5 Conclusion
Firing on all cylinders

With determination, child poverty can be consigned to the UK's history books. Yet there is no single measure that will make it possible to do so. Rather, a strategy to end child poverty requires a range of measures to distribute resources to low-income families, to improve individual opportunities and to build a society in which rewards are more evenly distributed and in which everyone gets a chance to participate fully.

This report has demonstrated that the gains of the past decade, which have owed much to rising employment levels and to redistribution through tax credits, cannot be sustained simply by continuing present policies. Further employment gains will help bring some children out of poverty, but nowhere near enough to meet targets. Rises in tax credits and benefits for families with children, on present uprating policies, combined with welfare to work policies, will only be enough to prevent child poverty rising, not to make it fall further.

A further jump in the generosity of tax credits, by about half as much as the big rise in Labour's first two terms, could allow the 2010 target to be met. Between 1998 and 2003, the government announced changes to benefits and tax credits for children that increased spending in this area by 0.7 per cent of GDP; by 2010 the government needs to announce changes worth a further 0.3 per cent for child poverty to have been halved in just over a decade. However, in getting the second half of children out of poverty to meet the 2020 target, a tax credit-led strategy becomes increasingly costly, requiring a further 1.6 per cent of GDP. Under these scenarios, while from 1998 to 2010, 1.7 million children would have escaped poverty through increased spending of 1 per cent of GDP, from 2010 to 2020 it would be a 1.2 million fall for 1.6 per cent of GDP – over twice the cost pro rata.

Moreover, relying mainly on tax credit and benefit rises to meet the 2020 target would require such large rises in entitlements that the system may seem distorted and ultimately unjust. Large financial 'rewards' to people on low incomes for having children and even larger ones for having three or more, while targeting child poverty, could be seen as an undue encouragement for people to have children without having the means to support them.

The conclusion must be that only a more balanced, wider range of measures can succeed. Welfare to work and tax credits provide the first main two prongs of the government's anti-poverty strategy. Two more prongs in particular will be essential. One is still about redistribution: the raising of the relative value of the incomes of non-working families, by increasing the 'adult' portion (principally Income Support) as well as the 'child' portion (principally Child Tax Credit) of these incomes. Given that significant numbers of families will remain outside work at any one time, child poverty cannot be reduced to negligible levels until out-of-work incomes rise above the poverty line.

The second new prong is to improve earnings from work among the poorest working families. This is a wide agenda. It will be influenced less by direct government decisions such as the level of the Minimum Wage, than by long-term developments in labour markets and in skills. In particular, a successful education policy today would ensure that more parents in 2020 are able to earn enough to keep their families out of poverty without massive help through tax credits.

These two new prongs, which would help raise incomes inside and outside work, are in fact complementary. Higher earned incomes would help not only to get families out of poverty but also release money from tax credits topping up low earnings. This money could help pay for higher benefits, offsetting the high cost of increasing Income Support. This point was driven home in the modelling work, where assumptions about more people moving into work did not, under present wage and tax credit patterns, lead to much of a financial saving. For some groups, we are spending almost as much topping up low wages as we would paying out-of-work benefits. Until market incomes make a greater contribution, the public cost of ending child poverty will be very great indeed.

Thus, ending child poverty means firing on all cylinders. Substantially greater payments to families than currently envisaged will be a necessary but not a sufficient condition for meeting the targets, especially not the longer-term target set for 2020.

We therefore need to think about two big issues for carrying these ambitions forward. First, we need to think harder about where money will come from to continue improving redistribution to lower-income families. More taxes will be needed from somewhere. Until now, higher taxes have to a large extent been engineered through 'fiscal drag' – the failure to uprate tax thresholds as incomes rise, and therefore the collection of a larger fraction of national income in tax. A continuation of this policy would go a long way towards raising resources needed to end child poverty, if all the gains were allocated to this purpose, but other public spending claims will compete for this money. A debate about ending child poverty therefore also requires a debate about taxation.

The second big issue is how to think in the long term not just about 'how we help the poor' but also about 'how we avert poverty'. At the heart of this issue is education. Today's schoolchildren are tomorrow's parents. If they leave school with more transferable skills that make them employable, more will enter jobs and more will be able to earn a decent living when they do work. Improved investment in the education of disadvantaged children is a policy whose effects cannot be accurately modelled, but one that nevertheless must be at the heart of a long-term anti-poverty strategy.