

3 Progress so far, and what remains undone

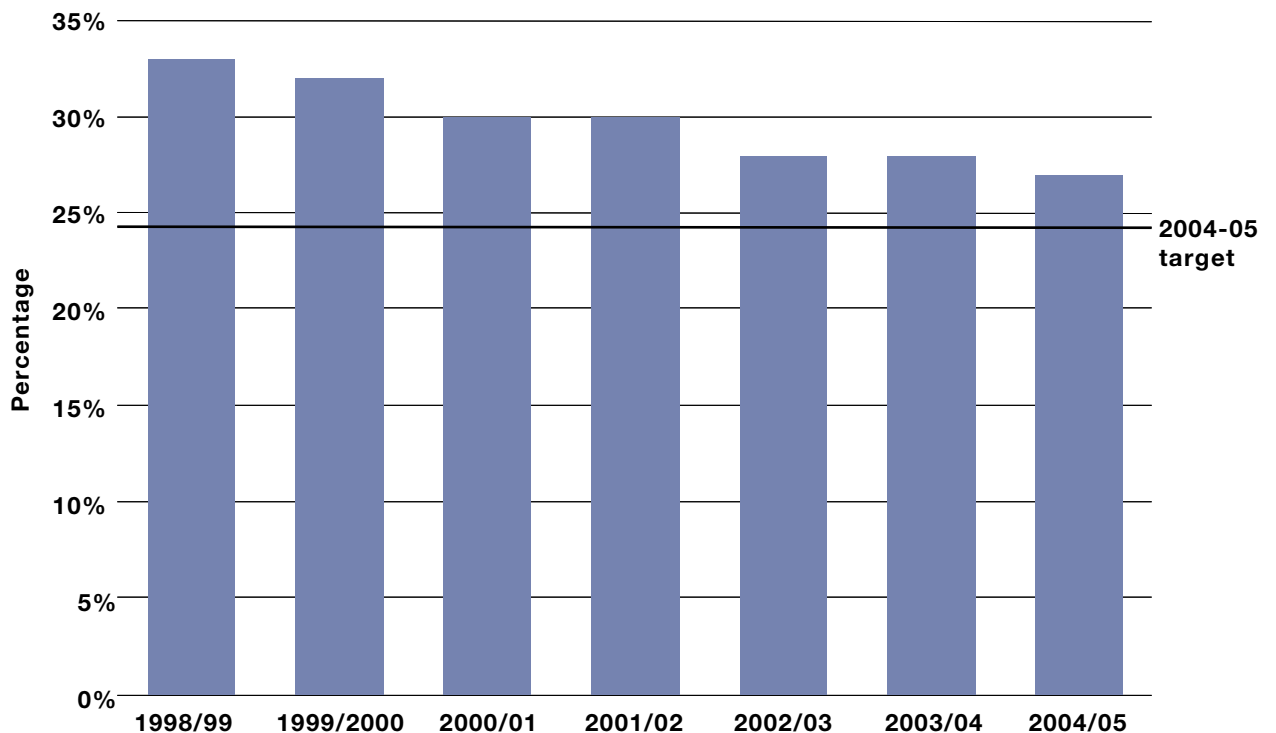
Child poverty trends, 1999-2005

A steady fall in child poverty has benefited some groups more than others.

Child poverty has fallen or remained steady in each year since 1998/99. Although by 2004/05 it had dropped by less than the target of a quarter, the fall was nearly one fifth on the after housing cost measure (see Figure 6) and close to the target of one quarter before housing costs. This fall represents a historic reversal of a trend in the other direction over the previous 20 years. It is particularly significant that relative poverty fell at a time when average incomes, and hence the threshold at which poverty is defined, were rising rapidly. The poverty line in 2004/05 was 21 per cent higher in real terms than in 1998/99, equivalent to £47 a week more after housing costs for a couple with two children.

