ This represents over 3 million children living in poverty. The incidence is twice as high in one-parent families as in two-parent families. On the measures of poverty used here, families with only very young children (aged under 5) and those with older children (aged 11 and over) appear to have a lower incidence of poverty than other families; this in part reflects the use of the McClements equivalence scale in conformity with HBAI methodology. (The notion that a child under 2 'costs' only 9 per cent of an adult and half the cost of a child aged 2–4 is widely discredited; HBAI has yet to adjust). Overall, families with young mothers (aged up to 21 – sample numbers are insufficient to present figures only for teenage mothers) have a higher incidence of poverty, but this was not the case among one-parent families. Where no parent is

TABLE 1. *Child poverty rates by family characteristics (percentage)*

	Two-parent families	One-parent families	All
All	21.9	42.5	26.3
<i>Age combination of children in family</i>			
All under 5	16.8	24.9	18.3
Some under some over 5	29.8	54.9	34.8
Youngest 5–10	22.1	48.0	28.6
Youngest 11+	15.4	29.1	18.2
<i>Age of mother</i>			
Up to 21	51.3	37.7	43.6
22–29	32.7	39.3	34.7
30+	19.3	44.0	24.0
Children with parent(s) in work	10.7	15.1	11.2
Children with no parent in work	60.5	55.6	58.3

Source: POLIMOD.

in paid work the incidence of poverty is over five times that in families with one or more paid worker. Thus the importance of worklessness seems clearly borne out by the data.

The composition of child poverty is shown in Table 2. While the incidence of poverty is far higher in one-parent families, such families only contain about one-third of the poor children. Children with young mothers make up only a small proportion of poor children. Children in two-parent families with a paid worker make up one-quarter of all poor children.

This analysis of the circumstances of poor children indicates that the government's emphasis on promoting paid work is justified. There is not, however, only one type of family in which poverty is exclusively concentrated.

POLICIES TO ALTER INCOME LEVELS DIRECTLY

Benefit/tax policies

In 1997 the main features of the system of taxes and benefits for children had not been substantially changed in structure for over twenty years. In the post-war Beveridge reforms universal family allowance for second and subsequent children were introduced. These were integrated with child tax allowances in 1976 when Child Benefits payable for all children were introduced. A means-tested benefit for low-income working families was introduced in 1971 and extended and renamed Family Credit as part of the Fowler reforms in the late 1980s. There are child additions to the main social assistance benefits and to some contributory benefits. The

TABLE 2. *Composition of child poverty by family characteristics (percentage)*

	Two-parent families	One-parent families	All
All	65.3	34.8	100.0
<i>Age combination of children in family</i>			
All under 5	9.3	3.1	12.3
Some under some over 5	25.1	11.6	36.7
Youngest 5–10	21.1	15.3	36.3
Youngest 11+	9.8	4.8	14.6
<i>Age of mother</i>			
Up to 21	1.6	1.1	2.7
22–29	16.2	8.5	24.6
30+	47.5	25.1	72.6
Children with parent(s) in work	24.8	4.0	28.8
Children with no parent in work	40.4	30.7	71.2

Source: POLIMOD.

income tax system which in 1997 was based largely on individual, not family, assessments, no longer had tax allowances or other concessions for children.¹⁰

By April 2000 the main changes to the system of taxes and benefits for children introduced or planned by the new Labour government were the following:

1. Working Families' Tax Credit (WFTC) was introduced in October 1999. This tax credit, normally to be paid through the pay packet, replaces Family Credit which was a means-tested benefit paid direct to families. The tax credit, like Family Credit, is withdrawn according to income. WFTC is more generous with a higher maximum payment and a lower taper. To qualify, a person must work 16 hours a week or more, have a dependent child and not have capital of more than £8,000. The credit is larger if a parent does paid work for 30 hours a week or more.
2. Child Benefit is a universal benefit paid for each eligible child without any test of means and not subject to income tax. Since 1997 it has been increased in real terms by 29 per cent for the first child and 5 per cent for second and subsequent children.
3. Children's Tax Credit will be introduced from April 2001. This tax credit, which is a replacement for the Married Couple's Tax Allowance and the corresponding tax allowance for lone parents, is to be paid to parents in all families with children aged under 16, except that it will

be withdrawn from higher rate tax payers. It will be worth up to £468 a year in 2001 to families with an income tax payer.

4. Income Support (IS) is the means-tested safety net available to unemployed, sick or disabled families and to lone-parent families. This and other associated means-tested benefits are being increased for families with children, particularly for those with children under 11.

Other general measures, such as changes to income tax and the introduction of a National Minimum Wage of £3.60 per hour, also affect families with children. Other decisions, such as that to abolish special benefits for lone parents and the tax relief on mortgage interest will tend to reduce incomes of some families with children. It is to the net effects of all these changes that we now turn.

