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Child poverty in Britain: recent trends and future prospects

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Abstract

This paper analyses the key trends in child poverty in Britain, with particular focus on changes since the late 1990s when the issue was promoted towards the top of the policy agenda. The position of low-income families with children in the income distribution improved considerably in the late 1990s and early 2000s, recovering much – though not all – of the ground that they had lost on the rest of the population during the 1980s. I show that these gains were heavily dependent on large amounts of additional government spending on cash transfers. Since the mid 2000s, the absolute living standards of poor families with children have stagnated or declined: further reductions in the headline relative income poverty measure since the recession were driven only by falling median income and by the failure of this measure to account for the higher inflation rates faced by poorer households over this period. Looking ahead, it is not clear what mechanisms could bring about the large additional reductions in child poverty that are in theory legally required under the Child Poverty Act, in light of the heavy reliance of past gains on cash transfers, the current fiscal climate, and the current government's lack of a clear and effective child poverty strategy.

JEL classification: I32, I38.

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1. Introduction

Child poverty has been a major focus of political debate, and often policy action, in the UK in recent years. The adoption of numerical child poverty targets by the Labour government from the late 1990s was, at the time, highly unusual. Only Ireland adopted numerical poverty targets earlier than the UK. It preceded the European Union's target to reduce the number of people living below national poverty lines by 25% by 2020, and the associated individual targets for member states (EC, 2010).

The scale of ambition embodied in the UK's targets has also been quite remarkable. Labour aimed to halve income-based child poverty measures between 1998-99 and 2010-11. Before leaving office in 2010 it passed the Child Poverty Act, which created a target to reduce the proportion of children in poverty according to the headline measure, based on relative household income, much further to just 10% by 2020–21 (plus targets for two additional measures of child poverty) – a level that would be comparable to some of the lowest rates ever recorded in western Europe. Yet Britain has historically had relatively high child poverty rates compared to its neighbours. In short, the target implies a radical transformation of the income distribution in less than a decade.

To date, progress has fallen well short of the considerable ambition. That is despite reductions in child poverty in the late 1990s and early 2000s that were historically rapid, driven almost exclusively by reforms which gave away an additional £18 billion per year in state cash benefits for families with children by the end of Labour's tenure in 2010 (Browne and Phillips, 2010). But falls in child poverty have since slowed considerably, or started to reverse (depending on the measure). The most high-profile 2010–11 target, for relative income poverty, was missed by some distance.

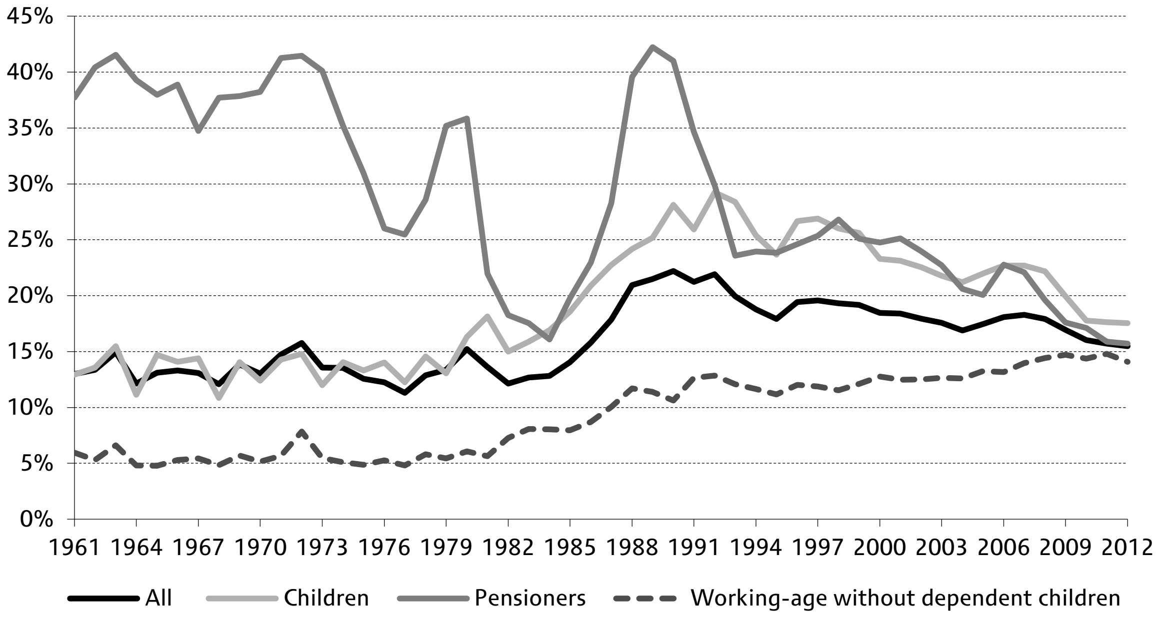
The fiscal and political climate has now changed significantly, and the 2020–21 targets look increasingly like a curious irrelevance. There is no serious prospect of them being met, or even got close to. The current coalition government is presumably aware of this, but has attempted neither to repeal the supposedly legally-binding Child Poverty Act nor to formulate a credible plan for moving towards the targets contained within it. Child poverty remains very much on the political agenda, however. The government has criticised the heavy dependence of Labour's strategy on increases in cash transfers. More fundamentally it has also stated a view that the income-based measures in the Act are inadequate, and it has consulted on defining a new, additional measure – which thus far it has not reached agreement on.

The rest of this paper proceeds as follows. Section 2 sets out the historical context, showing how rates of child poverty in the UK have evolved since the beginning of our consistent time series in 1961, and outlining the major factors behind these long-term trends. Section 3 looks in detail at recent trends, focusing particularly on the period since the late 1990s when governments have been pursuing ambitious child poverty targets. We consider the drivers of changes in child poverty over this period and look at how the Great Recession of the late 2000s fits into this story. Section 4 discusses the likely prospects for child poverty. Section 5 concludes with reference to the most salient current policy debates around child poverty.

2. Long run trends in child poverty in Great Britain

Figure 1 shows rates of relative income poverty among children since 1961. To provide context it also shows the same statistics for pensioners and for working-age adults without dependent children.[2] For consistency figures are presented for Great Britain only, rather than the whole of the UK, because Northern Ireland was not included in the underlying survey data until 2002–03. As standard in the European Union, the poverty line here is 60% of median income. Incomes are measured at the household level, net of taxes, inclusive of social security payments, and equivalised to account for varying household composition.[3]

Figure 1. Relative poverty rates in Great Britain, by demographic group



Note: Years from 1994 onwards are financial years (not calendar years). Poverty line is 60% of median income.
Source: Author's calculations using Family Expenditure Survey (FES) 1961 to 1993, and Family Resources Survey (FRS) 1994–95 to 2012–13.