This progress has been made partly by increasing the number of families with work, and partly by reducing the chances that various types of family, defined by their demographic characteristics and whether they are working or not, will find themselves poor. In particular,

Figure 6 Percentage of children below 60% median income after housing costs



compared to the late 1990s, children with the following characteristics were significantly less likely to be poor³⁶:

- **Children with lone parents**, whose risk of poverty has fallen from 61 per cent to 48 per cent, partly because their parents are more likely to be working, and partly because, working or not, they get more from the state. (For children living with couples, the chance of being poor has changed by less, but since there are more children in this situation, the effect has been substantial: see below.)
- **Children in families with under-5s**, whose risk of poverty has fallen faster than for older families: from 35 per cent to 29 per cent.
- **Children in families with disabled people**, whether disabled children or adults. In particular where a child is disabled the risk of having a low income is now 30 per cent rather than 40 per cent.
- **Children in Wales, and in some English regions**. A decade ago, child poverty was markedly higher in Wales than in England: 34 per cent rather than 31 per cent in 1994/95. Now the rate is the same in the two countries. From 1998/99 to 2004-05, when the child poverty rate fell by five percentage points across Britain, it fell by 11 percentage points in the North West, 11 in the North East and seven points in Scotland and in Wales. The target of a one quarter reduction was fulfilled in three English regions: the North East, the North West and the South West. In stark contrast, child poverty in London actually rose slightly during this period.

“I am a lone parent, with a disabled child, on £190 a week, but I am still struggling. I cannot afford the things that my children want. I am desperate to work, but because of hospital appointments, jobs are not available. The hospital provides no childcare for my nine-year-old son. What will help me get out of this?... I can afford to travel to hospital, since my expenses are reimbursed, but while I am at the hospital, my children need feeding.” (parent at Sheffield feedback event)

The relative importance of work, pay and redistribution

Three ways that a family might move out of poverty are by moving into work, by increasing their earnings or by receiving more in benefits or tax credits from the state.

More children are living in families with work, and this has helped cut poverty...

In recent years, the movement of parents into work has played an important part in the decline in child poverty. Since 1994, the number of children living in workless households has fallen by a quarter – around 600,000 children. Much emphasis has been put on the rapid rise in the lone-parent employment rate, from 45 per cent to 56 per cent so far under the present government. Another trend that has been just as important in terms of reducing the number of workless households is the declining number of couples without

work. The proportion of children living with couples who had nobody working in their household almost halved from 1994 to 2005, from 11 per cent to 6 per cent.

At the same time, the chance of being poor can change for a child in a particular type of family, in terms of whether it contains a lone parent or a couple, and how many of its members work full or part time. For example, if lone parents in part-time work improve their pay, increase their working hours or receive more generous tax credits, poverty among this group may fall. Similarly, rises in out-of-work benefits may reduce the risk of poverty for workless families.

... but whereas early signs were that rising employment was the most important factor ...

How important in practice have these different factors been? An early analysis of reductions in child poverty under Labour, carried out by David Piachaud and Holly Sutherland in 2003, found that, between 1997 and 2001, rises in employment accounted for a fall of about 2 percentage points in child poverty, around half the actual observed reduction. Changes in earnings appeared to have had little influence, and this research suggested that tax and benefit increases had accounted for much of the remaining reduction. In other words, in the early years of the Labour government, movements back into work seemed to be at least as important as the growing generosity of tax credits and other tax and benefit measures, as a driver of child poverty reductions.

