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@TheIFS

How can the new government reduce child poverty?



Economic
and Social
Research Council

Motivation and Introduction

- Child poverty is high on the agenda for the new government
 - One of its five missions is “breaking down barriers to opportunity” for children
 - Launched a ministerial taskforce to tackle child poverty

Key definitions

- **Relative poverty** is defined as household income less than 60% of contemporaneous median incomes
- **Absolute poverty** is defined as household income less than 60% of median incomes at a fixed point in time – here it is 2010-11
- **Child poverty rate** is the proportion of children in households which are under the (respective) poverty line.
- Poverty is based on household incomes after housing costs are deducted

Contents

- Trends in child poverty over time

- How does the benefit system support families with children?

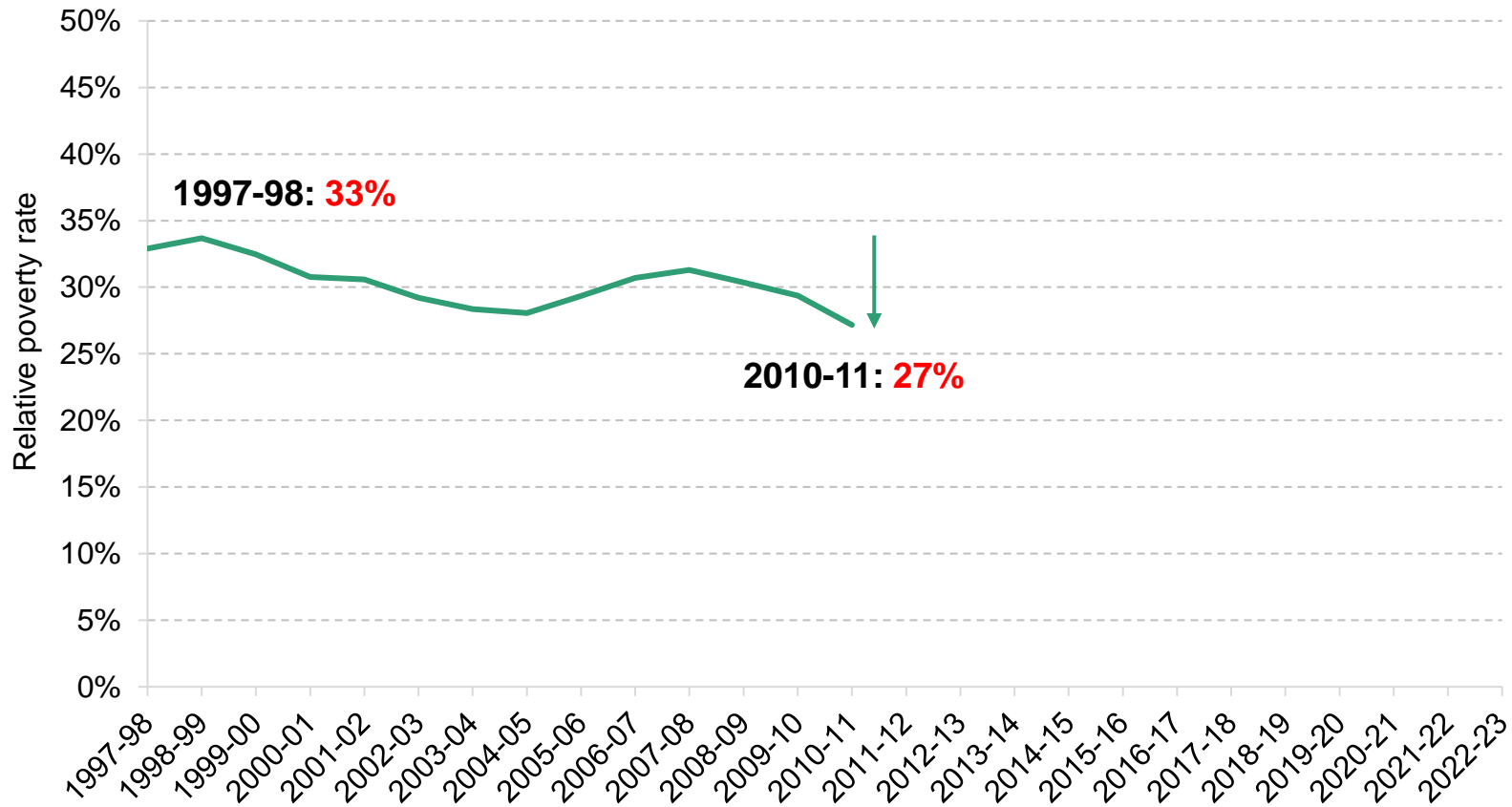
- What are the government's options?
 - Benefit policies
 - Labour market policies



Trends in child poverty over time

Relative child poverty rates fell 6ppts from 1997-98 to 2010-11

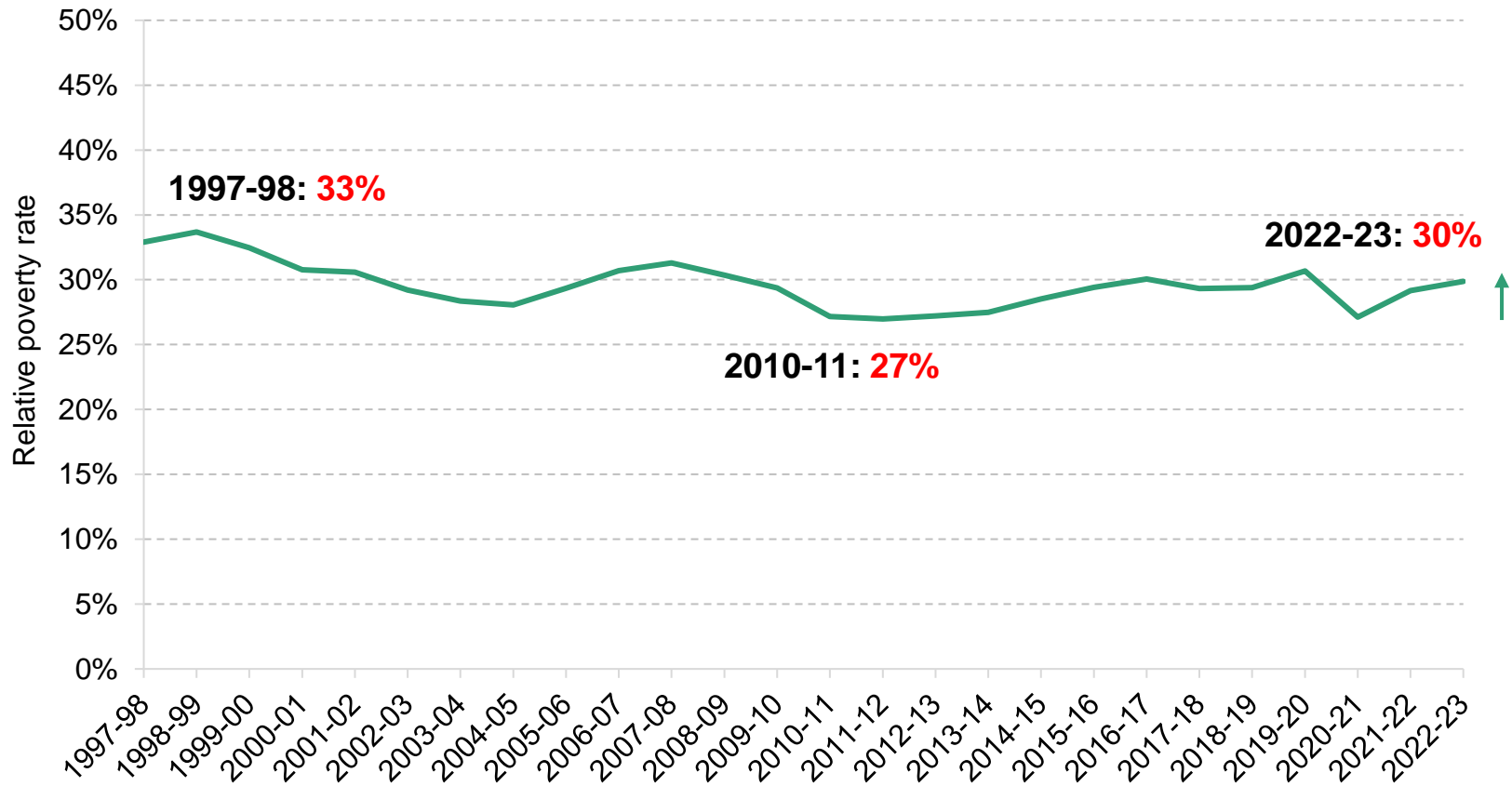
Relative child poverty rates since 1997-98



Notes: Incomes have been measured net of taxes and benefits. All incomes have been equivalised using the modified OECD equivalence scale. Relative poverty is defined as having income less than 60% of contemporaneous median income. The 1997–98 to 2003–04 period excludes Northern Ireland.