Relative poverty among children was quite stable during the 1960s and 1970s, at a level lower than it has been at ever since. It then rose rapidly during the 1980s, from 13% in 1979 to a peak of 29% by 1992. After stabilising or falling slightly in the early 1990s,

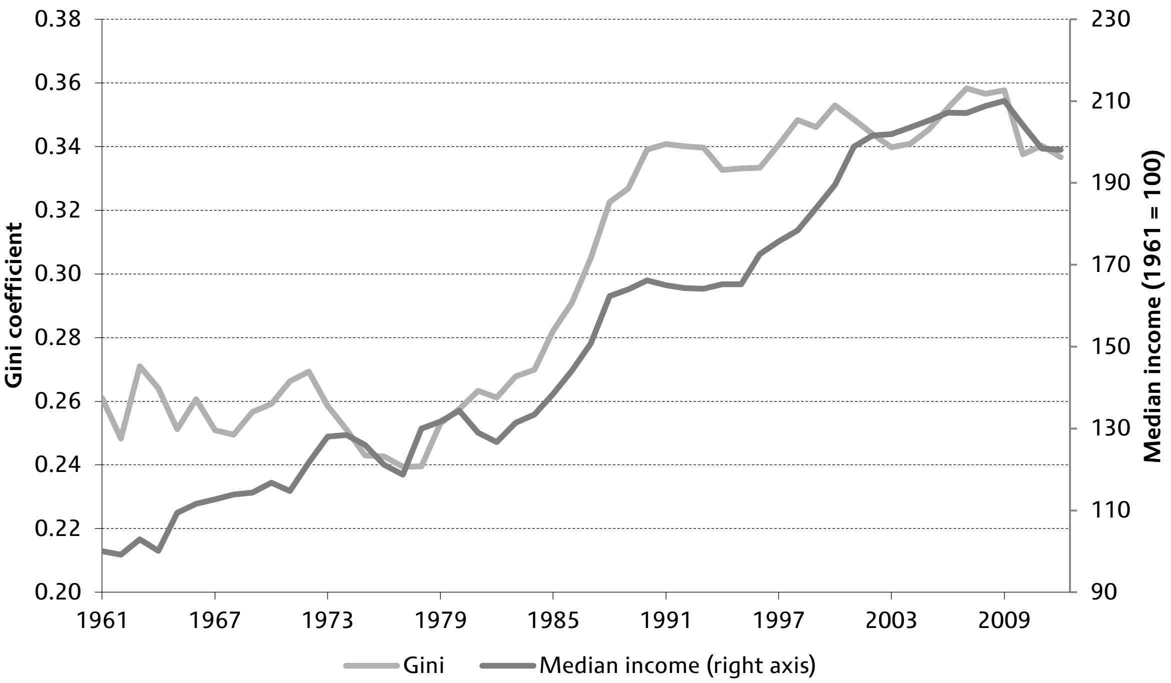
[2] For brevity, trends for working-age adults with dependent children are not shown separately, as these are - unsurprisingly, given the household-level income measure - very similar to trends among children themselves.

[3] The equivalence scale is the modified OECD scale.

relative child poverty has since fallen substantially. The net result is that, in the latest year of data for 2012–13, relative child poverty stood at 17.5% – closer to the lower level around which it fluctuated for most of the 1960s and 1970s than to the much higher level it had reached by the early 1990s.

The rapid rise in relative child poverty during the 1980s occurred on a scale far greater than that seen at any other point since the series began. But the late 1990s and early 2000s also saw the most sustained and sizeable fall in child poverty of any period over the past half-century, despite fast growth in median income, and hence the relative poverty line, over that period (see Figure 2). After stalling in the mid-2000s, relative child poverty has fallen again in the period since 2007–08 – though this is primarily due to falling median income, and hence a falling relative poverty line, which is illustrated in Figure 2. Figure 3, which shows poverty rates using an 'absolute' (fixed) real poverty line rather than one which moves with median income[4,5], confirms that absolute child poverty has been broadly stable since before the Great Recession.

Figure 2. Income inequality (Gini coefficient) and median income in Great Britain

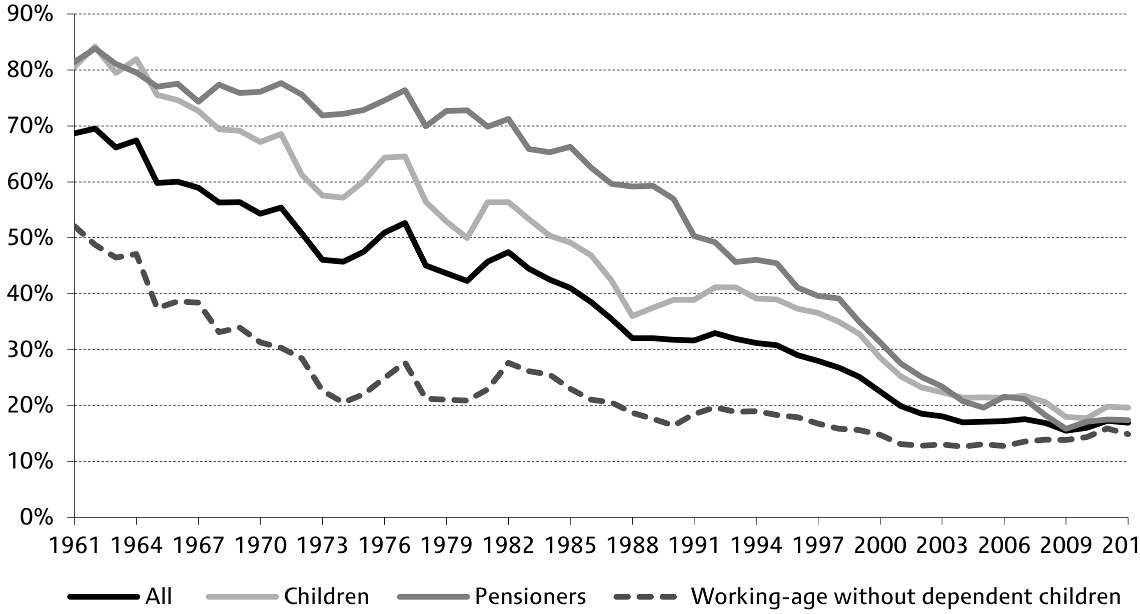


Note: Years from 1994 onwards are financial years (not calendar years).
Source: Author's calculations using FES 1961 to 1993, and FRS 1994–95 to 2012–13.

[4] The poverty line is fixed at the level of the 2010–11 relative poverty line (i.e. at 60% of 2010–11 median income), adjusted for inflation. In 2012–13 this equated to £264 per week in nominal terms for a couple without dependent children. This is the line used for the absolute child poverty target contained within the UK's Child Poverty Act.

