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## Child and working-age poverty from 2010 to 2020

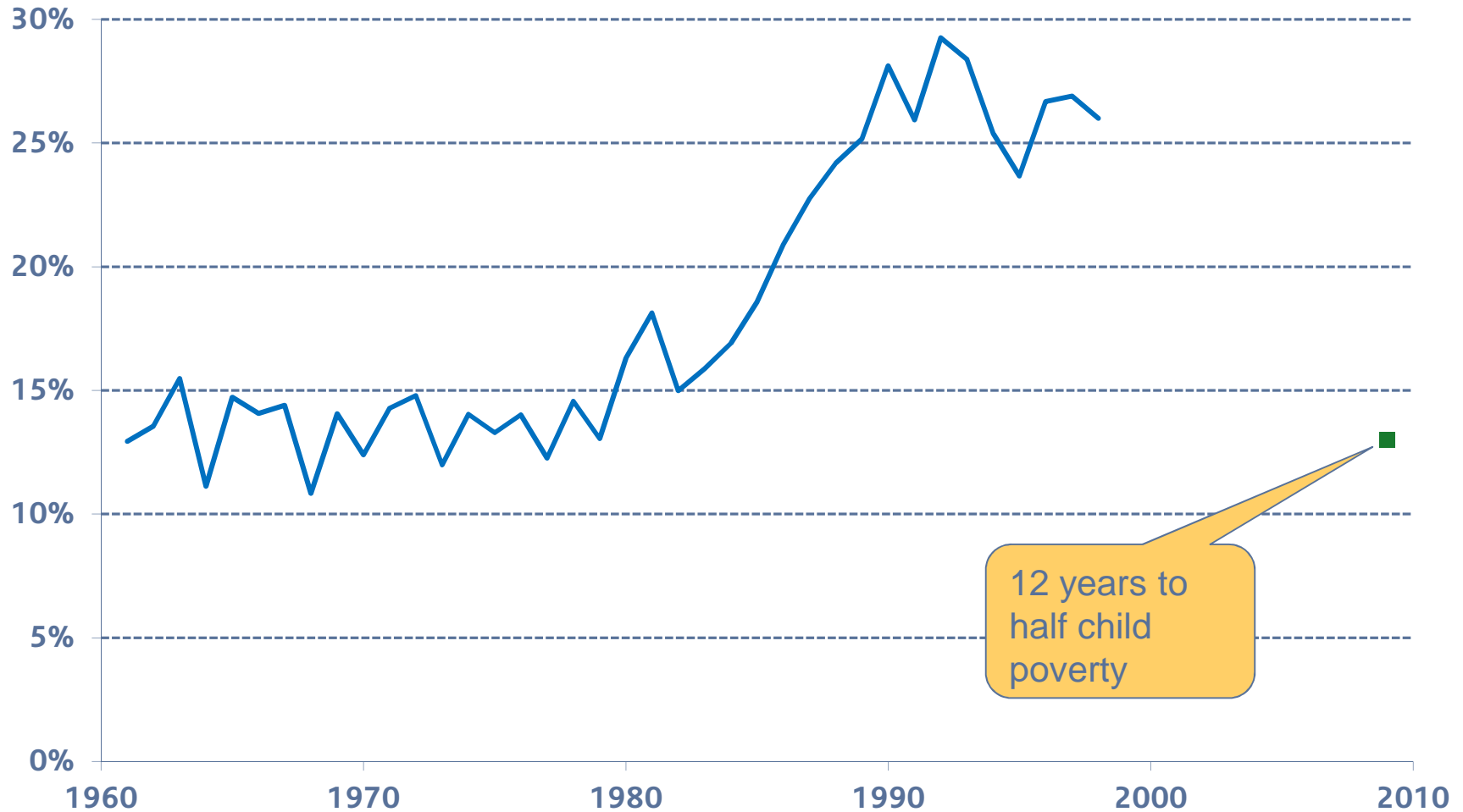
Mike Brewer, Professor of Economics, ISER, University of Essex and Research Fellow, Institute for Fiscal Studies

(drawing on work by James Browne, Rowena Crawford, Carl Emmerson, Wenchao Jin, Robert Joyce and Gemma Tetlow, Institute for Fiscal Studies. For originals, see [www.ifs.org.uk](http://www.ifs.org.uk))

# What's coming up

- Background
  - Poverty
  - Fiscal crisis and changes to welfare benefits
- How we produce our forecasts
- Poverty in 2010 to 2015, and 2020
  - Impact of coalition government's tax and benefit changes
- Conclusion

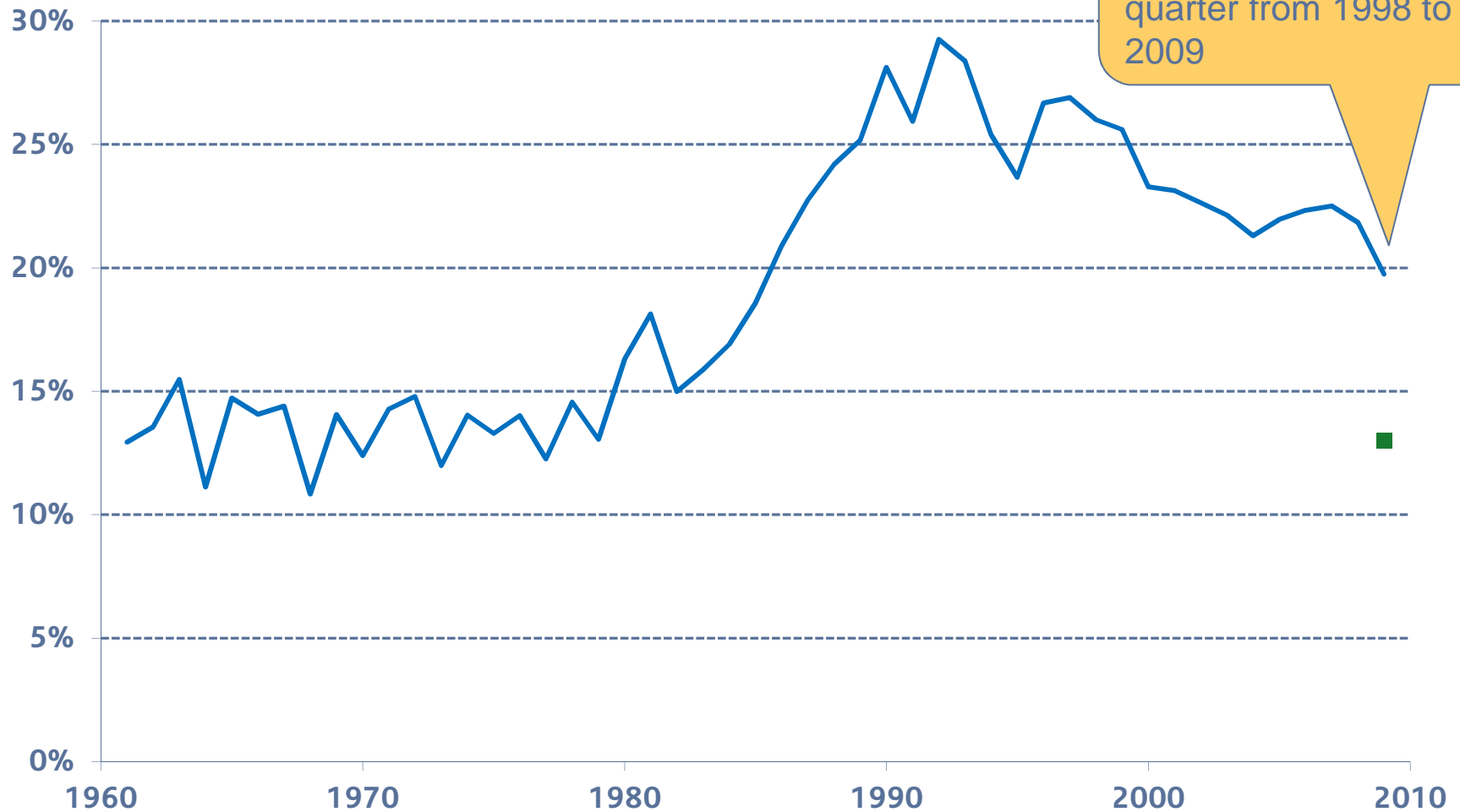
# Relative child poverty, 1961–1998



12 years to half child poverty

Notes: Years refer to calendar years until 1993, financial years thereafter. Incomes measured before housing costs have been deducted.