...but half of these gains have been reversed since 2010-11

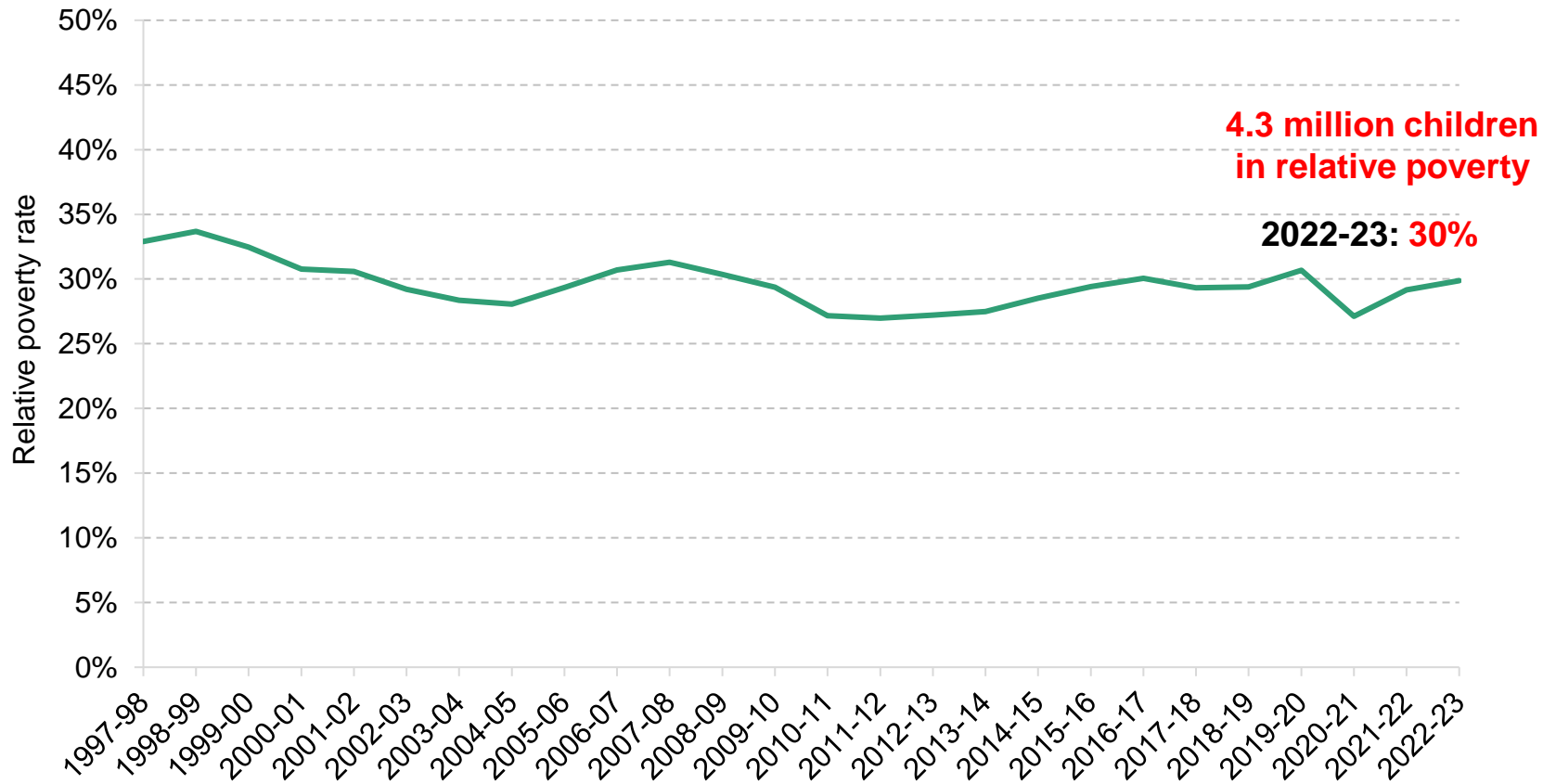
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Deep poverty rate has been stubbornly flat since 1997-98

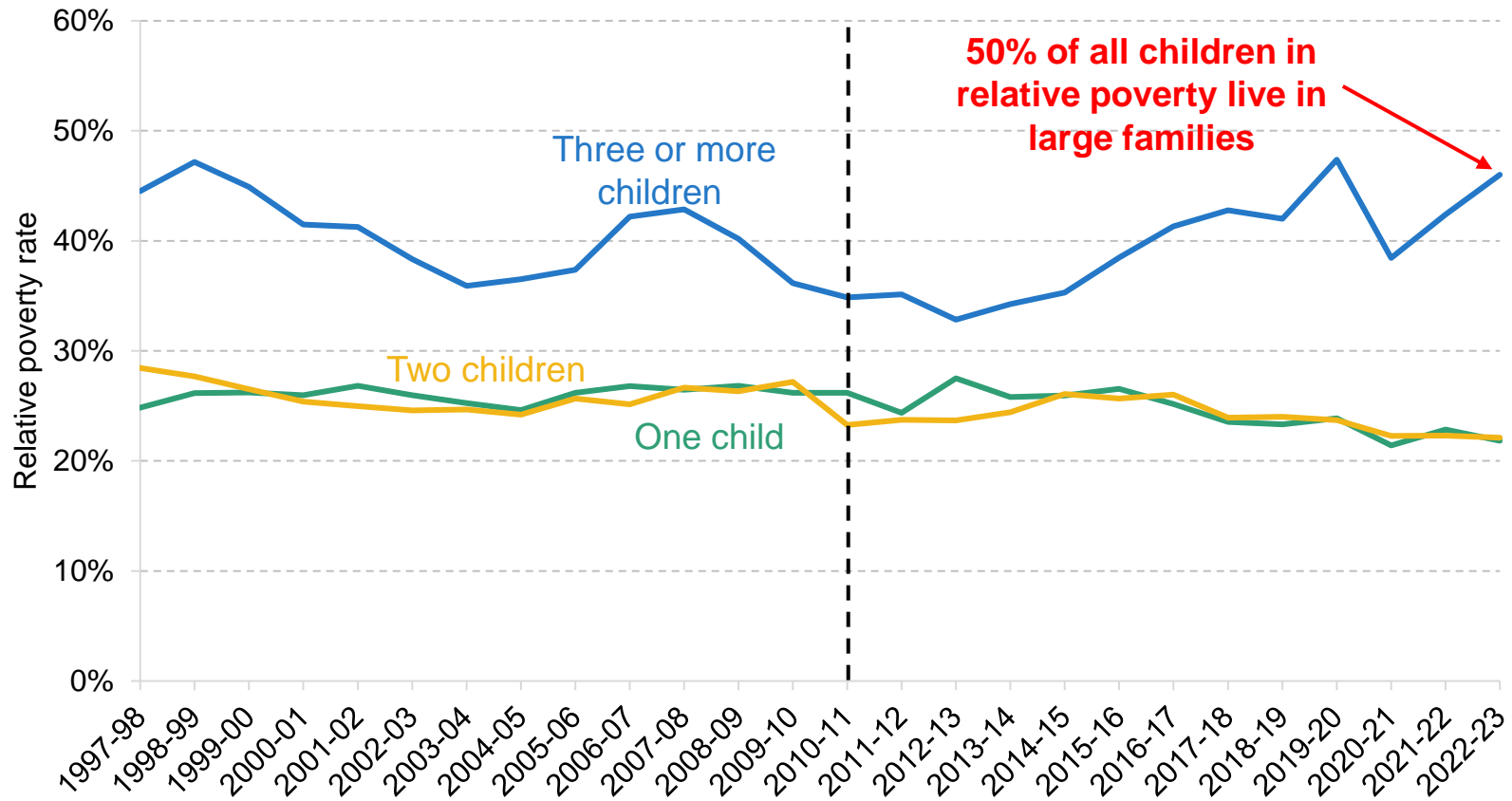
Relative and deep child poverty rates since 1997-98