Impact

The effects of the tax and benefit policies described and set out in detail in the Appendix are analysed in this section. Table 3 shows the effects on children as a whole and in one- and two-parent families separately.¹¹ Overall the tax and benefit measures in Labour's four Budgets have the effect of reducing child poverty from 26.3 per cent by 9.3 percentage points to 17.0 per cent. Just over one-third of poverty is ended. The largest absolute fall is among children with no parent in work – from 58.3 per cent to 38.9 per cent – but the biggest proportionate fall is among those with a parent in work – from 11.2 per cent to 6.7 per cent.

Children in one-parent families are overrepresented among the poor and make up 35 per cent of poor children (and only 22 per cent of all children); the policy changes reduce the proportions of children in poverty in one-parent families by considerably more than in two-parent families, both absolutely and relatively. Poverty reduction is greater among children in families where there are young children, due to the larger increases in means-tested benefit and credit levels for children aged under 11.

The changes in the tax and benefit systems: some reflections

Ending child poverty requires an adequate minimum income. For those in Britain who depend on social security the minimum income, or safety net, is the Income Support system. The levels of Income Support are shown in Table 4 in comparison with the poverty level of half-mean equivalised income after housing costs. It will be seen that for those who do not have employment, the minimum income is far below the poverty level. The reduction of poverty, and the achievement of security for those who cannot work, depends on reducing those deficits.

TABLE 3. *Effects of Labour benefit/tax measures on child poverty rates, by family characteristics*

	Number poor pre-Labour (‘000s)	Reduction in % poor	% reduction in poverty
<i>Children in all families: all</i>	3,470	9.3	35.4
<i>Age combination of children in family</i>			
All under 5	430	6.6	36.0
Some under some over 5	1,270	15.6	44.9
Youngest 5–10	1,260	9.2	32.3
Youngest 11+	510	3.5	19.1
<i>Age of mother</i>			
Up to 21	100	9.2	21.1
22–29	850	16.5	47.4
30+	2,520	7.7	31.9
Children with parent(s) in work	1,000	4.5	40.7
Children with no parent in work	2,470	19.4	33.3
<i>Children in two-parent families: all</i>	2,260	6.9	31.7
<i>Age combination of children in family</i>			
All under 5	320	6.7	39.8
Some under some over 5	870	10.5	35.2
Youngest 5–10	730	6.1	27.4
Youngest 11+	340	3.7	24.1
<i>Age of mother</i>			
Up to 21	60	17.7	36.2
22–29	560	13.0	39.8
30+	1,650	5.6	28.8
Children with parent(s) in work	860	4.5	41.7
Children with no parent in work	1,400	15.4	34.3
<i>Children in one-parent families: all</i>	1,210	18.1	42.6
<i>Age combination of children in family</i>			
All under 5	110	6.1	24.5
Some under some over 5	400	36.1	65.8
Youngest 5–10	530	18.8	39.1
Youngest 11+	170	2.6	9.0
<i>Age of mother</i>			
Up to 21	40	1.9	5.0
22–29	290	24.3	61.9
30+	870	16.6	37.8
Children with parent(s) in work	140	5.2	34.5
Children with no parent in work	1,070	24.3	43.6

Source: POLIMOD.

The government has, as described above, reduced the deficit for young children, but by abolishing the premium for one-parent families it worsened the deficit for some families. For the future, there is no commitment to up-rate Income Support levels by more than the rise in prices. Nor has there

TABLE 4. *Income Support and poverty levels 2000–2001 (£ per week)*

	Income Support (IS)	Poverty Level (PL)	IS as % of PL
Couple with one child aged 6	122.80	183.56	66.9
Couple with two children aged 4, 8	149.40	213.90	69.8
Couple with three children aged 3, 8, 11	176.00	253.34	69.5
Lone parent with one child aged 6	94.70	115.29	82.1

Notes: Poverty level for 2000–01 is poverty level for 1997–98 (Department of Social Security, 1999b) adjusted for forecast rise in Real Household Disposable Income and Retail Price Index set out in HM Treasury (2000).

been any indication of an intention to increase Income Support levels to make up the deficit below the poverty level. To do this would require further redistribution, which has yet to be discussed, at least in public, by the government. Failure in the future to increase Income Support in line with the rise in other incomes will inevitably contribute to relative poverty being higher than it otherwise would have been.

