

# Eradicating child poverty

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The eradication of child poverty is a key objective of the current government, and one they hope to achieve by 2020. Alongside this target, the government also set interim child poverty targets for 2004/05 and 2010/11. But data released last year revealed that – despite substantial progress – the 2004/05 target had been missed, meaning there is even further to go to meet future targets. This article discusses how child poverty has changed in recent years, suggests reasons why the 2004/05 target was missed, and considers the prospects for 2010/11 and 2020.

A first issue to address is: how do you determine when a child is poor? This may seem like a straightforward question, but it turns out there isn't an easy answer:

- Is income what is relevant for poverty, or does what income is spent on matter?
- What about different needs (e.g. due to disability or family size)?
- Is depth of poverty relevant?
- Are health and access to services important?

The government regularly publishes indicators addressing a wide range of these questions. In this article, however, we will concentrate on just one measure of poverty: the one used for the 2004/05 child poverty target and central to the 2010 and 2020 targets. This definition counts a child as being poor if the income of the household in which they live is below a specified level that varies according to household composition (the 'poverty line'). Under this definition, therefore, poverty depends on two factors:

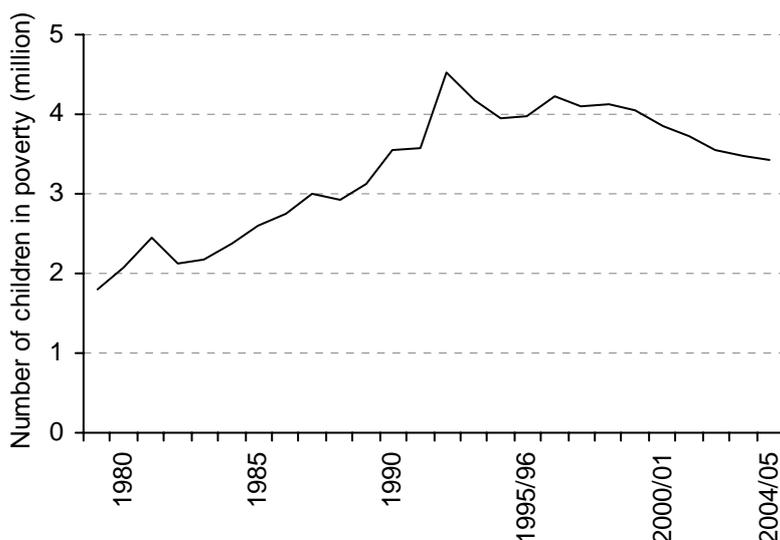
- weekly take-home income of the household (mainly post-tax earnings and benefits, but also income from investments, pensions, etc)
- size and structure of the household (number of adults, number and age of children)

The poverty line is set at 60 per cent of median income (median income is the household income of the individual in the middle of the income distribution, again taking into account household composition). It is a *relative* measure of poverty because the poverty line moves in line with median income each year; it is a *headcount* measure (counting the number of children who are poor), and takes no account of depth of poverty.

Have a guess what the poverty line is for, say, a child aged eight in a lone parent family (in weekly terms). The answer is at the end of the next sentence! When income is measured after housing costs have been deducted (all figures here use this definition), the poverty line in 2004/05 for this family (the latest year for which data is available) was £142 per week. For comparison, the poverty line for a couple family with children aged one and three was £228 per week.

What has happened to child poverty over recent years using this definition? The graph below shows child poverty since 1979 (the year that Margaret Thatcher became Prime Minister). In general terms, poverty rose rapidly while Thatcher was Prime Minister (1979-1990), rose at a similar or slightly less rapid rate under John Major (1990-1996/97) and has fallen since Tony Blair came to power (1996/97 onwards). (But note that changes in poverty tend to be sensitive to the points in the economic cycle at which it is measured).

Figure 1. Child poverty: 1979-2004/05



Notes: The poverty line is defined as 60% of the median after housing costs income (income measured after housing costs have been deducted). The number of dependent children has fluctuated over this period, so this graph may not give an accurate impression of the changing risk of child poverty.

Source: Author's calculations from HBAI datasets.

The 2004/05 child poverty target was for child poverty to have fallen by one quarter relative to its 1998/99 level. The graph shows that there were 4.1 million poor children in 1998/99, so the target required that there be 3.0 million or fewer children in poverty in 2004/05 – child poverty had to fall by 1.1 million.

From the graph, it is clear that child poverty fell by around 700,000 over this period – about 400,000 short of meeting the target. There are two interesting questions we can ask here:

- What happened to make child poverty fall?
- Why didn't child poverty fall by enough to meet the target?