[5] The inflation measure used to compare incomes in real terms over time in the UK government's official household income series is the Retail Prices Index (or, for after-housing-costs measures of income discussed in Section 3, a variant of this index which excludes housing costs). This tends to give a higher measure of inflation than the Consumer Prices Index (though the difference was smaller before 2010), and methodological concerns have recently been raised over its construction. However, the choice of inflation measure does not affect any of the key conclusions drawn in this paper.

Figure 3. Absolute BHC poverty rates in Great Britain, by demographic group



Note: Years from 1994 onwards are financial years (not calendar years). Poverty line is 60% of the 2010–11 median income in real terms.
Source: Author's calculations using FES 1961 to 1993, and FRS 1994–95 to 2012–13.

The other series in Figure 1 show how this compares to relative poverty trends among the other major demographic groups. This helps to distinguish trends that reflect wider changes in the income distribution from those that affect families with children specifically.

The most dramatic trend that is common to all the groups is the rapid rise in relative poverty in the 1980s. This reflects the fact that the period was characterised by a general rise in inequality right across the income distribution, as shown in Figure 2. After the recession of the 1980s, the earnings of workers grew much more quickly than the social security entitlements of non-workers, and the earnings of high-earners increased particularly quickly. The oft-cited Gini coefficient measure of inequality rose by more than 40% in twelve years, from 0.24 in 1978 to 0.34 in 1990. The scale of this rise in income inequality is unparalleled in recent British history, and was also larger than the growth in income inequality occurring at the same time in most other developed countries (with the key exception of the United States).[6] That this was responsible for the rises in relative poverty shown in Figure 1 is emphasised by Figure 3. Absolute poverty actually fell over this period, and fell rapidly during the mid-1980s. Hence, this was a period of generally fast income growth – but much faster income growth further up the income distribution.

Over other periods there have been important differences between trends for the demographic groups, and these are instructive. Since the early 1990s, while falling

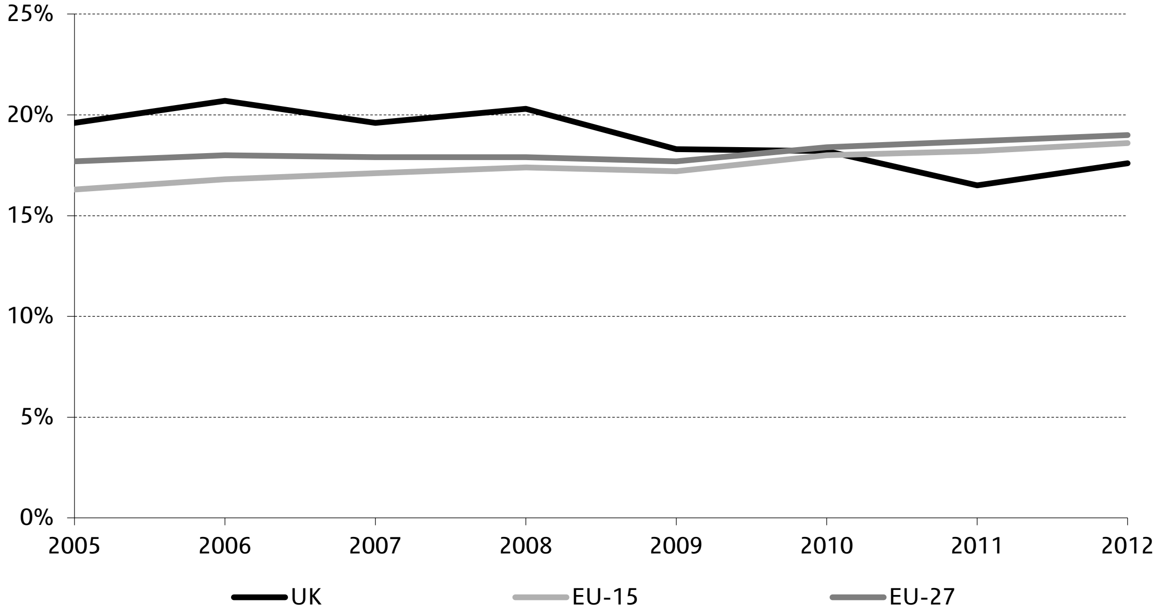
[6] See Atkinson (1999), Goodman, Johnson and Webb (1997) and Gottschalk and Smeeding (1997).

substantially among children and pensioners, relative poverty has continued to creep up among working-age families without children. Even using a fixed real poverty line, as in Figure 3, poverty in 2012–13 among working-age adults without children was little different to its level more than two decades earlier. To a large extent this is due to differential effects of changes in social security policy, as discussed in Section 3. Large increases in social security entitlements were focused on low-income pensioners and low-income families with children during the late 1990s and 2000s.

One result has been a remarkable convergence in the risks of poverty across the major demographic groups. Focusing on children, they now have a similar poverty rate to the population as a whole (2 percentage points higher) – as had been the case during the 1960s and 1970s – having had a poverty rate 8 percentage points higher than the population as a whole in 1993.

In terms of international comparisons, Britain has typically had relative child poverty rates lower than the United States due to its lower level of income inequality, but it has also typically had high relative child poverty rates compared to its European neighbours. However, using EU-SILC data (the UK version of which is very similar, but not strictly comparable, to the other figures in this paper), which provides consistent cross-country measures from 2005 onwards, Figure 4 shows that the continued falls in relative poverty in households with children in the UK since the beginning of the Great Recession have now brought it below the average for the EU-15 and the EU-27. Of course, within Europe there remains substantial variation. For example, child poverty in the UK remains much higher than in Scandinavia and much lower than in Spain.

Figure 4. Relative poverty rates in households with dependent children in the UK and the EU



Note: Poverty line is 60% of median income. The 2012 data-point for the UK in the EU-SILC series comes from a different underlying household survey to the previous data-points, which may lead to a small break in the series.
Source: EU-SILC database, downloaded on 19 August 2014, available at
http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/main_tables.

3. Child poverty since the late 1990s

This section looks in detail at changes in child poverty since the late 1990s. The previous section showed that, overall, this period of recent history has seen large reductions in child poverty. Headline measures of child poverty based on relative income are now close to the levels seen for the population as a whole, and are considerably closer to the lower levels around which they had fluctuated throughout the 1960s and 1970s. Here we first study in detail the reasons for these recent changes. We then look more closely at the current direction of travel using measures other than the standard ones, and argue that this offers more reason for concern than the headline figures might suggest for those who want to see substantial additional improvements in the living standards of poorer families with children.

