

## Press Release

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# Cost of cutting child poverty rises as families fall further below poverty line

The Government would need to spend £4.2 billion extra on tax credits for low-income families to be on track to hit its short-term child poverty target for 2010–11, according to research funded by the Joseph Rowntree Foundation and carried out at the Institute for Fiscal Studies and the Institute for Social and Economic Research at Essex University. Without this spending, child poverty in 2010–11 is forecast to be 600,000 above the target.

The likely cost has risen from the £2.8 billion we estimated after Budget 2008. A key reason is that we now estimate that those children who would be in poverty in 2010–11 on existing policies would, on average, lie further below the poverty line than seemed likely in our previous projections.

The increase in the cost of achieving the target coincides with a dramatic deterioration in the outlook for the public finances that is already pushing up social security costs and requiring a planned squeeze on other spending.

The Government's short-term target is to halve the number of children in poverty from 3.4 million in 1998–99 to 1.7 million in 2010–11 (where being in poverty is defined as living in a household with less than 60% of median income, measured before housing costs).

The number of children in poverty stood at 2.9 million in 2006–07. Our central forecast on existing policies is that child poverty will fall by more than half a million between 2006–07 and 2010–11, to around 2.3 million by 2010–11. This fall is mostly due to benefit and tax credit increases that have been announced by the government, but not yet reflected in the official data on poverty. This would mean that child poverty had fallen by around a third between 1998–99 and 2010–11, but that it would remain 600,000 above the target.

Of the possible policy packages that we analyse, increasing the per-child element of the Child Tax Credit (CTC) by about 30% on top of the up-rating already planned would put the Government on track to hit the 2010 child poverty target at the lowest cost – around £4.2 billion. In normal economic times, such a change would weaken the incentive for some parents to earn more or work at all, but these effects are not reflected in our modelling.

Surprisingly, our forecast for the headline measure of child poverty in 2010–11 would be very slightly lower if the economy were to perform worse than the Treasury assumed in the Pre-Budget Report. This is because lower employment and real earnings have more effect on median income (and thus the poverty line) than on the income of low-income families with children, who tend to be less dependent on earnings and more dependent on income provided by the state. But a deeper recession would further weaken the public finances and make the money for further reductions in child poverty even harder to find. Furthermore, children whose parents lose their jobs will tend to find themselves a lot further from the poverty line than children in

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poverty with working parents, something which the official measure of poverty does not reflect.

The Government has an additional goal to “abolish” child poverty by 2020, which it originally suggested could mean reducing the number of children in relative poverty to 5%. Whether or not the increase in the Child Tax Credit described above was implemented, child poverty would remain a long way above target in 2020 if the usual up-rating rules were followed between 2010 and 2020. Increases in benefits and tax credits for low-income families with children would not keep pace with increases in median income.

Child poverty could be held roughly constant beyond 2010–11 by increasing all benefits and tax credits in line with earnings, and this would cost around £12 billion. Of the packages we have looked at, the only tax and benefit policy generous enough to cut child poverty to 5% by 2020 would cost around £37 billion, and is only achievable if non-take-up of tax credits and benefits is halved. But it is highly likely that any realistic strategy to eradicate child poverty would involve governments doing much more than simply redistributing income to low-income families with children. However, modelling the cost and impact of other sorts of policies was beyond the scope of this project.

Just as this report was being finalised, the Government suggested that a child poverty rate of 10% in 2020 - rather than 5% - would be consistent with eradicating child poverty. One argument in favour of this apparent relaxing of the target is that many studies have shown that some households with very low incomes enjoy high living standards, suggesting that their incomes are mis-measured or that they are poor only temporarily. Historically, child poverty in Britain has never fallen as low as 10% since the consistent series began in 1961. It was too late to estimate the cost of achieving this less ambitious objective through tax and benefit policies alone in the report, but subsequent calculations suggest that a package of tax and benefit changes that would lower child poverty to 10% would cost around £19 billion.

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## ENDS

### Notes to Editors:

1. *Micro-simulating child poverty in 2010 and 2020*, by Mike Brewer, James Browne, Robert Joyce and Holly Sutherland is published as IFS Commentary 108. Mike Brewer, James Browne and Robert Joyce are at the Institute for Fiscal Studies, and Professor Holly Sutherland is at the Institute for Social and Economic Research, University of Essex. A **briefing** will be held at IFS on Wednesday morning to launch the research. To attend, or to request a copy of the **report**, contact the IFS press office.
2. The research was supported / funded by the Joseph Rowntree Foundation (JRF), which has produced a summary, *Ending child poverty in a changing economy*. For details, contact Nasreen Memon, JRF Head of Media: 01904 615 919 / 020 7278 9665 / 07812 241 220 nasreen.memon@jrf.org.uk