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Rise in child poverty since 2010-11 driven entirely by large families

Relative poverty rates by family size since 1997-98



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Other at-risk groups

- **Workless families:** 71% relative child poverty rate in 2022-23
 - But most children in are in working families
- **Lone parent families:** 44% relative child poverty rate in 2022-23
 - Higher proportion of income from benefits
- **Renter families:** private renter 40%; social renter 46% relative child poverty rate in 2022-23
 - Rents have been rising
 - Housing support for private renters has been cut in real terms since 2010-11



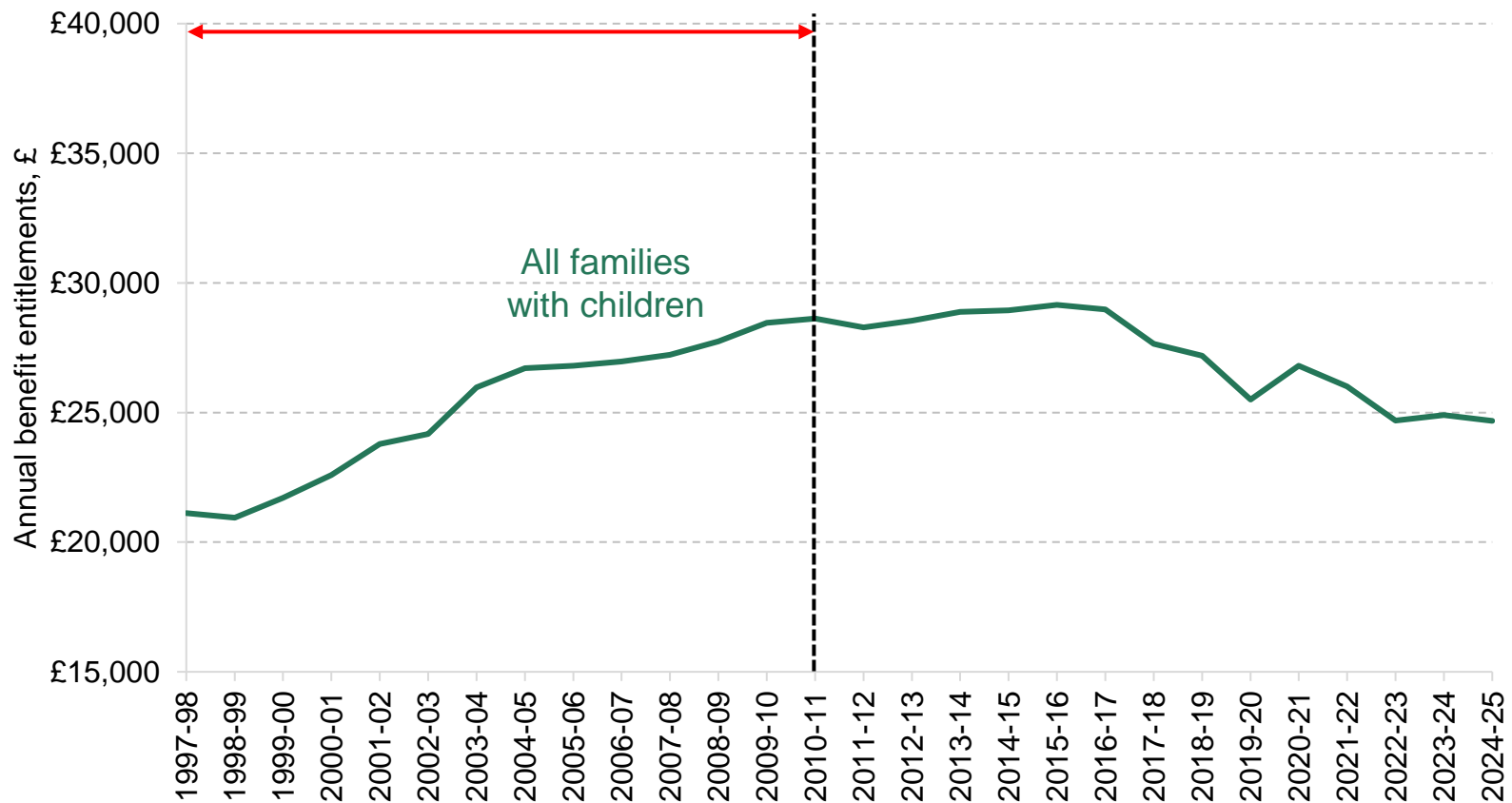
**How does the benefit
system support families
with children?**

Main benefits for families with children

- **Universal Credit:** main working-age benefit for low-income families
 - Standard allowance: £4,720 for single person, £7,411 for couple
 - Extra £3,455 per year for each child: subject to **two-child limit**
 - Housing support covers some or all rent
- **Child benefit:** given to all families and for all their children
 - £1,330 a year for first child and £880 for subsequent children
- **Benefit cap:** maximum amount of benefit income families can receive
- **Council Tax Support:** cover some or all of council tax payments
- **Free School Meals:** for families on UC, earning less than £7,200
 - Valued at around £480 per child per year

How have benefit entitlements for out-of-work families changed over time?

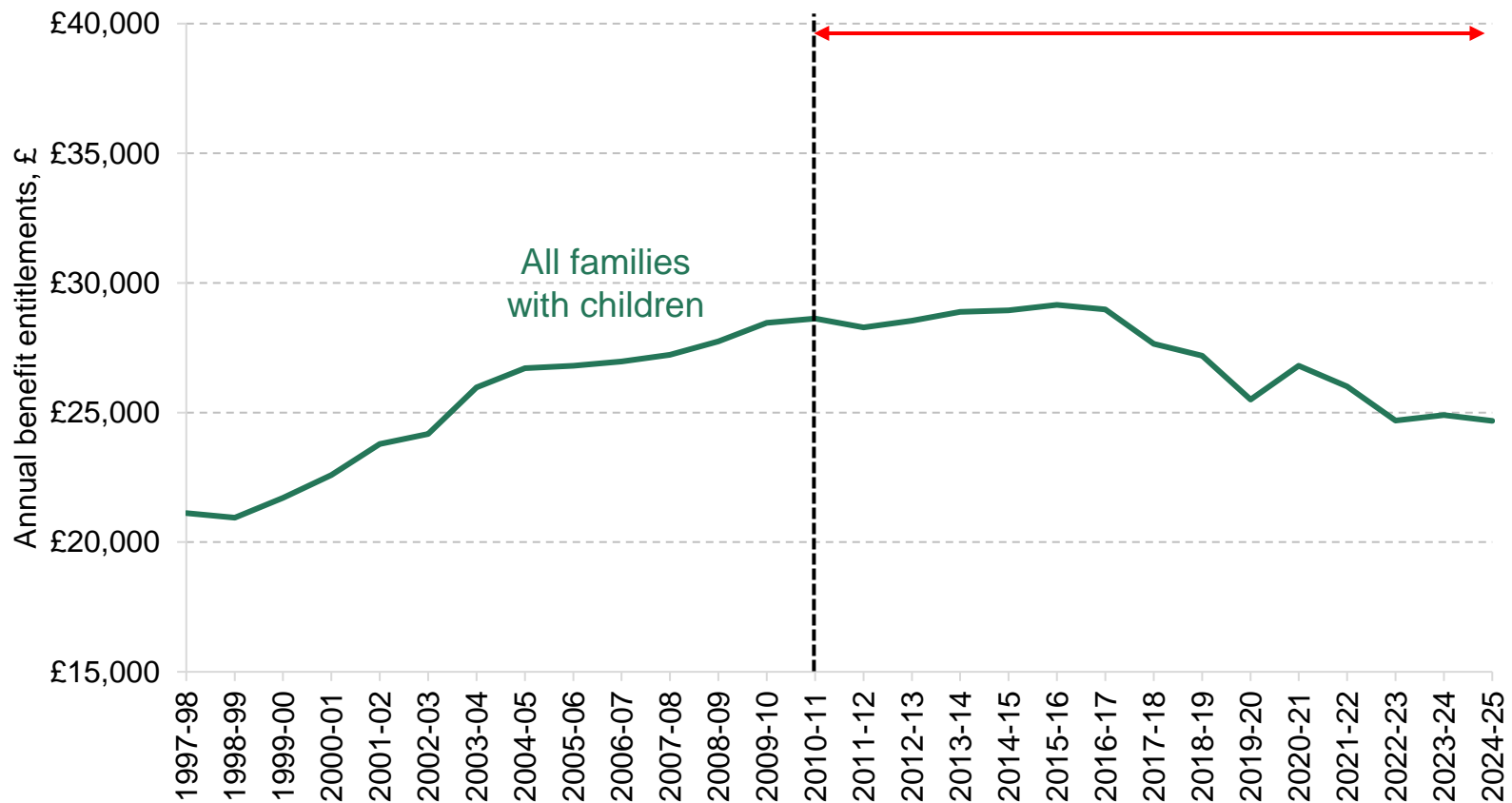
Mean benefit entitlements of low income out-of-work households with children since 1997-98