# Relative child poverty, 1961–2009



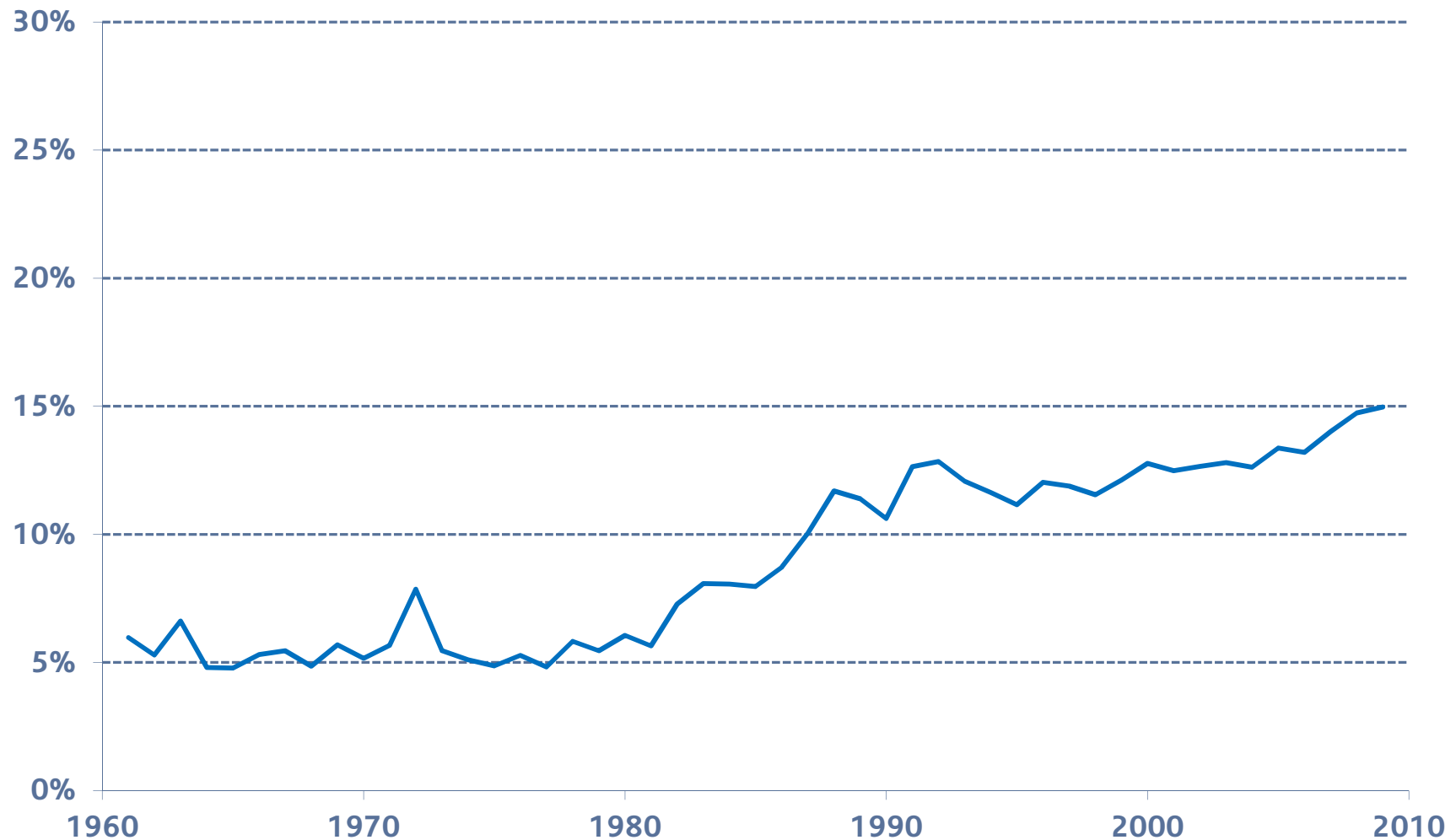
Spent lots of money, and poverty fell by a quarter from 1998 to 2009

Notes: Years refer to calendar years until 1993, financial years thereafter. Incomes measured before housing costs have been deducted.

# Child Poverty Act (2010)

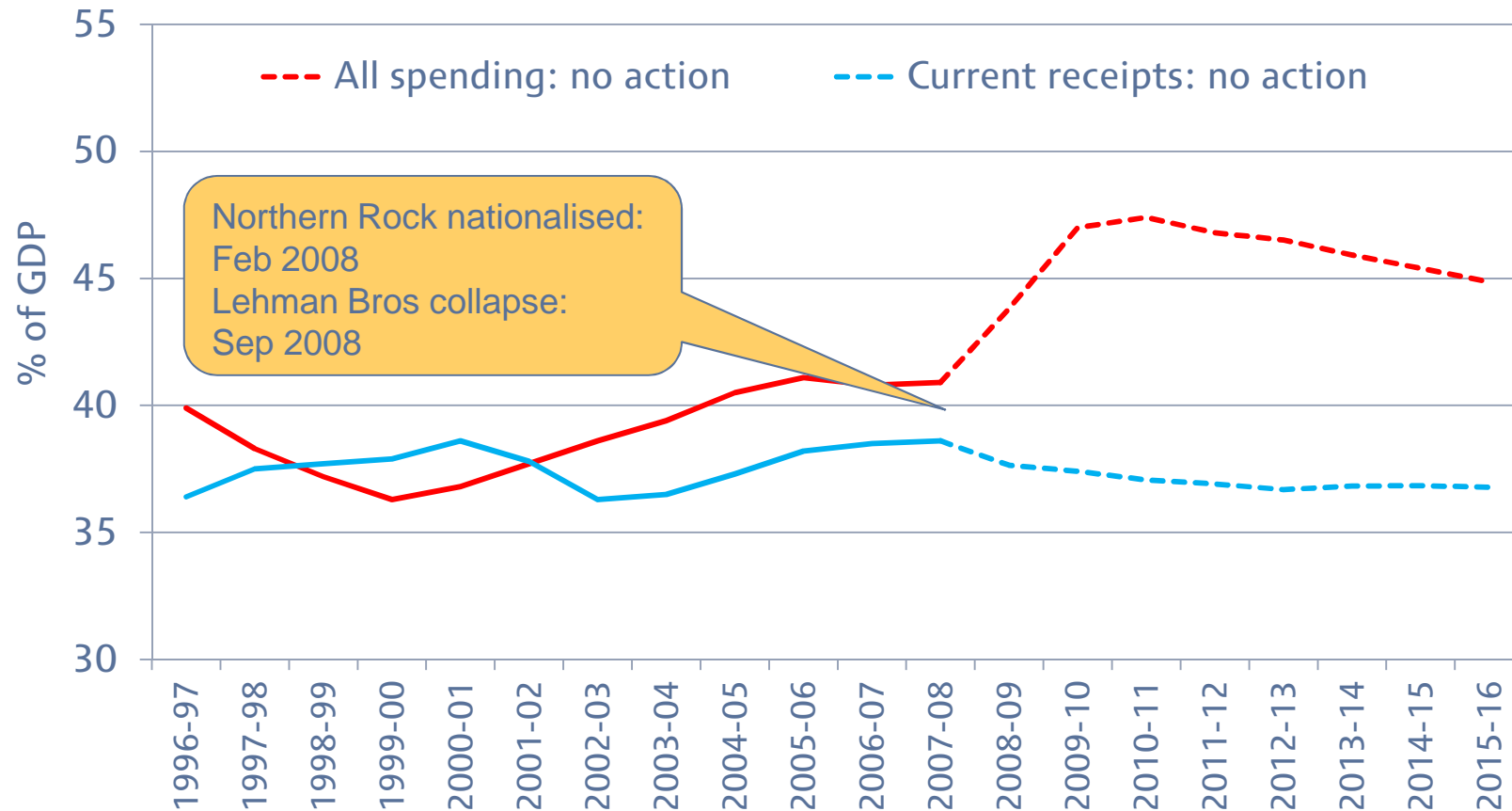
- Requires (???) government to achieve specific levels of poverty in 2020
  - Relative child poverty must be less than 10%
  - Absolute child poverty (< 60% of 2010 median income) must be less than 5%
  - Less than 5% of children must be suffering material deprivation and relative low income (<70% of median income)
  - Persistent poverty target yet to be defined

