

Executive summary

In the past two decades of the 20th century, children replaced old people as the group most likely to be in poverty in the UK. The proportion living in families with low incomes doubled. The present government has the bold ambition of halving child poverty again by 2010, and of ending it by 2020. It has made a start, with the child poverty rate now falling steadily, even though by less than was needed to meet the interim targets of a one quarter reduction by 2004. This report looks at what needs to happen for the fall to continue and to accelerate, in order to get back on track.

Child poverty: a damaging, avoidable feature of modern Britain

Poverty in this report is measured in terms of relative income: children living in households with below 60 per cent of the median are defined as poor. However, poverty in the UK is more than just a statistical artefact. Millions of children are unable to enjoy the basic living standards that their peers take for granted. Some lack physical basics like adequate clothing and a balanced diet. Many others are unable to participate fully in society, for example because their parents cannot afford to pay for activities outside the home, and they do not feel they can invite friends round for tea or a snack.

Child poverty is not a uniform phenomenon: the one in four children on relatively low incomes have a range of life experiences. Some are temporarily in poverty, others have to suffer it for years. For most, it is not transitional: two thirds of poor children have been poor in at least three of the past four years. Some children face deep poverty, and certain groups are particularly vulnerable to severe hardship, including homeless children, those with disabled parents and children of marginalised groups including asylum seekers and Travellers. Child poverty is also influenced by where you live. Within Great Britain, London and North East England have the highest poverty rates, but the real concentrations come at the more local level. The majority of children in some wards grow up poor.

Nor does child poverty damage only those it affects directly: it makes all of society poorer. This is true not only in moral terms, but also literally. Child poverty brings a wide range of tangible costs, ranging from paying for services required as a result of the fall-out of children growing up poor, to foregone taxes and higher benefits resulting from reduced future employment prospects of those who experience childhood poverty. The financial cost of ending child poverty in a generation needs to be set against the cost for many generations to come of not ending it. The intergenerational 'knock-on' effect of children growing up poor, and then becoming poor parents themselves, appears to be escalating. The negative effect on prospects in adulthood of experiencing childhood poverty has grown from one cohort to the next.

High levels of child poverty as seen in the UK are neither inevitable nor shared by most similar countries. Even after the most recent UK fall, only Italy, Portugal and the Slovak Republic have higher rates among the 25 European Union (EU) countries. Contributory factors have included pay inequalities, a high proportion of lone parents, their low chance of working and less generous government redistribution than most other countries. The last two of these have started to change, but there remains a long way to go.

Implementing a wide-ranging strategy

Ending child poverty is only partly about transferring money to poor households. A long-term solution must involve much more, tackling the root causes of poverty and in particular giving families opportunities that help them gain greater control of their own lives. Government initiatives have started to make progress in this direction, but there remain large unfinished agendas.

One key priority of the current Labour government is to help more parents on low incomes to move into work. The direct way of doing so is through New Deal programmes that give assistance in finding jobs. Such programmes have contributed to a big expansion in employment, and a reduction by a quarter in the number of workless households. However, as time goes on, those who remain out of work become harder to help, because they are people facing greater barriers to employment. For example, half of children with parents claiming out-of-work benefits now either have a parent who is disabled, or are under five and have a lone parent. In this context, measures to promote employment must do much more than help people find work: in some cases giving individuals intensive support and advice, and in others addressing barriers to working such as the lack of adequate childcare. Despite a range of initiatives to improve childcare, many parents still find it impossible to make satisfactory arrangements.

In future, it would be unwise to rely too much on movement from welfare to work as a means of reducing poverty. In recent years it has made a contribution, but a diminishing one, accounting for only about a sixth of the reduction in child poverty between 1998-99 and 2004-05. Even if the government meets its targets to raise employment rates, especially among lone parents, this will go only a small way to achieving the targets for reducing child poverty. Moreover, a strategy that relied excessively on getting as many parents as possible into jobs may prioritise this at the expense of family life. Parents want to be able to find their own balance between looking after their children and providing for them economically, and not be told that work must always come first.

One requirement in promoting this choice is that having no worker in the family should not, as at present, make it far more likely than not that a child will face poverty. The introduction of the Child Tax Credit has helped improve the relative incomes of families outside work as well as in it, but there remains a long way to go. Even though present policy guarantees that the part of this credit targeted at lower-income families will rise in line with earnings, current uprating policies overall are not sufficient to keep out-of-work

incomes in line with living standards, let alone enable them to rise so that relative poverty falls.