Notes: Graph shows the mean total benefit income received by households out of work with children in the bottom 40th percentile of equivalised AHC income. We take data on the current population of workless families with children on low incomes and run this through uprated tax and benefit systems from each year from 1997–98 to 2024–25. Households in receipt of any disability income are excluded from the sample. Benefit entitlements are given in 2024–25 prices.

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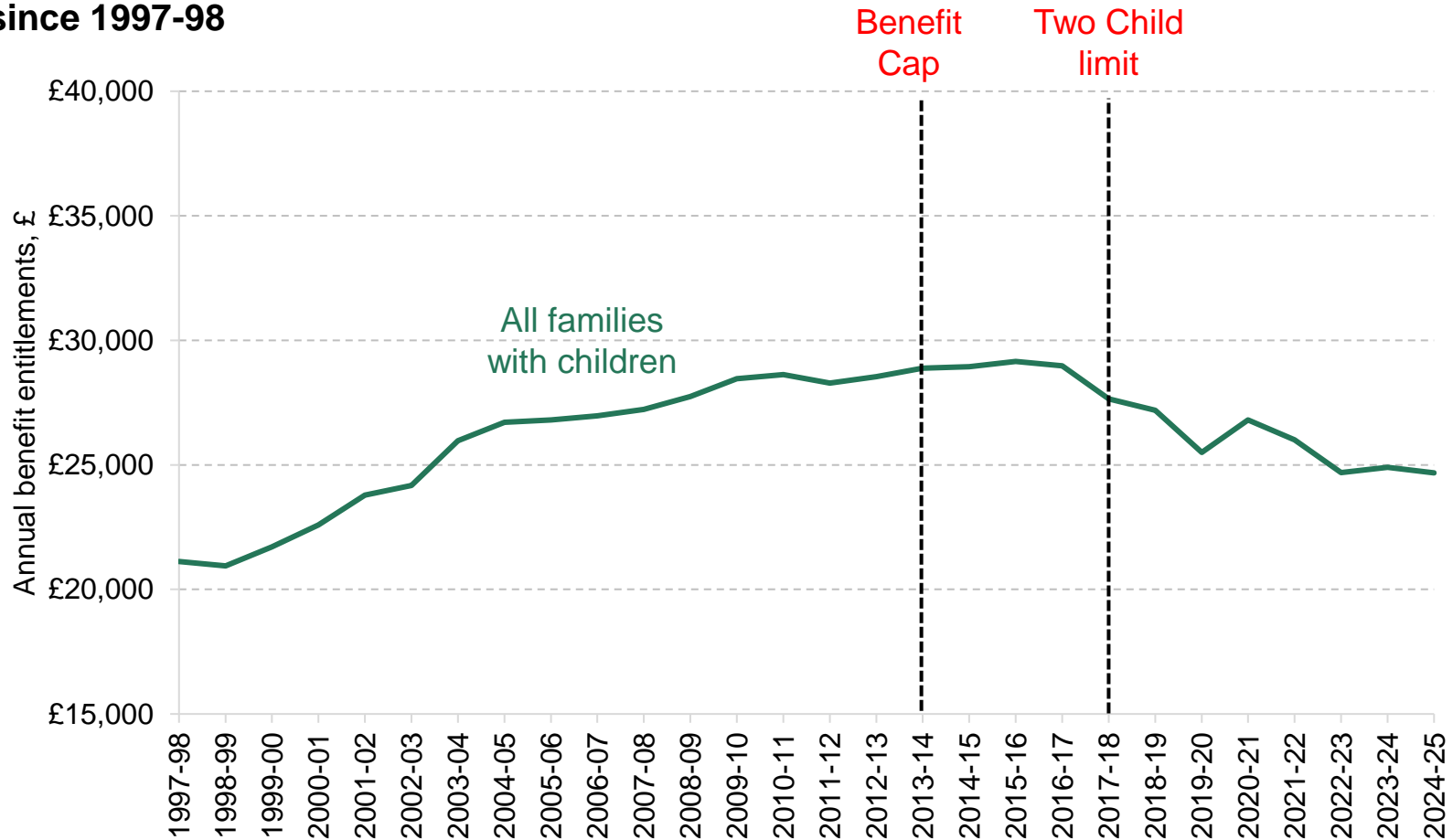
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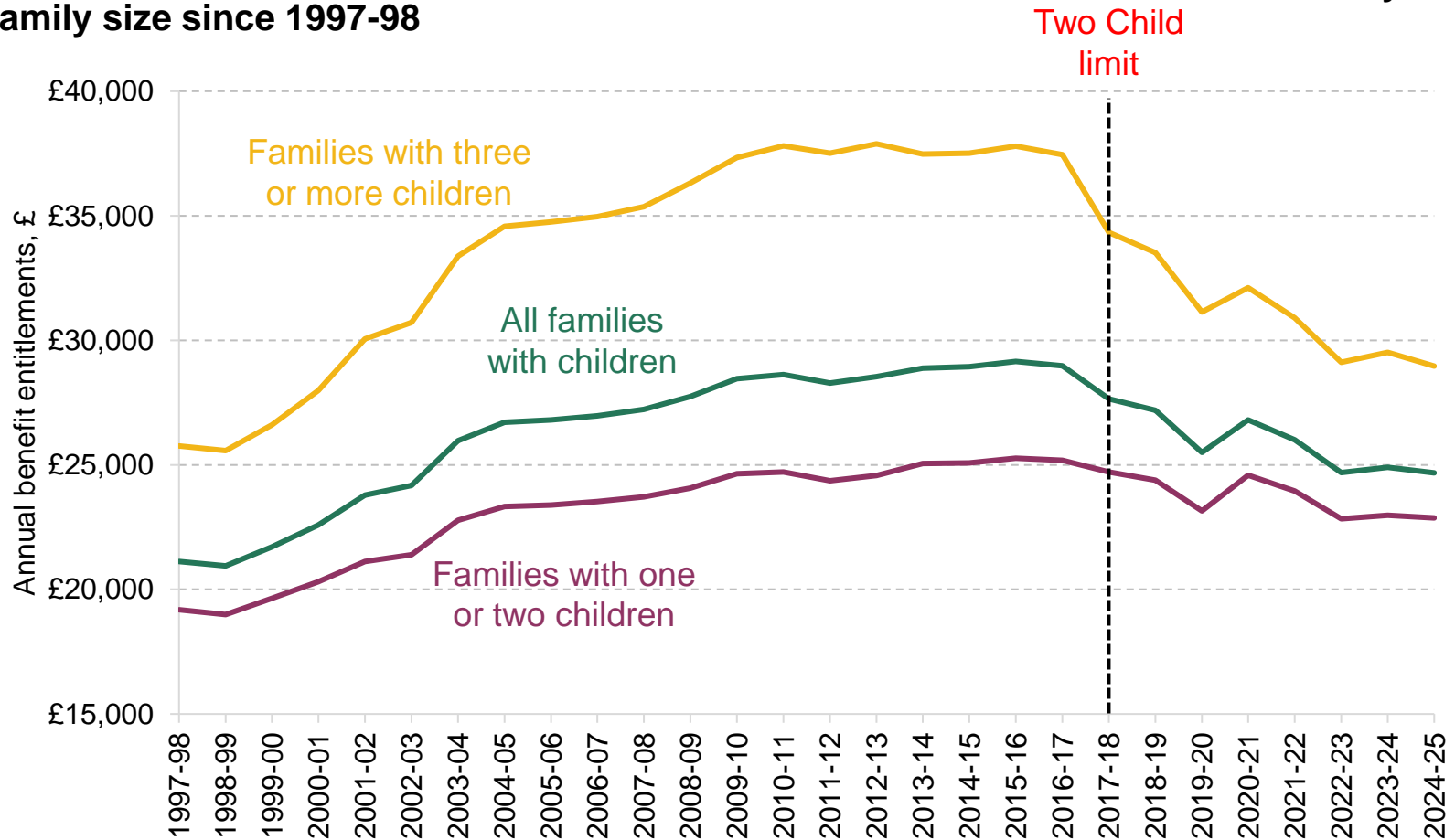
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Larger families have seen faster fall in benefit entitlements since 2016-17