# Relative poverty working-age adults without children, 1961–2009

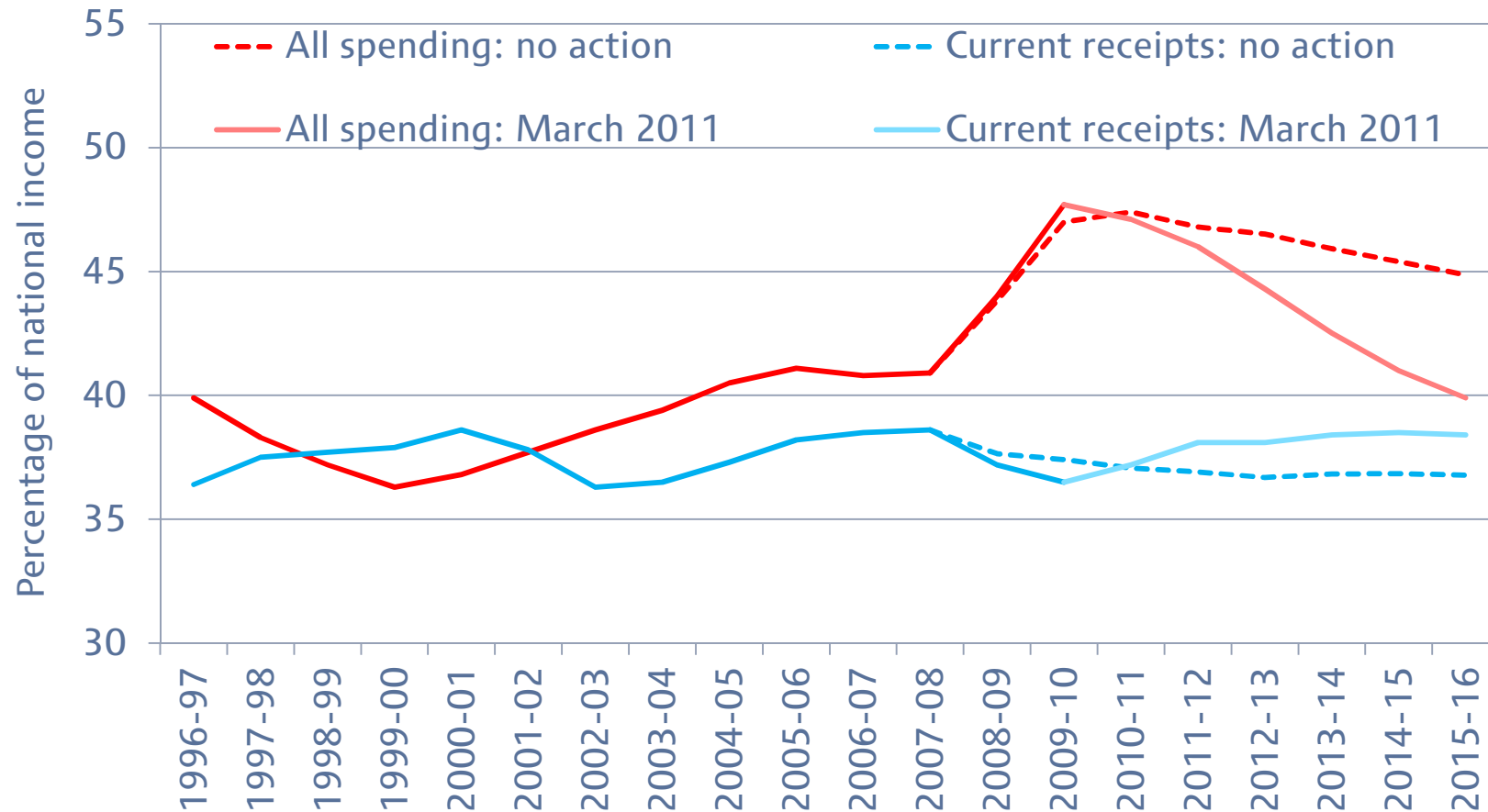


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# The fiscal crisis in the UK

