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Child Poverty

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Outline of what's to come

- Policy background, past and future
- Income poverty among children in latest data (2010-11)...
- ...and in the context of recent history, and the targets set
- What has driven the changes observed recently?
- Discussion of policy going forwards

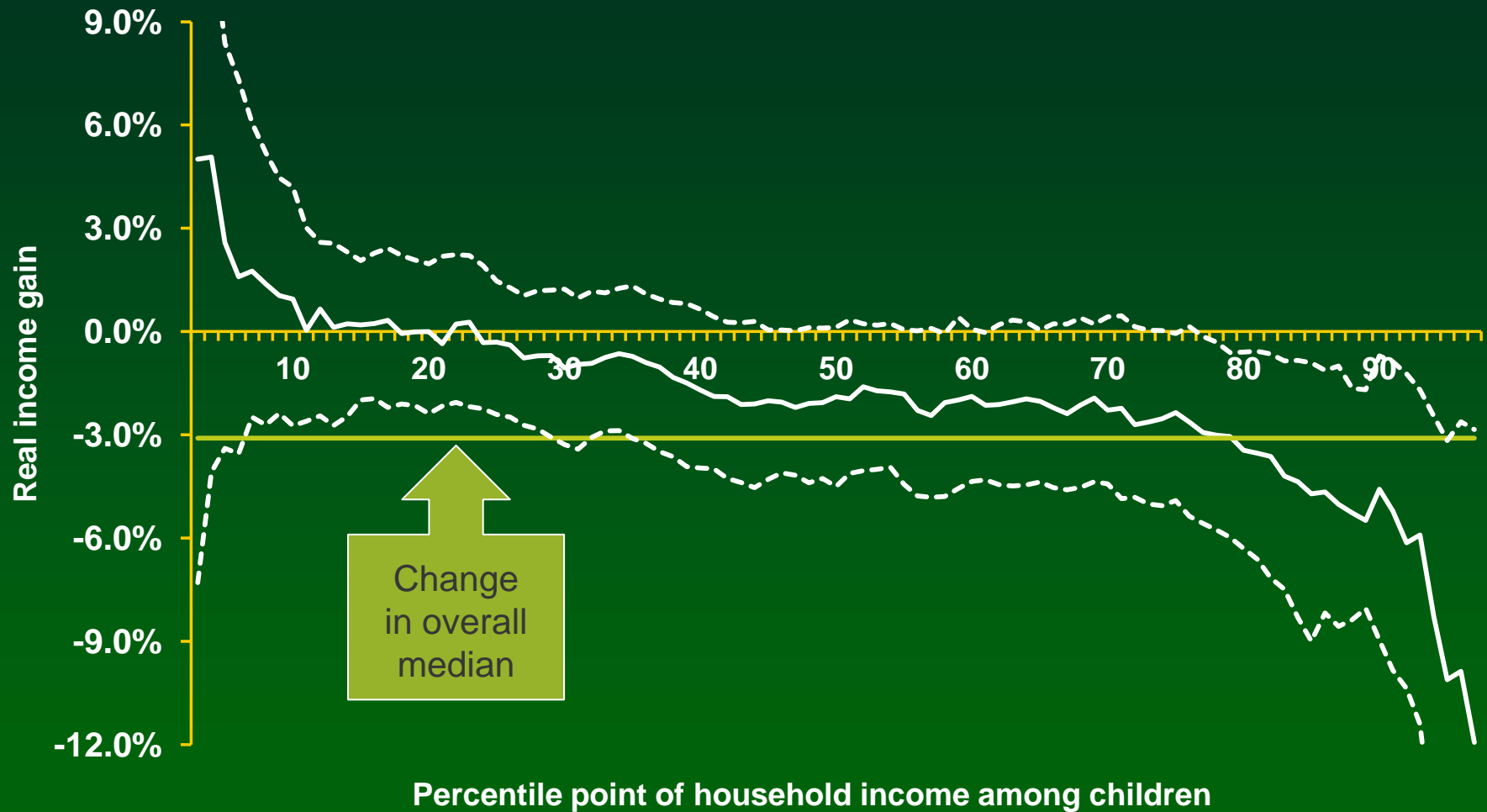
Policy background: previous governments

- Previous Labour government declared ambition to ‘eradicate’ child poverty by 2020
- Defined mostly (BHC) income-based targets
 - Relative low income: < 60% of median income
 - Absolute low income: < 60% of 1998-99 median
 - Combined relative low income and material deprivation: < 70% of median income, and ‘materially deprived’
- Aimed to halve them between 1998-99 and 2010-11
 - Interim target in 2004-05 for relative low income indicator (narrowly missed)