Most of the redistribution that the policy changes will bring about is being achieved – some would argue being concealed – by the use of new-style tax credits. These have a number of clear differences from more conventional benefits. First, they put resources in pay packets rather than in benefits paid separately, usually through Post Offices. Whether this will make it clear that ‘work pays’, as has been argued by the chancellor, remains to be seen. Reliance on employers to pay out tax credits is no problem for those with stable, reliable employers; for those with tardy or transitory employers there may be real administrative problems.

A second difference between benefits and tax credits is that the former have been treated in government accounts as expenditure and the latter as negative taxation. In the past, this has often resulted in tax credits and allowances rising in value when public expenditure has been tightly constrained; this is not merely an artificial distinction, it is one that has tended to favour those better-off who gain from tax concessions at the expense of those relying on benefits. If tax credits and social security benefits are treated equivalently then so much the better.

A third important difference is that tax credits are the responsibility of the Inland Revenue which is controlled by the Treasury. At every opportunity the chancellor has shown concern for child poverty and has seemed keen to integrate taxation and social security. For the Treasury to show such interest is unusual and clearly makes poverty reduction more likely. On the other hand, the Treasury has little of the Department of Social Security’s experience of delivering services, in many cases to

people budgeting from day to day, let alone from week to week. Politically the Treasury has not in the past shown conspicuous concern for the poor while the Department of Social Security has defended the interests of those dependent on benefits; whether one chancellor can achieve a long-term conversion is another open question.

REDUCING WORKLESSNESS

Policies to promote paid work

The government's approach has been described in clear terms:

Our strategy is to tackle the causes of poverty and social exclusion by helping people find work.

A proactive welfare system is at the heart of tackling worklessness. Our ambition is to deliver a change of culture among benefit claimants, employers and public servants, with rights and responsibilities on all sides. Those making the shift from welfare into work are being provided with positive assistance, not just a benefit payment. We are shifting the focus to include all groups – partners of the unemployed, lone parents, carers, people with a long-term illness or disability – not just the claimant unemployed. (DSS, 1999a: 84)

The strategy rests on two key components. First, helping people return to or find paid work, for example through the New Deal for Lone Parents. Second, making work pay, primarily through the Working Families Tax Credit (and the associated Childcare Tax Credit); for example:

Before the reforms a couple with two young children where the father moved into work at a typical male entry wage of £200 a week was only £30 better off per week than on benefit. This has now increased to £42. (HM Treasury, 1999: 33)

The potential impact of possible changes in working patterns

The policy changes are designed to push or pull people not doing paid work into the labour market. Whether or not these policies will have the desired effect and how large it will be depends on many factors that we do not attempt to forecast. Rather we simulate possible changes to analyse their impact on child poverty. In this section we explore the implications for poverty measures of two scenarios of changed work patterns. We make use of the same POLIMOD model and the same assumptions as before. In broad terms:

Work scenario A: puts parents with children aged 11 or over into paid work

Work scenario B: puts parents with children aged 5 or over into paid work

More precisely, for Work scenario A, we assume that changes in paid work for lone parents will not occur when the youngest child is aged under 11. For couples we assume changes in paid work if the youngest

child is aged at least 11 or the other parent is not in paid work. In addition we assume that work entry only occurs if:

- the parent is under pension age,
- the parent is not currently employed or a full time student
- the parent is not receiving benefits that indicate they would not/could not accept paid work (disability benefits, maternity benefit etc.).

For Work scenario B we substitute age 5 for age 11. Age 5 is the maximum age for starting school in the UK. Although some lone parents with pre-school children may wish to do paid work and make use of childcare of some form, we do not think it is appropriate to assume that all such parents should be considered to be 'available for work'. In fact, in our database, 13 per cent of lone parents with children aged under 5 are employed for 16 hours or more, compared with 35 per cent of lone parents whose children are all aged 5 or older.

Thus it is possible in some couples for both parents to enter paid work on these scenarios. In our simulations we choose to put *all* people in our target groups into work. This is to illustrate the maximum potential impact. On work scenario B there are 350,000 such lone parents and 1,070,000 couples.¹² For all those entering paid work we assume they work for 16 hours at the minimum wage (£57.60 per week), 16 hours being the minimum required to qualify for Working Families Tax Credit.

The impact of these work scenarios is shown in Tables 5, 6 and 7. Table 5, which includes both poor and non-poor families, shows the changes in the proportions of families with a paid worker. It is clear that in two-parent families most already had a paid worker, including those with very young children; neither of the two work scenarios that were simulated had a large impact on the prevalence of paid work (although this table does not indicate the entry of a second paid worker). For lone parents the impact is much more marked. Work scenario A raises the proportion of lone parents whose youngest child is aged 11 or over in paid work from 54.2 to 79.9 per cent. Work scenario B raises the proportion of lone parents whose youngest child is aged 5–10 in paid work from 42.8 per cent to 83.5 per cent.