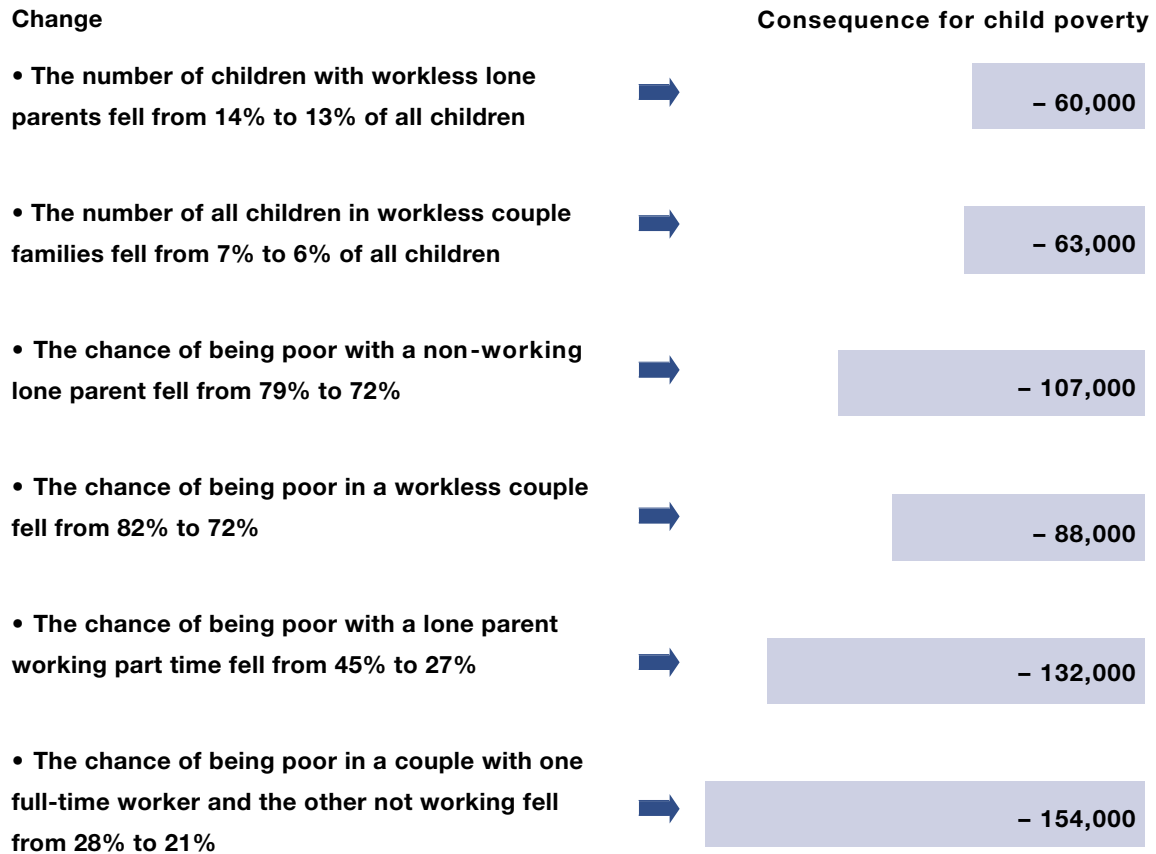
... recently it appears that other factors such as tax credits have had a more direct impact ...

The Institute for Fiscal Studies³⁷ (IFS) has recently calculated a breakdown of the drivers behind a more recent fall in child poverty – from 1998/99 to 2004/05. This looks at the relative influence of how many children are in different types of family and the risk of poverty in each family type – although it does not distinguish the extent to which this risk is affected by earnings levels and the amount transferred to and from the family in taxes and benefits. The most important influences identified by the IFS are shown in Figure 7 overleaf.

These breakdowns suggest that, for this later period, the biggest effects were not associated with movement into work but with the reduced risk of poverty within family types defined by their composition and work status. Only 120,000 of the 700,000 fall in child poverty in this period can be attributed directly to falls in worklessness. The new tax credit regime has brought substantial increases in out-of-work incomes for families with children, and although they are still far more likely than not to be in poverty, reductions in their poverty risk have caused nearly 200,000 fewer children to be below the poverty line.

But it is among certain in-work family types that the falling risk has been greatest. In 1998, the child of a lone parent was still almost as likely as not to be in poverty if the parent had a part-time job, but now the chance of escaping poverty through part-time work is almost three to one. The poverty risk for a child with one parent working and the other

Figure 7 Six main changes that helped reduce child poverty by 700,000 from 1998/99 to 2004/05



not has fallen by less in percentage terms, but the larger number of such children means that the effect on the number in poverty is even greater. Between them the reduction in poverty risk in these two types of working family accounts for 40 per cent of the total reduction in child poverty. While this may potentially have been influenced by earnings, there is so far no evidence to show that this is the case³⁸. On the other hand, the growing generosity of in-work tax credits was predicted by models to raise many working families with children across the poverty line. Indeed, the extent to which this has occurred is lower than forecast, and due to difficulties with the accuracy of surveys, these results must be seen as approximate³⁹.

... and with worklessness now falling less quickly, movement into work can only be part of the picture ...

Thus, while the early signs under the Labour government seemed to show that rising employment was the biggest factor behind falls in child poverty, more recently it appears that jobs played a smaller role, and rises in tax credits a relatively large one. The decline in worklessness has slowed: according to the Labour Force Survey, the number of children

in non-working families fell by 300,000 from Spring 1997 to Spring 2001, but only by 100,000 in the following four-year period, to Spring 2005. Rising employment rates for lone parents have not slowed, but the sharp fall in worklessness among couples with children during the 1990s appears to have halted⁴⁰. Moreover, the reduction in the *percentage* of lone parents not working has been partly offset by an increase in the *number* of children in lone-parent families, by about 150,000 between 1998/99 and 2004/05, to rise above 3 million for the first time. The increased likelihood that children would have a lone parent, with a higher risk of poverty, added about 50,000 to the number in poverty⁴¹.