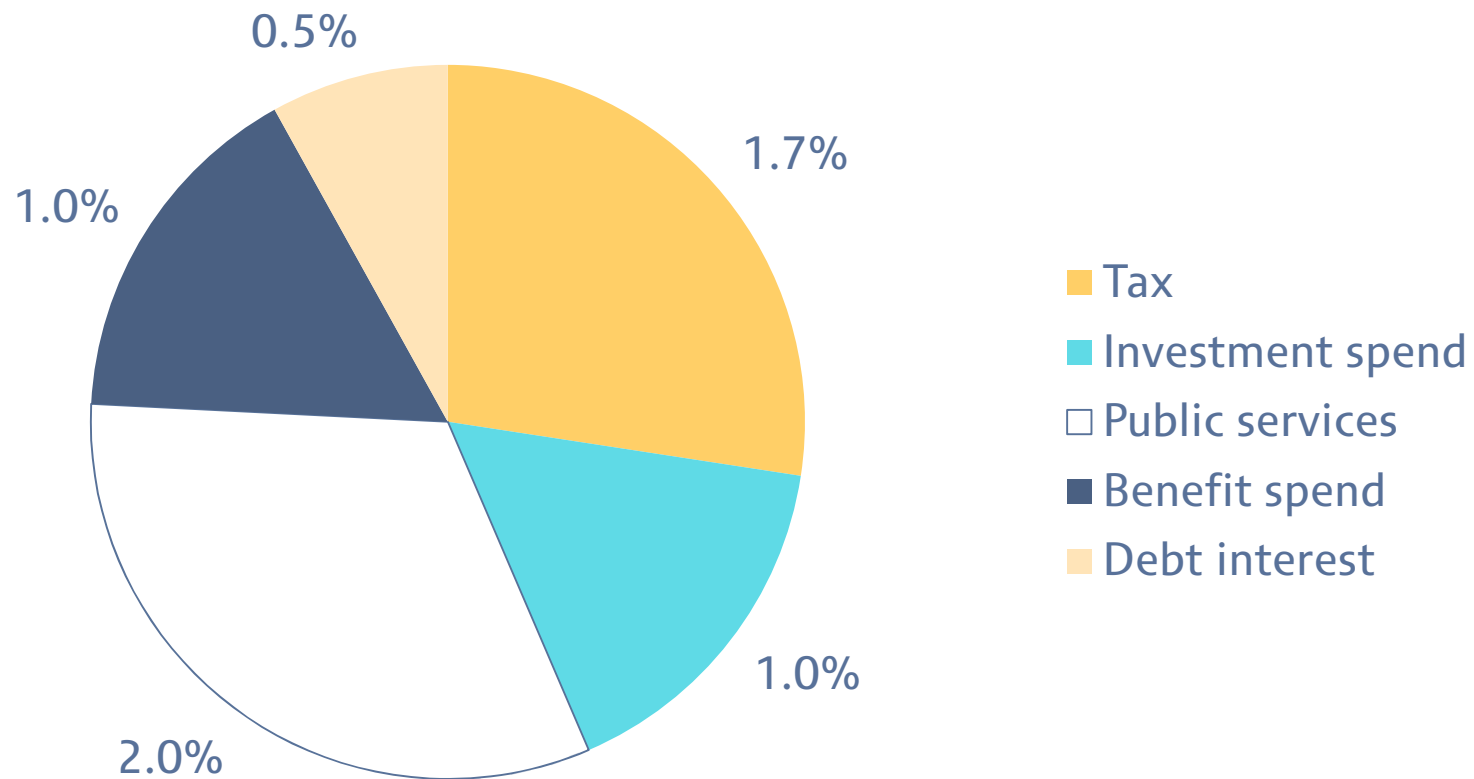


# The fiscal crisis in the UK





## Composition of fiscal tightening (% GDP)



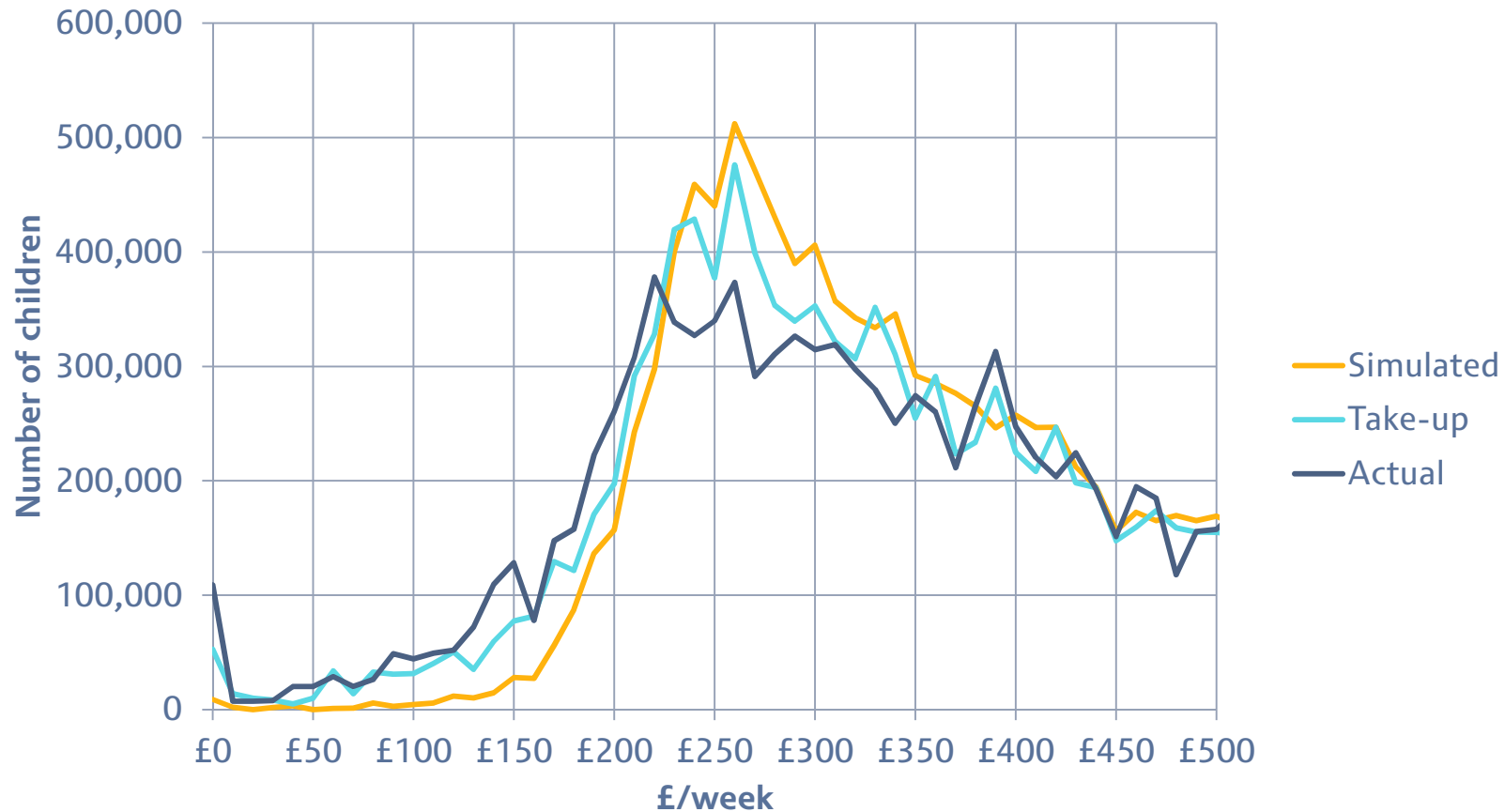
# The paper

- Aim: forecast relative & absolute poverty amongst children & working-age adults
- Method
  - Start with ‘base data’ on distribution of private income and household characteristics: 2008–09 Family Resources Survey
  - Up-rate financial variables using official forecasts (to 2015) or own assumptions (to 2020)
  - Re-weight data to reflect socio-demographic change, including employment changes, using (mostly) official forecasts
  - Simulate tax liabilities, and benefit entitlements, given stated government policy and usual rules for indexing tax and benefit system
  - Adjust incomes for non-take-up / non-reporting of means-tested benefits and to align with official statistics

# Issues

1. Aligning simulated income distribution with actual income distribution
2. Simulating future changes to benefit system
3. Use of re-weighting to reflect employment and demographic changes

# 1. Aligning simulated income distribution with actual income distribution (2008-9 FRS)



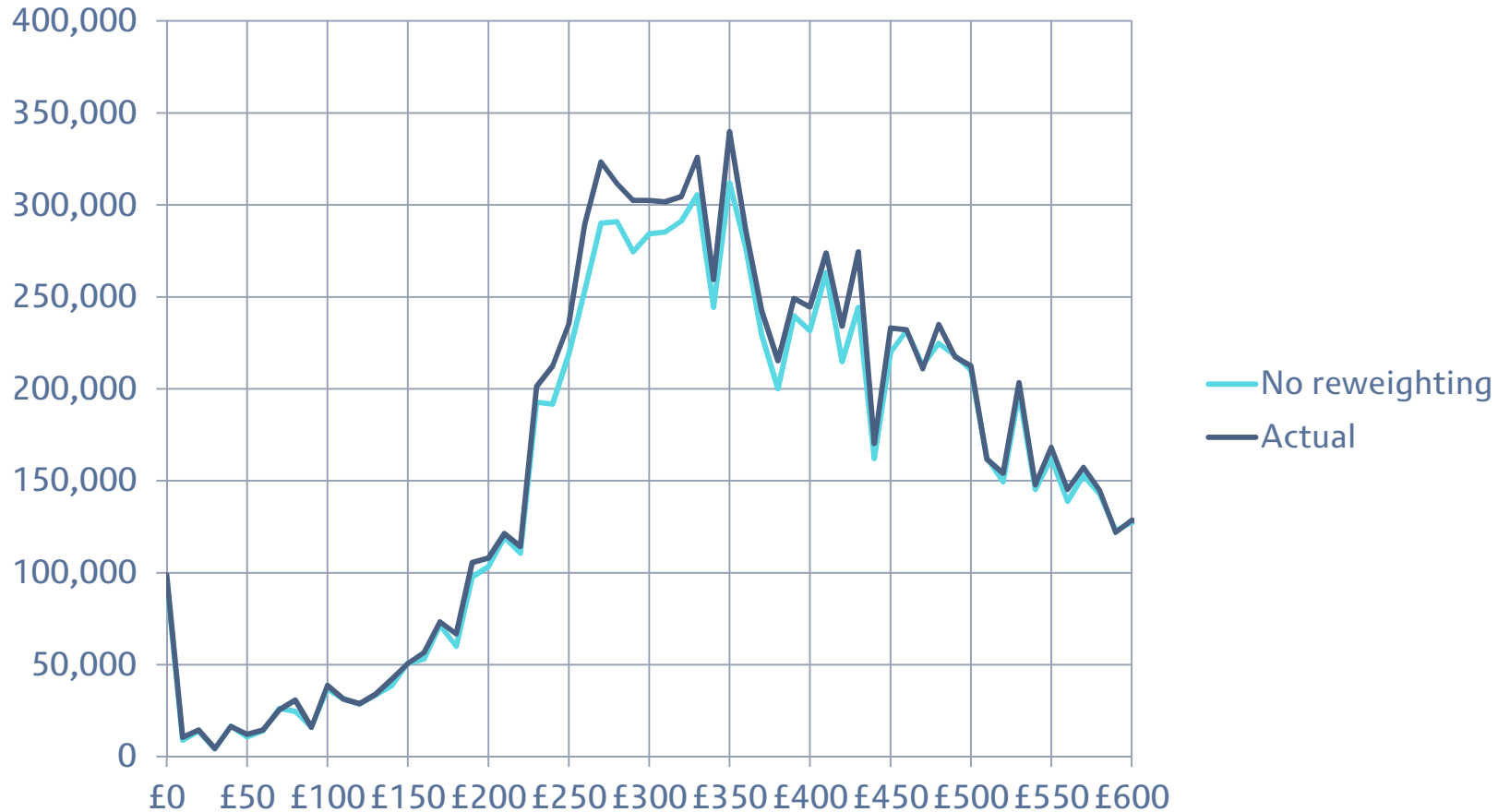
## 2. Simulating future changes to benefit system

- Lots of changes have been announced, and some are not easy to reflect in microsimulation model
  - Making medical tests “tougher”
  - Savings affecting families whose incomes change
  - Savings that vary by local area
  - Increase in female state pension age (behavioural response)
  - “Universal Credit”

### 3. Re-weighting to reflect employment and demographic changes

- Control for
  - Population by region
  - Population by age and sex
  - Population who are Asian
  - Population who are in work
  
  - Number of 1-person and 2+ person households
  - Number of households in London and Scotland
  
