
SUPPORTING CHILDREN THROUGH
THE TAX AND BENEFIT SYSTEM

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INTRODUCTION AND SUMMARY

Introduction

1. The Government's aim is for every child to have the best possible start in life. Yet the rate of child poverty has increased in the past twenty years, so that one in three British children now lives in a family with income below half the national average. Between 1969 and 1997, the tax burden on families with children increased by nearly 20 per cent under successive Governments.
2. The Government's long-term economic ambition is that, by the end of the next decade, child poverty will be reduced by half, as the Government moves forward with its commitment to end child poverty within 20 years.¹ This paper describes how the evidence on child poverty, its causes and its consequences has informed the broad policy approach, and reforms to the tax and benefit system in particular.
3. Drawing on the latest research, the paper documents the increasing prevalence of low income among families with children, and explains the role of factors such as worklessness. However, low income is only one aspect of child poverty, and action is needed across a range of policies. The paper explains how the evidence has informed strategies to tackle child poverty through education, targeted interventions to support families with young children, and by supporting innovation and good practice in the voluntary sector.
4. Policies to reform the tax and benefit system have already begun to deliver change, marking the first steps in reducing child poverty in the UK. Measures in the 1998 and 1999 Budgets have begun to make work pay, and will help to lift up to 800,000 children out of relative poverty by the end of the Parliament. Building on this, the paper outlines possible long-term reforms to the way that the tax and benefit system supports children.
5. The paper is the fifth of a series of papers on the Modernisation of Britain's Tax and Benefit System. Earlier papers have explained the changing experience of the labour market over the past two decades; outlined reforms to improve work incentives for those on the lowest incomes; and described the challenge of rising inequality, worklessness and poverty across the population.²

Summary

Chapter One: Family Income, Poverty and Worklessness

6. **Children have not had an equal share of the growth in incomes over the last 20 years.** The average income of households with children, adjusted for household size, is nearly a third lower than for those without children, and this difference has been growing over time. Children are now the group most likely to be in low-income households, and most likely to remain in a low-income household for long periods of time.
7. **The number of children in relative poverty has trebled over the past three decades. The number of children in absolute poverty has also risen, and the poorest children have seen no rise at all in incomes in recent years.** By the mid 1990s, the UK had the highest proportion of children in relative poverty in the EU. Compared to other countries, the UK has high numbers of families headed by a lone parent, and high numbers of families with no-one in work.

¹ Rt Hon Tony Blair MP, Beveridge Speech, Toynbee Hall, and HM Treasury (1999b).

² *Employment Opportunity in a Changing Labour Market*, November 1997, *Work Incentives: a report by Martin Taylor*, March 1998, *The Working Families Tax Credit and Work Incentives*, March 1998, *Tackling Poverty and Extending Opportunity*, March 1999.

8. Children are more likely to be persistently poor than working-age adults. Over 800,000 children live in families that have been on means-tested benefits for at least five years. 11 per cent of children have spent the last seven years in the bottom three deciles of the income distribution, and over a fifth have spent four of the last seven years in the bottom three deciles and not managed to escape low income permanently.

9. The biggest growth in children with low incomes has been in workless households – households where no-one is in work. 2.2 million children – almost a fifth – live in workless households. But changes in the labour market have increased the risk of poverty for children with working parents as well. Certain groups are more likely to experience these problems: families with young children, large families, certain ethnic minority groups and lone parent families.

10. The mother's employment and earnings are increasingly important in preventing low incomes. Mothers are more likely to work if they have a partner in work. Mothers' employment rates are also closely linked to the age of the youngest child, but lone mothers are less likely to be in work than mothers in couples for all children's age-groups. Fewer lone parents work in the UK than in many other countries. Around two thirds of workless couples with children will have at least one adult in work after five years, compared to a third of lone parents.

11. The research shows that work is the best route out of poverty for families, particularly as a long-term solution. Around two thirds of families' exits from poverty in any one year are associated with getting a job or increased earnings in the family. Long periods of worklessness, perhaps begun when a child is born, reduce the chance of parents subsequently finding work, and reduce their eventual earnings.

Chapter Two: The Policy Strategy

12. A substantial body of evidence suggests that children who grow up in low-income households experience disadvantage and lack of opportunity that affects not only their own experience as adults, but also the life-chances of their children. Children in disadvantaged families are more likely as adults to live in social housing, be dependent on benefit, have a low income and, if female, be a teenage mother. Child poverty is of most concern when it persists between generations and when those on low incomes lack the opportunity to improve their position.

13. Child poverty is a complex and multi-dimensional problem. It requires a multi-dimensional policy response, with the following key elements.

- **Ensuring a decent family income.** Measures in the last two Budgets have been designed to provide extra help for all families. Extra resources have been targeted at making work pay, and at helping those in greatest need, particularly where there are young children.
- **A world class education system for all:** ensuring that those from poor backgrounds have the skills and education they need to break the cycle of disadvantage.
- **Special interventions targeted at those in greatest need and at crucial stages in life.** This includes early interventions for the youngest children through the Sure Start programme, improving public services in the poorest communities, and giving special help to vulnerable groups such as teenage mothers, children in care, or youths making the transition from school to adult life.

- **Harnessing the power and expertise of the voluntary and community sector**, providing support for innovation and good practice, and fostering a strategic partnership between the sector and government in the battle against child poverty.

Chapter Three: Supporting Families Through the Tax and Benefit System

14. Policies to reform the tax and benefit system have already begun to tackle child poverty. Measures in the last two Budgets have been designed to provide extra help for all families. Extra resources have been targeted at making work pay, and at helping those in greatest need, particularly where there are young children.

15. The research shows that work is the best route out of poverty, particularly over the longer term. But in the past many parents have found that work leaves them little or no better off than benefit. Those entering work on low wages, particularly if they have childcare costs, have often faced an unemployment trap. People were reluctant to seek work if it did not pay.

16. A series of reforms, including the minimum wage, a new 10p starting rate of income tax, cuts in National Insurance targeted on the lowest paid, and the Working Families' Tax Credit have been focused on making work pay. The Working Families' Tax Credit, with its new direct help for childcare costs, targets the largest gains on families with children, so that parents will see a financial reward from work. For the first time the Government can guarantee a minimum income for families moving off benefit into work – at least £200 for a family with a full-time job.

17. The tax and benefit system needs to support all children, recognising the extra costs and responsibilities that parents face, and the importance of children for the future of society. Families will gain by an average of £740 a year from the measures in the last two Budgets, including record increases in Child Benefit. A new Children's Tax Credit will replace the married couple's allowance and benefit 4.5 million families.

18. With targeted extra help for the poorest, the measures will lift around 800,000 children out of low-income households by the end of the Parliament. In all, the Government will be spending £6 billion a year on extra support for children by 2001. This will benefit families in the bottom two deciles by around £20 a week, and up to 4.5 million families will see the minimum level of support for the first child rise from £11 in 1997 to up to £23 in 2001.

19. The Government's long-term goal is to create an integrated and seamless system of financial support for children. This Integrated Child Credit would bring together the different strands of support for children in the Working Families' Tax Credit, in Income Support and in the Children's Tax Credit, building upon the foundation of universal Child Benefit. It could be paid to families in and out of work, direct to the main carer, and complemented by an Employment Tax Credit paid through the wage packet to working households with and without children.

20. This has a number of attractions in principle. A more transparent system of support for children would help parents to understand what they could expect to receive, and would facilitate public debate about the correct level of support. A portable and secure income bridge spanning welfare and work could improve work incentives. A common framework for assessment and payment would give every family a stake in the system of child payments while allowing extra resources to be directed at those most in need, and could deliver efficiency gains for the Government and reduced red tape for parents.

21. The introduction of an Integrated Child Credit would be a major structural reform for the longer term, posing a number of operational and policy challenges. A critical test will be whether the integration of child payments can be delivered efficiently and effectively.

FAMILY INCOME, POVERTY AND WORKLESSNESS

Children have not had an equal share of the growth in incomes over the last 20 years. Children are now the group most likely to be in low-income households, and most likely to remain in a low-income household for long periods of time. This chapter looks at the evidence on changes in family incomes over time, the link between worklessness and low-income households, and how families escape low incomes. The key findings are:

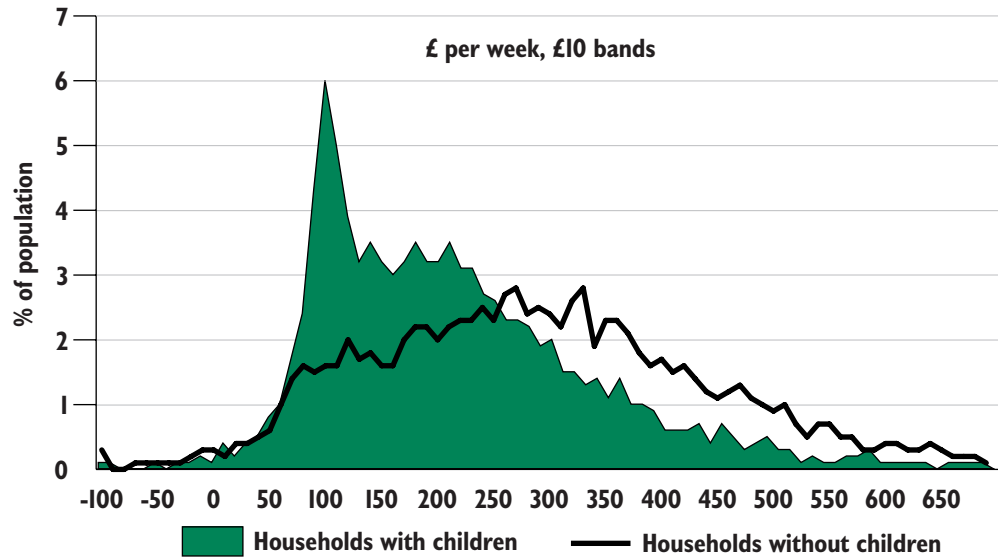
- The number of children in relative poverty has trebled over the past three decades. The number of children in absolute poverty has also risen, and the poorest children have seen no rise at all in incomes in recent years. By the mid 1990's, the UK had the highest proportion of children in relative poverty in the EU.
- Children are more likely to be persistently poor than working-age adults. 11 per cent of children have spent the last seven years in the bottom three deciles of the income distribution, and over a fifth have spent four of the last seven years in the bottom three deciles and have not managed to escape low incomes permanently.
- The biggest growth in low income for households with children has been in families without an adult in work. A fifth of children live in households where no-one works. But changes in the labour market have increased the risk of poverty for children with working parents as well. Certain groups are more likely to experience these problems: families with young children, large families, certain ethnic minority groups and lone parent families.
- The mother's employment and earnings are increasingly important in preventing low incomes. Mothers are more likely to work if they have a partner in work and when their children are older. The proportion of lone parents in work in the UK is lower than in other countries. In the UK, around two thirds of workless couples with children will have at least one adult in work after five years, but only one third of lone parents will be working after this time.
- Work is the best route out of poverty for families, particularly to ensure a sustainable exit from low incomes. Around two thirds of families' exits from poverty in any one year are associated with getting a job or increasing earnings in the family. Long periods of worklessness reduce the chance of parents subsequently finding work, and reduce their eventual earnings.

INEQUALITY AND CHILD POVERTY

1.1 Children have not had an equal share of the growth in incomes over the last 20 years. Between 1979 and 1995/6, average incomes for working-age households without children rose by 43 per cent after housing costs, but average income for household with children rose by 35 per cent. The average income of households with children after housing costs and adjusted for household size is now around 30 per cent lower than those without children.³ Chart 1.1 shows the income distribution for households with and without children.