The impact of these scenarios for children in families where work entry occurs is shown in Table 6. Most of those affected were poor (pre-Labour); the combination of tax/benefit and work entry reduces the extent of poverty particularly in one-parent families. While mean gross earnings increase by about £60 per week, the average change in disposable income lies between £50 and £60 per week. This is the combined effect of many factors but the Working Families Tax Credit in particular serves to

TABLE 5. *Proportion of families with paid workers by age composition of children*

%	Two-parent families	One-parent families	All families
<i>Initial conditions</i>			
All under 5	76.8	19.4	65.5
Some under some over 5	71.4	15.0	60.1
Youngest 5–10	82.6	42.8	72.0
Youngest 11+	84.2	54.2	77.4
All	79.4	36.2	69.6
<i>Work scenario A</i>			
All under 5	90.0	19.4	76.1
Some under some over 5	86.5	15.0	72.2
Youngest 5–10	89.6	42.8	77.1
Youngest 11+	93.8	79.9	90.6
All	90.2	39.0	79.5
<i>Work scenario B</i>			
All under 5	90.0	19.4	76.1
Some under some over 5	86.5	15.0	72.2
Youngest 5–10	92.6	83.5	90.1
Youngest 11+	93.8	80.1	90.7
All	91.0	57.5	83.5

Source: POLIMOD.

enhance the net gain in disposable income. The overall impact of these scenarios is shown in Table 7. The total number of children removed from poverty is estimated at:

Benefit/tax policies alone	1,230,000
Benefit/tax policies plus Work scenario A	1,410,000
Benefit/tax policies plus Work scenario B	1,650,000

Interestingly, entry into employment is generally more effective at reducing child poverty in lone parent families than in two-parent families.

It should be noted that both work scenarios involve a major expansion of employment, on scenario B by nearly 1.5 million jobs; this contributes by taking about half a million extra children out of poverty. Even then, overall child poverty is reduced by 1,650,000: roughly halved, not reduced to zero. The explanation mainly lies in the fact that not all children have a parent who is available to enter work. Those who remain workless are the sick and disabled, parents of very young children and people already working for low earnings. These families may be helped by tax and benefit policy, but not – at least in the short term – by employment strategies.

TABLE 6. *The effect of parental work entry on the numbers of children in poverty ('000)*

	All	Poor (pre- Labour)	Poor (post Labour+ work entry)	Mean weekly change in:	
				gross earnings ^a	disposable income ^a
<i>Scenario A</i>					
All children	910	560	340	£59.47	£51.17
Children in one-parent families	110	60	10	£58.27	£51.49
Children in two-parent families	800	510	330	£59.64	£51.13
<i>Scenario B</i>					
All children	1,420	790	360	£61.26	£56.08
Children in one-parent families	350	210	30	£58.17	£56.86
Children in two-parent families	1,070	580	340	£62.26	£55.82

Note: Only children in families affected by work entry are included in this table.

^a for the whole household (there can be more than one family per household as well as more than one extra employee per couple).

Source: POLIMOD.

TABLE 7. *Poverty rates before and after Labour's policy*

	All persons	Children		
		All	One parent	Two parents
% poor, April 1997 policy	19.1	26.3	42.5	21.8
<i>Benefit/tax policies</i>				
% poor	14.8	17.0	24.4	14.9
% point difference	4.3	9.3	18.1	6.9
Net no. removed from poverty	2,480,000	1,230,000	510,000	720,000
<i>Benefit/tax policies plus work entry scenario A</i>				
% poor	14.1	15.6	22.5	13.8
% point difference	5.0	10.7	20.0	5.0
Net no. removed from poverty	2,850,000	1,410,000	570,000	830,000
<i>Benefit/tax policies plus work entry scenario B</i>				
% poor	13.5	13.8	16.0	13.1
% point difference	5.6	12.5	26.5	5.7
Net no. removed from poverty	3,240,000	1,650,000	750,000	900,000

Increasing paid work: some reflections

The government's objective is to increase paid work as one way of reducing child poverty. It is aiming to do this by means of sticks and carrots. "ONE" and the New Deal are in part both sticks and carrots but the only group for whom there is direct sanction are those registered as unemployed; lone parent families are encouraged to discuss and seek training and employment but, as yet at least, benefits are not conditional on compliance. The main carrot is the Working Families Tax Credit which is aimed at making low-paid work more attractive and, alongside the minimum wage, guarantee a minimum income to those in paid work. The WFTC is intended to ease the unemployment trap (a lack of any significant gain in net income as a result of taking a job) and ease the poverty trap (the loss of most additional earnings – or high marginal effective tax rate – due to income tax, national insurance contributions and reduced means-tested benefits). However, this inevitably involves extending the poverty trap, increasing the earnings band over which marginal effective tax rates are high (but not as high as before). As this extension up the earnings distribution occurs, the numbers involved increase rapidly. Thus the WFTC will reduce the number facing marginal effective tax rates of 80 per cent or more, but it will increase the number facing marginal losses of over 65 per cent.

