Child and working-age poverty from 2010 to 2020

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(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)
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**

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

12 years to half child poverty
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

Notes: Years refer to calendar years until 1993, financial years thereafter. Incomes measured before housing costs have been deducted.
The fiscal crisis in the UK

% of GDP

- All spending: no action
- Current receipts: no action

Northern Rock nationalised:  Feb 2008
Lehman Bros collapse:  Sep 2008

Sources: Office for Budget Responsibility; IFS calculations.
The fiscal crisis in the UK

Sources: OBR; IFS calculations.
Composition of fiscal tightening (% GDP)

- Tax: 1.7%
- Investment spend: 0.5%
- Public services: 1.0%
- Benefit spend: 1.0%
- Debt interest: 2.0%
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

Notes: 2008 and 2009 figures are actual. Years refer to financial years. Incomes measured before housing costs have been deducted.
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

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.

More cuts take effect in 2013
Universal Credit helps reduce poverty...
...but impact of indexation change grows
### Variants and sensitivities

<table>
<thead>
<tr>
<th></th>
<th>Child</th>
<th>Working-age non-parents</th>
<th>Average annual growth in median</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2015 baseline</strong></td>
<td>22.2</td>
<td>15.9</td>
<td></td>
</tr>
<tr>
<td><strong>Lower employment and earnings</strong></td>
<td>21.5</td>
<td>15.8</td>
<td></td>
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<tr>
<td><strong>Progressive earnings growth</strong></td>
<td>22.4</td>
<td>15.6</td>
<td></td>
</tr>
<tr>
<td><strong>2020 baseline</strong></td>
<td>24.4</td>
<td>17.5</td>
<td>+0.5</td>
</tr>
<tr>
<td><strong>Higher earnings</strong></td>
<td>25.9</td>
<td>17.5</td>
<td>+1.2</td>
</tr>
<tr>
<td><strong>Fall in workless households</strong></td>
<td>24.4</td>
<td>17.1</td>
<td>+0.6</td>
</tr>
<tr>
<td><strong>Full take-up</strong></td>
<td>22.8</td>
<td>16.3</td>
<td>+0.6</td>
</tr>
</tbody>
</table>
Prospects for child poverty targets

Notes: Years refer to calendar years until 1993, financial years thereafter. Forecasts for 2016 to 2019 interpolations between forecasts for 2015 and 2020. Incomes measured before housing costs have been deducted.
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

[Bar chart showing employment and demographic changes for men and women from 2010 to 2020, with indicators for age groups ranging from 0-9 to 60+ years old.]
3. Re-weighting to reflect employment and demographic changes

![Bar chart showing changes in household and in-work populations over time.](chart.png)
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

- £20,000
- £17,500
- £15,000
- £12,500
- £10,000
- £7,500
- £5,000
- £2,500
- £0
- £-2,500

- Not broken down (uprating change)
- Council Tax Benefit
- Housing Benefit
- Disability Living Allowance
- Employment and Support Allowance
- Other benefits for families with children
- Tax credits (mostly for children)
- Child benefit
- State pension and pension credit
Problems with the current system of welfare benefits

- Receive three different means-tested benefits/TCs
- Rapid withdrawal; weak incentives
- Different in- and out-of work benefits
- Multiple (simultaneous) withdrawal; weak incentives and horrible interactions

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

Jobseekers Allowance
Working tax credit
Housing benefit
Child tax credit

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Proposed reform

- Same entitlement to benefits if do not work
- Earnings disregard
- Slower withdrawal
- No “notch” at 24 hrs/wk
- Single system: no horrible interactions, less churn between programmes, and less chance of non-take-up
- Faster withdrawal, so weaker incentives to earn more

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