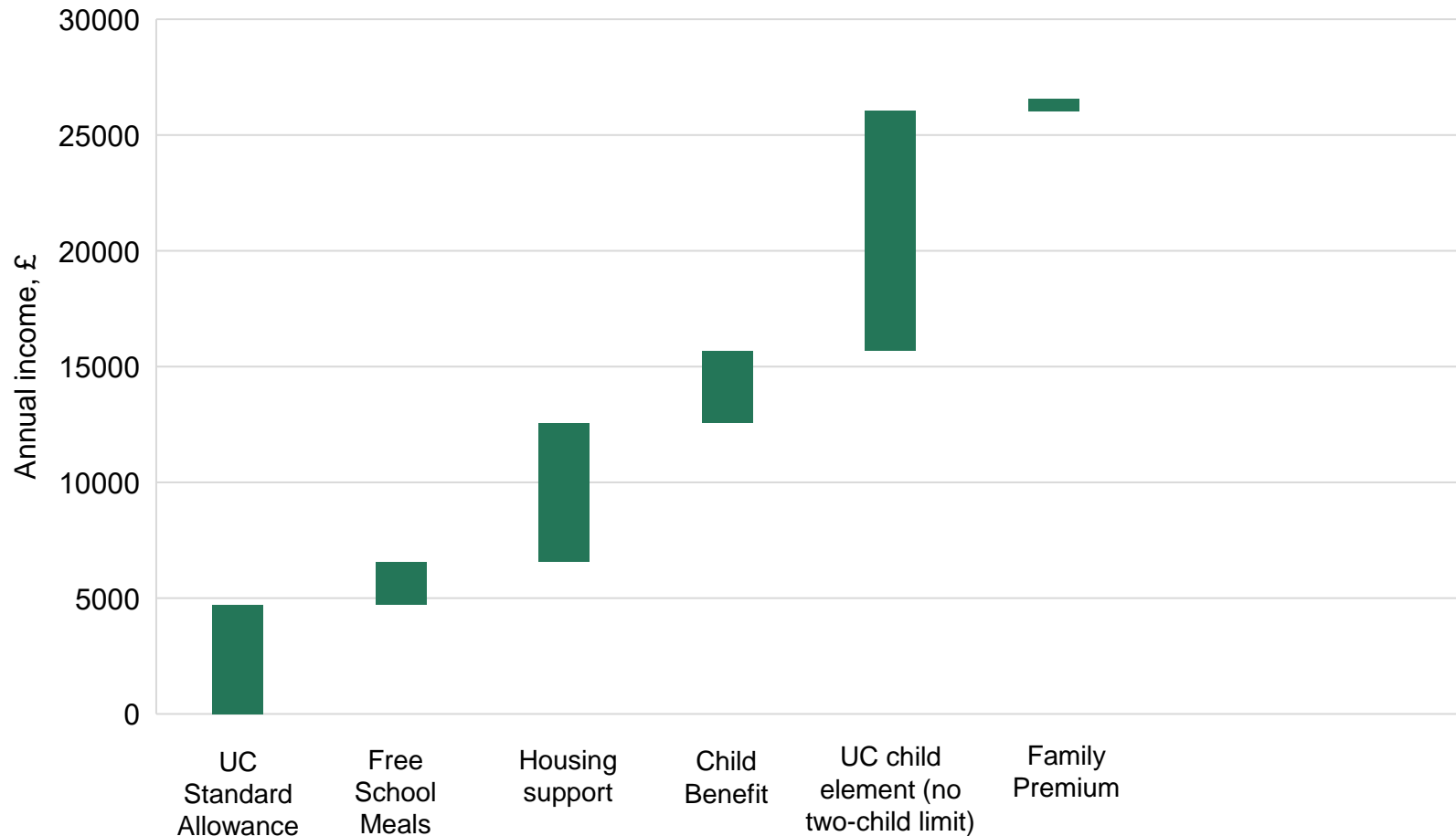
Mean benefit entitlements of low income out-of-work households with children by family size since 1997-98



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Two-child limit and family premium have large impact on household income of poorer families

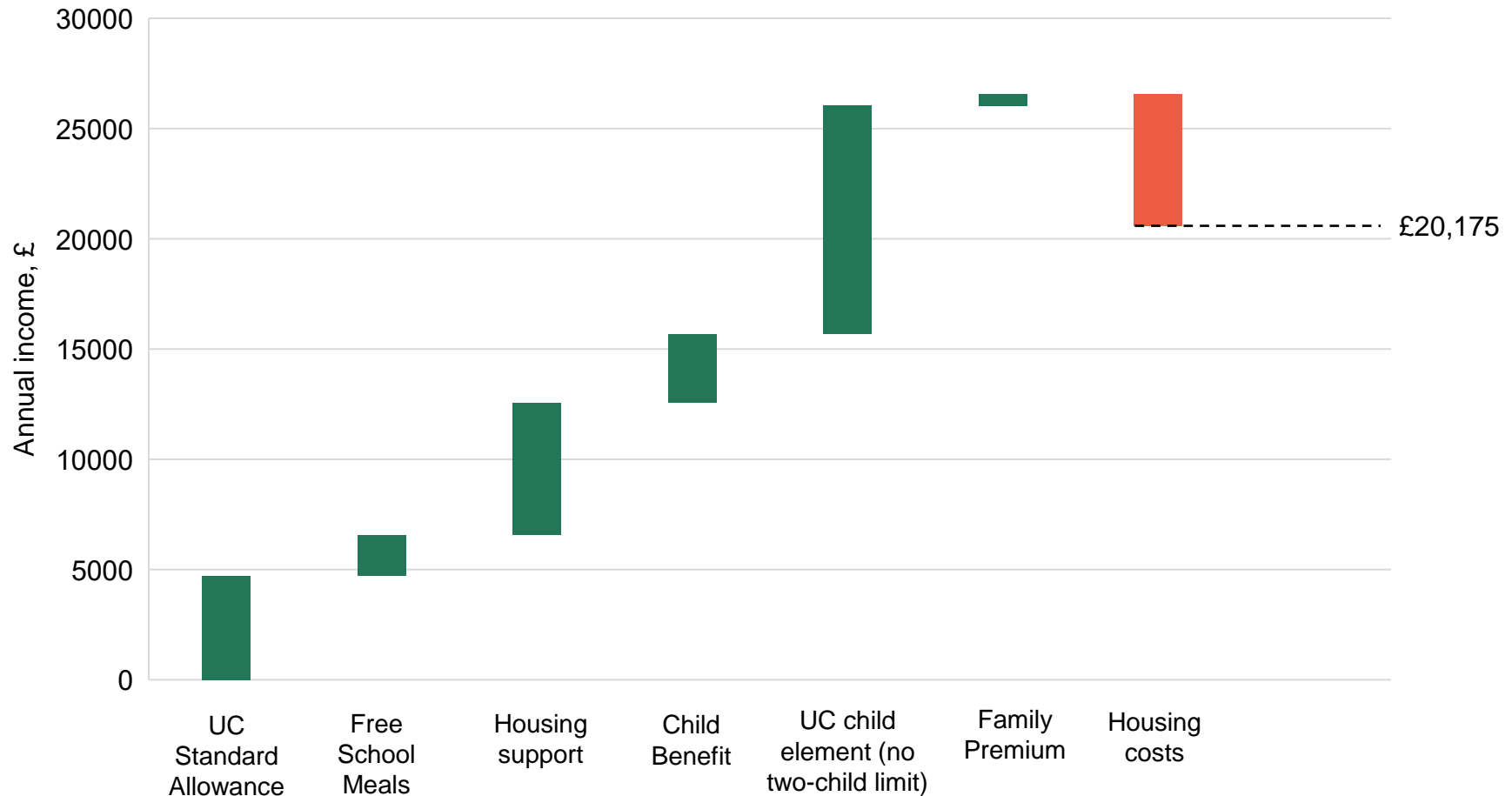
Components of income for lone parent with three young children, living in socially rented accommodation in 2024-25