  - Number of families with children in England, Scotland, Wales, NI
  - Number of lone parent families
- Uses algorithm in Gomulka (1992) implemented in Stata

### 3. Re-weighting to reflect employment and demographic changes (simulated 2015)

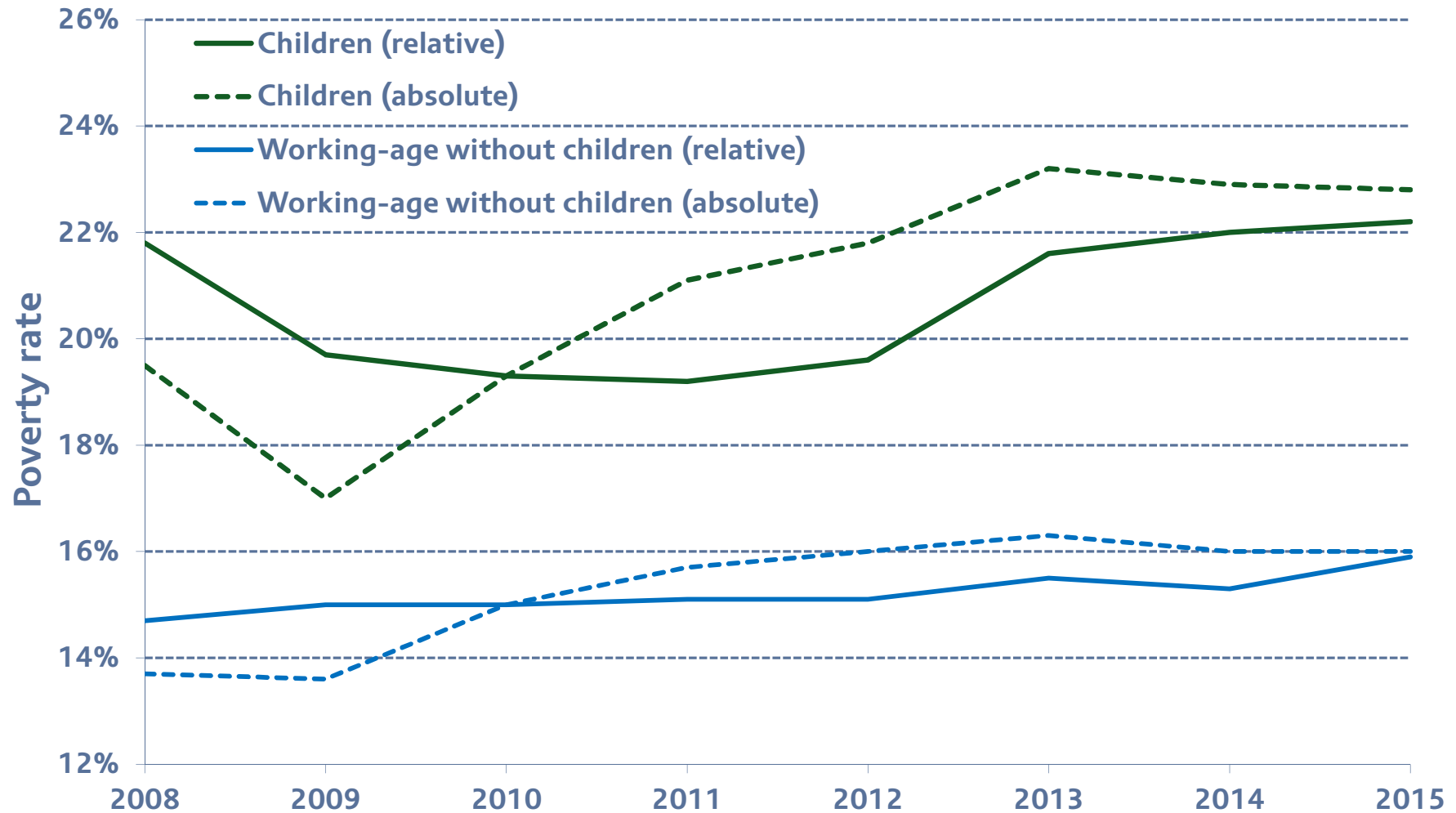


## Results coming up ...

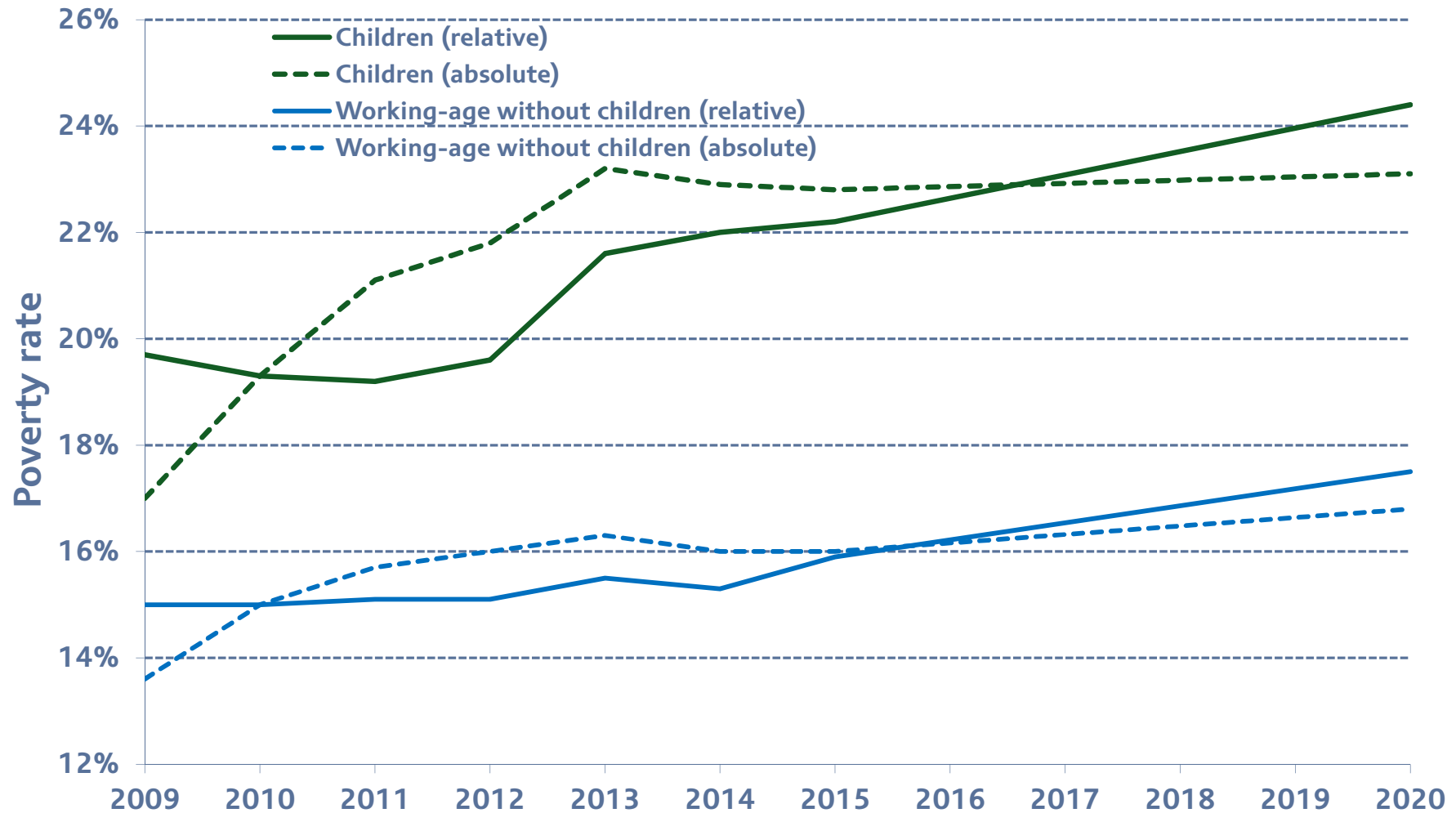
- 2010–11 to 2013–14
  - Large fall in living standards
- 2014–15 and 2015–16
  - Universal Credit introduced
- 2015–16 to 2020–21
  - Economy growing, employment rising