To help us answer the first of these, we can perform something called a poverty decomposition. The decomposition presented here (see table) shows how much of the fall in child poverty was due to each of the following:

- **population effect:** a fall in the number of children
- **composition effect:** changes in the types of families children live in (towards those with a lower risk of poverty)
- **incidence effect:** a fall in the risk of poverty among given family types

Using nine different family types (defined by lone parent status and hours of work), the results suggest that the main reason for the fall in child poverty between 1998/99 and 2004/05 was the **incidence effect** (responsible for roughly 80 per cent of the total change). There were large falls in the risk of poverty for children in workless families, those with part-time working lone parents and those in couple families with one full-time parent and one non-working parent. These patterns are consistent with the direction of the government's tax and benefit changes affecting families with children, because these families have benefited most from increases in child contingent support through tax credits and out-of-work benefits.

Most of the remainder was due to the **composition effect**, and in particular a substantial decline in the proportion of children living in workless families. The **population effect** contributed little to the fall in poverty.

Table 1. Decomposition of the change in child poverty: 1998/99-2004/05

	Number of children	Percentage of total
Compositional effect	-95,655	13.5
Incidence effect	-573,405	80.6
Population effect	-42,057	5.9
Total	-711,117	100.0

Notes: Although unrounded numbers are reported, this should not be taken to indicate that changes in child poverty are measured with such accuracy.

Source: Author's calculations from various HBAI datasets.

Determining why child poverty fell by 400,000 fewer than was required to meet the target is more difficult. On one level, the simple answer is that the government didn't spend enough on child-contingent support. But this is too easy an answer, particularly because after the government's policy reforms were announced, external commentators (IFS included!) thought they would probably be just enough to meet the target.

Poverty decompositions (like the one described above) again prove helpful. Comparing a decomposition for the actual change in child poverty with one for the predicted change reveals that most of the shortfall can be attributed to the incidence effect, and in particular, the incidence effect for selected family types. There were three family types for which the actual fall in the risk of poverty was much smaller than predicted: children in workless lone parent families, children in couple families with one parent working full-time, and children in couple families with a self-employed parent.

By far the biggest of these (accounting for around half of the total shortfall) was for children in workless lone parent families. This is interesting because this is also the group that was expected to experience the biggest fall in child poverty. A large fall was expected because, in the run up to the 2004/05 target, the government relied primarily on changes to the child tax credit (CTC) to reduce poverty. (CTC provides means-tested support for families with children regardless of whether the parent(s) are working; workless families stood to gain more than most working families who are likely to have had some of their entitlement means-tested away).

This may indicate that tax credits have not been as effective at reducing poverty as expected – for example, due to lower take-up amongst target groups than assumed by the forecast. It also appears that the survey used to estimate child poverty under-records tax credit receipt, so measured changes may not be completely reliable. And alongside these explanations, we should remember that forecasts of child poverty are very sensitive to the precise assumptions made, because so many children are located very close to the poverty line.

What does all this mean for the 2010/11 and 2020 targets? The 2010/11 target is to halve child poverty relative to its 1998/99 level, and the 2020 target is eradicate child poverty (where 'eradicate' is defined as being 'among the best in Europe' (5-10 per cent) – not your usual definition of eradication!) Progress towards these targets will be assessed using a slightly different poverty measure, but the central indicator is pretty similar to the one

outlined above for the 2004/05 target (one difference is that income is measured before housing costs are deducted).

In order to hit the 2010/11 target, child poverty has to fall more than one-and-a-half times as fast between 2004/05 and 2010/11 than it did between 1998/99 and 2004/05. Recent work at IFS suggests that this could be achieved at a cost of around £4.3bn in 2010/11. Although this is only just over half the size of the increase in child-contingent support experienced between 1999/00 and 2003/04, it may nevertheless be difficult to achieve because the public finances are tight (making it hard to find more money to redistribute towards children). Moreover, by the time you read this, there will only be three years left for the government to announce policies aimed at meeting the 2010/11 target!

In all likelihood, the 2020 target will be even more challenging. Children further down the income distribution tend to be more difficult (and expensive) to reach using traditional tax and benefit policies since many are in workless families or families who are not claiming all the benefits and tax credits they are entitled to.

As the government recognises, tax and benefit changes by themselves won't be sufficient to eradicate child poverty: more fundamental changes in the underlying distribution of income are required. In part, this will need to come from increasing the proportion of parents in work (you won't be surprised to hear that poverty is concentrated in workless households). Although progress has been made on this front in recent years – particularly among lone parents – more is needed. But other non-financial interventions, such as greater investment in education to reduce the proportion of children leaving school without qualifications, may also be crucial. Many people who will be parents in 2020 are still in school now!