Notes: Absolute poverty line for this family is £19,755

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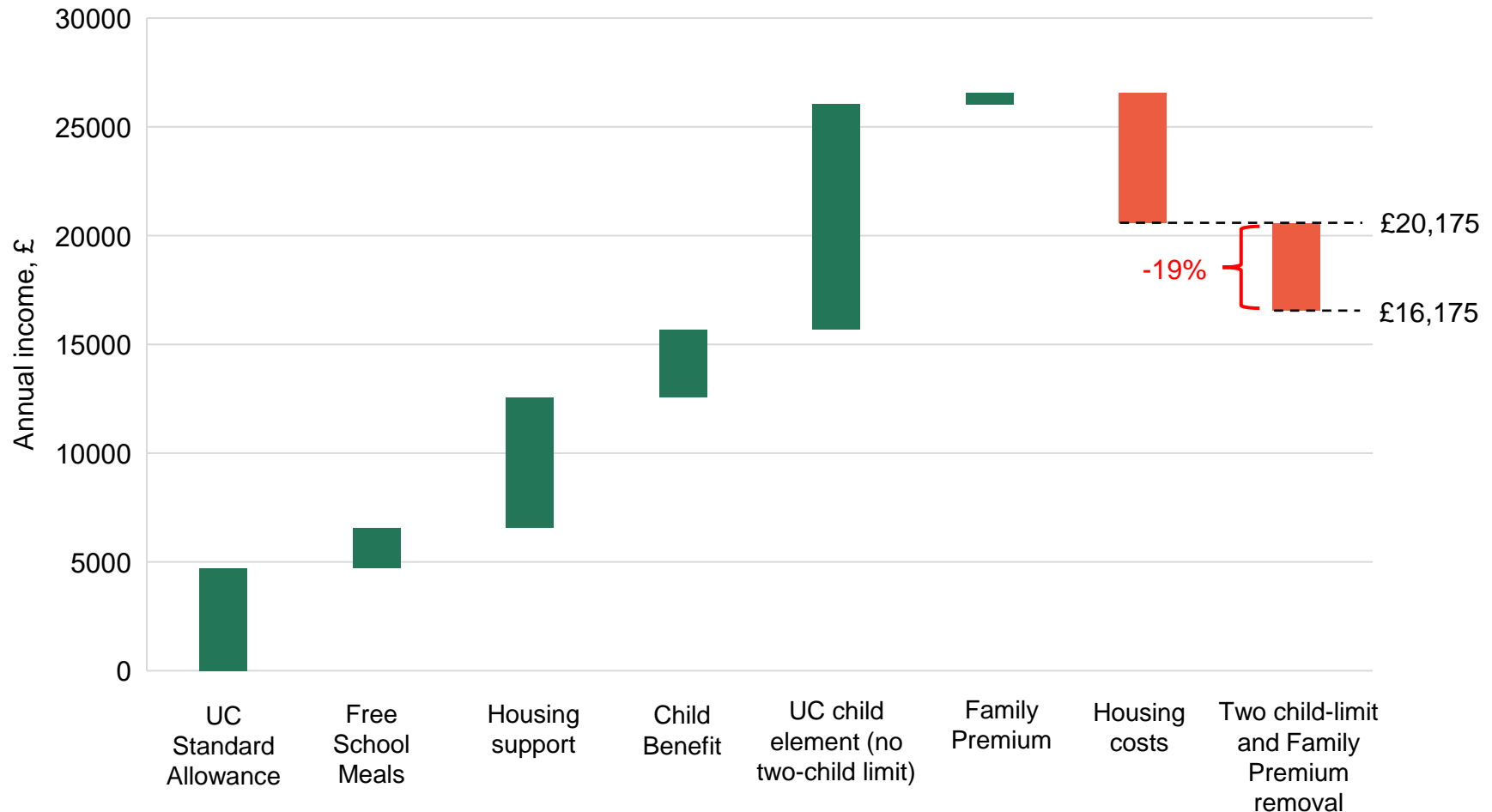
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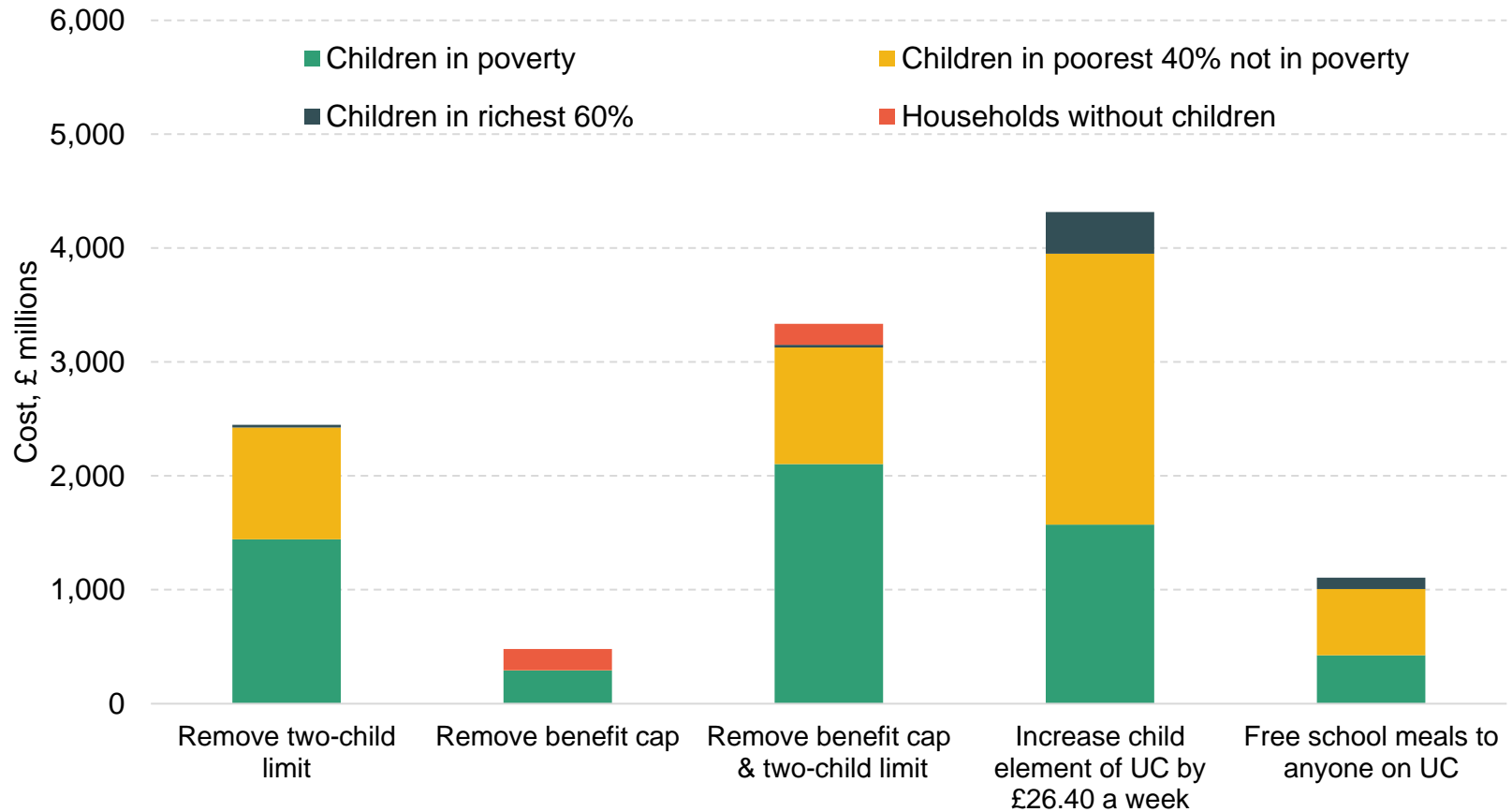
**What are the
government's options?**