It remains the case that many will gain relatively little from paid work. Thus, it seems unlikely that the 'carrot' of financial gain will encourage many more into paid work. It is certainly the case that unemployment has been falling but how far this is due to the New Deal is uncertain. Some argue that the fall in unemployment is the result of economic growth, others see new supply-side policies as making a real contribution. It remains a matter of controversy how far jobs are available in the poorest areas (see *New Economy*, 1999).

Another constraint on paid employment for parents of young children is the availability of childcare. The new National Childcare Strategy is starting to increase the amount of available childcare but, as yet, provision remains patchy so that its impact on employment will for the next few years be limited.

A major issue in relation to paid work concerns lone parents. The issue may be put in oversimplified terms. Should they be required to work to get benefits, as happens in the United States? Should they have childcare available that allows them to support themselves through paid work, as happens in Scandinavian countries? British policy has not confronted this issue but rather seeks to allow choice and encourage paid work. How far this compromise will be effective or sustainable remains to be seen.

TACKLING LONG-TERM DISADVANTAGE

The issue of intergenerational child poverty is discussed by Hobcraft, and by Machin (in CASE and HM Treasury, 1999). They found that poverty in childhood increases the likelihood of low income in adulthood. There is a strong association between children's earnings and those of their parents; only a third of boys whose fathers were in the bottom quarter of the earnings distribution made it to the top half when they grew up and the pattern is similar for girls. Men whose fathers were unemployed are twice as likely to be unemployed for a year or more between the ages of 23 and 33. People's chances of being in a manual occupation, having no access to a car and living in rented accommodation are also higher if their parents were in the same position.

The Department of Social Security summarised the key risk factors occurring during childhood and adolescence which research suggests increase the likelihood that disadvantaged children will fare worse in later life. They are:

- Poor early development
- Poor school attendance
- Being 'looked after' by a local authority
- Contact with the police
- Drug misuse
- Teenage parenthood
- Non-participation in education, employment and training between the ages of 16–18.

Many of these factors are linked – for example, young women in care have repeatedly been shown to be at higher risk of teenage pregnancy and teenage parents are more likely to drop out of education early (DSS 1999, p. 44).

This assessment of 'risk factors' is important in indicating the breadth of the government's thinking about the causes of poverty, what some have characterised as 'joined-up' thinking. As will be seen in the next section, policy initiatives address many aspects of these risk factors, not merely those that have an immediate impact on poverty defined narrowly in terms of inadequate income. However, as will be discussed in the final section, the ability of government to influence some risk factors – such as growth of lone parent families – may be rather limited. The expansion of thinking about the causes of child poverty is, nevertheless, liberating and challenging.

Measures to tackle long-term disadvantage

A number of initiatives are being taken to make sure that all children benefit from increased opportunities:

- Sure Start programmes will offer help to families with children from birth up to the age of four, in areas where children are most at risk from poverty and social exclusion.
- The National Childcare Strategy aims to ensure good quality, affordable childcare for children aged 0–14 in every neighbourhood.
- To tackle exclusions from school and the extent of truancy, a range of innovative projects are being introduced to tackle disaffection and invest in specific action aimed at those pupils excluded for more than 15 days.
- There is additional investment being made to improve opportunities for ethnic minority pupils; schools will receive grants to employ additional specialist teachers or bilingual classroom assistant.
- There is increased support for children from ethnic minority backgrounds who now represent one in ten of the school population; over half a million of these do not have English as a first language.
- Measures are being taken to half the rate of teenage conception (SEU, 1999). The UK has the highest teenage birth rate in Western Europe. The problem is most serious in the poorest areas and among the most vulnerable young people, especially those in care and those excluded from school.

These and other measures to tackle long-term disadvantage lie at the heart of the government's attempt to tackle the causes of future child poverty. How far they will be successful is beyond the scope of this article – indeed in many cases beyond the range of any social science knowledge. Rather more can be known about the immediate effects of government policies on child poverty, which has been the main focus of this article.

ASSESSMENT AND CONCLUSIONS

The prospect for child poverty

Results of micro-simulation of the policy changes in train indicated that on current and already announced policies¹³ the number of children in poverty will by 2002 fall by about 1.2 million – a reduction of about one-third. If paid work increases substantially, by 1.5 million jobs on scenario B then child poverty would fall by a total of 1,650,000, but this is an

illustration of what could happen, not a forecast. Three aspects of these assessments warrant attention.