What is the scope for further falls in worklessness, and how much might this contribute to the reduction in poverty? Figures 8a and 8b overleaf indicate that in the past decade children in workless families have increasingly been concentrated in lone-parent families, and that most of those living with couples now have at least one disabled parent. Thus, the main scope for further reductions in worklessness is likely to come from increases in lone parents' employment, but here too there are limits. Four in ten children of lone parents are either under 5 or have a parent claiming disability benefits. Many others have young siblings; half of all lone parents on Income Support have at least one child under 5 and 80 per cent at least one child under 11⁴².

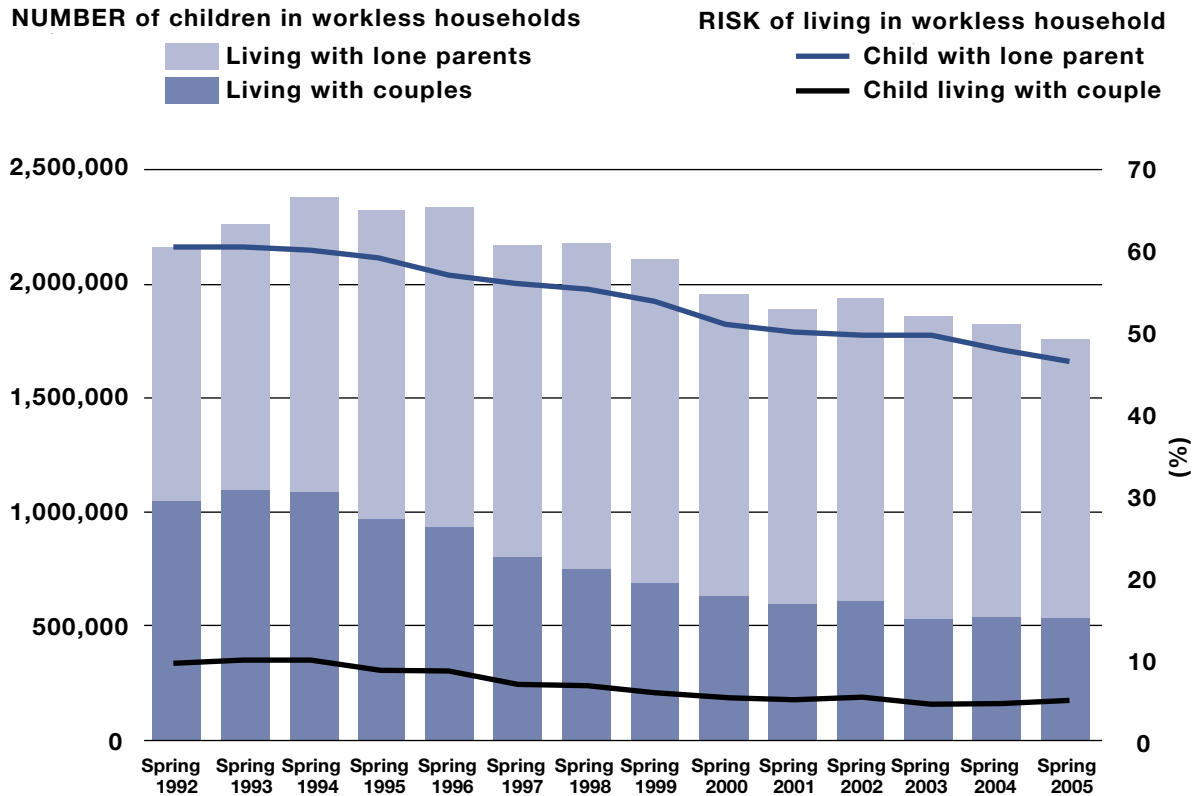
This does not mean that getting families back into work should stop being a central part of the fight to end child poverty. Even if moves into work can only play a partial role in this process, for many families this will be a crucial step in a longer-term trajectory that at best will improve their incomes and living standards. Moreover, for each person who moves into work, there is (in most cases) a substantial gain for the public purse that can potentially be reinvested in cutting poverty in other ways, such as raising benefits.