³Households Below Average Income, 1979–1995/6 and Gregg, Harkness and Machin (1999)

Chart I.1: Income distribution of individuals in working-age households with and without children¹



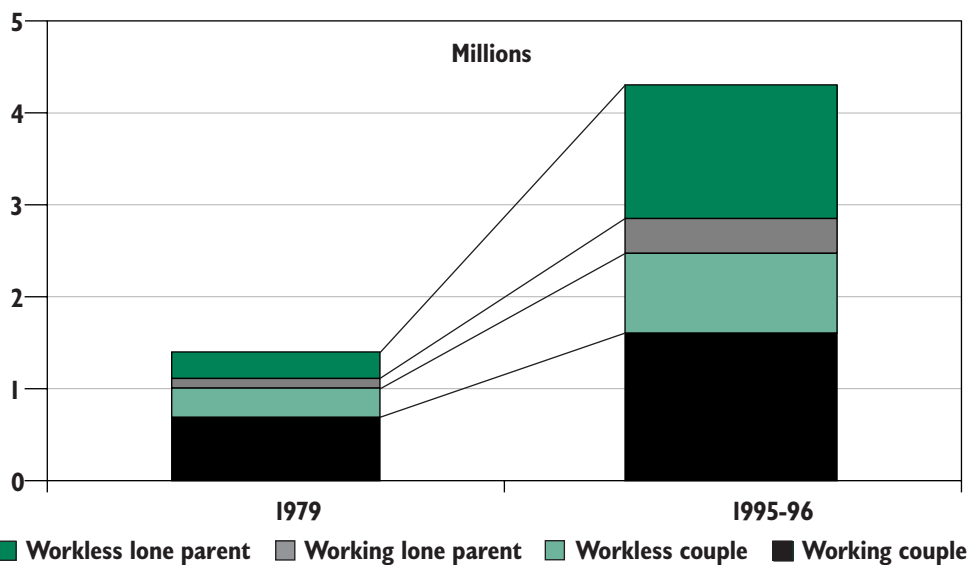
¹Source: FRS 1997/8. Income is after housing costs and excludes self-employed.

I.2 The tax burden on families with children also rose, under successive Governments. The tax burden on a family on mean male earnings with two children increased by nearly 20 per cent between 1969 and 1997.

Child poverty has increased in relative and absolute terms

I.3 Against this background, child poverty in Britain has increased dramatically. Measured any number of ways, the number of children living in households with low income and facing disadvantage has risen over the past few decades. The number of children living in households with less than half average income has trebled, rising from around 1.4 million in 1968 to around 4.4 million children in 1997/8.⁴

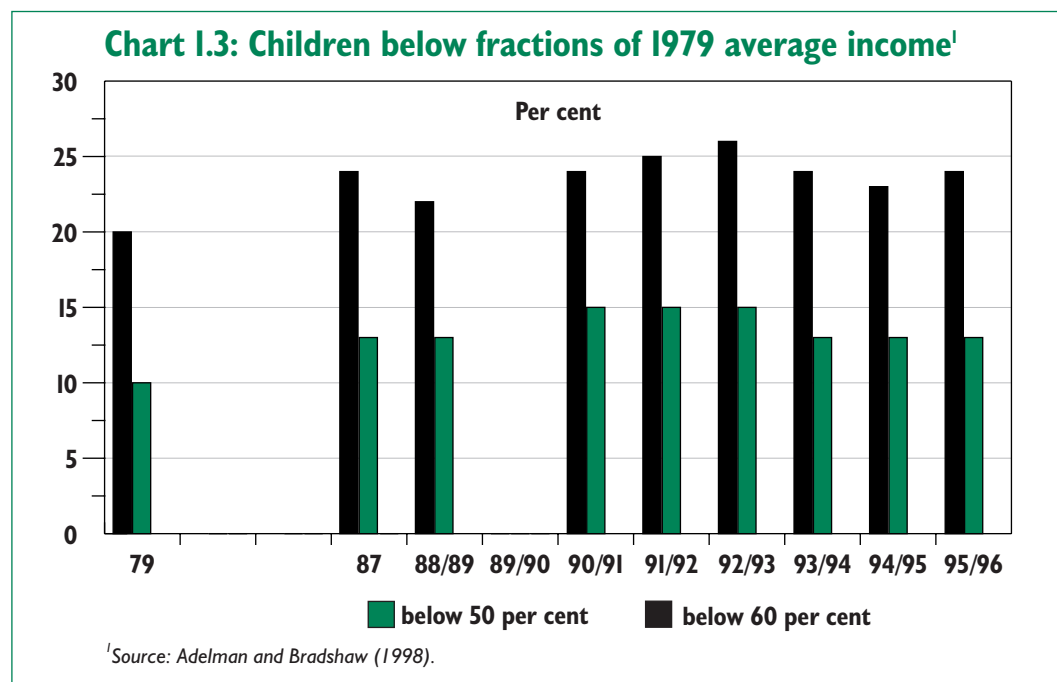
Chart I.2: Children in households with less than half average income¹



¹Source: Gregg, Harkness and Machin (1999).

⁴Households Below Average Income, 1994/5 to 1997/8 and Gregg, Harkness and Machin (1999). See Annex A for a detailed description of the sources of data on family incomes.

1.4 But child poverty has also increased when measured in absolute terms. Chart 1.3 shows that in 1995/6 there were 300,000 more children living in households with less than half average 1979 income than there were in 1979 (£131 a week income after housing costs for a couple family with 2 children under 11 in 1999 prices). Similarly, the number of children in households with less than half average 1995/6 income (£191 a week income after housing costs for a couple family with 2 children under 11 in 1999 prices) fell throughout the 1970s and the first half of the 1980s, but has stopped falling in the mid 1980s, and has been increasing since 1988.⁵ Evidence suggests that the poorest children in society have not experienced an increase in average incomes after housing costs over this period. This section of society have failed to share in the country's increased prosperity.⁶



Child poverty in industrialised countries

1.5 The UK's experience of child poverty, and the deterioration in the relative position of children in the income scale, is not universal across industrialised countries. Between the mid 1980s and the mid 1990s, average incomes for the working-age population increased in most industrialised countries. Average incomes of families with children rose at a lower rate in some countries, but particularly in the UK.⁷

1.6 Children's relative position in the income distribution varies between countries. In the UK, US, Italy, Netherlands, Australia and Canada, children are more concentrated in the bottom part of the income distribution. The opposite is the case for Belgium. In Sweden, Norway, Denmark and Finland, children are no more or less likely to be in poverty than adults.

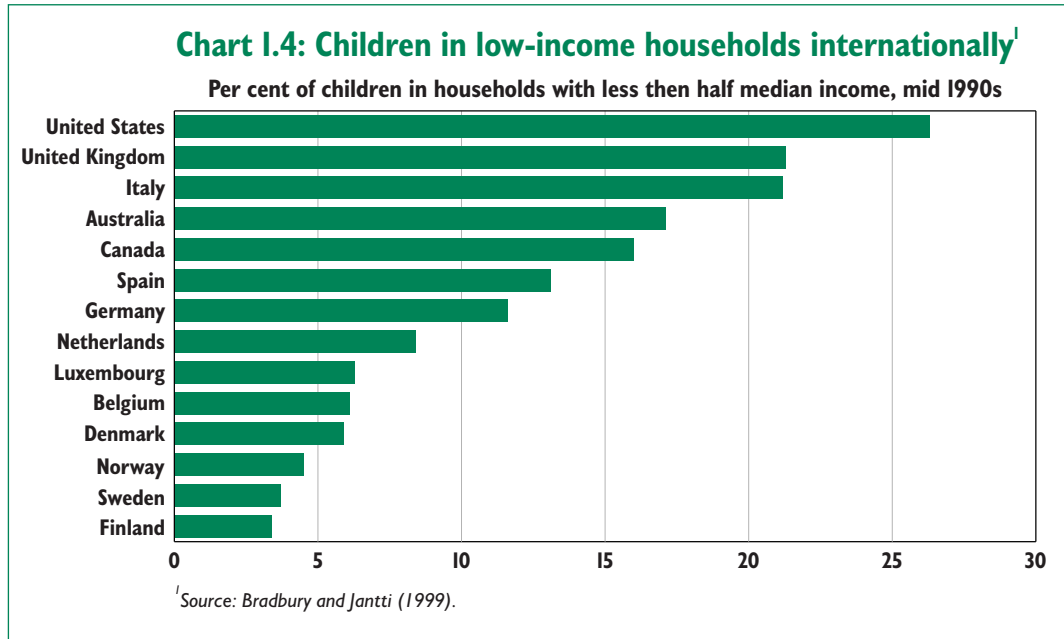
1.7 Over the past ten years, the level of child poverty fell in Denmark, Finland, Norway, Taiwan, Canada and Spain. It has increased in the UK, Germany, Hungary, Italy and the US, while France has experienced little change. On one particular measure, between 1979 and 1995, the UK experienced one of the largest increases in child poverty in all industrialised countries. This study estimates that the UK now has the highest rates of child poverty in the EU, and out of all industrialised countries, only the US has a higher rate.⁸

⁵Gregg, Harkness and Machin (1999)

⁶Households Below Average Income, 1979-1996/7

⁷Dang et al (1999)

⁸Studies that look at international comparisons of child poverty classify children as being in poverty if they live in households with less than half the national median income before housing costs. This measure of poverty does not directly compare the standard of living of children across countries. *Households Below Average Income* estimates the number of individuals below proportions of median and mean income, measured both before and after housing costs. See Bradbury and Jantti (1999)



I.8 In general, countries with high public income-transfers tend to have lower child poverty rates. However, the UK and Ireland are exceptions, since both the poverty rate and the level of social transfers are relatively high. As is explained in more detail below, the UK's child poverty rate reflects a very particular mix of factors, in particular, a high proportion of workless households with children.

Persistent poverty

I.9 Persistent poverty and deprivation can have more serious effects on children than a temporary period of low income. It is therefore important to identify the extent to which poverty affects children for long stretches of their childhood.

I.10 Data on the persistence of child poverty is limited, and there are some difficult issues involved in estimating the amount of persistent poverty. However, some indicators of the extent of the problem include:

- children – particularly pre-school children – are now more likely to suffer persistent poverty than adults, and even, on some definitions of persistent poverty, when compared to pensioners. Some estimates suggest that around half of those in low-income households at a given point in time are also in persistent poverty. But the figure is higher – up to 70 per cent – for children under five;⁹
- eleven per cent of all children were in the bottom three deciles of the income distribution for all seven years between 1991 and 1998. Over a fifth have spent four of the last seven years in the bottom three deciles, and not managed to escape low income permanently at other times;¹⁰
- 16 per cent of adults were either in workless or low-income families with children in every year between 1991 and 1997;¹¹
- in 1998, over 800,000 children lived in families which had spent at least five years on means-tested benefits.