It is impossible to understand movements in child poverty in the UK since the late 1990s without understanding the policy context. In March 1999 the Labour Government announced an unprecedented (though initially vague) target to 'eradicate' child poverty by 2020–21, along with precise numerical interim targets for 2004–05 and 2010–11. The first interim target was for child poverty in 2004–05 to be one-quarter lower than its 1998–99 level, using the standard relative poverty line of 60% of median household income. The second interim target was for child poverty in the UK in 2010–11 to be one-half its 1998–99 level, according to three definitions of child poverty.

Subsequently, the government tracked a number of indicators, and introduced a number of policies, that one could reasonably associate with its efforts to reduce poverty, and child poverty in particular. These included a desire to increase the employment rate among lone parents (which did happen) alongside active labour market and welfare-to-work programs designed to achieve this (of which there is evidence of some success[7]); and the introduction of the National Minimum Wage in 1999, followed by sharp real rises in its value.

By far the most significant factor in explaining the subsequent reduction in child poverty, however, was a substantial increase in spending on means-tested cash transfer entitlements for low-income families with children. Major specific examples include increases in Income Support (an out-of-work benefit) and the inception and subsequent expansion of the tax credit system. Working Families' Tax Credit (WFTC) was introduced in Autumn 1999 to replace Family Credit (its much smaller scale forebear), and WFTC was then itself replaced with the current system of Child Tax Credit and Working Tax Credit in April 2003. By the time Labour left office in 2010-11, £30.7 billion (2% of GDP) per year was spent on tax credits. Most of this went to low-income households with children. Overall, reforms between 1997 and 2010 amounted to an £18 billion (1.2% of 2010 GDP) annual increase in spending on benefits for families with children (Browne and Phillips, 2010).

Table 1 gives a sense of scale, in terms of the increases in entitlements that were involved for specific households and the importance of this in explaining changes in child poverty. It shows year-on-year growth rates in nominal entitlements to social security benefits and tax credits and compares these with year-on-year nominal changes in the relative poverty line. Lightly-shaded cells mark instances where entitlements grew faster than the relative poverty line. Considered in isolation, this would suggest a declining relative poverty rate for that family type in that year. The final column then shows the actual (percentage point) change in relative child poverty in that year, with darkly-shaded cells marking instances where child poverty in the UK fell. The table takes three example types of families with children who are likely to be in, or close to, poverty.

Two points stand out. First, increases in entitlements between 1998–99 and 2004–05 were rapid, even relative to the substantial growth in median income (and hence the relative poverty line) over that period; whilst increases between 2004–05 and 2007–08 were less generous. Second, these changes in entitlements look to be extremely powerful in explaining movements in (income-based measures of) child poverty. The years in which entitlements for the example families rose relative to the poverty line coincide almost perfectly with the years in which child poverty fell.

[7] Gregg and Harkness, 2003; Blundell and Hoynes, 2004.

Table 1. Annual growth in nominal entitlements to state support for example families with children since 1998–99 (%)

	Couple, 3 children, no work	Lone parent, 1 child, no work	Lone parent, 1 child, part-time work	Relative poverty line	Change in relative child poverty rate in UK (ppts)
1999–00	9.3	8.6	9.3	5.0	–0.4
2000–01	13.4	8.8	12.7	5.9	–2.3
2001–02	9.1	6.4	6.8	6.3	–0.2
2002–03	4.1	3.2	7.0	3.0	–0.7
2003–04	8.6	6.6	10.1	2.6	–0.8
2004–05	6.0	4.5	5.0	4.0	–0.4
2005–06	2.5	2.0	3.1	3.3	0.5
2006–07	3.1	2.7	3.0	4.6	0.7
2007–08	3.6	3.3	3.7	4.1	0.2
2008–09	7.0	5.4	6.2	3.8	–0.7
2009–10	6.4	6.1	5.5	0.9	–2.0
2010–11	2.2	2.0	1.9	2.1	–2.3
2011–12	6.6	5.0	4.1	2.0	+0.0
2012–13	4.1	4.1	1.7	3.0	-0.2

Notes: The table shows annual changes in entitlements to benefits for various family types with no private income (except the working lone parent, who is assumed to earn too little to be liable for direct tax). Housing Benefit and Council Tax Benefit are ignored (as entitlements depend on rent and council tax liability). The lightly shaded cells indicate percentage changes in nominal entitlements that exceed the percentage change in the relative poverty line. The darker shaded cells indicate reductions in the rate of relative child poverty.

Source: Author's calculations.

Joyce and Sibieta (2013) quantified the impacts of Labour's direct tax and benefit changes on low-income households with children as a whole. On an entitlements and (direct tax) liabilities basis, the poorest half of children were on average about £4,390 (28%) better off in terms of annual net household income in 2010–11 than they would have been under an unreformed 1997–98 direct tax and benefit system. Relative child poverty in 2010–11 was 13.5 percentage points lower than it would have been under the same counterfactual (ignoring any behavioural effects of the changes). For context, pensioner poverty – which also fell rapidly over this period – in 2010–11 was reduced by 4.9 percentage points by the same set of reforms, while poverty among working-age adults without children was unaffected by the reforms overall.

Largely as a result of the rapid increases in benefits and tax credits for families with children between 1998–99 and 2004–05, child poverty fell rapidly over those six years. The interim target for 2004–05 (to reduce child poverty by one quarter from its 1998–99 level) was missed only narrowly (and had been expected to be met only two years earlier[8]). It was over the subsequent three years to 2007–08, when benefit increases

[8] See Chapter 4 of Brewer et al (2006) for further discussion.

slowed and child poverty stopped falling (and if anything rose), that it became clear that the 2010–11 target for relative child poverty (to reduce it by one half from its 1998–99 level) was slipping out of reach. In the end, the number of children in relative poverty fell from 3.4 million in 1998–99 to 2.3 million in 2010–11 – a substantial fall, but 600,000 fewer than would have been consistent with the target.

Looking at the final column of Table 1 and Figure 1, it is tempting to conclude that the mid-2000s was just a temporary lull, and that progress in reducing child poverty has resumed since 2007–08. This misses two important points, however. First, the recession has been associated with large real falls in median income, and hence the relative poverty line. In the early stages of recession there was some positive real income growth among low-income families with children (again coinciding with discretionary above-inflation benefit increases) – but most of the fall in relative child poverty since 2007–08 has been because of falling median income (driven by falls in the real pay of workers), not rising incomes of poor families with children.