Potential policy reforms to alleviate child poverty

- **Remove the two-child limit**
 - £3,455 a year per child affected by two-child limit
 - Affects 13% of children and over 30% of children in poverty
- **Remove household benefit cap**
 - Affects 2% of children
 - Poorest more likely to be affected, including 14% of children in deep poverty
- **Increase the child element of Universal Credit**
 - Affects 39% of children
 - Families subject to benefit cap would not gain and households subject to two-child limit would receive less per child
- **Give Free School Meals to all children in households claiming UC**
 - Valued around £480 a year per child
 - 69% of children whose families are on UC do not get free school meals

Removing two-child limit is expensive but well targeted

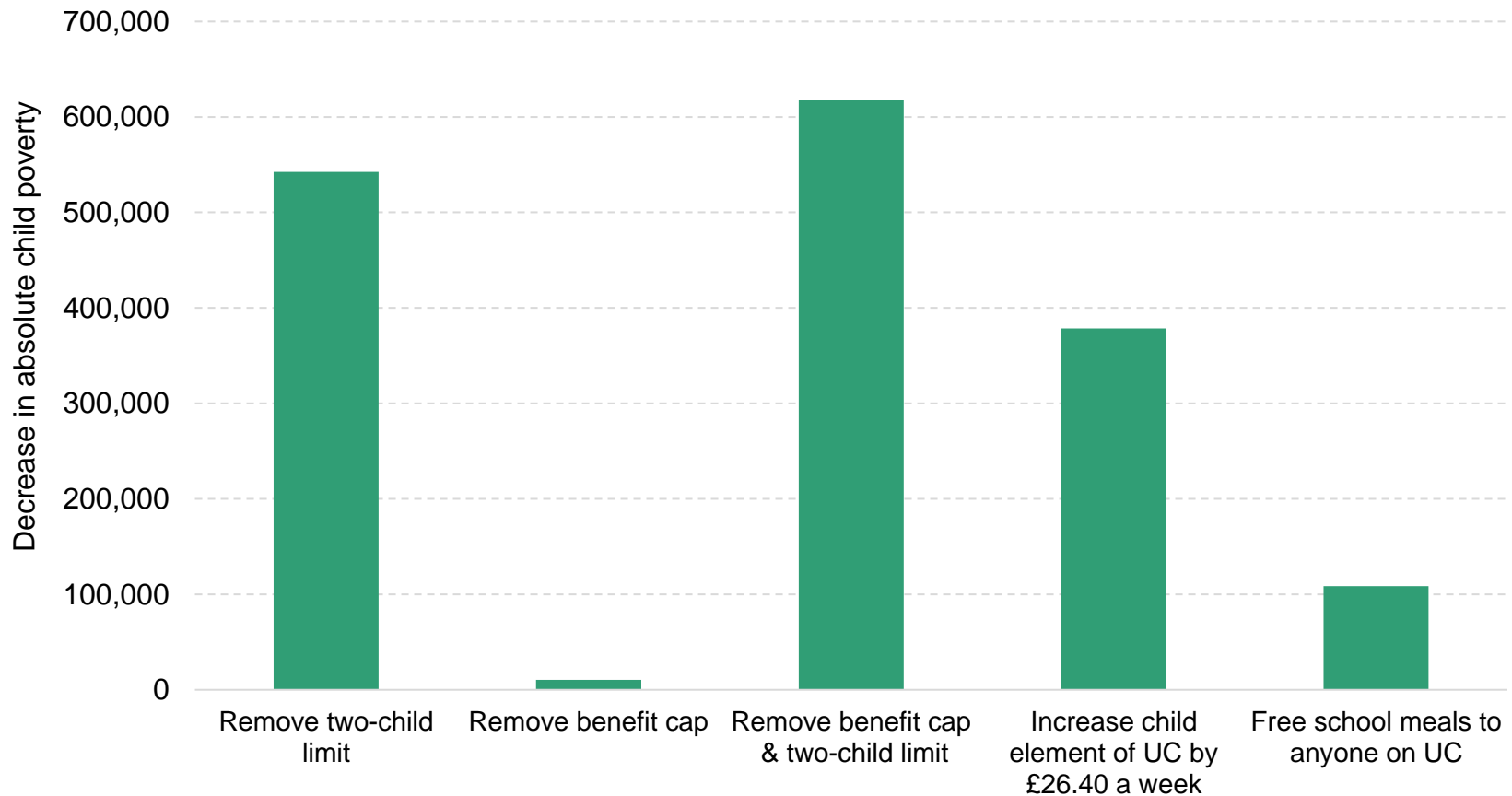
Long run cost of various benefit policy measures



Notes: Assumes full rollout of two-child limit and family premium. Northern Ireland is not included in this analysis.