⁹Households Below Average Income, 1994/5–1997/8 and Hill and Jenkins (1999)

¹⁰Households Below Average Income, 1994/5–1997/8

¹¹Iacovou and Berthoud (1999)

Box 1.1: Income dynamics and panel data-sets

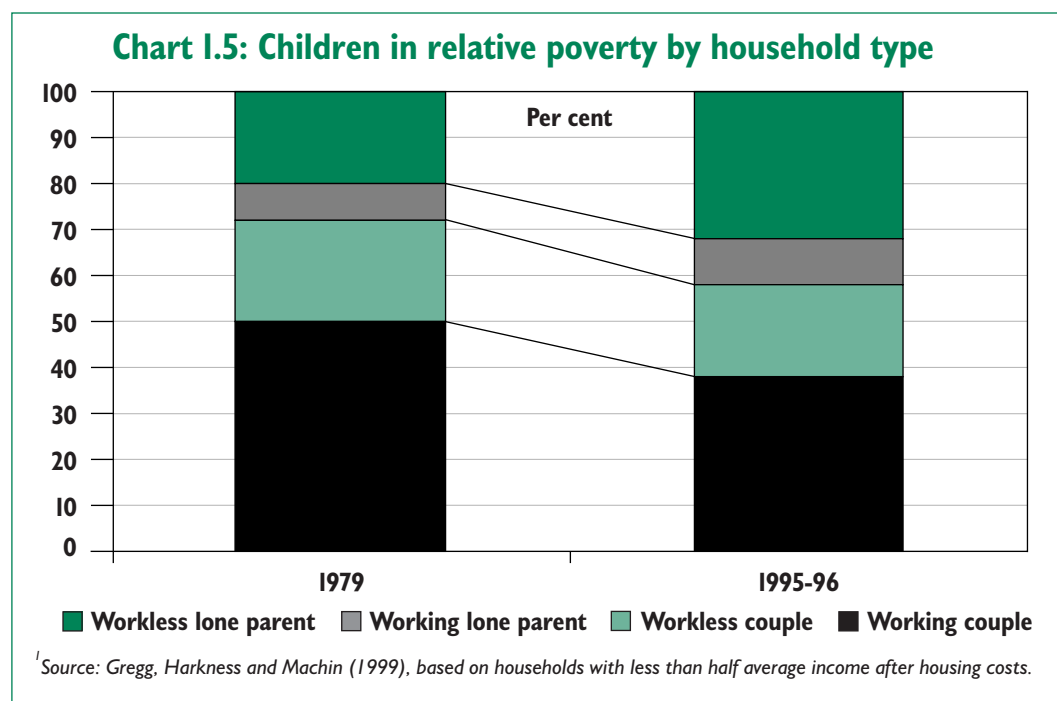
Incomes and opportunities are not fixed over time. Data-sets that follow the same group of families over time - sometimes called panel or longitudinal data-sets - are a much richer source of information than simple “snapshot” data-sets. Annex A describes these data-sets in more detail.

Panel data-sets can tell us about the causes of periods of low income, and highlight what factors are associated with moves into and out of low income. They can also indicate how much of the poverty observed in a single year is due to persistent poverty. In contrast, snapshot data can put too much attention on the symptoms of the problems, rather than addressing the underlying processes and causes which lead to child poverty.

The HM Treasury paper *Tackling Poverty and Extending Opportunity* summarised some of the emerging work that looked at longitudinal and panel data sets. Since then, further work has looked specifically at the changing opportunities for children and parents, such as Iacovou and Berthoud (1999) and Oxley et al (1999). This paper includes the results from dynamic studies alongside those from snapshot data-sets wherever possible.

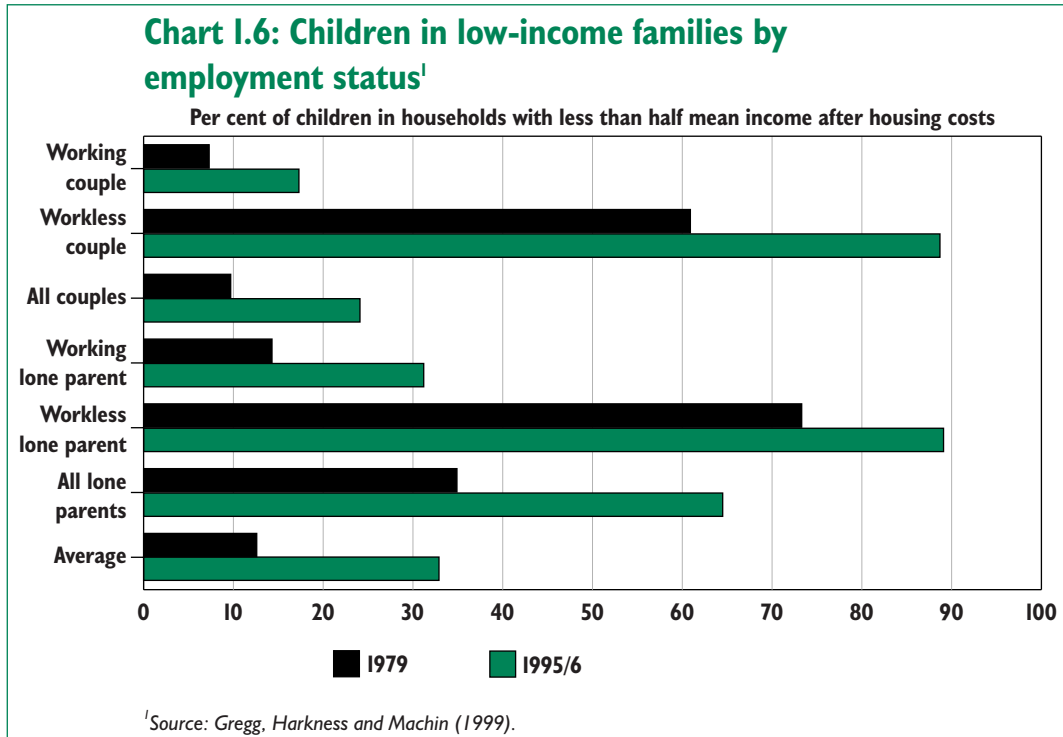
WHICH FAMILIES ARE AT RISK OF POVERTY ?

1.11 Not all children face the same risk of being in a low-income household. Chart 1.2 showed that the biggest growth in children in low-income households has been from children in workless households – a household where no adult is in work. Chart 1.5 shows that this group now form a greater proportion of those in low-income households than it did in 1979.



1.12 But the risk of low incomes has increased for children in all family types, regardless of their parents’ employment status, as chart 1.6 shows. In particular, changes in the labour market and patterns of employment mean that there are now more children in relative poverty whose parents are in work than there were in 1979.¹²

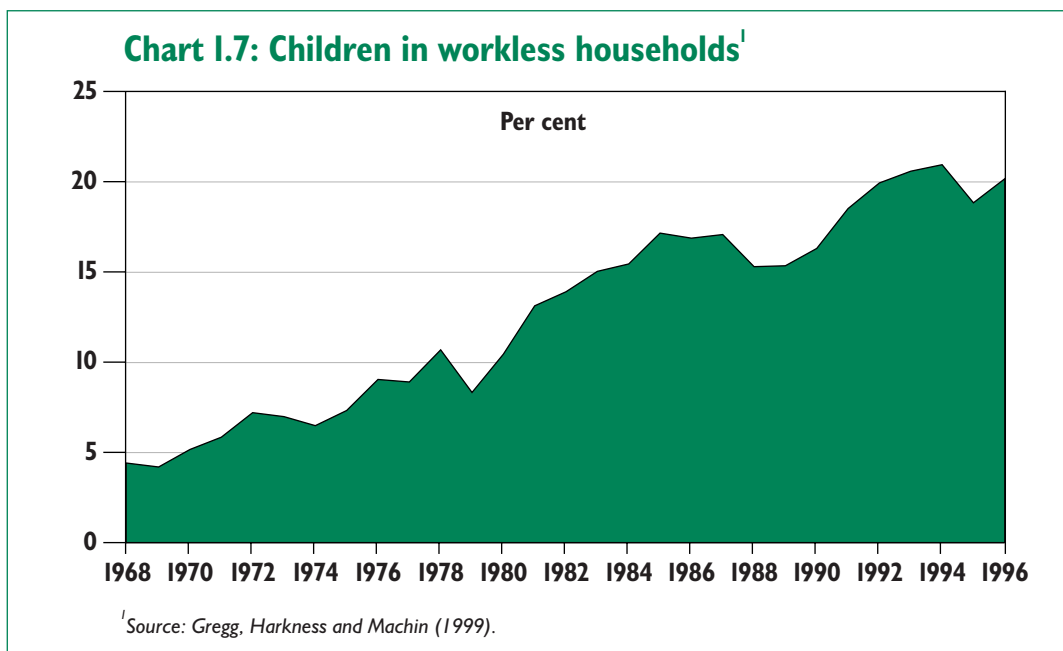
¹²Gregg, Harkness and Machin (1999)



Worklessness and child poverty

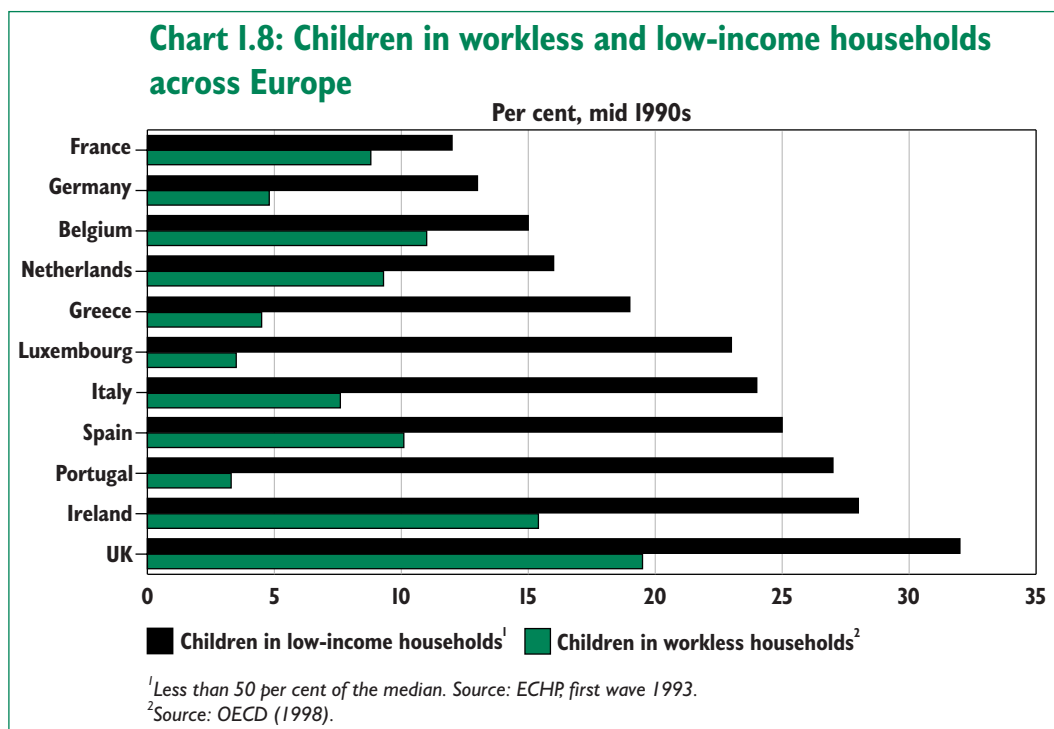
I.13 The main risk factor now for children in low-income households is living in a workless household.

I.14 Just over half of all children in households with less than half average income now live in workless households. This in part reflects the large rise in worklessness for all family types: four per cent of children were living in workless families in 1968, compared to almost a fifth in 1998. Chart 1.7 shows the increase over the last three decades. Children in workless families are now more likely to be in a low-income household: less than two thirds of children in workless families were in low-income households in 1979, but by 1995/6, almost all children in workless families were in households with less than half average income.¹³



¹³Recent figures are from ONS (1999) and based on the Labour Force Survey, but figures from 1968 are from Gregg, Harkness and Machin (1999), based on the Family Expenditure Survey.

I.15 Other countries have also seen an increase since the mid 1980s in the proportion of households with children where no-one is in work, particularly in Italy, France and Belgium. Only Ireland, the Netherlands and the US experienced a fall between 1985 and 1996.¹⁴ Chart 1.8 shows the relationship between children in workless households and low-income households amongst European countries. It shows that the UK has the highest proportion of children in workless households in the EU.