At the same time, the experiences of people in work can be as important as whether or not they can find jobs. Better pay, secure employment, improved work–life balance and in some cases the chance to increase the number of working hours in a household can all help improve families' life chances, and give them more control over their lives. Government can contribute to these improvements, partly by working with employers to improve pay, training and conditions at the lower end of the labour market.

But just as important in the long term is to improve education, which can enhance the life chances of tomorrow's parents. One big unfinished agenda for tackling child poverty over the long term is the improvement in educational outcomes for children from disadvantaged families. Educational outcomes in the UK remain more strongly associated with social background than in most other countries, and changing this is a vital part of ending the intergenerational cycle of child poverty.

Modelling the future: what is needed to hit the targets

As part of this project, microsimulation modelling was used to project the future level of child poverty, under current and alternative policies. Such modelling can only take account of some factors, and therefore cannot be used to design a complete strategy to bring the rate of child poverty down. But it gives an idea of the size of the contribution that some key policies could make to meeting the 2010 and 2020 targets.

The model looked first at what current tax credit, benefit and welfare to work policies are likely to mean for child poverty, in combination with known changes in the characteristics of the population. Some of these characteristics, such as a better-educated group of lone parents, will have a benign effect on child poverty. Nevertheless, with present policies there will be little net change from the present level. The effect of rising employment is likely to be small, while planned rises in some tax credits will be counteracted by falls in relative terms in others and in some benefits. Therefore, without new policies that have substantial effects, the steady fall in child poverty since the 1990s could soon stall.

In order to succeed in halving child poverty by 2010, the most cost-effective single policy measure would be to raise the part of Child Tax Credit targeted on poor families by nearly 50 per cent in real terms. To achieve the same by raising Child Benefit would be three times as expensive. However, a more balanced policy package would use a combination of raising Child Tax Credit with other measures targeted at groups with high poverty risk. One such group is large families, and increases for such families in Child Benefit or in the portion of Child Tax Credit that goes to all but the best-off families would be relatively cost-efficient. Another potential part of the package is a rise in Working Tax Credit for couples, who at present get less favourable treatment with this credit than lone parents.

The total cost of a policy package that achieves the 2010 target is around £4-5 billion. This is a large amount in absolute terms, but represents only about 0.3 per cent of gross domestic product (GDP), and nearly two thirds of it would need to be spent anyway for the country to maintain the present share of national income devoted to supporting the income of families with children.

The cost of meeting the 2020 targets of ending child poverty, mainly using tax and benefits policy, is much higher. Even though the objective is interpreted as getting measured poverty to very low levels (below 5 per cent) rather than all the way to zero, it is almost impossible to do this just by increasing benefits and tax credits specifically for children. Only if parent-targeted income, and in particular Income Support for parents, is also raised can the required reduction be achieved. This reduction will also depend on improving tax credit take-up, or a substantial amount of child poverty will always remain.

A package that between 2010 and 2020 uprated with earnings all benefits and tax credits for families with children, and raised Working Tax Credit for couples, would cost £12 billion on top of the earlier reforms, and would get child poverty down from 13 per cent to 8.5 per cent. To go further and get poverty below the 5 per cent target would require increases much faster than earnings – a doubling in real terms of key tax credits and benefits – between 2010 and 2020. This would cost £28 billion, with the total cost between now and 2020 of ‘ending’ child poverty coming to over £30 billion and nearly 2 per cent of GDP. This still amounts to less than one year’s economic growth over the next 14 years, but would require substantially higher taxation.

The increases shown in this modelling to meet the 2010 target would be feasible, with strong political commitment; they are significantly less than increases seen earlier in the Labour administration. In this relatively short period, when wider policies may not have time to take full effect, there is a case for relying heavily on a further hike in tax credits and benefits. In the period to 2020, on the other hand, it seems inconceivable that poverty will be wiped out through these direct measures alone: not only is the cost extremely high, but such huge transfers to families with children would look odd compared to other people’s entitlements and could distort behaviour. Thus, even though substantial increases will undoubtedly be needed, they will have to be combined with other measures. Only by improving the opportunities of tomorrow’s parents to provide for themselves, in particular by improving educational outcomes for today’s disadvantaged young people, is there a chance that this bold mission will succeed.