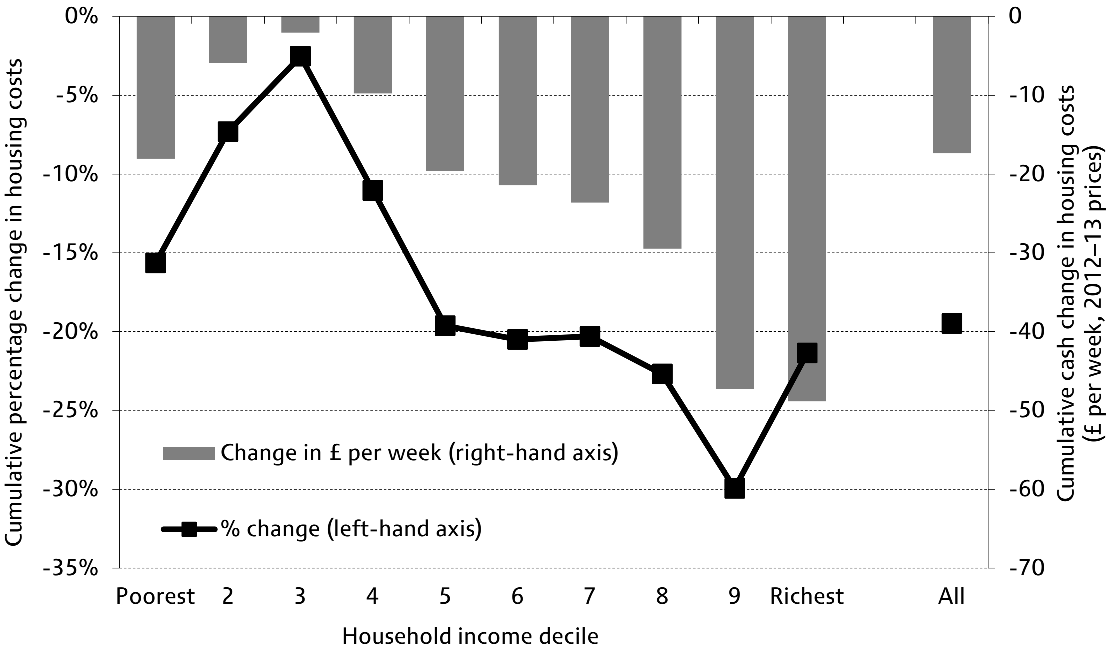
Second, in recent years the inflation rates faced by low- and high- income groups have differed quite markedly, and the headline measures of income poverty ignore this. Adams, Hood and Levell (2014) estimate that, between 2008–09 and 2013–14, the inflation rate for households in the lowest income quintile has been 1 percentage point per year higher than for households in the highest income quintile. This is because low-income households are less likely to own homes and are therefore less likely to have benefitted from the dramatic falls in mortgage interest rates since the recession; and because a higher proportion of their spending goes on food and energy, which have risen in relative price.

The data underlying the official income series in the UK also contain information on housing costs for each household (primarily mortgage interest payments and rent[9]). Hence, differential changes in housing costs across the population can be accounted for by using an after-housing-costs measure of income. (By contrast, the usual before-housing-costs measure effectively assumes that housing cost changes are the same for everyone, by including housing costs in the price index used to deflate incomes.) When looking specifically at the most recent trends, this makes a big difference. Owner-occupation is more common in the UK than much of Europe, but much less common among low-income groups. In 2012–13, 20% of the lowest-income quintile, and 55% of the highest-income quintile, lived in a home that was owner-occupied with a mortgage (Belfield et al, 2014). Driven by the monetary policy response to the financial crisis, the average standard variable interest rate on a mortgage halved in 18 months, falling from

[9] Mortgage capital repayments are not included as housing costs, on the basis that they represent the accumulation of an asset (they increase net housing wealth) rather than spending. As well as mortgage interest payments and rents, housing costs here include water rates, community water charges, council water charges, structural insurance premiums for owner-occupiers, and ground rents and service charges.

7.7% in October 2007 to 3.8% in April 2009 (and it remains less than 4.5%).[10] In this context, it is no surprise that the average housing costs of those in an owner-occupied mortgaged home fell by 37% in real terms between 2007–08 and 2012–13.[11] Because these beneficiaries tend to be further up the income distribution, housing costs have fallen far more for higher-income groups than for those around the poverty line, as shown in Figure 5.

Figure 5. Change in housing costs by after-housing-costs income decile, 2007–08 to 2012–13 (UK)



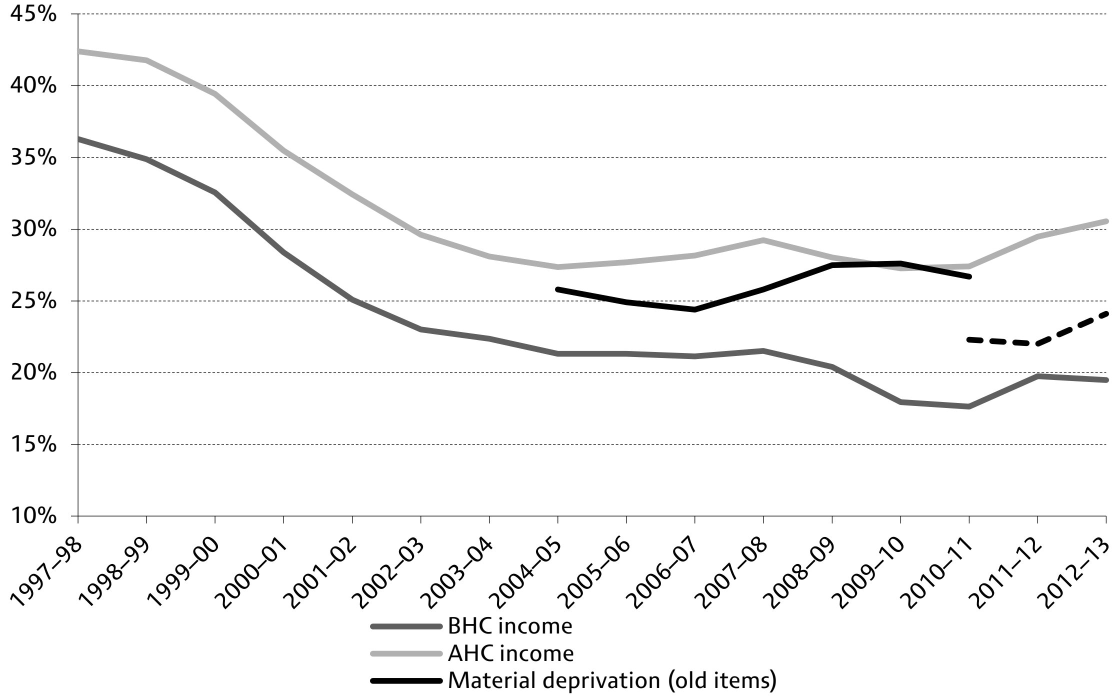
Note: Income decile groups are derived by dividing all individuals into five (ten) equal-sized groups based on their equivalised after-housing-costs household income.
Source: Belfield et al (2014), based on FRS, 2007–08 and 2012–13.