I.16 There are three main factors underlying the increase in children living in a household where no-one works:

- **the level of unemployment.** This rose sharply to a peak of nearly 12 per cent of the workforce in 1984. Although it has now fallen back to just over six per cent, unemployment has a scarring effect on peoples’ life-chances. Re-entry rates to unemployment for the unemployed who get jobs are high. It also has a scarring effect on subsequent pay – the “low pay, no pay” cycle – which means that when an adult in a workless household moves into work, the wage may not be enough to lift the household out of poverty;¹⁵
- **the number of lone parent households** has increased. Around a quarter of children are now living in a lone parent family. As a lone parent household is more likely to be workless than a household with two adults, this will tend to increase the likelihood that children live in a household where no-one is in work. Some of the reasons for worklessness amongst lone parents are discussed in Box 1.2;
- within two-parent households, **the distribution of employment has become increasingly polarised.** The proportion of working-age couples where neither partner was in work rose from three per cent in 1971 to nine per cent in 1991, but the proportion in which both partners were in work rose from 46 per cent to 60 per cent. One estimate suggests that four-fifths of the increase in the proportion of workless households between 1979 and 1993 was due to this polarisation of work within couple households, and only a fifth due to changes on household structure more generally.¹⁶

¹⁴OECD (1998)

¹⁵Tackling Poverty and Extending Opportunity and Gregg (1999)

¹⁶Gregg and Wadsworth (1999)

Families in working poverty

I.17 Although worklessness is a key factor behind low income, the risk of poverty has increased for children in all families. By 1995/6, there were twice as many poor children in working households than there were in 1979.¹⁷

I.18 Two main reasons are commonly identified for this increase:¹⁸

- **an increase in wage inequality.** Over the last two decades, the wages of men in the top decile increased at twice the rate of the those in the bottom decile. For women, the difference was even greater. The UK has seen the fastest growth in wage inequality of all developed countries. This seems to have been because of a fall in the demand for unskilled workers as a result of increased global trade and improvements in technology, leading to greater rewards for those with educational qualifications, and because of changes in institutions, such as the abolition of Wage Councils;
- **the growth in part-time work:** only 30 per cent of children in low-income households live in a household where there is a full-time worker, and only one in five children live in a household where all of the working-age adults are working full-time. Although part-time work should raise family incomes above benefit levels, in the past it has often not been sufficient to lift families out of poverty.

I.19 If work does not offer an escape from poverty, there is less incentive to find a job. Chapter three shows how tax and benefit policies have targeted more support at those in low-paid work and at families with childcare costs, to ensure that work is worthwhile.

CHARACTERISTICS OF FAMILIES WITH LOW INCOMES

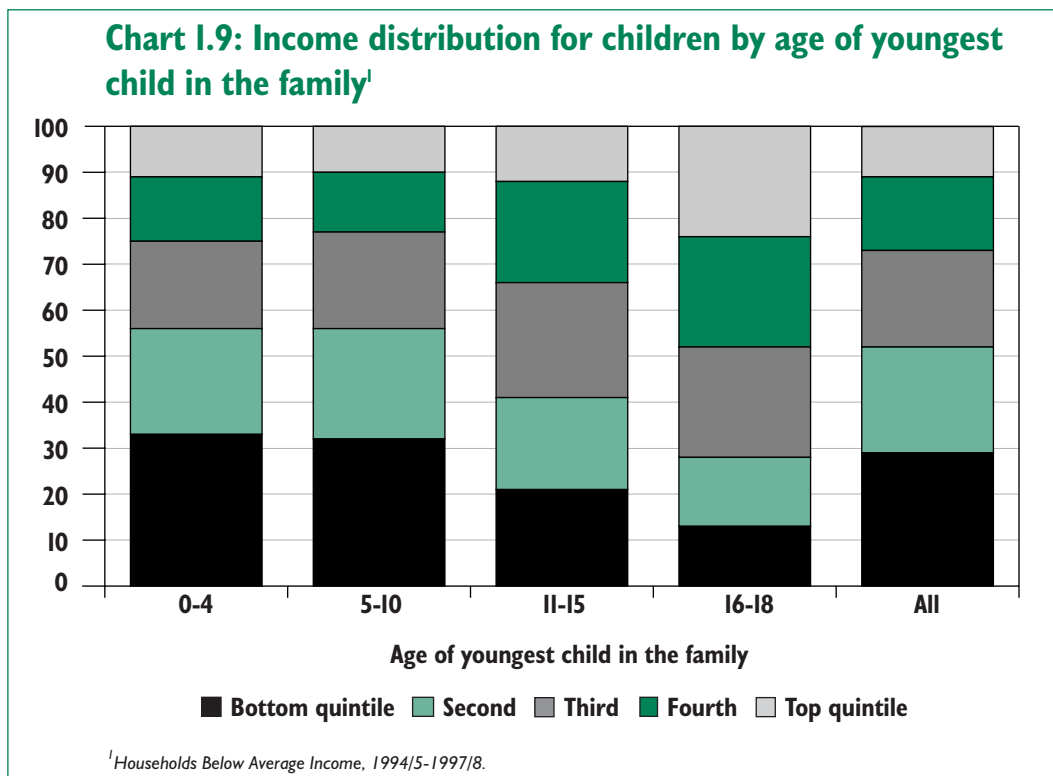
I.20 Certain groups of children and families are more likely to experience the problems of working poverty or worklessness.

I.21 Nearly half of children in poverty live in a household with at least one **pre-school child**. Chart 1.9 shows how children are more likely to be in the bottom two fifths of the income scale if they live in a household where the youngest child is under 11. This in part reflects the reduced likelihood of parents working when there are young children present.¹⁹

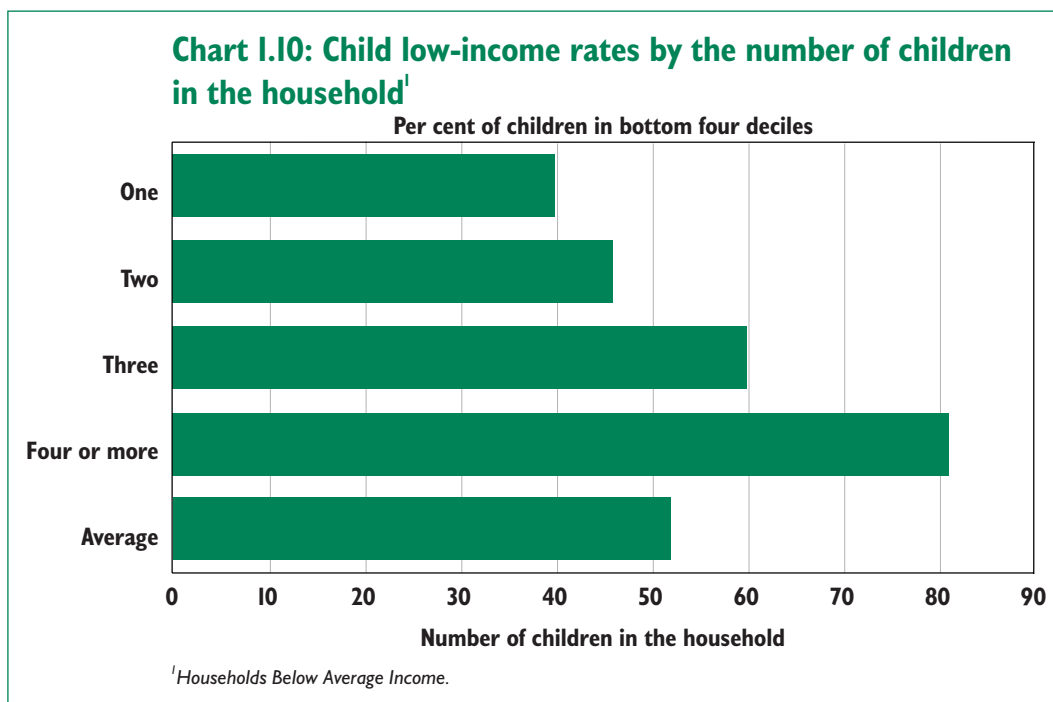
¹⁷ Gregg, Harkness and Machin (1999)

¹⁸ *Tackling Poverty and Extending Opportunity*

¹⁹ *Households Below Average Income, 1994/5–1997/8*

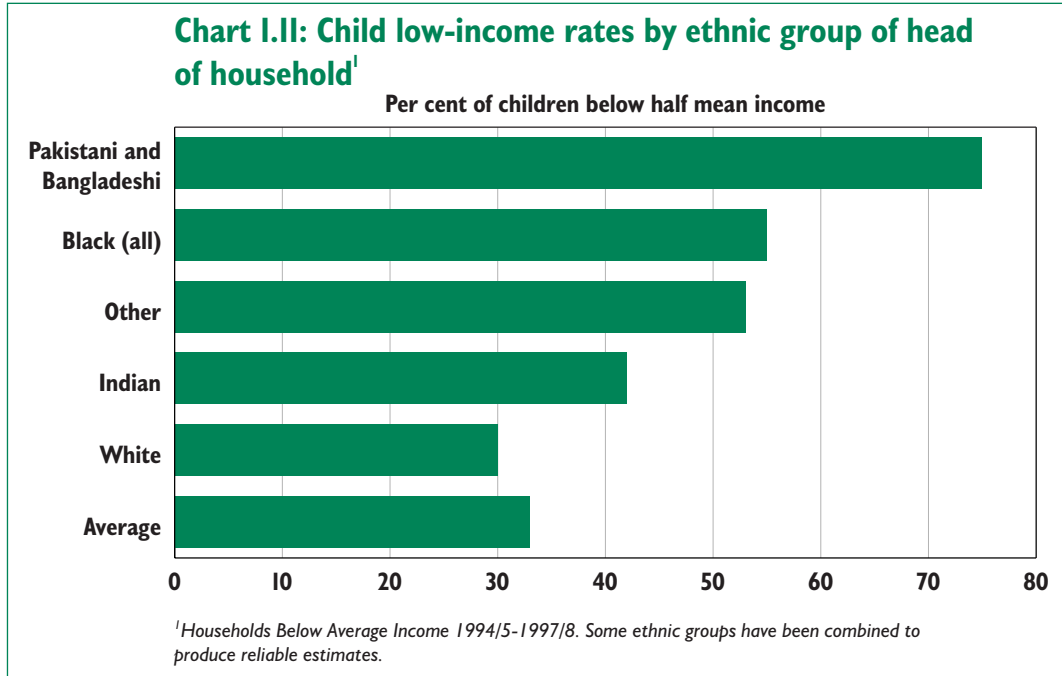


1.22 Large families impose additional costs on families, and may constrain parents' decisions to work. Just over half of all children are in the bottom two fifths of the income distribution, but chart 1.10 shows that this risk varies from around 40 per cent for an only child to around 80 per cent for children with three or more siblings.²⁰



²⁰Households Below Average Income, 1994/5-1997/8

1.23 Children from some **minority ethnic groups** – particularly Pakistani, Bangladeshi and some Black groups – are much more likely to be in poverty than White children: around 60 per cent of Bangladeshi children are in the bottom income quintile, and 75 per cent live in households with less than half average income in 1997/8. This can reflect a variety of factors: lower levels of employment, lower earnings from employment, and larger families.²¹



1.24 Around 40 per cent of children in low-income households now live in **lone parent families**. The number of children in all lone parent households has doubled since 1979. And the risk of a child in a lone parent household being in poverty has also increased: two thirds of children in lone parent households are now in relative poverty, more than twice the likelihood as for a child in a couple family.²²

1.25 **Families with disabled children** face more constraints on employment because of caring responsibilities. 200,000 families receive extra support because they have disabled children. Parents of disabled children are much less likely to be fully employed.

1.26 Over half of all lone parents live in **social housing**, and around 70 per cent of children in social housing are in low-income households.²³ Social housing may be concentrated in areas with poor job opportunities, such as estates in inner-city areas, with other problems such as high unemployment, poor transport and a lack of childcare. In the 44 most deprived local authority areas, over a third of children are living in families dependent on Income Support or Job Seekers Allowance, compared to fewer than a quarter in England as a whole.²⁴

1.27 Some of the factors discussed above are closely related. For example:

- large families are more likely to have a young child present;
- Bangladeshi children are more likely to be in a large family than white children;
- lone parent households have fewer children on average than couples, but their children tend to be younger.