Scrapping the two-child limit is effective at reducing child poverty

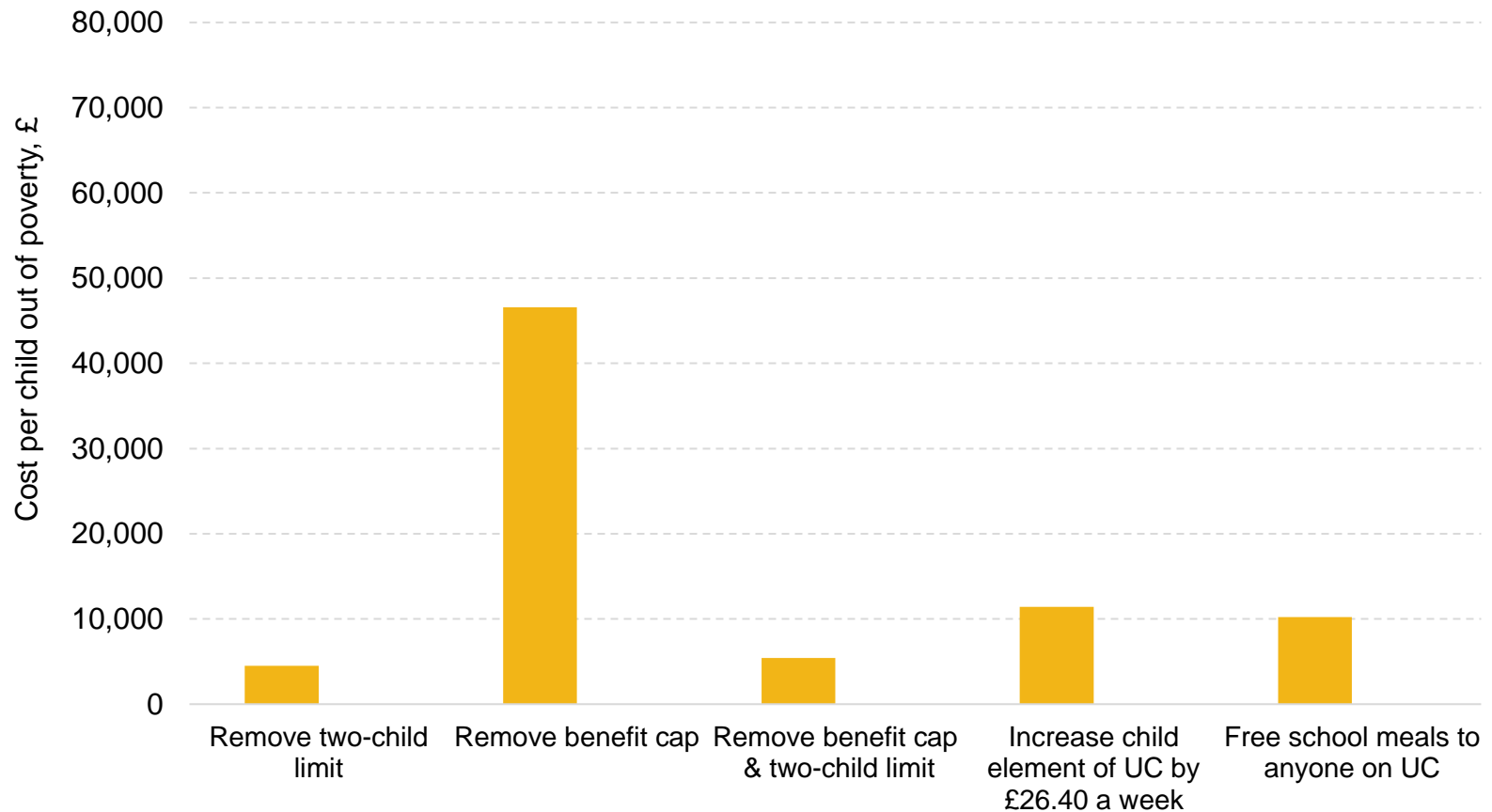
Decrease in absolute child poverty from various benefit policy measures



Notes: Assumes full rollout of two-child limit and family premium. Northern Ireland is not included in this analysis.

Scrapping the two-child limit is the most cost-effective policy for reducing child poverty

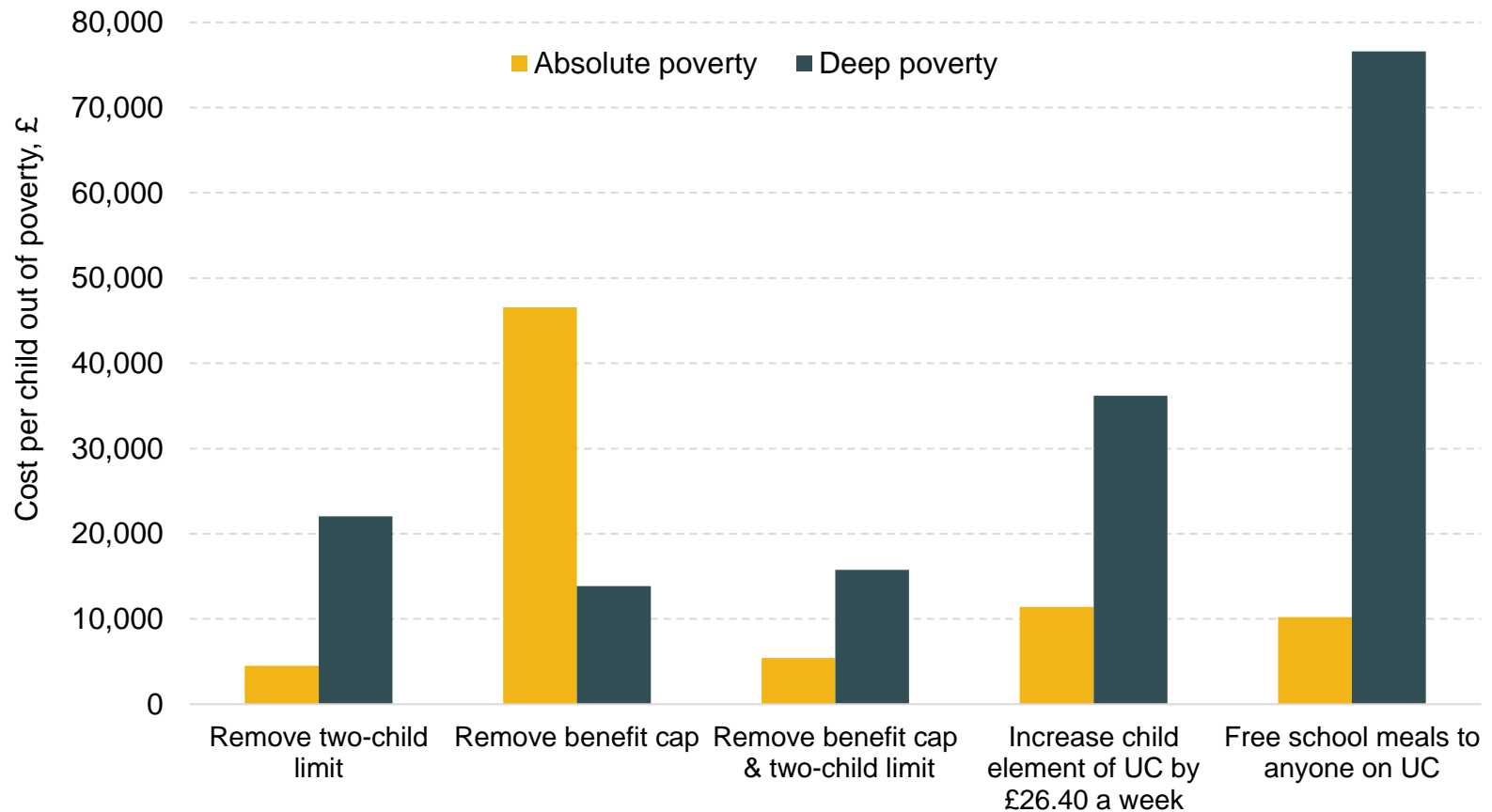
Cost per child out of absolute and deep poverty for various benefit policy measures



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...but it is less cost-effective at lifting children out of deep poverty compared to the benefit cap

Cost per child out of absolute and deep poverty for various benefit policy measures



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Is it as easy as that?

- Tight fiscal situation
 - Difficult choices will have to be made in budget
 - Some of the discussed policies are quite expensive
 - Cost of removing the two-child limit is approximately equivalent to cutting basic rate of income tax by half a penny

- Policies targeted at the poorest may lead to higher costs in the long run due to a rise in unemployment
 - As out of work benefits become more generous, unemployment becomes less painful
 - Pushes against government's employment target



Labour market policies

Increase the employment rate

- The government has stated a highly ambitious plan to increase the employment rate to 80%
 - Employment rate is currently 75%
 - The highest the employment rate has been since 1977 is 76%
- The effect on child poverty depends on *who* is targeted
 - Parents vs non-parents, individuals already in poverty, individuals with long-standing health conditions
 - As an illustrative example: increasing the employment rate to 80% could reduce child poverty by around 200,000 if we take from any adult not in work
- Bringing parents into good quality jobs is a tall order

Increasing the minimum wage

- Increases employment income of low earning individuals
 - However, they are often second or third earners in a household
 - These households are usually already in the middle of the income distribution
 - Limited impact on reducing child poverty
- Lower-income households may have some benefits withdrawn as earnings increase
 - Particularly true of households with children

Summary

- Child relative poverty has increased by 3ppts since 2010-11
 - Driven entirely by large families

- Removing the **two-child limit** reduces absolute child poverty by 540k
 - Most cost-effective policy - £4,500 per child out of poverty
 - Not as effective at tackling deep poverty
 - Removing **two-child limit and the household benefit cap** alleviates poverty amongst the poorest but at a higher total cost

- Tackling poverty through higher employment or earnings might be preferable from a fiscal point of view and deliver wider benefits to parents, but there's no easy way to achieve this

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