However, such efforts should acknowledge that welfare to work will in future require considerable personal support, to people who are likely to have a combination of disadvantages in entering the labour market. Many of those consulted by the Joseph Rowntree Foundation in this project emphasised that getting into sustainable employment can be a long drawn-out process requiring a lot of advice, support and preparation. This will require a huge investment in advisers and other personnel.

“The Pathways to Work approach piloted in some areas of the country has been very successful; we have no evidence it is going wrong and we very much endorse the strategy. However, if they are to be rolled out across the country they must be properly resourced, which does not sit well with heavy job cuts at DWP. If initiatives like Pathways to Work are to be implemented, they must use properly trained advisers whose workload is realistic.” (advice worker at London feedback event)

Moreover, the numbers show that even if ‘work is the best route out of poverty’, reducing worklessness can only be part of the story of achieving aggregate reductions in the child poverty rate. To put these numbers in perspective, the number of children in workless

Figure 8a The number of children in workless households has fallen by a quarter in one decade. Most such children now have lone parents



- The chance of a child of a lone parent being in a workless household has fallen from 62% to 48%. For couples it has fallen from 11% to 6%.
- Seven in ten children in workless families now have lone parents, compared to only half in the early 1990s.

families fell by about 75,000 a year from 1997 to 2001 and by 25,000 from 2001 to 2005, but child poverty must fall by an average of about 200,000 a year to keep on track to meet government targets.

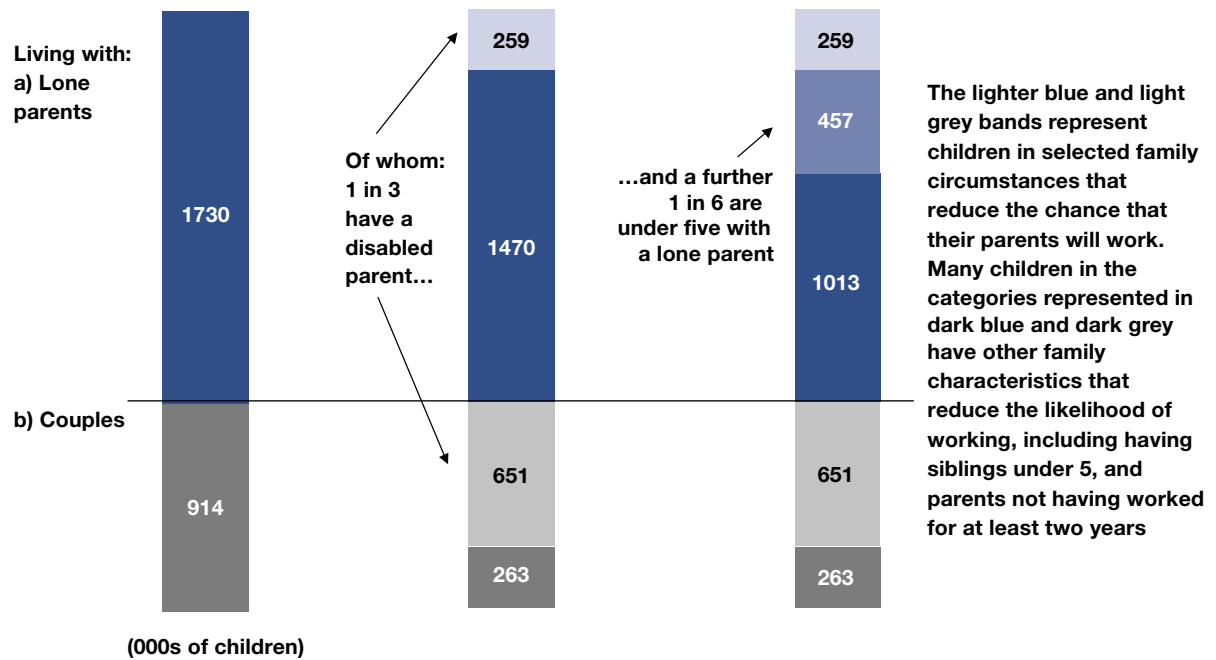
... so levels of earnings, tax credits and benefits have become crucial.