²¹ Berthoud (1998) and *Households Below Average Income, 1994/5-1997/8*

²² *Households Below Average Income, 1994/5-1997/8*

²³ *Households Below Average Income, 1994/5-1997/8*

²⁴ *Opportunity for all: Tackling Poverty and Social Exclusion*

I.28 The main determinant of low income for children, however, is the employment status of their parents. One study suggests that, having controlled for employment status, children in lone parent households are no more likely to be in poverty than children in other households.²⁵

CHILD POVERTY AND WOMEN'S INCOMES

I.29 Child poverty is usually measured by looking at the household's total income, and it therefore reflects the incomes and opportunities of all adults in the household.²⁶ Women's incomes and earnings are an increasingly important determinant and can be a very valuable defence against being in poverty. This is particularly true for lone mother households.

I.30 Box 1.2 discusses the trends in the employment of both lone mothers and mothers in couples in the UK.

Box 1.2: Lone parents and employment of mothers

Around four in ten of children in low-income households live in lone parent households. The relative disadvantage of children in lone parent households has risen sharply since 1979, largely because fewer lone parents are now in work. Employment rates of lone parents have been falling: in 1979, two thirds of children in lone parent households lived with a working parent. Less than half of all children in lone parent households live now with a working parent.

Over 90 per cent of lone parents are women. The proportion of lone mothers who work is much lower than for mothers with working partners, even allowing for the age of their children. Table 1.1 shows that the employment rate of lone mothers with pre-school children is only half the rate of mothers in couples.

Table 1.1: Mothers' employment rates by age of youngest child

Employment rate by age of youngest child, per cent	Lone mother	All mothers in couples	Mothers with working partner	Mothers with non-working partner
0 to 1	21	53	56	26
2 to 4	33	61	64	28
5 to 10	49	74	78	34
11 to 15	59	78	84	42
Average	44	69	73	35

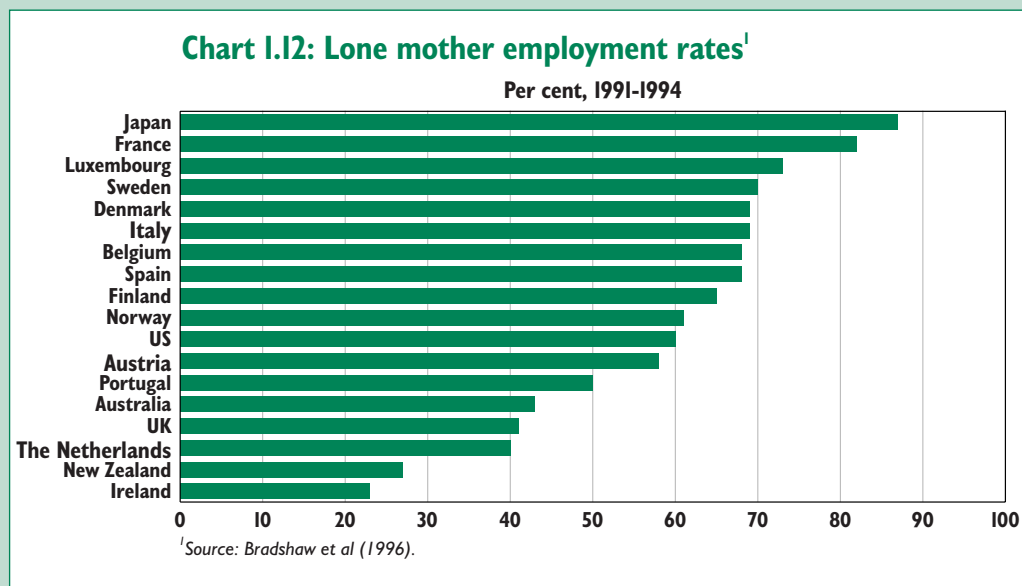
Source: Household LFS, Spring 1998.

²⁵ Adelman and Bradshaw (1998)

²⁶ See *Households Below Average Income, 1994/5–1997/8, Appendix 3*

Box 1.2: Lone parents and employment of mothers (continued)

Children in lone parent households are at a greater risk of falling into poverty in almost all countries. But the proportion of children living in lone parent households varies from 19 per cent in the UK and 15 per cent in the US to only 2 per cent, for example, in Italy. Chart 1.12 shows that the UK has a low employment rate for lone parents by international standards. The reasons for these differences are complex, but may include the demographic characteristics of lone parents, lone parents' health and education, the area in which they live, the availability and cost of childcare, the work requirements upon lone parents, and, historically, the potential gain to work.



Family status is not fixed throughout a child's upbringing. Nearly a quarter of all children are currently living in a lone parent household, but between a third and a half of the next generation of children may experience lone parenthood before they become adults.¹ These changes in family structures can affect the chance of a child in a lone parent family being in poverty:²

- one study estimated that, between 1991 and 1996, non-working lone parents were as likely to repartner as they were to move into work;
- a lone parent's likelihood of working increases dramatically with the age of the youngest child in the family;
- lone parents who repartner will only leave poverty if their partner or they also move into work.

¹ Ford and Millar (1998).

² Iacovou and Berthoud (1999).

1.31 The link between child poverty and women's employment and earnings is complex. Having children seems to lower women's earnings over their lifetimes. There are some main ways in which women's employment and earnings are affected by their caring responsibilities:

- one in six families fall into poverty as a result of the birth of a child;
- childbirth can interrupt a woman's pattern of work, and may have long-term effects on her potential earnings;
- there is a pay gap between women and men beyond what would be expected from the kinds of jobs that women do.

I.32 The number of women choosing to combine work and motherhood has increased dramatically, but mothers with lower levels of education have faced greater obstacles:

- women with degrees are three times more likely to be in work when they have very young children than women with no qualifications. This difference persists for women with school-age children. Higher-educated women will on average have higher net wages after childcare costs than women without qualifications;
- women with higher levels of education are also more likely to be covered by statutory maternity provisions, increasing their chance of remaining in the labour market after the birth of their child, and particularly of returning to the same employer.

I.33 Women who choose to combine work and motherhood have previously found their opportunity to progress up the earnings ladder at the same rate as men constrained. Having children may reduce women's earnings by the age of 33 by around one fifth. Almost half of the gender gap in pay found at 33 can be statistically explained simply by the effects of having children.²⁷

I.34 British women who work full-time are paid on average around three-quarters of the equivalent male wage. This is lower than many other EU countries. Pay differentials arise from three key sources:

- **the industry or profession women work in.** Women tend to work in sectors that attract lower wages and that have a high concentration of female workers. 60 per cent of women work within ten occupations (including sales, secretarial, health, child care and catering), and in these ten occupations, 80 per cent of the workforce is female;
- **the grade that women hold** within their industry or profession. Women are less likely to be promoted, despite having as good or better qualifications as men. Men can expect to receive an age-skills premium in their middle years, but women are less likely to experience significant earnings growth at this time;
- **pay discrimination.** The final component of the pay gap is the issue of equal pay. Even if women were more evenly distributed across different sectors of the economy, and if they were promoted in line with their skills and ability, a pay gap could still exist because women seem to be paid less than men for the same, or equal value, work. It is difficult to quantify the extent to which discrimination suppresses women's pay, but evidence suggests that it is still a factor in the pay gap.²⁸

²⁷*Tackling Poverty and Extending Opportunity* and Waldfogel (1998)

²⁸See Callender et al (1997).

Box 1.3: The Women’s Unit project on women’s incomes over the lifetime

The link between women’s incomes and child poverty will be one of the issues covered by a report due in the New Year on women’s incomes over the lifetime. The report will provide an analysis of gender differentials in income over the lifetime, drawing together existing research and the results of new research. It will throw light on how continuing differences in women and men’s lifetimes translate into differing economic fortunes. The aims of the project on women’s incomes over the lifetime are:

- to clarify the key factors influencing women’s incomes and affecting differences among women so as to provide a firm basis for addressing issues such as the pay gap, financial provision in old age, and the economic impact of time spent caring for others;
- to provide a new, robust, up-to-date and reliable source of data for policy makers and external commentators;
- to inform future expenditure decisions with clear, costed proposals;
- to influence the development of current initiatives, such as Family Friendly Employment, welfare reform and the transition from benefits to tax credits, and to enable new policy proposals to be developed.

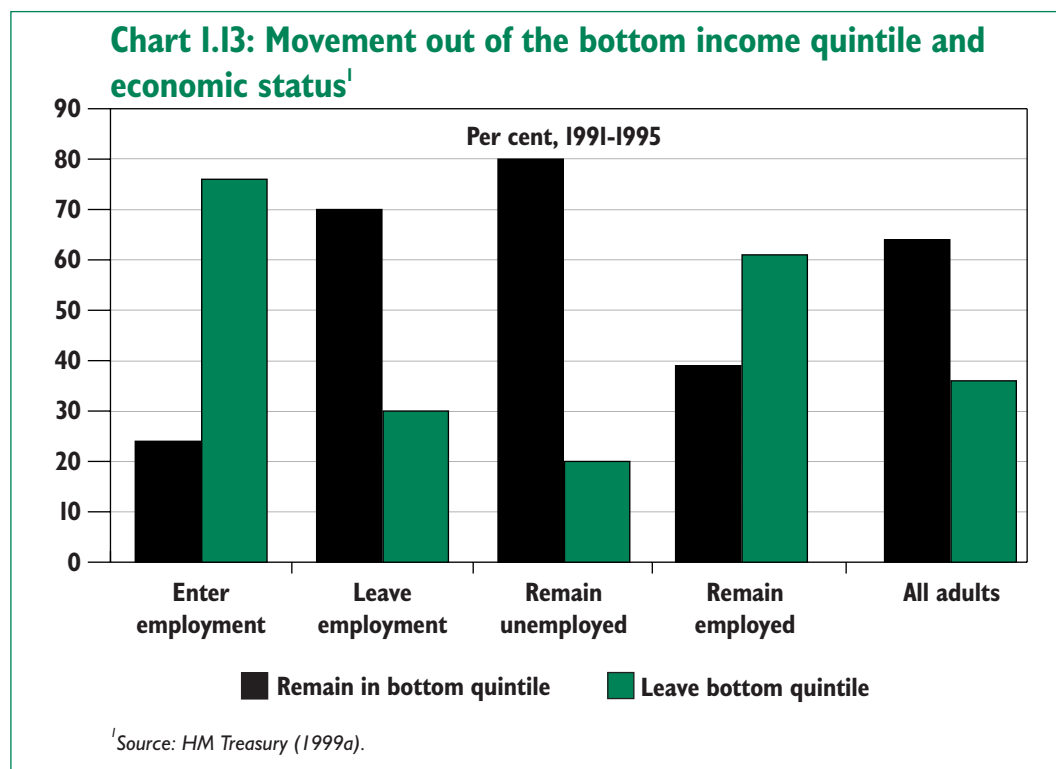
It follows an earlier publication that looked at individual’s incomes.

HOW DO FAMILIES LEAVE POVERTY ?

I.35 The evidence shows that work is the best route out of low income for all adults. One study estimated that around two-thirds of movements out of low income in the early 1990s in the UK occurred because people started work or increased their earnings. Another paper found that work was the most important route out of poverty for working-age households in the six OECD countries studied. The results suggest that in the UK employment-related events were even more important as a route out poverty for households with children compared to households with no children, with around two thirds of families’ exits from poverty in any one year being associated with getting a job or increasing earnings.