# Poverty, 2009-2015

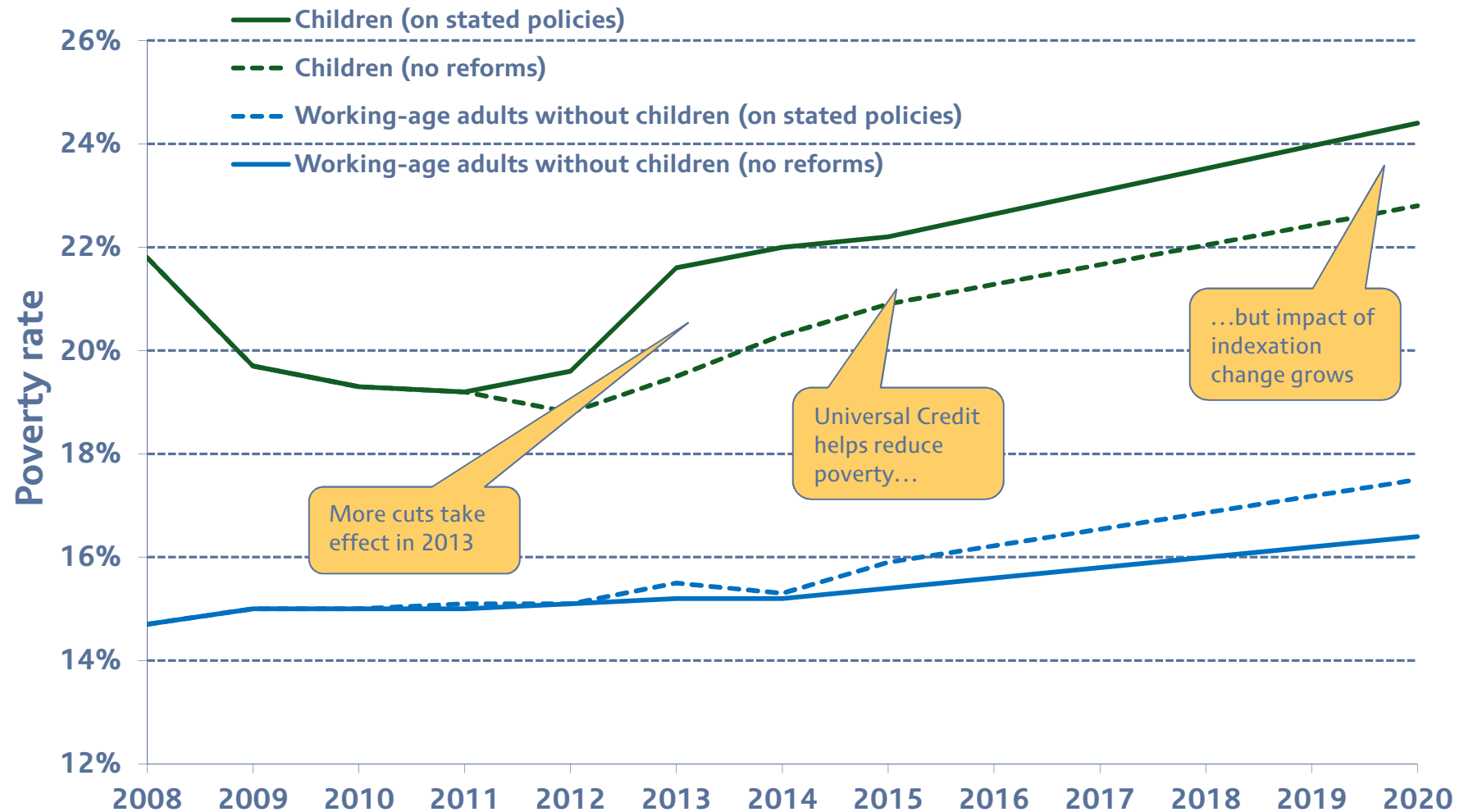


# Poverty forecasts to 2020 under current policies



Notes: 2008 and 2009 figures are actual. Figures for 2016 to 2019 interpolations between forecasts for 2015 and 2020. Years refer to financial years. Incomes measured before housing costs have been deducted.

# Relative poverty: impact of reforms since 2010



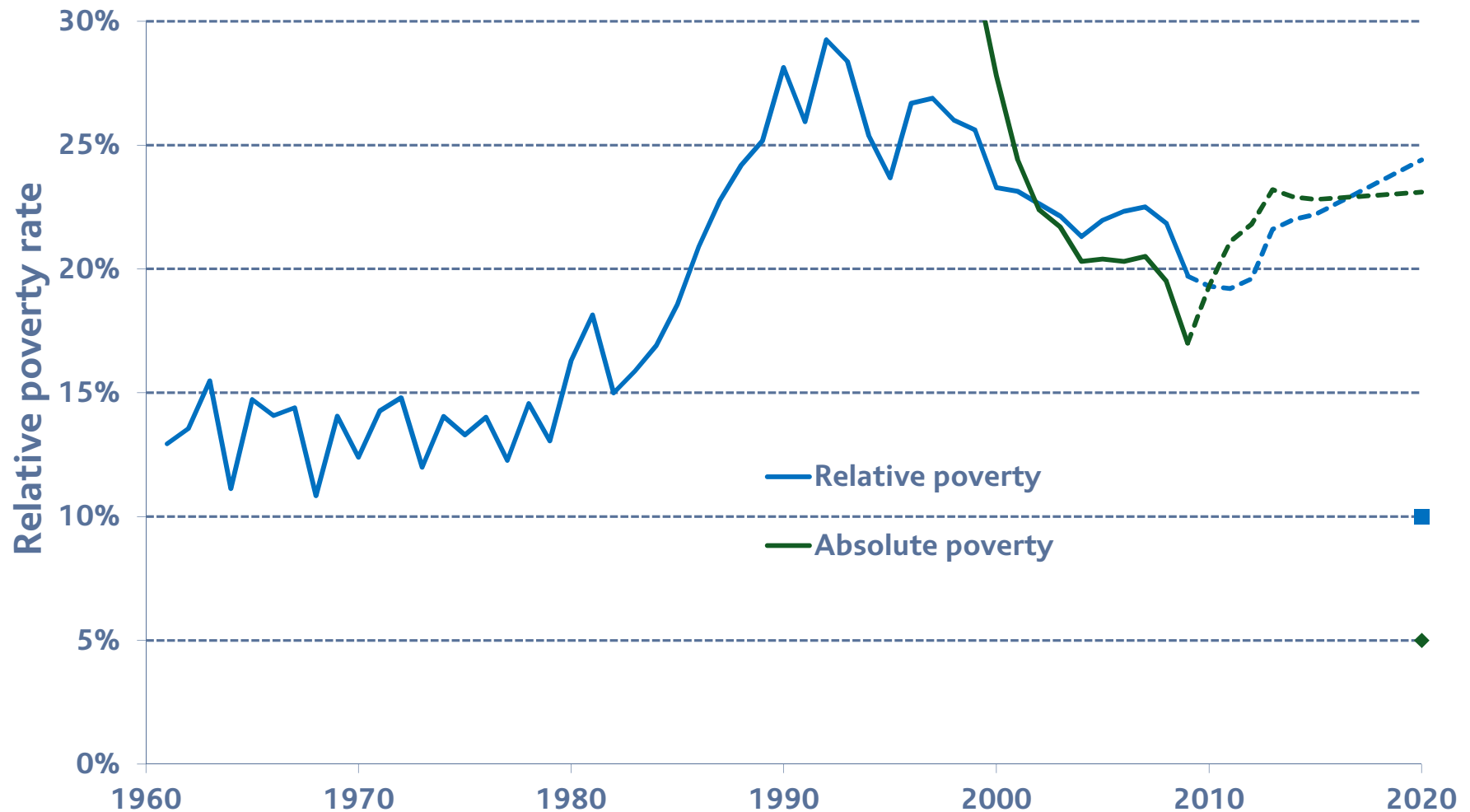
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## Variants and sensitivities

	Child	Working-age non-parents	
2015 baseline	22.2	15.9	
Lower employment and earnings	21.5	15.8	
Progressive earnings growth	22.4	15.6	
			Average annual growth in median
2020 baseline	24.4	17.5	+0.5
Higher earnings	25.9	17.5	+1.2
Fall in workless households	24.4	17.1	+0.6
Full take-up	22.8	16.3	+0.6