For these reasons, one gets a far less sanguine impression of the most recent changes in child poverty when using a fixed – rather than relative – real poverty line, and when accounting for variation in housing cost trends across the population using an after-housing-costs (AHC) income measure rather than a before-housing-costs (BHC) measure. Figure 6 illustrates this. We do not see the same sharp falls in child poverty since the recession when using an 'absolute' poverty line as when using a relative one; and on a AHC basis, absolute child poverty is higher than before the recession and at its highest level since 2001–02. (Note that, before 2007–08, trends in AHC and BHC child poverty had been very similar.)

[10] Source: Bank of England series IUMTLMV and IUMBV42 respectively (available at http://tinyurl.com/k2wwdpm and accessed on 11 August 2014).

[11] Belfield et al, 2014.

Figure 6. Absolute income poverty and material deprivation rates among children in Great Britain



Note: The absolute poverty line is defined as 60% of median income in 2010–11 in real terms. See text for details of the material deprivation measure.
Source: Author's calculations using FRS, 1997–98 to 2012–13.

Figure 6 also includes a series showing child 'material deprivation' rates, which has been available since 2004–05. This measure categorises a child as being materially deprived if the adults in the family say they cannot afford certain items. The items that families with children are asked about relate to varying degrees of deprivation, from the relatively severe (for example, whether they can afford a warm winter coat for each child) to the less severe (such as whether they can afford to go on holiday for a week each year). The items are weighted according to the percentage of people who say they can afford them: the more people who say they can afford an item, the more weight that item is given in calculating an overall material deprivation 'score'. Children are categorised as materially deprived if their score exceeds a certain threshold.[12] A new suite of items was introduced in 2010–11, run in parallel alongside the old items for one year. Therefore, levels of child deprivation after 2010–11 should not be directly compared with levels before 2010–11. As the Figure shows, the change in items led to a reduction in the measured child material deprivation rate of 4.4 percentage points in 2010–11.

The Figure shows clearly that child material deprivation has been on an upwards trajectory since the mid-2000s (it was higher in 2012–13 than in 2010–11 using the new items, and higher in 2010–11 than in 2006–07 using the old items). This is more similar to the impression one gets when looking at absolute AHC income poverty than

[12] More details and discussion can be found in chapter 6 of Cribb et al (2012).

absolute BHC income poverty. In the latest year of data, for 2012–13, there was an increase in the child material deprivation rate of 2.1 percentage points, from 22.0% to 24.1% (an increase of 0.3 million children). This was the largest single-year increase in child material deprivation since the series began in 2004–05.

Why have poor children been getting worse off in absolute terms recently? Income from state benefits comprises 62% of the household income of the poorest 30% of children (Belfield et al, 2014), but most of the remaining minority is earned income, and it is earned income that fell most sharply in real terms in the immediate aftermath of the recession – at a time when the kind of rapid rises in benefit and tax credit entitlements of the late 1990s and early 2000s have not been a mitigating factor. It is still worth noting the implication, however, that higher-income households tended to be hit even harder initially, as they get a far greater share of their income from the labour market rather than state benefits. Indeed, that is the key reason why relative measures of poverty have been falling.

Table 2 brings much of this together, by decomposing changes in absolute AHC income poverty among children between 1998–99 and 2012–13. It distinguishes between three periods within this: 1998–99 to 2004–05, when this measure of child poverty fell rapidly; 2004–05 to 2009–10, which saw little overall change; and 2009–10 to 2012–13, which has seen clear rises. In each period the overall change is decomposed into the contributions of changes in poverty risk for particular groups of children ('incidence effects') and changes in the relative sizes of those groups ('compositional effects'). Groups are defined according to family type and parental work status.[13]

[13] Brewer et al (2010) presents a number of other decompositions of changes in child poverty between 1998–99 and 2010–11, grouping children according to factors such as region and family size.

Table 2. Decomposition of changes in absolute AHC child poverty in Great Britain, between 1998–99 and 2012–13 by family type and work status

	Child poverty rate (%)				% of children				1998 to 2004		2004 to 2009		2009 to 2012	
	1998	2004	2009	2012	1998	2004	2009	2012	Composition (ppts)	Incidence (ppts)	Composition (ppts)	Incidence (ppts)	Composition (ppts)	Incidence (ppts)
Lone parents														
Full-time	31.6	16.2	16.4	23.9	4.2	5.3	5.8	5.7	-0.1	-0.7	-0.1	0.0	0.0	0.4
Part-time	68.4	33.4	22.3	34.0	5.1	6.2	6.2	6.7	0.2	-2.0	0.0	-0.7	0.0	0.8
Workless	88.5	74.7	65.6	66.7	13.5	11.8	11.3	11.2	-0.8	-1.7	-0.2	-1.1	-0.1	0.1
Couple parents														
Self-employed	39.4	28.0	27.8	33.6	12.0	12.7	11.5	11.7	0.0	-1.4	0.0	0.0	0.0	0.7
Two full-time	5.0	3.4	4.5	4.3	12.4	13.6	15.8	16.0	-0.3	-0.2	-0.5	0.1	-0.1	0.0
One full-time, one part-time	14.5	6.2	6.9	9.0	25.8	23.9	20.9	21.7	0.5	-2.1	0.6	0.2	-0.2	0.4
One full-time, one workless	43.3	24.5	25.6	34.6	16.8	17.1	16.9	16.0	0.0	-3.2	0.0	0.2	0.0	1.5
Part-time only	70.9	50.0	60.9	60.1	3.4	3.3	4.7	5.3	0.0	-0.7	0.4	0.4	0.2	0.0
Workless	92.5	71.2	72.8	75.6	6.7	6.2	6.9	5.8	-0.3	-1.4	0.3	0.1	-0.5	0.2
All	**41.8**	**27.5**	**27.3**	**30.7**	**100**	**100**	**100**	**100**	**-0.9**	**-13.4**	**0.6**	**-0.7**	**-0.6**	**4.0**
Total change in child poverty									**-14.3**		**-0.2**		**+3.4**	

Notes: Figures may not sum due to rounding.
Source: Author’s calculations using FRS 1998–99, 2004–05, 2009–10 and 2012–13.

Between 1998–99 and 2004–05, the Table confirms that the large reductions in child poverty were not driven primarily by changes in parental employment or family formation patterns: the 'compositional' effects account for just 0.9 of the 14.3 percentage point reduction in child poverty over this period. Instead, we see large reductions in poverty risks within the groups in the table. As discussed, this largely reflects the substantial increases in the generosity of the social security system to low-income families with children over this period.