Policy background: looking ahead

- 2010 Child Poverty Act, voted for by all 3 main UK parties:
 - Set extremely challenging income-based targets for 2020-21 (e.g. no more than 10% in relative low income)
 - Required publication of national child poverty strategies
- Government published 1st Child Poverty Strategy last year
- Said poverty is “about far more than income”, and defined wide range of other indicators
- Repeated similar sentiments yesterday and announced Autumn consultation on broader measures

Changes in the household incomes of children, 2009-10 to 2010-11 (UK)



Notes: Changes in income at the 1st, 2nd, 98th and 99th percentiles are not shown due to very high levels of statistical uncertainty. Incomes have been measured before housing costs have been deducted.
Source: Authors' calculations using Family Resources Survey, 2009-10 and 2010-11.



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Income poverty among children in 2010-11 (UK)

- Real incomes of low-income households with children changed little in 2010-11
 - Absolute child poverty (poverty line fixed at 60% of 1998-99 median) essentially unchanged
- Consequently, gap between them and middle-income households closed significantly
 - Relative child poverty (poverty line: 60% of median) down 300,000 (2.1 ppts) to 2.3 million (17.5%).
 - But almost entirely due to 3.1% fall in median income: does not reflect improvements in absolute incomes
- Combined relative low income and material deprivation indicator also fell

Progress towards 2010-11 target: final verdict

	Relative low income		Absolute low income		Material deprivation and relative low income	
	%	Million	%	Million	%	Million
1998-99	26.1	3.4	26.1	3.4	20.8	2.6
2010-11	17.5	2.3	10.6	1.4	14.5	1.9
Original target	n/a	1.7	n/a	1.7	n/a	1.3
Missed target by...	n/a	0.6	n/a	-0.3	n/a	0.6
Change since 1998-99	-8.6	-1.1	-15.6	-2.1	-6.3	-0.7

Notes and source: see Figure 5.2 of *Living Standards, Poverty and Inequality in the UK: 2012*

Progress towards 2010-11 target: final verdict

	Relative low income		Absolute low income		Material deprivation and relative low income	
	%	Million	%	Million	%	Million
1998-99	26.1	3.4	26.1	3.4	20.8	2.6
.....						
2004-05	21.3	2.7	12.9	1.7	17.1	2.2
.....						
2007-08	22.5	2.9	13.4	1.7	17.2	2.2
.....						
2010-11	17.5	2.3	10.6	1.4	14.5	1.9
Change since 1998-99	-8.6	-1.1	-15.6	-2.1	-6.3	-0.7
Original target	n/a	1.7	n/a	1.7	n/a	1.3
Shortfall	n/a	0.6	n/a	-0.3	n/a	0.6

Notes and source: see Figure 5.2 of *Living Standards, Poverty and Inequality in the UK: 2012*