First, not surprisingly, those raised out of poverty tend to be those closest to the poverty line. In 1979 two-thirds of those below half the average income level were in the range 40–50 per cent of the average. In 1998 two-thirds of those below half mean income level were below 40 per cent of the average (DSS, 1998; 1999b). Thus, as the depth as well as the number in child poverty has worsened, so has the problem of tackling it become more severe. While a start has been made, it has largely dealt with the least severe cases.

Second, it is important to stress that, while child poverty will be substantially reduced, the extent of child poverty that will remain in 2002 is extremely high by postwar Britain standards and by European standards. Child poverty will still be over twice as high as when a Labour government was last in office. If the prime minister's declared aim of abolishing child poverty in a generation is to be achieved then it will not be enough to roll forward the policy initiatives taken so far, it will be necessary to maintain, indeed accelerate, the momentum of policy change and achieve further transfers of resources to families with children.

Third, this forecast depends on unemployment being kept down. As was stated in *The Changing Welfare State*:

Sharp economic downturns and structural change lead to high unemployment and economic inactivity. This in turn can increase benefit caseloads dramatically. Such changes are not automatically reversed as the economy improves. If no action is taken, high levels of worklessness can persist for long periods. And persistent worklessness leads to poverty and social exclusion. (DSS, 2000: p. 67)

A selective strategy

The article has considered the policy initiatives so far presented by the British government – some of which, like the Child Tax Credit, have yet to be implemented. As might be expected, given the Labour Party's reluctance to present specific policy proposals before its election, the government has not come forward with any long-term plan for achieving the prime minister's aim for overcoming child poverty in a generation.

The evidence and analysis presented here suggests that the policy initiatives taken so far will have a significant, positive impact on child poverty. But they will only reduce child poverty by about one-quarter and only the easiest part of the problem will be resolved. To maintain momentum will require more poor families to earn more – which will require skills, childcare and jobs – and to receive more from the state either in subsidies to low pay or social benefits – which will require more redistri-

bution. Whether the political will exists or can be generated to maintain this momentum, only the future will tell.

There is however one fundamental aspect of the 'New Labour' approach which deserves discussion since it will certainly influence long-term developments. The present chancellor, Gordon Brown, has, far more than previous chancellors, taken charge of policy concerning poverty (including issues such as Third World debt, which are far beyond the scope of this article) and shows genuine interest and commitment. The approach has been to concentrate resources on the poor by means of greater selectivity and means testing. While child benefit has not been ignored, the increase in it is far smaller than in the means-tested element now operated through the Working Families Tax Credit. In the short or medium term, greater targeting or selectivity is the most effective means of boosting the incomes of the poorest. But, in the longer term, increased support for the poorest which is then rapidly withdrawn from those with more earnings, serves to extend the poverty trap – even if its extremes are smoothed out. There is a danger of creating a two-class world among families. One of these will comprise poor families with no or low pay who receive large amounts of Income Support or Working Families Tax Credit and other families who receive little state support. If the condition of the poor families is improved but not that of other families on low or average incomes, then the incentive to self-help will inevitably decline. Thus, while the New Labour approach emphasises responsibilities and stresses the desirability of more self-reliance, its selectivity strategy may be undermining what it seeks to encourage.

Joined-up government

Much government rhetoric has been devoted to tackling the causes of poverty and 'investing in success'; by contrast, traditional social security is 'investing in failure' and redistribution has become politically unmentionable. Prevention is preferable to alleviation of poverty. Yet most of the impact of the policy initiatives in the short and medium term depends on redistribution. Most of the immediate reduction in child poverty results from the increases in Child Benefit and Income Support for younger children and the Working Families Tax Credit. These changes, plus others such as the Child Tax Credit are all essentially redistribution to families with children. For some, this redistribution may serve to make work pay rather better than before, but any effect of this on employment is likely to be limited. Other labour market policies are likely to have a relatively small impact. Policies directed at long-term disadvantage will only have an impact in the long term.

It remains far from clear that government thinking is 'joined-up'. To take one example, to qualify for Working Families Tax Credit requires 16 hours work; by contrast, for 3 and 4-year-olds at school, only 12.5 hours of nursery schooling are provided for 33 weeks of the year. Some small steps towards child- and parent-friendly government have been made but there is still a very long way to go.

'Joined-up' policy not only requires coherence between government departments. The opportunities of children depend on social provisions but they also depend on their family environment, on the local community, and on the wider economic and social environment. Ending income poverty is not on its own enough to ensure decent opportunities for all children. If, as the secretary of state for social security wrote, 'Children born in run-down estates should have the same opportunities as those born in leafy suburbs, the same good health, the same decent education and the same hope for the future' (Darling, 1999) then a more fundamental rethink about public and private responsibilities for children and about inequality in society cannot be long delayed.