That is not to say that there were no significant changes in parental work patterns over this period. Reductions in the proportion of children living in workless families (a performance indicator that the Government was tracking) – both in lone parent and couple families – acted to reduce this measure of child poverty by about 1 percentage point over the six years. There is also good evidence that this was at least partly a result of government policy. In particular, the introduction of Working Families Tax Credit in October 1999 strengthened the financial incentive for at least one parent to be in work (Adam and Browne, 2010). Gregg and Harkness (2003) argued that this explained much of the increase in lone parent employment rates in the early 2000s; Blundell and Hoynes (2004) estimated that the reform had resulted in an additional 30,000 lone parents, and a significant proportion of individuals in workless couples, moving into work. However, whatever the importance of these factors, the Table shows that these were simply not the most powerful drivers of the falls in child poverty. Dickens (2011), using a different decomposition technique, came to similar conclusions.

Between 2004–05 and 2009–10, as we have seen, there was much less movement in child poverty. 'Incidence effects' continued to act to reduce child poverty – but on a much smaller scale than previously, and driven entirely by reductions in poverty risk for children of workless lone parents.[14] These changes were essentially offset by similarly small compositional effects acting to push child poverty up, resulting in little overall change.

Between 2009–10 and 2012–13, rises in this measure of child poverty have been driven by rises in poverty risk ('incidence effects') within working families with children. Workless families with children saw much smaller changes in poverty rates; while continued reductions in the numbers of children living in workless families – one of the success stories of recent years – acted to moderate the rise in child poverty. The fact that rises in in-work poverty have been the key factor of late further corroborates the notion that the recent rises in absolute child poverty have much to do with falling real pay. It is worth highlighting, though, that working families with children on low incomes often receive significant cash transfers too (though typically less than out-of-work

[14] The main reforms likely to have had an impact over this period were real increases to the per-child element of the Child Tax Credit in April 2008 and April 2009.

families), and some of their entitlements have been cut back – including Working Tax Credit, which goes only to working families.[15]

One of the effects of these combined changes has been the growing prominence of in-work poverty over the past decade – both in reality and in policy debates about where best to focus attention in reducing poverty. The numbers underlying the table imply that, in 2004–05, 52% of children in poverty in the UK lived with a working parent. By 2012–13 this proportion had risen to 61%. There are actually a number of causes of this shift, with different implications. It is partly because the poverty rate among children of workless lone parents remains lower than it was in 2004–05, unlike for any of the other groups of children shown in the table. It is partly because the proportion of children living in working families has continued to rise – and hence, the proportion living in working families and in poverty has risen too. This may well be interpreted as a positive news story. Finally, the trend has been accelerated by the marked rises in rates of poverty within working families during the recession, as real pay for parents has fallen. These last two factors reflect a more general feature of the recent recession and the UK labour market: robust employment rates alongside falling average real pay among those employed.

4. Prospects for child poverty

In future releases of household income data for 2013–14 and beyond, the impacts of the social security cuts being implemented as part of the post-recession fiscal consolidation should become increasingly apparent. Those cuts are planned to reach £21 billion per year (more than 1% of GDP) by the end of this parliament in 2015–16. They were accelerated significantly in April 2013. A three-year policy of increasing most working-age benefits and tax credits by 1% in cash terms (i.e. by less than inflation) began then, and a number of more specific cuts to parts of the welfare budget were implemented.

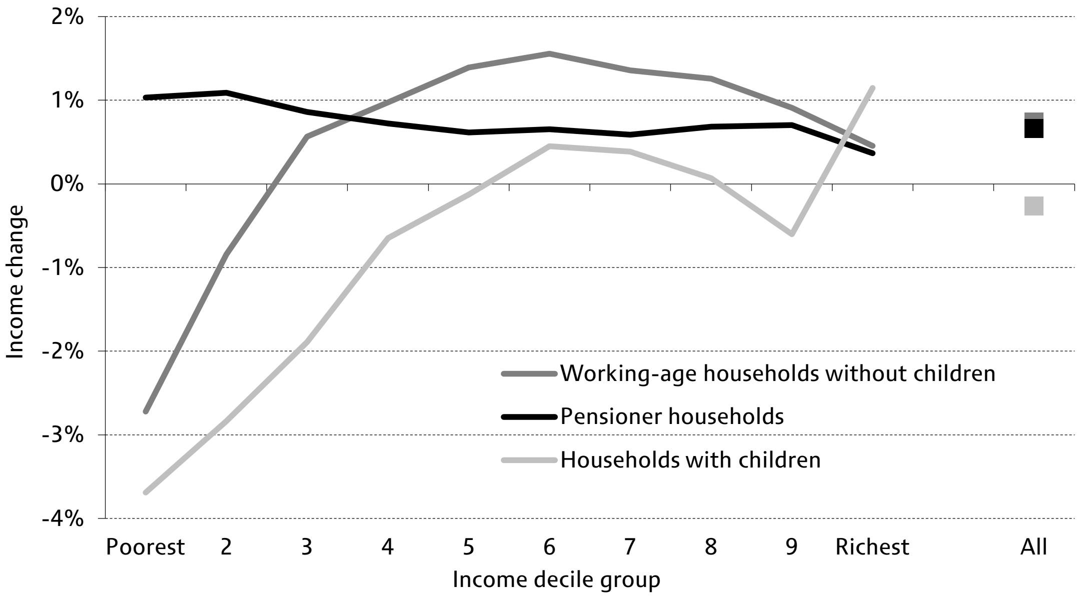
Figure 7 shows the estimated distributional impact of direct tax and benefit changes taking effect between April 2013 and April 2015.[16] It shows that the changes tend to hit low-income households with children the most as a proportion of income. Those in the bottom three income deciles are set to lose between 1.9% and 3.7% of their net income from the changes, on average. This is driven by the combination of three facts: the working-age social security budget is being cut; low-income households get much more

[15] Cuts to Working Tax Credit are primarily responsible for the low increase in benefit entitlements in 2012–13 for the working lone parent shown in Table 1.

[16] Note that the impact of indirect taxes is excluded. This is because indirect taxes cannot have varying impacts across the distribution of HBAI-measured incomes, because all incomes are compared in real terms over time using a measure of prices that is the same for all households (so only average changes in the cost of living are accounted for).

social security than high-income households; and households with children get a larger share of their income from social security than other working-age households.

Figure 7. Impact of direct tax and benefit reforms introduced or planned between April 2013 and April 2015, by income decile group and household type



Note: Income decile groups are derived by dividing all households into 10 equal-sized groups based on their simulated income in the absence of any reforms, according to equivalised household income. Assumes full take-up of means-tested benefits and tax credits. Analysis ignores the introduction of universal credit, which begins in October 2013 but is not due to be complete until the end of 2017, and the introduction of personal independence payments, which replaced disability living allowance for new claimants from April 2013 but only affects existing claimants from October 2015 onwards.
Source: Author's calculations using TAXBEN, the Institute for Fiscal Studies' tax and benefit microsimulation model, run on uprated 2011–12 FRS data.