I.36 Chart 1.13 shows the links between moves into and out of work and movements into and out of low incomes over a four year period for all working-age adults. It shows that people who started in the bottom fifth of the income distribution were much more likely to increase their incomes if they moved into work or remained employed than if they remained out of work or stopped working. Just 20 per cent of those who were out of work in both 1991 and 1995 managed to escape out of the bottom fifth of the income distribution.²⁹

²⁹Tackling Poverty and Extending Opportunity and Jenkins (1998).



I.37 One recent study looked at the rate at which parents move into work. Table 1.2 summarises some of the results. It found that in a 12 month period, in a quarter of workless couples, at least one adult moved off benefit and into work, and ten per cent of workless lone parent families moved into work. After five years, at least one adult in two thirds of workless couples had found a job, and one third of lone parents.³⁰

I.38 The table also shows that parents' chances of moving into work decline the longer they spend out of work. This may reflect the scarring impact of unemployment.³¹ Although more families do move into work as each year progresses, the rate at which they do so declines over time.

Table 1.2: Moving into work: what happens to families after they become workless?

Number of years after becoming workless	Couples with children Moves into work		Lone parents Moves into work	
	Annual (%)	Cumulative (%)	Annual (%)	Cumulative (%)
One	27	27	10	10
Two	21	42	8	17
Three	19	54	9	25
Four	18	62	8	30
Five	16	68	6	34

Source: Iacovou and Berthoud (1999). Annual moves shows the proportion of all out of work families who moved into work in that year. Cumulative moves shows the proportion of families who were out of work at the start of the period who had moved into work by that time.

³⁰Iacovou and Berthoud (1999)

³¹See *Tackling Poverty and Extending Opportunity*

1.39 As paragraph 1.17 explained, work does not guarantee an escape from poverty for all families. Some households move frequently between worklessness and low-paid jobs - the “low pay, no pay” cycle. Table 1.3 shows the results of one study. Over a seven year period, seven per cent of individuals were in workless families in every year, and a further two per cent were in persistent low-income working families. In total, 16 per cent of adults spent the seven years in either of the two categories. These results confirm other studies which say that families can remain trapped in low income for long periods of time, even though there is movement into and out of work.³²

Table 1.3: Number of years spent in low income or workless families, 1991–1997

Number of years	Workless family (per cent)	Low income working family	Either group (per cent)
None	75	57	47
1–6 years	18	41	37
All 7 years	7	2	16
Total	100	100	100

Source: Iacovou and Berthoud (1999). Workless families contain no-one working 16 hours or more. Low-income families is defined in the study as a broader definition than families with less than half average income.

1.40 Chapter three describes how tax and benefit reforms have provided extra financial support for families in low-paid work.

³²See Oxley et al (1999) for international comparisons of low-income dynamics that confirm this broad pattern.

A substantial body of evidence suggests that children who grow up in low-income households experience disadvantage and lack of opportunity that affects not only their own experience as adults, but also the life-chances of their children. This chapter shows how these results, plus proven evidence on what works, have informed the Government's policy strategy to tackle child poverty. The key facts are:

- Child poverty is of most concern when it persists between generations and when adults on low incomes lack the opportunity to improve their position. Children in disadvantaged families are more likely as adults to live in social housing, be dependent on benefit, have a low income and, if female, be a teenage mother.
- Reduced education attainment seems to be the most important link between childhood disadvantage and adult outcomes.

Child poverty is a complex and multi-dimensional problem. It requires a multi-dimensional response with the following key elements:

- Ensuring a decent family income, by equipping parents to seek and find a job, and ensuring that work pays; and by increasing support for children through the tax and benefit system.
- A world class education system for all: ensuring that those from deprived backgrounds have the skills and education they need to break the cycle of disadvantage.
- Special interventions targeted at those in greatest need and at crucial stages in life. This includes early interventions for the youngest children through the Sure Start programme, improving public services in the poorest communities, and giving special help to vulnerable groups such as teenage mothers, children in care, or youths making the transition from school to adult life.
- Harnessing the power and expertise of the voluntary and community sector, providing support for innovation and good practice, and fostering a strategic partnership between the sector and government in the battle against child poverty.

The consequences of child poverty

2.1 The evidence shows that children growing up in low-income households experience disadvantage that affects not only their own childhood and their experience as adults, but also those of their children.

2.2 Lack of opportunity is of most concern when it persists between generations - when people's life-chances are determined by who their parents were, rather than by their own talents and efforts. Children's outcomes as adults are clearly related to their parents' economic circumstances:³³

- the sons of the lowest paid are more than five times more likely to be in the lowest paid group than the sons of the highest paid. Between 40 and 70 per cent of a child's earnings in adulthood can be related to their parents' earnings;³⁴

³³ *Tackling Poverty and Extending Opportunity*.

³⁴ Machin (1999).

- although children frequently do end up in a different economic position to their parents, for most people the movement is short-range (within a quartile);³⁵
- men whose fathers were unemployed are twice as likely to be unemployed for a year or more between the ages of 23 and 33;³⁶
- people's chances of being in a manual social class, having no access to a car and living in rented accommodation are also higher if their parents were in the same socio-economic position.

2.3 The cycle between generations is further strengthened since children who grow up in disadvantaged families are also more likely to be teenage mothers, and, as adults to:

- live in social housing;
- be dependent on benefit; and
- have a low income.³⁷

2.4 Parental social class or earnings influences children's attainment levels through a range of factors. Educational development over the first ten years of a child's life is linked to a series of factors which are more likely to occur in disadvantaged families.³⁸ These include:

- **family size:** children from large families do less well;
- **mother's education:** children whose mother had a degree do better;
- **over-crowding:** children in poor, over-crowded housing do less well;
- **birth-weight and subsequent nutrition:** children with higher birth weight and better nutrition do better;
- **mother's mental health:** children whose mother had poor mental health do less well;
- **father's unemployment:** children whose fathers are out of work do less well.

2.5 However, even allowing for all of these factors, children from low-income families do less well. Studies find that low income has an additional adverse impact upon educational outcomes.

2.6 This is why the Government attaches such a high priority to reducing child poverty and breaking the cycle of disadvantage. It is unacceptable that children's life-chances are affected by their parents' circumstances or the area in which they grow up. The Government's long-term economic ambition is that, by the end of the decade, child poverty will be reduced by half, as the Government moves forward with its commitment to end all child poverty in the UK within the next 20 years.

THE POLICY STRATEGY

2.7 Child poverty is therefore a complex, multi-dimensional problem and requires a multi-dimensional policy response. Low income is an obvious and central aspect. But short spells of low income may not damage a child's well-being or their prospects in the longer term. Poverty is a far greater concern when those on low incomes lack the opportunity to improve their position.

³⁵ Dearden, Machin and Reed (1997).

³⁶ Johnson and Reed (1996).

³⁷ *Tackling Poverty and Extending Opportunity*, and Hobcraft (1998).

³⁸ Once children have started school, the level of parental interest in the child's education is also an important factor.

2.8 Not all children born into low income families fare badly in later life. Just as there are certain risk factors that can increase the likelihood that disadvantaged children will suffer in later life, there is a range of factors that can act to prevent the cycle of disadvantage continuing, such as parental interest, good schools and teachers, and childrens' aspirations. An important part of the policy strategy must be to boost the protective factors and protect against risk factors.

2.9 *Opportunity for all*, the Government's first annual report on tackling poverty and social exclusion was published in September 1999, and sets out the scale of the problem and the strategy for tackling it, not just for children, but for all groups suffering from poverty and exclusion.³⁹

Box 2.1: How is the Government measuring and tracking changes: child poverty indicators in “Opportunity for all: Tackling poverty and social exclusion”

The Government is serious about creating a fairer society: one in which all citizens have the opportunity to maximise their potential and in which all can share in the growing prosperity of the nation. *Opportunity for all: Tackling poverty and social exclusion*, the Government's first annual report on poverty and social exclusion, was published on 21 September. It describes the Government's strategy to tackle poverty and social exclusion by:

- providing opportunities for everyone to fulfil their potential;
- tackling the causes of poverty as well as alleviating the symptoms;
- investing in individuals and communities by giving them the means to help themselves.

It also identified key indicators of poverty and social exclusion and the main policy milestones against which the Government will monitor progress in future editions of the report. These were explained in full in *Opportunity for all: Tackling poverty and social exclusion – Indicators of success: definitions, data and baseline information*. The indicators, discussed later in the chapter, reflect the fact that poverty is a multi-dimensional and complex problem.

2.10 For children, the policy approach must include financial support for children as well as education, targeted interventions and innovative measures to harness the support of the community and voluntary sector. In broad terms the strategy comprises:

- **ensuring a decent family income**, by increasing the support for children through the tax and benefit system, tackling worklessness in families, and reforms to the Child Support Agency;
- **supporting all children through a world-class education system for all**, and ensuring that those from poor backgrounds have the skills and education they need to break the cycle of disadvantage;
- **special interventions targeted at those in greatest need and at crucial stages in life**. This includes early interventions for the youngest children (under three years old) in disadvantaged areas through the innovative Sure Start programme, improving public services in the poorest communities, and giving special attention to vulnerable groups such as teenage parents and their children, children in care, or youths making the transition from school to adult life;

³⁹ DSS (1999).

- **harnessing the power and expertise of the voluntary and community sector**, providing support for innovation and good practice, and enabling partnership with local and national government.

2.11 The rest of this chapter explains how this policy approach is underpinned by the facts and evidence on child poverty, and on what works in tackling it.

SUPPORTING FAMILY INCOME

The evidence **2.12** As chapter one demonstrated, household incomes can change for a variety of reasons, but the two most important are:

- **employment-related changes**, such as moves into and out of work and changes in hours of work and hourly wages;
- **changes in family structures**, such as when children are born or leave home and partnerships are formed and end.

2.13 The tax and benefit system also affects family incomes, both directly and by ensuring the right incentives are in place. Chapter one summarised the evidence of the extent of low incomes amongst families, and the crucial role of worklessness in leading to low incomes and work as the best route out of poverty.

The policy strategy **2.14** The policy approach is therefore:

- **to ensure that parents have the help they need in finding work**, which is the best long-term route to financial independence for families. The Government aims to reduce the number of working-age people in families claiming Income Support or income-based Jobseekers' Allowance for long periods of time;
- **to ensure that tax and benefit policies support and reward work** and make it worthwhile both to move off benefit and to progress up the earnings ladder once in a job;
- **to provide direct financial support to all families** recognising the extra costs of children, while targeting extra resources on those who need it most. The Government has also announced reforms to the Child Support Agency will make the system simpler and fairer, increase support for the poorest parents with care, and make it harder for non-resident parents to avoid their responsibility to their children.

2.15 *Opportunity for all* included the following indicators that are directly relevant to supporting family incomes:

- a reduction over the cycle in the proportion of children living in workless households for households of a given size;
- a reduction in the proportion of children in households with relatively low incomes, absolute low incomes and persistently low incomes;
- a reduction in the proportion of households with children experiencing fuel poverty.

2.16 Chapter three describes in detail how changes to the tax and benefit system, including the Working Families' Tax Credit and increases in Child Benefit, have already begun to tackle child poverty. It also outlines possible areas for further reform.

A WORLD CLASS EDUCATION SYSTEM FOR ALL

The evidence 2.17 Childhood disadvantage frequently leads to low educational attainment; low educational attainment leads to low pay and low employment, and these in turn lead to low income and denial of opportunity for the next generation:⁴⁰

- **children who grow up in poverty have poorer attendance records**, are less likely to remain in school at 16, and up to ten percentage points more likely to have no qualifications. The effect on education may explain around half of the impact of childhood disadvantage on adult economic and social outcomes;⁴¹
- of the children born in 1958 and tracked in the National Child Development Survey, **a child who grew up in a family with no financial problems was four times as likely to get a degree than a child in a family with financial poverty;**⁴²
- **this disadvantage can persist into adulthood:** children from disadvantaged backgrounds are more likely to have poorer literacy and numeracy skills in adulthood, and in-work training is increasingly provided to those who are already skilled.