Thus, ongoing reductions in child poverty depend not just on how many children have parents in work, but also on the chance of children in workless families being poor and the chance of children in working families being poor. With about half of poor children currently having parents in work, these are of equal importance. Specifically, the following factors influence poverty risk:

- Whether benefit and tax credit levels give those without earnings sufficient income to rise above the poverty line. Although as noted above the risk of child poverty without work in the family has fallen, benefits still fall well short of providing 60 per cent median income for most children. Many who do escape poverty without work in the family are likely to have other adults in the household who are earning.

Figure 8b Half of children in workless families either have a disabled parent or are under 5 and have a lone parent

Children in families receiving key out-of-work benefits (2005)



Source: DWP client group analysis

- Whether tax credits are enough to raise incomes of people in work above the poverty line. The sharp hikes in tax credits in recent years, and especially in 2003, appear to have contributed to substantial reductions in poverty risk for some groups, especially for lone parents working part time.
- The number of hours worked in a working family. Despite in-work tax credits, children with parents who work part time, and those living with couples of whom only one is working, have much higher poverty risks than others in working families. In-work child poverty remains high partly because many parents returning to work have moved into jobs with short hours and low pay. One neglected route out of poverty is for the non-working partner of a working parent to get a part-time job: this reduces the poverty risk from one in five to one in 16.
- Pay rates among parents near the bottom of the labour market. In couples in particular, people with low pay have a high chance of remaining in poverty⁴³. Improvements in the pay of low-paid parents would both raise some people above the poverty line and reduce the tax credit bill, releasing public resources that could be used in other ways to tackle child poverty.

Public policy levers: what remains undone

A range of measures will be needed to move forward, including ...

To what extent might public policy tackle the main factors that are keeping children in poverty? Some important influences, such as the state of the economy, labour demand, characteristics of parents and patterns of family and household formation, are not directly controlled by governments. However, a number of policy levers can have a strong influence.

... further cuts in worklessness, which will be constrained by the present profile of workless parents ...

First, the present government has shown that employment policies can influence the number of children with parents in work. In particular, it has taken far more active measures to help and encourage lone parents to get jobs, whereas previously employment policy had been focused on those with an obligation to seek work as a condition of their benefits. Three main tools for doing so are improvement of work incentives through tax credits, the obligation to attend work-focused interviews and active assistance through the New Deal. Quantifying the contribution made by public policy is extremely difficult, but best estimates are that it has so far raised the proportion of couples with work by about 1 per cent and the proportion of lone parents with work by about 5 per cent⁴⁴.

Future gains of this kind will not be easy. As shown above, many claimants of benefits in workless households have characteristics that reduce the chance that they will get jobs, such as being disabled or having young children, and two thirds have been claiming benefits for at least two years. Nevertheless, it should be possible to continue to make progress, and several factors could combine to help the government to move towards its objective of raising lone-parent employment from 56 per cent to 70 per cent by 2010. Work carried out for this project⁴⁵ estimates that:

- existing welfare to work policies, including improvements in childcare and in work incentives, will add 4.5 percentage points to the lone-parent employment rate by 2010;
- policies already announced and funded will add a further half a percentage point;
- planned policies, particularly the expansion of Pathways and New Deal Plus for lone parents proposed in the Welfare Reform Green Paper could add 3.5-4.5 percentage points;
- these policy effects will come on top of an expected 3 percentage point rise in lone parents' employment as a result of the fact that their characteristics are changing: in particular they are becoming on average better educated and less likely to have very young children.

There are less obvious reasons to think that worklessness will fall among couples with children, who do not have a special New Deal directed at them, and many of whom have

to deal simultaneously with their own disability or mental illness and with the responsibility of looking after children. The Pathways to Work programme should help some of those on disability benefits, but at best guess this will only reduce the worklessness rate among such families by about half a percentage point.

On the basis of these estimates, the percentage of lone parents in work would rise from 56 per cent to about 67.5 per cent by 2010, and the percentage of couples with children not working would fall from 5 per cent to 4.5 per cent.

In seeking further progress in these directions over the longer term, governments will need to keep their employment strategies under review and ask why in some cases they do not seem to be working as well as they should. For example, as discussed in the previous chapter, efforts to improve childcare do not yet seem to have removed this as a barrier to employment for many parents. More generally, strategies to improve labour force participation appear to have worked better in some parts of the country than in others. One place where they have worked less well is London. A review of evidence in the 2006 Budget⁴⁶ suggests that there is a considerable shortfall in lone parents' employment in London not explained by the characteristics of individuals. Factors such as shortage of affordable childcare and higher benefit withdrawal rates for people with high rents may contribute to this 'London effect'. This may require new kinds of strategy that are more region-specific in future versions of the New Deal.