Given how sensitive income poverty is to benefit levels (because most of the household income of low-income people comes from benefits, on average), it would be reasonable to expect trends in income poverty to look less favourable in future releases of data than has been the case hitherto – at least for working-age families, on whom social security cuts are being heavily concentrated. In light of this, recent projections of poverty come as little surprise. Accounting for planned tax and social security policy and official forecasts of earnings and employment, they suggest that both absolute and relative income poverty among children are set to increase after 2012–13.[17] Of course, the details are uncertain, and relative income poverty in particular will be sensitive to changes in the outlook for earnings growth, which has significant impacts on the relative poverty line.

It is also worth noting that there may well be significant further cuts to social security in the next parliament, from 2016–17 onwards. The fiscal consolidation, designed to

[17] Browne, Hood and Joyce, 2014. Those projections were produced before the 2014 Autumn Statement, and the details will thus have changed a little (mostly in light of changes to the macroeconomic outlook). But the key findings of that work were driven by cuts to working-age social security, the plans for which have changed very little since the projections were produced.

eliminate the huge structural budget deficit created by the financial crisis, is due to run to 2017–18. The current public sector borrowing plans imply the need to specify further spending cuts or to announce new tax rises (or some combination) on top of those already announced or implemented. The current Chancellor has indicated a desire to deliver a further £12 billion per year of social security cuts (approximately what would be required under current borrowing plans if there were no new tax rises and if the current pace of cuts to public services were maintained).[18]

Of most immediate relevance for public policy is the dramatic mismatch between the outlook for child poverty and the government's supposedly legally-binding commitment to reduce relative and absolute (BHC) income poverty among children to just 10% and 5% respectively by 2020–21.[19] In 2012–13, these measures of poverty stood at 17.4% and 19.5% respectively. The targets were always extremely ambitious, but given the latest data available and the likely upwards trajectory of child poverty in the years ahead, it looks inconceivable that the targets could be achieved (or even got close to).

There are two possible constructive ways forward: the government could reveal a credible plan for meeting the targets that it has signed up to; or it could set different targets that would reflect its view of what is both desirable and achievable, and set out how it plans to meet those. It did neither in its recent draft Child Poverty Strategy,[20] which it is compelled by the 2010 Child Poverty Act to publish every three years.

5. Conclusion

The Labour administrations in government between 1997 and 2010 promoted child poverty to the top of the policy agenda. They clearly chose to use the tax and benefit system as a means of achieving their poverty objectives and, given the considerable cost of the welfare increases that they implemented, evidently chose to give this high priority relative to other objectives. This did result in significant poverty reductions. However, despite some progress on parental employment rates, Labour struggled to find ways of substantially improving the (absolute and relative) incomes of the poor other than via this direct fiscal redistribution. It is possible that other policies, such as large increases in school and pre-school spending, will also bear fruit in terms of poverty reduction in the long run – but the effects are much more uncertain.

There are of course always reasonable debates about the appropriate level of welfare spending, given tradeoffs in the public finances, and tradeoffs between redistribution and incentives to work. In practical terms, though, a risk of Labour's heavy reliance on increases in benefits to reduce poverty is that (at least some of) those poverty reductions may prove fragile. The fiscal climate is now very different, and the current government has been critical of Labour's large increases in benefits. It is in the process

[18] See Crawford, Emmerson and Keynes (2014) for further discussion.

[19] Child Poverty Act 2010.

[20] HM Government, 2014.

of effectively reversing a sizeable chunk of those increases. It is not clear what could drive large and swift reductions in child poverty in their place. Reed and Portes (2014) show that, even under extremely optimistic scenarios for employment and earnings growth, the 2020–21 target would still be missed by a wide margin.

Indeed, the political rhetoric around child poverty under the current government has been different. It has argued that the heavy focus on poverty measures based on current income inappropriately skewed policymakers towards immediate cash transfers and away from addressing the longer-term causes of low incomes. Although there do appear to be clear differences in substance, some of this is also about differences in rhetoric and political framing. As discussed, Labour did focus on things other than just benefit increases, such as parental employment. But it is certainly true that only the benefit increases appear to have had dramatic and rapid impacts on the measures of child poverty being targeted.

The government has recently consulted on defining a new 'multi-dimensional' measure of child poverty, which would have incorporated a much broader set of indicators.[21] Those suggested by the government in the consultation document included worklessness, debt, access to quality education, parental skill level and parental health. Whilst a broad policy focus is sensible, and each of these factors are clearly of interest, a danger of the government's approach was that the causes of poverty were conflated with poverty itself (or its consequences) and that the resulting index would have been conceptually confused and difficult to interpret (see Browne et al, 2013).

The situation now is rather unclear. At the time of writing it has been 18 months since the consultation on a new measure of child poverty ended, and the government appears to have been unable to reach agreement on any new measure. In the meantime it shows all the signs of not seriously wanting to pursue the income-based 2020–21 targets contained within the Child Poverty Act, and yet it has not attempted to repeal it. The recent assessment of the latest draft Child Poverty Strategy by the Social Mobility and Child Poverty Commission (2014) – an independent body created by the Child Poverty Act to hold the government to account – is instructive:

"[The strategy] falls far short of what is needed. Key problems include:

- The lack of any clear measures, with the Government continuing to distance itself from the statutory measures in the Child Poverty Act 2010 without suggesting any additions or alternatives... a strategy which cannot be measured is meaningless...
- The absence of a step-by-step plan for meeting the statutory targets, with the strategy presenting a list of policies rather than a detailed plan with impacts clearly delineated.

[21] HM Government, 2012.

- A failure to engage with independent projections [produced by the present author and colleagues] that poverty is set to increase substantially. This leaves a credibility gap at the heart of the strategy."

Aside from political disagreements over how to measure child poverty and how to reduce it, one factor that seems likely to continue to attract attention from all sides is the growing importance of poverty in working families. This partly reflects success in keeping parental employment rates up, and earlier reductions in out-of-work poverty rates due to increases in the generosity of the safety net; but it also reflects the falls in real earnings that were associated with the recent recession, and indeed weak earnings growth in the pre-recession years. Even by the time of writing, real average earnings in the UK are still flatlining or falling. This relates to a wider and very challenging puzzle: namely, why productivity in the UK appears to have fallen so much since the financial crisis, and why it has been so slow to recover.[22] Solutions include improving levels of skill and investment. How to achieve that remains the holy grail of much economic and social policy.

[22] See Disney, Jin and Miller (2013) and Barnett et al (2014)

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