Relative BHC child poverty rates since 1961



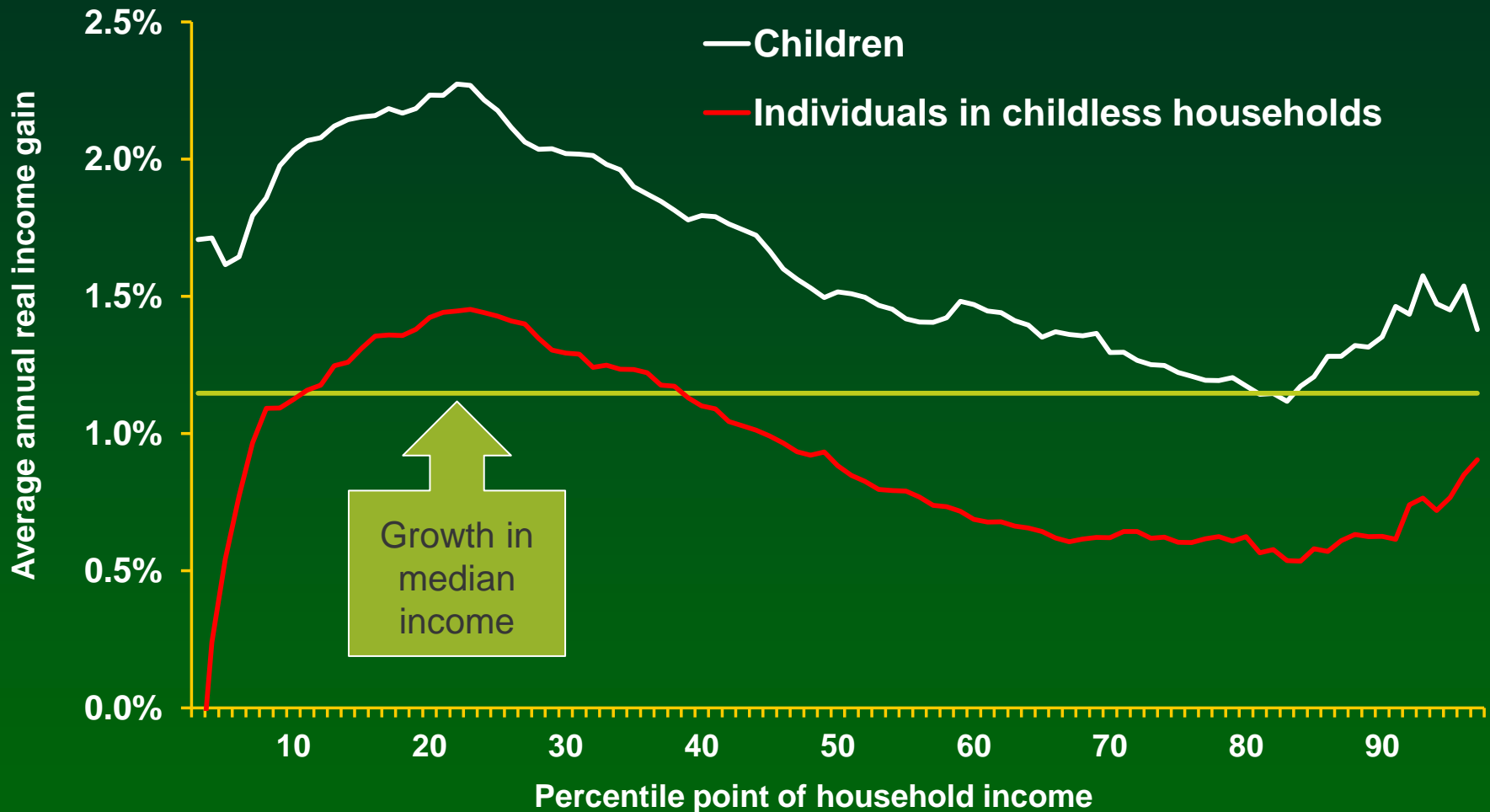
Notes: Poverty line is 60% of median income. Years up to and including 1992 are calendar years; thereafter, years refer to financial years. Incomes are measured before housing costs have been deducted.
Source: Authors' calculations using Family Resources Survey and Family Expenditure Survey.

Changes in the government's child poverty indicators between 1998-99 and 2010-11: summary

- Number of children in absolute income poverty (fixed poverty line) fell from 3.4 million to 1.4 million (26.1% to 10.6%).
- Number of children in relative income poverty (poverty line moves with median income) fell from 3.4 million to 2.3 million (26.1% to 17.5%).
 - Fell by about one third and in 2010-11 was at lowest rate since 1984.
- Number of children in relative low income and material deprivation fell from 2.6 million to 1.9 million (20.8% to 14.5%).
- In both cases, much of the progress towards targets was made before 2004-05...
 - ...and stalled between 2004-05 and 2007-08



Beyond specific poverty lines: growth in the household incomes of children since 1998-99 (GB)



Notes: Changes in income at the 1st, 2nd, 98th and 99th percentiles are not shown on this graph due to very high levels of statistical uncertainty. Incomes have been measured before housing costs have been deducted.
Source: Authors' calculations using Family Resources Survey, 1998-99 and 2010-11.