# Prospects for child poverty targets



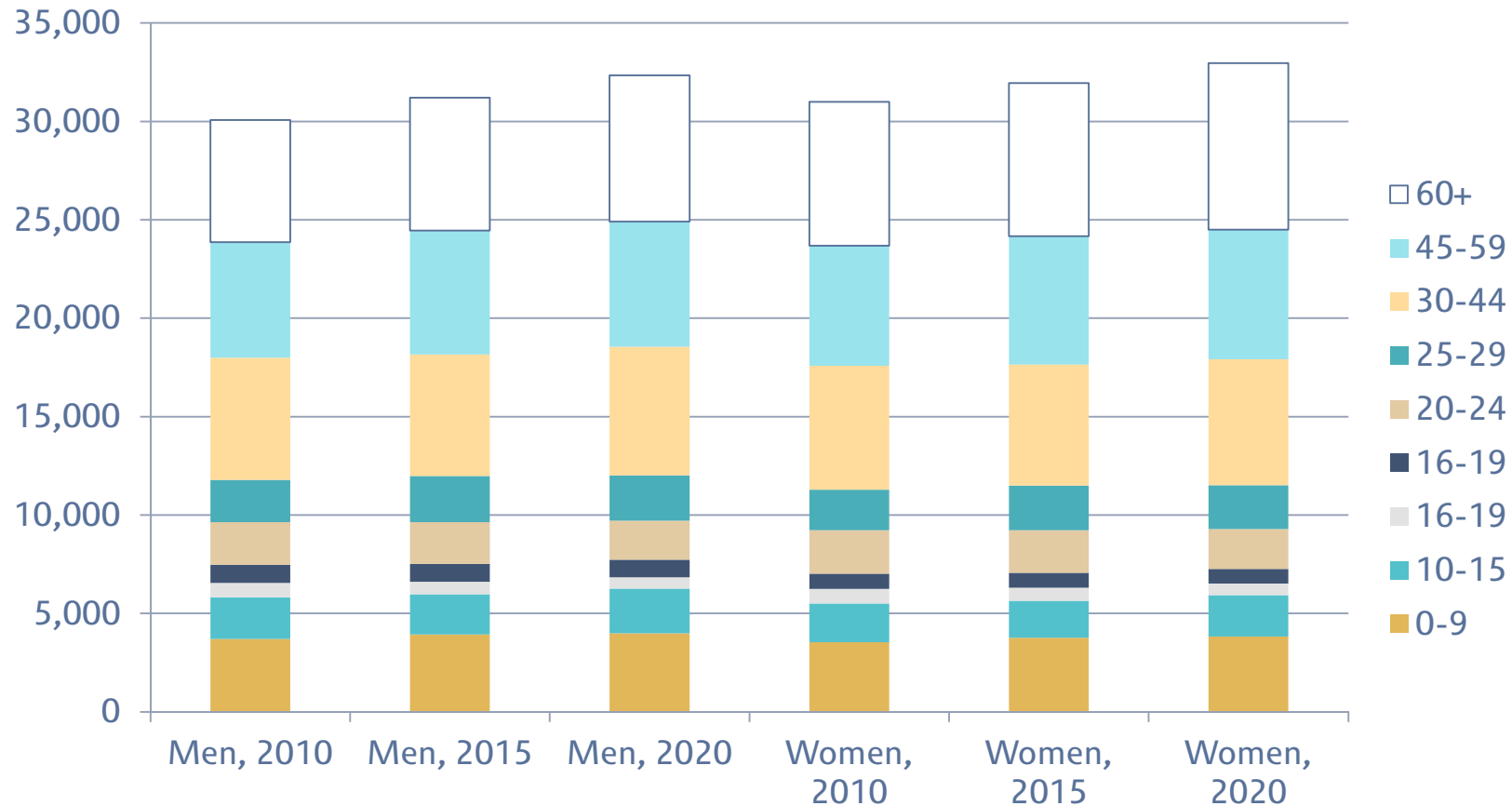
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# Summary

- GDP fell considerably in 2008 - 2009, but impact on living standards delayed until 2010 - 2012
  - Earnings falling in real terms
  - Large welfare cuts and tax rises
- Poverty forecast
  - Expect absolute and relative poverty to rise in next 3 years
  - From 2014, Universal Credit slows rise in poverty, but overall effect of post-2010 changes outweighed by other welfare cuts
  - Poverty in 2020 highest for 20 years
  - Poverty fairly insensitive to general changes in employment/earnings

# Spare slides

### 3. Re-weighting to reflect employment and demographic changes





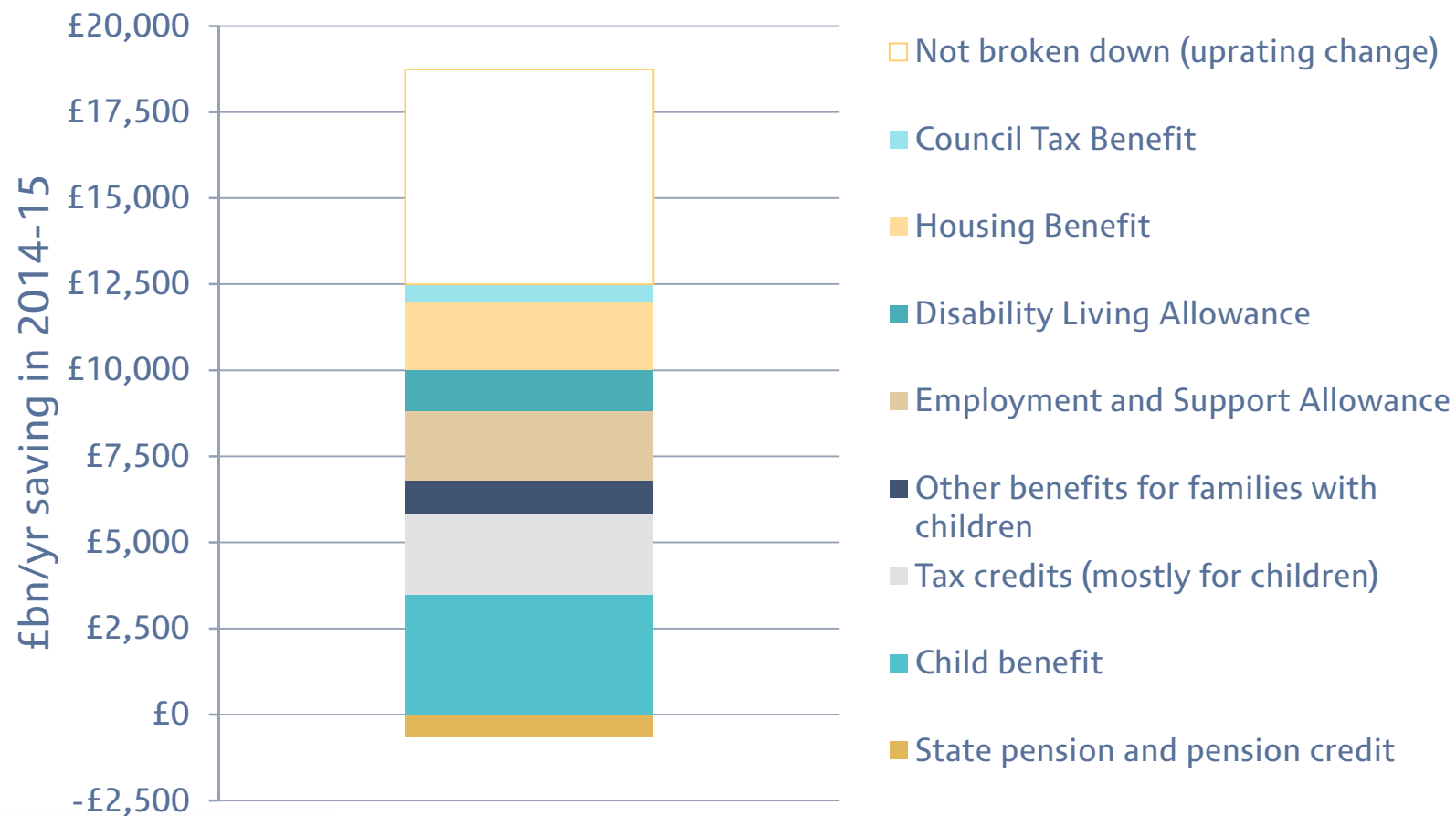
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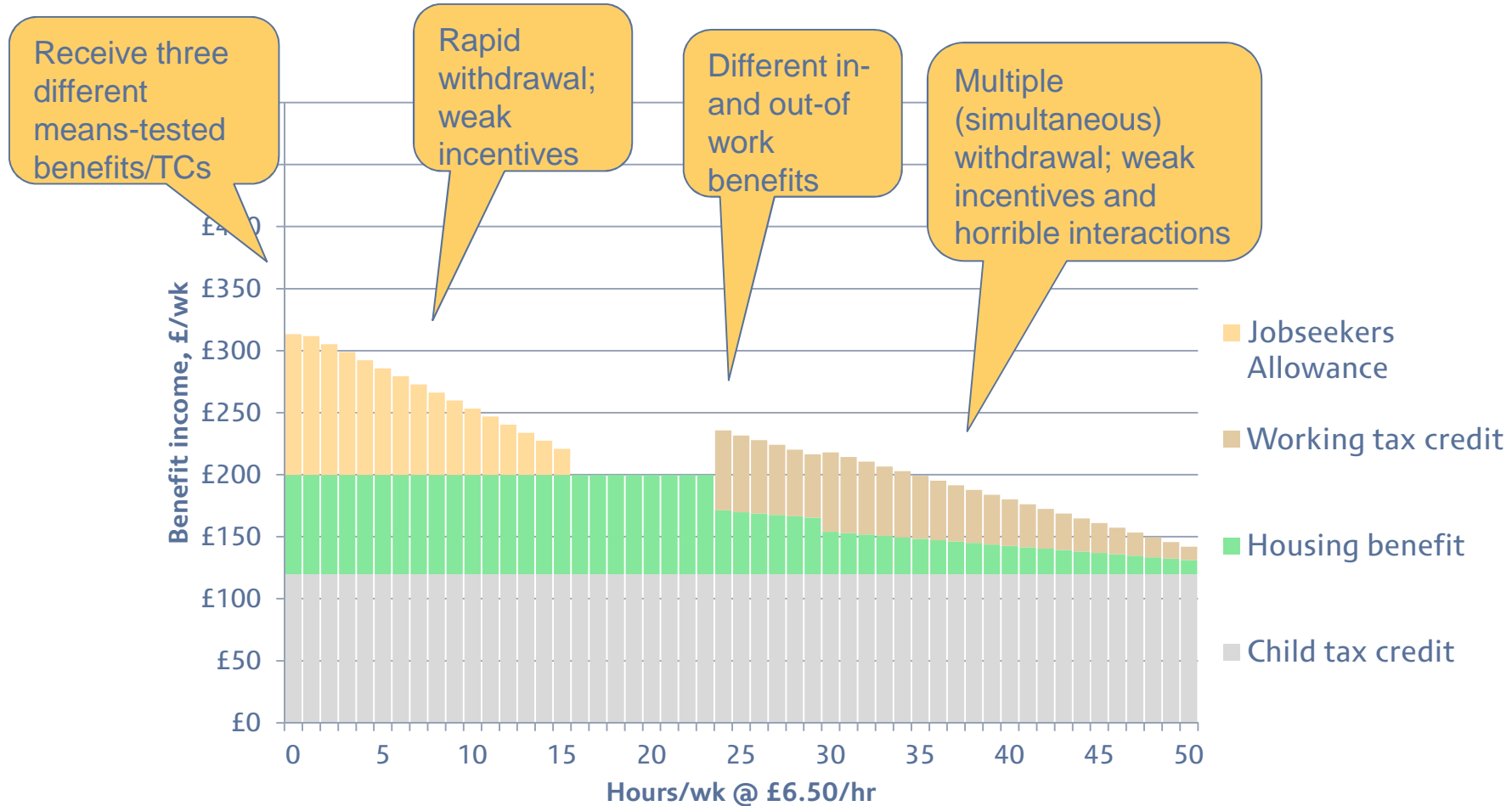
# Main cuts to welfare benefits and tax credits, 2010-11 to 2014-15