2.18 But education also provides the best route for children to break the cycle of poverty:

- **children who do well at school and get higher level qualifications are more likely to progress up the earnings and income scale.** Those who go on to climb farthest up the income scale compared to their parents are more than seven times as likely to have 'A' levels or equivalent.⁴³
- **educational attainment reduces the risk of being unemployed as an adult.** In 1997, the rate of unemployment for people with no qualifications was double that for people with level two qualifications (five GCSEs at grades A*-C or vocational equivalent), and more than four times for those educated to degree level. Only half of those with no qualifications were in employment;
- **education and training lead to higher wages**, and this link is getting stronger. In the late 1970s people who stayed on at school beyond sixteen had earnings which were on average 40 per cent higher than those who had left school by this age. In the 1990s, this had increased to 60 per cent;
- **wage growth increases as the level of qualification rises.** For those with degree-level qualifications, average real, annual, wage growth in the early 1990s was seventeen times higher than for those with no qualifications.

The policy strategy 2.19 The Government aims to ensure a world class education system for all children. A particular focus is needed on vulnerable groups amongst pre-school and young school children, and those in deprived neighbourhoods, to ensure that the education system helps reduce, rather than exacerbate, childhood disadvantage. An additional £19 billion will be invested in education between 1999 and 2002 to raise standards as follows:

- an increase in the number of children who reach the target standards in literacy and numeracy by age 11 to 80 and 75 per cent respectively in 2002;

⁴⁰ *Tackling Poverty and Extending Opportunity.*

⁴¹ Gregg and Machin (1998).

⁴² Hobcraft (1998).

⁴³ *Tackling Poverty and Extending Opportunity.*

- reduce the proportion of those aged 16 who achieve no qualifications at all from seven per cent to five per cent;
- narrow the gap in performance between schools through interventions such as Education Action Zones and the Excellence in Cities programme;
- help teenagers to stay in education by piloting Educational Maintenance Allowances (EMAs) for 16-19 year-olds. The highest rates of EMA will be concentrated on the poorest families, where the scope for increasing participation, retention and achievement in post-compulsory education is greatest.

2.20 *Opportunity for all* included the following indicators that are directly relevant to education:

- an increase in the proportion of children reaching level four in the key stage two test results for education and numeracy at age 11;
- a reduction in the proportion of truancies and exclusions from school;
- an increase in proportion of 19 year old's with at least a level two qualification.

SPECIAL INTERVENTION

2.21 Particular challenges and difficulties may be faced by some families and children, either those in particular areas, or at particular points in their lives.

Support during the early years

The evidence 2.22 The early years of childhood are all important. The differences between advantaged and disadvantaged children are apparent from a very early age. At 22 months, children whose parents are in social classes one or two are already 14 percentage points higher up the educational development distribution than children whose parents are in social classes four or five. Evidence suggests that early differences in children's development continue to widen when children start school unless there is a programme of positive interventions.⁴⁴

2.23 The evidence in this area was reviewed and analysed in the cross-cutting review of services for young children as part of the 1998 Comprehensive Spending Review. The review sought the views of academics and practitioners across a wide range of disciplines such as child development, social work, health and demography.⁴⁵

2.24 The evidence suggested that there was a gap in the provision of services that help children in the very earliest years, and that the existing services were failing those in greatest need. It showed that children are more vulnerable at that age to external influences than was previously realised, and that multiple disadvantage of young children was a severe and growing problem, with clear links with the risk of social exclusion later in life. It suggested that effective early interventions working with parents and children can deliver:

- gains in emotional and cognitive development for the child, and improved parent/child relationships;
- improvements in health-related indicators, educational progress and adult outcomes for the child;

⁴⁴ Feinstein (1998).

⁴⁵ HM Treasury (1998).

- increased economic self-sufficiency for parents through greater labour force participation, higher income and reduced receipt of benefits;
- lower risks of children later being involved in crime or becoming teenage parents.

The policy strategy **2.25** Building on this research, Sure Start is a new programme working with parents and children to promote the physical, social and emotional development of children. It is targeted at children between birth and three years old – particularly those who are disadvantaged – to enable them to thrive when they get to school. £540 million has been allocated to build 250 local programmes over the current Parliament. They will be led by partnerships of local authorities, social services departments, local voluntary organisations and local parents. This money will be spent on providing new services and boosting existing ones, ensuring parents can get clear information on what services are available, providing new facilities, delivering extra training and improving joint working and co-ordination between existing service providers.

2.26 Sure Start is working with families with very young children to help them thrive when they are old enough for school. The longer-term effects of Sure Start will show in a number of outcomes, including better behaviour and performance at school, a reduction in criminal behaviour, an increase in economic activity and a reduction in teenage parenthood. Such outcomes will only be measurable over many years, and a major evaluation programme is being planned to assess the effects of Sure Start on families and their children in the medium and longer term. The Government has therefore opted to set Sure Start a range of targets that will together measure improvement against the four objectives of the policy:

- improving social and emotional development;
- improving health;
- improving the ability to learn;
- strengthening families and communities.

2.27 Two of these have been included in the set of indicators of child poverty in *Opportunity for all*:

- age seven education outcomes for children in Sure Start areas;
- health outcomes in Sure Start areas.

2.28 Other particularly vulnerable groups include teenage parents and their children, and children in care:

- the Social Exclusion Unit published a report on Teenage Pregnancy in June 1999. This produced an action plan, with the goal to halve the rate of conceptions among under 18 year old's in England by 2010 and to set a firmly established downward trend in the conception rates for under 16's by 2010;⁴⁶
- the Government is also taking co-ordinated action to improve the life chances of children in care. The Department of Health's Public Service Agreement includes a target of improving the educational achievement of children in care, increasing from 25 per cent to at least 50 per cent the proportion of children leaving care at 16 or later with GCSE or GNVQ qualifications. Last month the Government published its objectives for Children's Social Services, a comprehensive review of aims supported by performance indicators through which local authority performance will be measured. Local authorities will be supported in this work by Quality Protects, the £375 million programme for transforming the management and delivery of children's social services.

⁴⁶ Social Exclusion Unit (1999).

Box 2.2: Evidence-based policy making to tackle child poverty – the UK's birth cohorts

The Government believes in evidence-based policy making. This principle applies to policies to reduce child poverty as much as any other area, but research on child poverty can prove challenging given the need to observe the impact of childhood deprivation on adult outcomes. The UK is lucky to have a rich source of data in the birth cohorts, such as the National Child Development Survey and the British Cohort Study. These surveys follow all children born in a given week in 1958 and 1970 respectively. They provide a unique resource that can help answer many questions related to child development and adult outcomes, the impact of education on employment and earnings in adult life, and the intergenerational transmission of poverty.

A lot of the work that looked at the link between child deprivation and adult outcomes was considered as part of the review that led to Sure Start. Sure Start is now on its way, but the evidence base for policy will continue:

- Sure Start programmes have outcome targets, such as birth-weight, educational success and measures of exclusion;
- the national evaluation strategy for Sure Start is a high priority. It will begin in mid-2000 and continue throughout and beyond the length of the Sure Start projects, providing a substantial new source of data on the impact of early interventions and childhood deprivation;
- work is underway for a proposed new birth cohort study, Child 2001. This would follow around 20,000 children born towards the end of 2000.

COMMUNITY ACTION

The evidence 2.29 The voluntary and community sector has pioneered work with deprived children and their families for at least a century. The sector is:

- well placed to reach the families that need support, and may be able to reduce the stigma that is sometimes attached to services provided by statutory authorities;
- able to respond to the full range of needs of the child, overcoming the fragmentation that arises from different statutory authorities having responsibilities for different aspects of the child (health, education, social care);
- quick to meet changing needs as the challenges facing families change over time, responding, for example, to changes in family structure;
- able to mobilise volunteers to bring opportunities to children who would otherwise not benefit from them - for example, through the scout and guide movements, the playgroups and the many activity-based children's organisations.

2.30 Often the impact of the work goes much wider than its immediate aims. For example, playgroups harness the support of parents in order to give opportunities to children, but the parents benefit too from the support networks that develop from that involvement. Similarly, a family centre focusing on providing play facilities for young children with their parents also

creates the support networks that the parents need as their children grow up, and can give practical help like financial advice or discounted food or furniture.

2.31 The voluntary and community sector working with children in poverty covers a huge number of organisations carrying out a wide range of activities. The following are just some examples of ways that the voluntary and community sector can improve the lives and opportunities of disadvantaged children:

- **respite care centres** provide short-term breaks for children with severe learning difficulties or multiple disabilities;
- **food co-operatives** give isolated families the opportunity to benefit from bulk buying from superstores;
- **young carers' groups** support children who are having to care for their parents;
- **fostering projects** find foster families for children in need of temporary support, often building on social networks provided by faith or cultural communities;
- **family centres** provide a focal point for parents with young children, often acting as a gateway to other services and opportunities;
- **alternatives to Custody and Young Offenders Groups** offer supervised lodgings, family placements and therapy for children at risk of becoming persistent offenders;
- **self-help and support groups** bring together families with shared circumstances for information and support purposes;
- **Cubs and Brownies** volunteers offer children opportunities for group activities and personal challenges outside home and school.

The policy strategy **2.32** The Government's strategy to tackle child poverty must harness these strengths of the voluntary and community sector in order to maximise its effectiveness. In the 1999 Pre-Budget Report, the Chancellor announced that the Government will set up a new Children's Fund in the spending review in 2000. It will focus on supporting the pioneering work of voluntary sector organisations working with low-income children and their families at which the sector excels, and on the sector's access to communities and families that the statutory sector struggles to engage. The Fund will be developed in consultation with the sector itself about how it should work.

SUPPORTING FAMILIES THROUGH THE TAX AND BENEFIT SYSTEM

Chapter one discussed the evidence on changes in family incomes over time, the link between worklessness and low-income households, and how families escape low incomes. Chapter two outlined how ensuring a decent family income was one of the key elements of the Government's strategy to tackling child poverty. This chapter shows how policies to reform the tax and benefit system have already begun to tackle child poverty by providing extra help for all families, and targeting extra resources at making work pay and at helping those in greatest need, particularly where there are young children.

The key facts are:

- **Work is the best route out of poverty, particularly over the longer term. But in the past, many parents have found that work leaves them little or no better off than benefit.**
- **A series of reforms, including the minimum wage and the Working Families' Tax Credit, have been focused on making work pay. The Government can now guarantee a minimum income for families moving into work: at least £200 a week for a family with a full-time job.**
- **The tax and benefit system needs to support all children, recognising the extra costs and responsibilities that parents face, and the importance of children for the future of society.**
- **All families have gained from increases in Child Benefit since 1997, and measures in Budgets 1998 and 1999 will lift around 800,000 children out of low-income households by the end of the Parliament.**
- **The Government will be spending £6 billion a year on extra support for children by 2001. Families in the bottom two income deciles will be around £20 a week better off as a result, and most families will see the minimum level of support for the first child rise from £11 in 1997 to £23 in 2001.**
- **The Government's long-term goal is to create an integrated and seamless system of financial support for children. This Integrated Child Credit would bring together the different strands of support for children in the Working Families' Tax Credit, in Income Support and in the Children's Tax Credit, building upon the foundation of universal Child Benefit. It would be paid to families in and out of work, direct to the main carer, and complemented by an Employment Tax Credit paid through the wage packet to working households with and without children.**

MAKING WORK PAY

The importance of work incentives

3.1 Chapter one showed that work is the best route out of poverty for families. Yet people are understandably reluctant to take jobs that do not pay. An "unemployment trap" may exist when the gap between out-of-work and in-work incomes is too small to provide sufficient incentive to move off benefits and into employment. A "poverty trap" can exist when people in employment are discouraged from working longer hours or taking a better-paid job because the combined effect of losing benefit entitlement and paying more tax makes them

little better off. Parents can often face particular hurdles, for example in coping with the costs and availability of childcare.⁴⁷

3.2 There are many factors that determine an individual's decision to seek work and whether to take a job when they are offered one. Active labour market policies, such as the New Deal, that reattach people to the labour market and equip them with the skills that they need are an essential part of the strategy. But these policies must be underpinned by tax and benefit reforms to ensure that work is financially worthwhile.