“Jobs are needed to help people find work! A lot of young people feel there is no hope, especially those at school 14-16 years old. In some areas of Merseyside teenagers have just given up – there is no work in their communities so what’s the point? An example was given of a local department store advertising 15 vacancies and over 200 applicants.” (small group session at Liverpool feedback event)

“There are lots of parents who want to work, but can they work? If parents in poverty have a sick child and they do not have an understanding school or friend who can help them out, then they have to pick up their child themselves. However, an employer would not let them do this or let them take a week off work without them having to go in and make the time up. The parents, children and families in poverty lose out.” (parent at London feedback event)

... further improvements in tax credits and benefits ...

Government fiscal policy has greatly favoured low-income families with children over recent years. On average, families with children in the poorest fifth of the population are £3,400 a year better off, in real terms, in 2006 than in 1997, as a result of changes in taxes and benefits plus the introduction of the National Minimum Wage⁴⁷. Yet further changes in this direction are likely to be fundamental to any continued reduction in child poverty. The modelling in the following chapter focuses in particular on the cost and effects of further improvements in tax credits and benefits. In order to eradicate child poverty completely,

these improvements will need to reach a range of people in different circumstances with low incomes, but policy design will need to pay particular attention to the situation of:

- people outside work, who have the deepest poverty and thus will need the greatest income rises to escape it;
- among working families, the situation of couples with children, who have been helped so far to a lesser extent by tax credits than lone parents, and now account for over 80 per cent of poor children in working families; and
- large families, who face a greater risk of poverty than small ones – for example, one poor child in five has at least three siblings, although only a tenth of all children do. This presents a case for at least considering large family supplements in the tax or benefit system.

... and measures to help improve the pay and earnings of working parents.

What levers does the government have to improve the amount gained from the market by poor families, which could play an important part in lifting them out of poverty? Such policies are more elusive, and harder to model, than straightforward redistribution. They include:

- Measures to improve education and skills, and hence productivity and wages. Over the long term, such policies could be fundamental in changing lifetime experiences in the labour market. There is also scope for more immediate help from the government in improving skills, and the Chancellor's aspiration to make the New Deal as much about gaining skills as about getting jobs, articulated in his 2006 Budget speech, points in that direction. Yet measures to raise the skills of disadvantaged groups in work remain underdeveloped.
- Other measures to improve pay. The National Minimum Wage has been seen as an obvious means to this end, but only affects people near the very bottom of the labour market. Perhaps just as important a tool would be equal pay for women, since the great majority of low-paid parents are mothers. The work of the Equalities Review is highlighting this issue, which will be an important part of the future anti-poverty agenda.
- Measures to improve the opportunity to increase the amount of work within a family. This includes lengthening the working hours of an individual and adding a second earner in a couple. Not all families would choose to extend their working hours, but for those that would choose to, new opportunities need to be made available. In particular, a neglected part of the 'welfare to work' agenda has been help and encouragement given to a non-working partner of someone already in work, if only to work part time. And promoting family-friendly policies that allow work and home commitments to be reconciled will be central to opening up more employment opportunities for parents.

“Parents are constantly torn between whether they are going to do the right thing by their child or by their employer. Flexibility in employment would be really helpful for that. Working from home, flexible hours and all those things should be used, particularly for parents.” (small group session at London feedback event)

Box 7: An agenda for tomorrow: thinking long term

The two most direct ways for governments to cut child poverty are to increase income transfers to poor families and to help parents into work. But in the long term these may not be the most important influences. The capacity of tomorrow’s parents to lead fulfilling lives, free of poverty, will to a large extent be influenced by their early development, including their education. People with strong personal and vocational skills have greater control over their lives, with greater potential not just to hold down a job but also to achieve their desired balance between work and other aspects of life.

A big part of the unfinished agenda therefore concerns educational outcomes. The UK still has more children aged 17 outside education than other similar countries⁴⁸ and a steeper ‘social gradient’ dividing the knowledge and skills of students aged 15 according to socioeconomic background⁴⁹, while recent improvements in educational outcomes have still left one in four 19-year-olds without a basic qualification⁵⁰. Tackling these inequalities by focusing on the needs of under-achievers and people from disadvantaged backgrounds will be crucial to tackling child poverty over the long term.