An indication of coherent thinking is the commitment to review policies and publish an annual report on progress. An independent review of indicators of poverty and deprivation is already being undertaken and published (Howarth *et al.*, 1999). Yet for a government with superior access to data and resources to monitor the effectiveness of its own policies, and to publish the results, is a courageous commitment which suggests that their concern about child poverty is not ephemeral headline-grabbing.

CONCLUSIONS

Britain has had a growing problem of child poverty, which is now among the most severe among industrialised nations. This problem is closely linked to high levels of worklessness in families with children.

The Labour government has adopted redistributive tax/benefit policies and active labour market policies that should by 2002 reduce the number of children in poverty by over 1 million. Yet, even if the promotion of paid work were successful, this would still leave nearly 2 million children in poverty. Such an increase in paid work is improbable since measures to 'make work pay' have made little difference.

To make work pay to a greater extent there are unpalatable but inescapable choices. Either Income Support levels to those not working will have to be relatively reduced (which will happen over time if uprating is not in line with other incomes) – which will add to child poverty. Or benefits to those in low paid work (such as WFTC) will have to increase. If this is done only for those on very low earnings, the means testing

involved will exacerbate the poverty trap discouraging self-reliance; if higher benefits are spread to higher earnings levels, the cost to the Exchequer will be greatly increased and can only be met by explicitly redistributive tax policies.

The promotion of paid work is not, however, only a matter of financial incentives: it involves too childcare, transport and family-friendly employment. The difficulties and stress – impinging on both parents and children – that result from combining paid work and the care and upbringing of children will only be marginally affected by Labour's reforms thus far.

The challenge of overcoming child poverty is a challenge to the whole society. What happens to the poorest, most vulnerable, least secure children reflects the society as a whole. How far child poverty can be ended and children's opportunities improved without confronting the broader inequalities in society is open to question. Nevertheless, by focusing on the income and opportunities of the poorest, a significant start has been made towards ending child poverty. Much remains to be done but the prime minister has said and the chancellor has repeated: 'We will not rest until we have banished child poverty from the face of Britain' (Brown, 1999, p. 8). On the basis of the analysis presented here, rest may be a long time in coming.

APPENDIX: MODELLED CHANGES IN TAX AND BENEFIT POLICY
ANNOUNCED BETWEEN APRIL 1997 AND APRIL 2000

(Amounts are weekly and in 1999/00 prices and differences are expressed in real terms, unless otherwise specified).

Introduction of a *Minimum wage* of £3.60 per hour for employees aged 22 and over; £3.00 for employees aged 18–21.

Child benefit increased by £3.25 to £15 for first or only children and £0.40 to £10 for other children. Additional increases of £0.50 per family (and £0.35 for second and subsequent children) are due in April 2001. It is unclear whether these increases are in real terms on top of any indexation for inflation, or whether they include inflation increases. We have assumed the latter and deflated the nominal amount by an assumed rate of inflation of 2.25 per cent (which is the government's own forecast). Thus the real value of the increase is assumed to be £0.16 for the first child and £0.12 for other children, making the rates £15.16 and £10.12 in 1999/00 prices.

Lone parent benefit abolished (the 1997 benefit would have been £6.45 in 1999/00 in real terms).

Working Families Tax Credit (WFTC) replaces family credit. WFTC has a more generous starting point (by £9.35); a lower taper (55 per cent

instead of 70 per cent); a higher adult credit (by £2.50), higher credits for children aged under 11 (by £12.65 per child) and children under 16 (by £4.35 per child) but lower credits for children aged 18 (£10.35 lower). (The childcare tax credit is not modelled.)

Income Support: family premium increased by £2.80; lone parent premium abolished (it would have been worth £5.15 in 1999/00); rates for children aged under 11 increased by £12.65, for children aged under 16 increased by £4.75 and those for other children aged under 18 by £0.40; rates for children aged 18 reduced by £9.35; and disability premia increased by £0.90 per person. The earnings disregard in Income Support and Job Seekers Allowance for lone parents, disabled and carers increases by £5 to £20 in April 2001. We have assumed that this is a real increase.

Housing benefit (HB) and Council tax benefit (CTB) changes to rates and premia match those for income support *except* that the real value of the 1997 lone parent premia (abolished) is £23.05 (HB) and £11.75 (CTB); there is no reduction in allowance for children aged 18 in HB and CTB.

