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SYMPOSIUM PREFACE

A symposium on poverty, the safety net and child development: preface

Recent rises in the cost of living, combined with increasingly tight public budgets that pressure governments into cutting welfare spending, have renewed attention to the plights of disadvantaged families and the potential long-term consequences of living in poverty during childhood. These concerns are justified by mounting empirical evidence showing that the health, education and future labour market outcomes of children are strongly associated with the financial resources of their parental families. Yet, evidence on the extent to which income or poverty affects child outcomes remains scarce. On the policy side, the consequences of growing up in poverty and the role of the safety net in attenuating long-lasting disadvantage is a matter that attracts huge attention. Many have argued that those policies can be self-financing, by supporting the healthy childhood experiences and the formation of skills that promote successful educational and labour market trajectories.

In practice, researchers aiming to quantify the causal impact of parental financial resources and of public transfers to families with children face serious challenges. One issue is that variation in financial resources across families is associated with variation in many other family characteristics, including the skills and preferences of parents, making it difficult to disentangle the roles played by different aspects of family life. Moreover, income variation can take many forms, and it is not clear that all carry the same impacts. For instance, some families are permanently more affluent than others, and may plan accordingly for persistently higher levels of investment in children. That certainty and time consistency in investments may be valuable in themselves. In some cases, families may experience transitory changes in income that induce unexpected changes in child investment. The impacts of those shocks for child development may depend on the characteristics of the child, the family and the social or institutional environments. Public transfers to disadvantaged families often come with strings attached such as work requirements for mothers, or may be associated with stigma. All those can interfere with their impacts on children.

This symposium revises our current understanding of the long-lasting consequences of child poverty, and of the role of the safety net for protecting disadvantaged children in high-income economies. This is an especially good time to take stock of what has been learned so far as public transfers increasingly contribute to keep children out of poverty. Figure 1 illustrates this point for the UK. It plots the recent evolution of child poverty rates in lone-parent and dual-adult parent households using two measures: household disposable income, represented by the solid lines, and household income excluding income from benefits, represented by the dotted lines. It shows that, when benefits are excluded from family income, poverty rates among children in lone-parent households are extremely high, varying between 70 and 80 per cent. They have also changed little earlier in the period, but took a mild downward trajectory since 2013, a period that coincides with the imposition of more stringent work requirements and sharp increases in the minimum wage that may have incentivised lone parents to work. Adding public transfers to family incomes completely changes these trends. In terms of disposable income, child poverty rates in lone-parent households fell sharply between 1997 and 2010, and continued falling at a slower rate after that. Indicatively, the earlier period saw strengthened government support for lone parents, through generous cash transfers (income support and child tax credits) and in-work benefits (working tax credits).

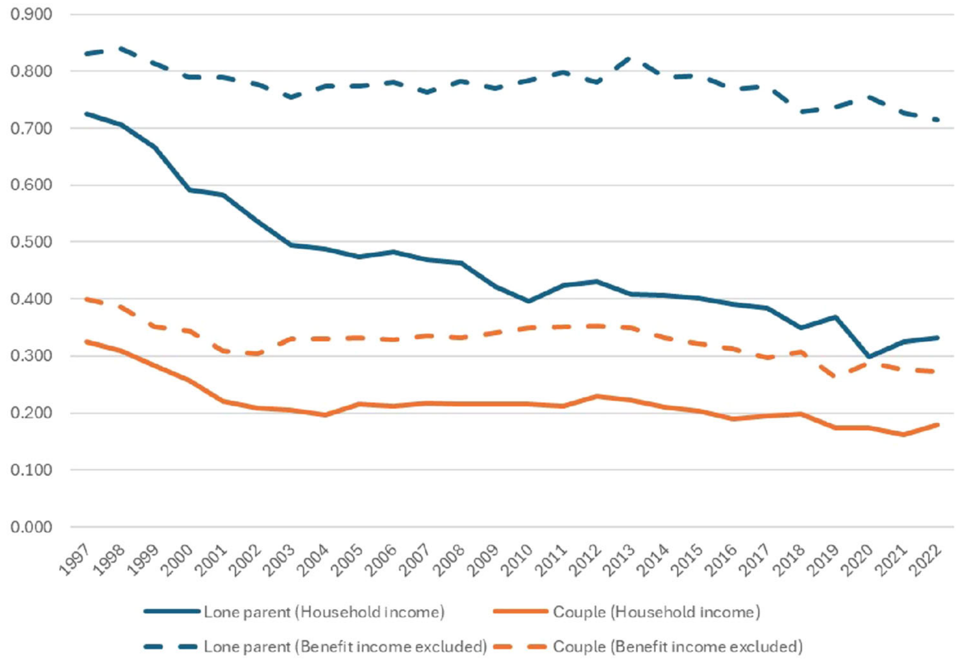

FIGURE 1 Child poverty rates by household composition. Note: The plot shows absolute poverty rates, defined as less than 60 per cent of median income in 2010–11, where income is equivalised to reflect family composition using the OECD scale. Incomes are equivalised OECD household income after housing costs have been deducted. Solid lines show child poverty rates based on household disposable income, net of tax liabilities and including public transfers; dashed lines are based on household disposable income net of public transfers. Source: Calculations based on data from Households Below Average Income. [Colour figure can be viewed at wileyonlinelibrary.com]

Child poverty rates are lower and fell much less dramatically in dual-adult households. For these families, the transfer system is also much less instrumental in keeping them out of poverty. What emerges over this period is the striking role of the safety net in reducing the gap in poverty rates between lone- and dual-parent households, which stood at about 40 percentage points in the late 1990s and dropped to about 15 percentage points by the early 2020s.

This symposium is concerned with two key questions. First, does the experience of living in poverty as a child leave long-lasting scars as the child ages into adulthood? And second, can the government safety net mitigate these impacts?

The first paper by Pedro Carneiro, Sarah Cattan and Henrique Neves discusses current evidence on the role of family financial resources for child development, and the magnitude of their impacts. The paper shows that while most estimates of the impacts of income are small, and huge investments would be needed to significantly dent the large gaps in outcomes across children brought up in different socio-economic groups, they are large enough, and their impacts are sufficiently long-lasting, to justify public transfers to poor families. The paper then investigates the channels through which income and poverty affect outcomes, highlighting the interaction between stress, family environment and income in driving investments and outcomes.

This first paper lays the framework for looking into the role of different elements of the safety net for child development and in supporting sustained gains. Anna Aizer and Adriana Lleras-Muney follow up by surveying evidence of the impact of redistributive welfare programmes on children's health and well-being. They focus on cash welfare and in-kind benefits such as housing, food, health care and education in the UK and the US. Causal evidence indicates that the safety net can protect children from the long-term consequences of living in poverty. The authors also discuss policy challenges that may break this chain.

Katherine Michelmore focuses on another component of the safety net – tax credits – and reviews evidence of their role in improving the lives of children in low-income households. Tax credit reforms generate variation in benefit receipt, which is exogenous to household preferences and behaviours. Some strong expansions to tax credits occurred during the 1990s, and now allow for the assessment of their impacts in the short and longer term. This paper reviews current evidence of how their impact on family financial resources affects child outcomes, identifying the channels through which this occurs, including spending on child-related items and mechanisms related to nutrition, mental health and stress.

The three papers offer insightful and complementary perspectives on the current understanding of child poverty and its consequences for later economic outcomes. They also lay out key directions for future research. We hope that by highlighting current gaps in understanding and available resources for further research, this symposium will inspire more work on child poverty and how best to tackle it.

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Editors of the Symposium