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Household income growth among children since 1998-99: summary

- Statistically significant real growth across distribution...
 - ...and, in bottom half, easily exceeding growth in median income
- Higher growth than for people in childless households
- Growth generally faster lower down, except at very bottom
 - Non take-up of means-tested benefits / tax credits
 - Those with very lowest incomes not worst off: children with income < 40% of median *less* materially deprived than those between 40% and 60%

Statistical drivers of changes in the government's child poverty indicators since 1998-99...

- Main ones include:
 - Fall in poverty risk for children of lone parents (particularly workless lone parents)
 - Fall in poverty risk for children in larger families (3 or more children)
 - Fall in poverty risk in families with young children
 - Fall in fraction of children in workless families

...and the causes of these changes?

- Parental employment patterns have played a role
- But changes in level of fiscal redistribution towards low-income households with children dominate...
- Not surprising
 - Benefits/tax credits are major source of income for low-income households, on average
 - Government pursued ambitious targets over quite short periods: benefit changes tend to have immediate impacts on incomes

Growth in benefit entitlements compared to relative poverty line, for example families with children

	Couple, 3 children, no work	Lone parent, 1 child, no work	Lone parent, 1 child, part-time work	Change in BHC relative child poverty rate in UK
1999-00	+	+	+	-
2000-01	+	+	+	-
2001-02	+	+	+	-
2002-03	+	-	+	-
2003-04	+	+	+	-
2004-05	+	+	+	-
2005-06	-	-	-	+
2006-07	-	-	-	+
2007-08	-	-	-	+
2008-09	+	+	+	-
2009-10	+	+	+	-
2010-11	+	+	+	-

 Entitlements grew faster than relative poverty line (median income)

 Entitlements grew more slowly than relative poverty line (median income)

Notes: Ignores Housing Benefit, Council Tax Benefit and the value of free school meals. The working lone parent earns an amount that is below the personal income tax allowance and the primary threshold for National Insurance contributions.
Source: Authors' calculations using TAXBEN, the IFS tax and benefit micro-simulation model.



Fiscal redistribution and child poverty under Labour

- Labour's direct tax and benefit policies clearly driven by child poverty targets
 - Increased annual entitlements to net state support by average of £4,000 for poorest half of households with children, compared to default (mostly price) indexation...
 - ...or by £1,165 compared to GDP-indexation
- In 2010-11, £18 billion more spent on child-contingent benefits/tax credits than if Labour had just applied default indexation rules (Browne and Phillips, 2010).

The government's approach to child poverty

- Argued in Child Poverty Strategy that a focus merely on incomes would be too narrow
- And that policy should focus more on long-term causes
- Defined wide range of other indicators
 - e.g. educational participation; early health inequalities; teenage pregnancies; children in workless households
 - Similarities with indicators used by previous government
- Announced yesterday a consultation in Autumn about defining a poverty measure which goes beyond income

The government's approach: brief assessment

- Income clearly not sole determinant of children's wellbeing
- Bound to be reasonable disagreement about :
 - Importance of income relative to other factors
 - Which things constitute, cause or are caused by poverty (or are just other things that we care about)
- But a broad focus is sensible
- Is there a hierarchy of indicators?
- How do they relate to one another?

And the income-based targets... (1)

- We know from recent experience that income-based poverty measures highly sensitive to fiscal redistribution
 - Unsurprisingly given welfare cuts, IFS researchers forecast child income poverty to rise in coming years (absolute and relative)
- Important tradeoffs:
 - Redistribution versus financial work incentives
 - A pound spent on benefits is a pound not spent on education, child health, deficit reduction, etc...
- Government has made clear that it thinks costs of much more redistribution in coming years would be too great

And the income-based targets... (2)

- People will inevitably differ on whether government is right about fiscal redistribution
- But given the government's judgement, it is increasingly difficult to understand the role of the 2020-21 targets
- Focusing on indicators emphasised by government may well be powerful and cost-effective in long run
- But target year is only eight years away
 - Infeasible to achieve radical transformation of income distribution by these means *over that timescale*

Conclusions

- Income poverty (both relative and absolute) among children has fallen substantially since 1998-99
 - But relative child poverty target missed
- This is mostly due to large increase in fiscal redistribution
- In 2010-11, real incomes of low-income households with children were broadly stable
- Current government has emphasised broad view of child poverty and a focus on long-term causes
 - Much of this sounds sensible, but timing of the 2020 targets is problematic in context of government's approach