Minimum Income Guarantee (MIG): the capital limits for MIG (Income Support for pensioners) are increased from £3,000 to £6,000 (so that income from capital less than £6000 per benefit unit is disregarded) and from £8,000 to £12,000 (so that pensioners with capital between £8,000 and £12,000 may be entitled to MIG assuming other conditions are met). Due in April 2001. Premia increased by £4.65 (single) and £7.45 (couples).

Capital thresholds in all means-tested benefits except MIG (and including WFTC) reduced in real value by 4.8 per cent since 1997. (These have not been uprated since 1988.)

Winter fuel allowance: £150 per year for households containing a person over state pension age or in receipt of Income Support pensioner premium. (Assumed to be £2.88 per week.)

National insurance contributions: Class 1 employee contribution lower earnings limit (LEL) increased by £17 (to £83); upper earnings limit (UEL) increased by £50 (to £550); contributions on earnings below the LEL ('entry fee') abolished (worth up to £1.32 per week). Class 2 (self-employed) contributions reduced by £4.55. Class 4 (self-employed) lower profits limit aligned with the Class 1 LEL (a reduction of £61); Class 4 upper profits limit aligned with the Class 1 UEL (an increase of £50) and the rate of Class 4 increased from 6 per cent to 7 per cent.

Income tax schedule: introduction of a 10 per cent lower rate on first £1,500 of annual taxable income, including income from investments (replaces 20 per cent lower band); standard rate reduced from 23 per cent to 22 per cent.

Married couples allowance (MCA) for couples both aged under 65 and

Additional personal allowance abolished. (Under 1997 policy this was worth 15% of £1970 per year or £5.68 per week in 1999/00 prices.) *Age-related MCA* increased so that pensioner couples do not lose. Age-related personal allowances increased by £130 per year (age 65–74) or £200 per year (age 75+).

Mortgage tax relief abolished. (In 1997 the maximum annual relief was 15 per cent of the annual interest on £30,000.)

Introduction of a *Children's tax credit*: this is for taxpayer families with children aged under 16. If either parent is a higher-rate (40 per cent) taxpayer, the value of the annual credit is tapered at a rate of £1 for every £15 of income per year above the 40 per cent threshold. The credit is to be introduced at the level of £8.50 per eligible taxpaying family when it is introduced in April 2001. We have made the same assumptions about inflation as with child benefit, making the real value about £8.31 per week in 1999/00.

Incapacity benefit is reduced by 50p for every £1 of occupational or personal pension income over £85 per week.

NOTES

- 1 The term 'Britain' is used for convenience to denote England, Wales, Scotland and Northern Ireland.
- 2 Policy initiatives are summarised in Department of Social Security (1999a). Background analysis is set out in HM Treasury series on *The Modernisation of Britain's Tax and Benefit System*, which is available at www.hm-treasury.gov.uk.
- 3 For a description of these statistics in the context of targets for poverty reduction in the UK see Atkinson (1998).
- 4 We have updated FES data to 1999/2000 levels of prices and incomes in order to evaluate contemporary policy changes. In addition, there are some measurement differences which arise because we simulate some components of income (taxes and benefits), rather than using values recorded in the survey data. There are also a few conceptual differences which we introduce in order to capture all the changes in policy on which we focus – notably the change in mortgage tax relief which is not included in HBAI BHC income. More detail on these sources of difference is available in Mitton and Sutherland (2000).
- 5 See www.ifs.org.uk/budgets.
- 6 Uprating is applied to all monetary values, not just elements of the tax-benefit system that are subject to statutory uprating or are traditionally uprated every year. As in actual benefit uprating, we use the Rossi index (RPI less housing costs) for means-tested benefits.
- 7 There are two important aspects of policy relating to children that we do not include in our analysis: the childcare tax credit associated with the Working Families Tax Credit, and changes to Child Support. In both these cases we believe that uncertainty about behavioural responses would make model estimates misleading or unreliable.
- 8 This takes account of the extra revenue from increased income tax and employee contributions due to the introduction of the minimum wage. It does not include the extra cost of paying the minimum wage to government employees. The overall increase in gross earnings due to the minimum wage is estimated to be £1.7bn per year, making the total increase in net household income £9.2bn per year.
- 9 We concentrate on income levels before housing costs since these results are more directly

comparable with HBAI estimates.

- 10 See O'Donoghue and Sutherland (1998) for a discussion of tax concessions for children within Europe.
- 11 All estimates from POLIMOD and other similar models are sensitive to sampling error. See Pudney and Sutherland (1994).
- 12 We assume no increase or decrease in hours or earnings for those already in paid work. We ignore childcare costs. We assume that people entering work all claim and receive WFTC, if entitled, but otherwise we assume that benefit take-up behaviour remains constant.
- 13 At the time of writing, at the end of May 2000.

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