- Child-related benefits
  - Non-means-tested child benefit removed from richest
  - Tax credits more closely focused on the poorest
- Disability and sickness benefits
  - Tougher medical tests, more means-testing
- Rental subsidies (housing benefits)
  - Less generous, especially for large families and/or central London
- Change in inflation measure used to index benefits each year
  - CPI usually lower than RPI as excludes most housing costs, and through “formula effect”
- Meanwhile: basic state pension to be linked to earnings and pensioners spared impact of most cuts

# Main cuts to welfare benefits and tax credits, 2010-11 to 2014-15

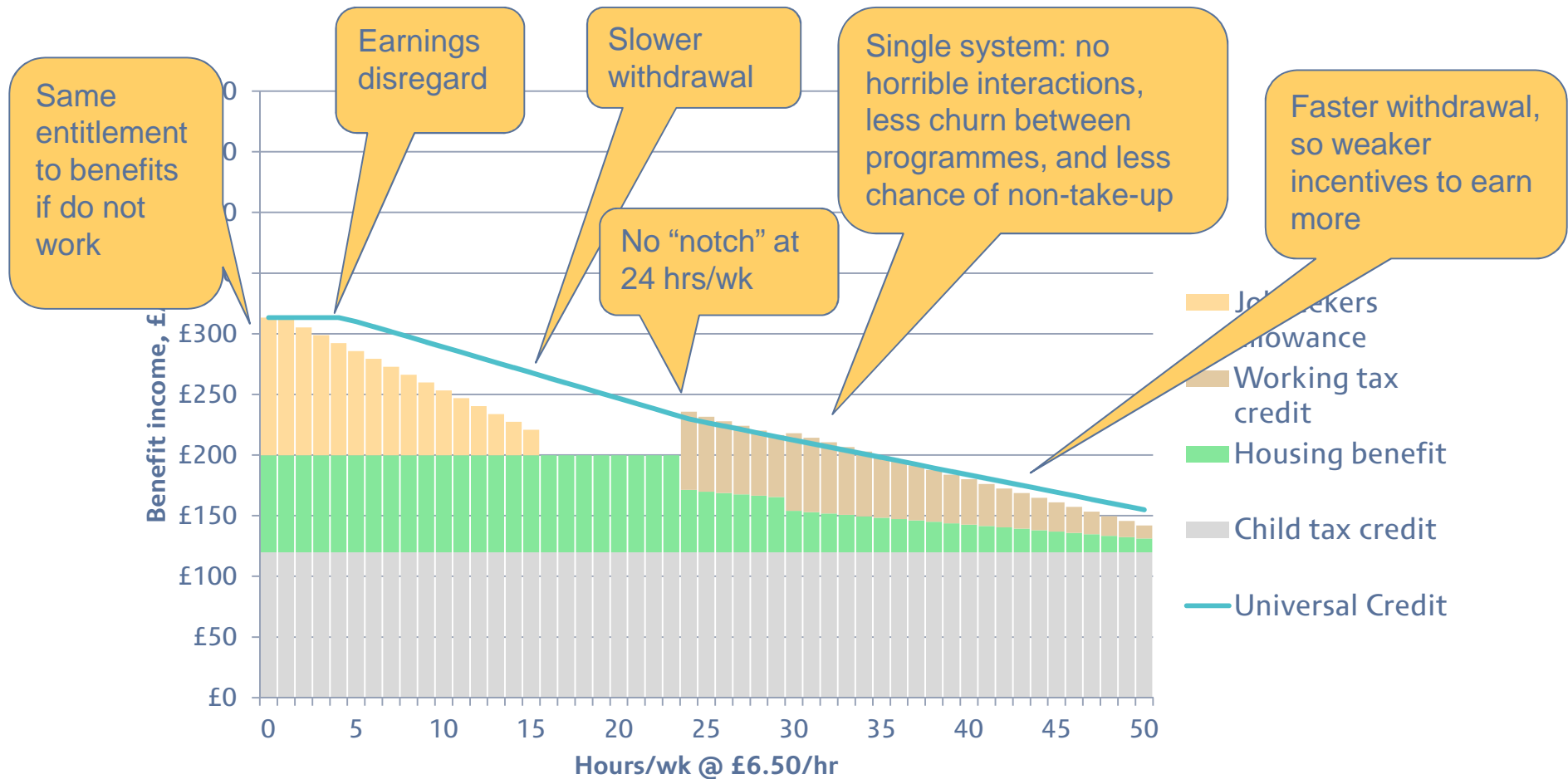


# Problems with the current system of welfare benefits



Assumes: couple with 2 children, 1 earner @ £6.50/hr, £80/wk LHA or eligible rent

# Proposed reform



Assumes: couple with 2 children, 1 earner @ £6.50/hr, £80/wk LHA or eligible rent. Ignores child benefit.