

How Effective is the British Government's Attempt to Reduce Child Poverty?



David Piachaud and Holly Sutherland have analysed the new Labour Government's policies and carried out a micro-simulation study to assess their likely impact on child poverty.



The Government's measures have three components:

- ◆ Changing taxes and benefits to provide extra financial support for families;
- ◆ Promoting paid work through the New Deal;
- ◆ Tackling long-term disadvantage.



The impact of the tax and benefit changes will reduce the number of children in poverty by 840,000, or by about one-quarter. Some will be worse off but most poor families will gain.



The increases in the gains from earnings under Labour's policies are, for many, modest and for some lone parents gains from earnings are less than before.



Policies to increase paid work may reduce child poverty by a further 160,000, bringing the total fall to about one million, a reduction of one-third. Child poverty would still in relative terms be twice as high as in 1979.



Even if all parents with children aged 5 and over were in paid work, this would only remove half of child poverty. Those who remained in workless households depend on Income Support levels which are now seriously below the poverty level; their prospects depend on Income Support catching up with, and keeping up with, the poverty level.



The Government's selective strategy has the danger of creating a two-class Britain: poor families with little or no pay who receive large amounts of subsidy or benefit and other families who receive little state support.

Further information

A detailed account of this research can be found in CASEpaper 38, *How Effective is the British Government's Attempt to Reduce Child Poverty?*, by David Piachaud and Holly Sutherland. Copies are available free of charge from Jane Dickson, CASE, at the address below, or can be downloaded from our internet site: <http://sticerd.lse.ac.uk/Case>.

New Labour and child poverty

The Chancellor of the Exchequer has called child poverty “a scar on the nation’s soul”. 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”. The new Labour Government in Britain has made the reduction of child poverty one of its central objectives.

The problem

The latest official figures for 1997/8 show that 14 million people were living below half the mean income level (after housing costs); this represents one-quarter of the population. Of this number, 4.5 million were children; one in three children were living in poverty on this definition. Before allowing for housing costs, 19% had less than half average income, including 24% of children. Over the period since 1979, the number of children in poverty has tripled.

A recent study of 25 nations showed that Britain had the third highest proportion of children in poverty overall and the highest of any European country. The rate was more than twice that in France or the Netherlands and over five times that in the Nordic countries.

Policy response

The Government’s principal measures can be divided 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, through Working Families Tax Credit, higher Child Benefit and Child Tax Credit.
- 2) New Deal policies to promote paid work. The aim of this 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.
- 3) Measures to tackle long-term disadvantage for example aimed at reducing teenage pregnancy.

Assessing the impact

The authors carried out a quantitative exploration of the impact of Labour’s policy on child poverty. This made use of POLIMOD, a static tax-benefit model to simulate the effect of tax and benefit changes on household incomes. This model uses micro-data to calculate the effect of taxes and benefits on a representative sample of households before and after policy reforms.

The analysis is distinguished by its attempt to capture the effects of all the most relevant policy changes and commitments since the Labour government came to power in 1997. The policy changes that are simulated include those that reduce the incomes of families with children, as well as those designed to increase them. In addition, the analysis provides detailed breakdowns of the effects of the combined changes and focuses separately on children in lone parent and two-parent families. The base for comparisons is the April 1997 tax/benefit system, uprated for inflation.

The impact of tax and benefit changes

In summary, the effect of tax and benefit changes (including the impact of the minimum wage) is to increase incomes of the poorest more than those better-off and of households with children more than others. Nine out of ten children are in households with increased

income but one in ten are worse off. Overall the impact is to increase the household income of the poorest fifth of children by more than 8%.

The proportion of children in poverty (below 50% of mean income before housing costs) falls by 6 percentage points, a reduction of 840,000: 540,000 in two-parent and 300,000 in one-parent families. The changes reduce the size of the poverty gap – the aggregate deficit below the poverty line – by nearly one quarter.

Increased paid work

How far have the policy changes served to make paid work more financially attractive? The increases in the gain from earning due to Labour's policies are, for many, modest. In the case of lone parents, those earning around £100 per week would find that the return to working was lower under Labour policy than under policy that existed before the 1997 election. This is due to the combination of the abolition of lone parent benefit and the interaction between WFTC and Housing Benefit and Council Tax Benefit.

The authors simulated the maximum potential impact of policies to boost the numbers of lone parents and couples with children aged 5 or over with paid work. This could potentially double the reduction in poverty achieved by the tax/benefit changes alone. However, even with such a major expansion of paid work for parents, by around 1.5 million jobs, while child poverty would be roughly halved, this would leave about 2 million children still in poverty.

Prospects for child poverty

The analysis of tax and benefit changes announced up to the end of January 2000, some current but others not yet in effect, suggests that they reduce the number of children who would otherwise be in poverty by about 840,000 – or about one-quarter. The prospects for growth in the number of parents with paid work are uncertain, but if it increased by 250,000 this would add about 160,000 to the poverty reduction. The combined effect would be a reduction in child poverty of about one million – or by one-third of its current level.

Net reduction in child poverty due to Labour tax/benefit policies (moved out of poverty 850,000, moved into poverty 10,000)	(A) 840,000
Reduction in child poverty due to increased paid work of parents:	
Maximum impact	1,010,000
Likely impact	(B) 160,000
Probable total net reduction in child poverty (A+B)	1,000,000

However, three aspects warrant attention. First, those raised out of poverty tend to be those closest to the poverty level. Second, for child poverty actually to fall by this amount depends on unemployment being kept down. Third, the extent of child poverty that would remain extremely high by post-war British standards and by current European standards. Child poverty would still be more than twice as high as when a Labour Government was last in office. To abolish child poverty in a generation it will be necessary to maintain, indeed accelerate, the momentum of policy change and achieve further transfers of resources to families with children.

Selective strategy

The Chancellor's approach has been to concentrate resources on the poor by means of greater selectivity and means-testing. 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: 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 lower than 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 selective strategy may be undermining what it seeks to encourage.

To make work pay to a greater extent there are unpalatable but inescapable choices. Either Income Support levels for those not working would 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 explicit redistributive tax policies.

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

Conclusions

The Labour Government has adopted redistributive tax/benefit policies and active labour market policies that should reduce the number of children in poverty by about one million, as summarised in the table above. But there are some losers even at very low income levels.

Even if the promotion of paid work were successful to the most improbable extent, this would still leave about 2 million children in poverty. Such an increase in paid work is improbable since measures to 'make work pay' have, for many, made little difference to the net gains from working.

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. The opportunities of children depend not only on social provisions but also on 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. 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 focussing on the income and opportunities of the poorest, a start has been made towards reducing child poverty. Much more remains to be done if the Prime Minister's goal of ending child poverty in a generation is to be achieved.