3.3 There is good evidence that financial incentives matter, particularly for parents. The best policy strategies combine reforms to ensure the right financial rewards with active help on training and job search:

- the US Earned Income Tax Credit (EITC) was introduced in 1975 to support low-income working families with children. One study suggested changes to the EITC may explain over half of the increased participation rate of lone mothers in the US between 1984 and 1996;⁴⁸
- in Canada, the Self Sufficiency Project pays an earnings supplement directly to lone parents in receipt of welfare on the condition that they move into full-time employment within one year of joining the program. Around a third of lone parents on the Self Sufficiency Project had moved from worklessness to full-time employment within one year. Under an option where additional employment-related services were provided, over half moved into full-time employment;⁴⁹
- UK studies have confirmed that the financial reward to work, and the cost of childcare and its treatment in the tax and benefit system, do have an impact upon parents' decisions to work.⁵⁰

Improving the financial reward to work

3.4 A number of reforms to make work pay have been introduced in the UK since 1997, following and building on the recommendations of the Martin Taylor's Task Force in March 1998.⁵¹ The key measures are:

- a **National Minimum Wage** to help guarantee fair minimum standards of pay;
- a **10p rate of income tax** which will halve the marginal tax rate for 1.7 million people in low-paid work;
- reforms to **National Insurance Contributions (NICs)** which will take a further one million low-paid workers out of the NICs system while protecting their entitlement to benefits;
- the **Working Families' Tax Credit**, which replaced Family Credit in October 1999. It will boost the incomes of 1.4 million low and middle-income working families with children, 500,000 more than would have received Family Credit. From April 2000, the Working Families' Tax Credit will be paid through the wage packet;

⁴⁷Previous papers in this series have looked at the link between the tax and benefit systems, work incentives, and people's decisions to work. See *Work Incentives: a report by Martin Taylor* and *The Working Families Tax Credit and Work Incentives*, March 1998, HM Treasury.

⁴⁸See Scholz (1996), Dickert, Houser and Scholz (1995), Eissa and Liebman (1996), Hotz and Scholz (1999) and Meyer and Rosenbaum (1999).

⁴⁹Lin et al (1998), Quets et al (1999) and *When Work Pays Better Than Welfare*.

⁵⁰Gregg, Johnson and Reed (1999), Duncan and Giles (1996) and Bingley and Walker (1997).

⁵¹HM Treasury (1998b).

- a new **childcare tax credit** in the Working Families' Tax Credit will provide direct help with childcare costs for the first time, and will replace the disregard in Family Credit. Help will be available for up to 70 per cent of registered childcare costs, up to a limit of £100 per week of costs for families with one child and £150 per week for families with two or more children.
- an **Income Support run-on**, so that lone parents making the transition into work can now continue to claim Income Support during the first two weeks of their new job. This, along with the Extended Payments scheme for Housing Benefit, could mean an extra £300–400 for those lone parents eligible.

3.5 The tax and benefit reforms work together to reinforce the impact of the national minimum wage. A family with children where one adult is working full time on the national minimum wage of £3.60 will now receive an effective wage of £5.30 an hour.

Effects on the unemployment trap

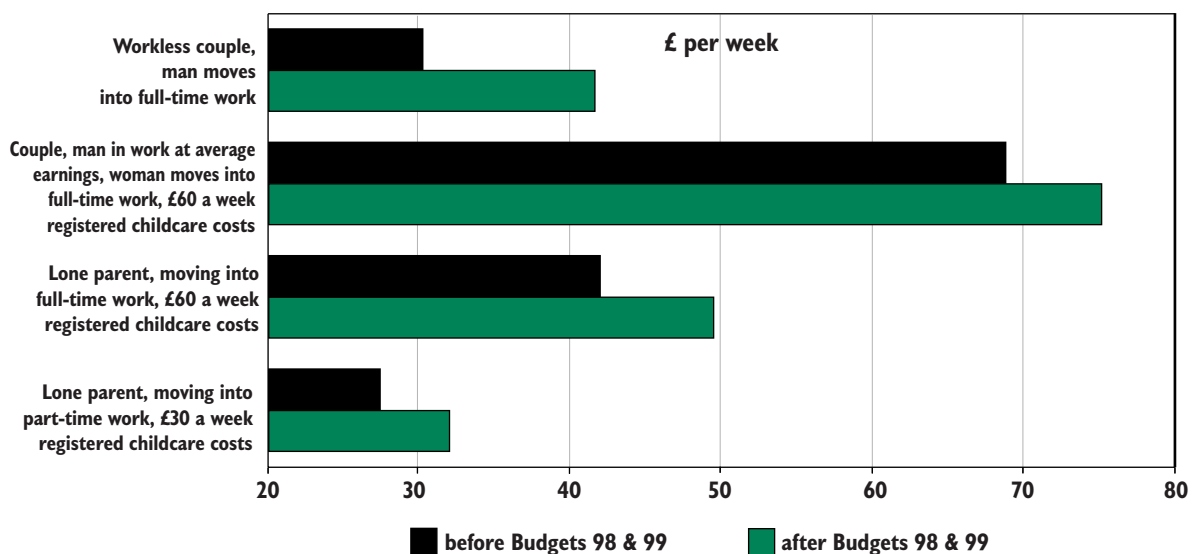
3.6 These measures mean that for the first time the Government can guarantee a minimum income for families moving off benefit and into work. This provides greater security about the family's finances during what can sometimes be a risky and uncertain transition.

3.7 The Working Families' Tax Credit guarantees:

- a minimum income of £200 a week (£10,400 per year) for a family with someone in full-time work – £80 more than is available on Income Support;
- a minimum income of £145 a week for a family with someone with a part-time job of 16 hours.

3.8 Chart 3.1 shows how the gain to work has increased for parents moving from benefit into work at typical "entry" jobs on typical "entry" wages. Before the reforms, a couple with two young children where the father moved into work at a typical male entry wage of £200 a

Chart 3.1: Gains to work for families with two children under 11



The chart assumes that they move into work at typical entry wages for men and women, they live in local authority rented accommodation and face a typical rent and council tax. All values are in 1999-2000 levels of prices and earnings.

week was only £30 better off per week than on benefit. This has now increased to £42. Lone parents with childcare costs were often better off on benefit than in a low-paid part-time job, and understandably chose not to move into work. With direct help through the childcare tax credit element of the Working Families' Tax Credit, they should now get a positive financial return from their efforts to find a job.

Long-term effects on numbers seeking work

3.9 Recent studies have attempted to estimate how the Government's tax and benefit reforms may increase the number of people seeking work.

3.10 One study looked at the impact of reforms to income tax, NICs and the Working Families' Tax Credit on the gains to work for unemployed or inactive adults and their decision to enter employment.⁵² The study found that the reforms would, on average, increase the expected financial return to work by approximately eight per cent for men and seven per cent for women. The authors estimated that these measures to make work pay would increase employment by 47,000 over one year, and by as much as 290,000 over the long-term.

3.11 Another study looked at the impact of the Working Families' Tax Credit alone, and estimated that it could lead to an increase in female participation by between 10–45,000. It also predicted a small increase in the hours worked for those in work.⁵³

3.12 This is a complex research area where data is limited and the methodology is still evolving. The exact results of the studies should be treated with some caution, and can only be used as a rough guide. An increase in the numbers seeking work does not necessarily translate exactly into more people in jobs in the short-run, as employment rates depend on wider labour-market changes and the state of the economy as a whole. But both studies predict that the measures so far will increase the numbers seeking work, particularly amongst parents where most help has been targeted.

Helping parents to move from welfare to work

3.13 Tax and benefit reforms have improved the work incentives faced by parents and this is being complemented by active labour market policies to help people move into work. Chapter one presented the links between lone parenthood and worklessness. The New Deal for lone parents (NDLP) provides support for lone parents to move from welfare to work. NDLP aims to tackle the specific problems that lone parents face. It is a personal adviser service providing help with job search, benefits, childcare and training. Since national roll-out in October 1998, over 75,000 lone parents have agreed to participate in NDLP, and over 20,000 have already found work.

3.14 The New Deal also provides help for the long-term unemployed, many of whom have children. It is aimed at those who are at risk of becoming detached from the labour market. It reinforces the Government's view that rights come with responsibilities, and aims to help those who have been unemployed back into the workplace, providing support for those who need extra help. So far almost 170,000 unemployed people have found jobs through the New Deal. The New Deal for partners of unemployed people aims to help couple households where no-one is in work. It provides a personal adviser service to help partners of Jobseekers' Allowance claimants move from welfare to work.

⁵²The measures modelled were not identical to those subsequently announced in Budget 99. See Gregg, Johnson and Reed (1999).

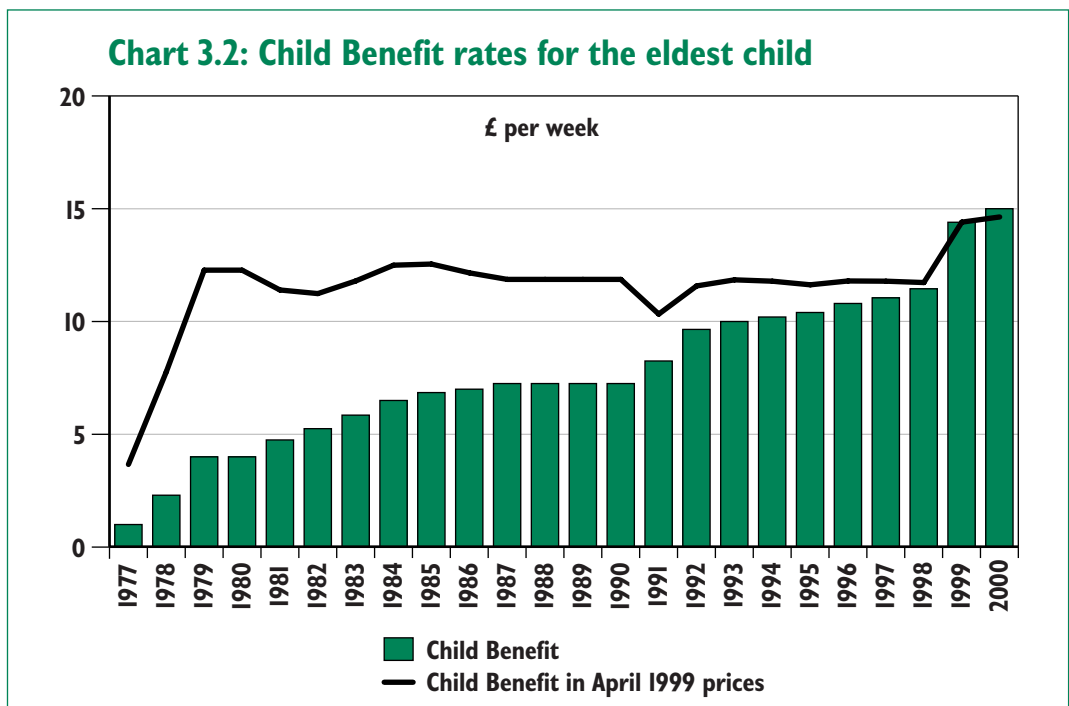
⁵³Bank of England (1999).

SUPPORTING ALL FAMILIES WITH CHILDREN THROUGH THE TAX AND BENEFIT SYSTEM

3.15 While the reforms above will help to ensure that work pays for parents, the tax and benefit system needs to provide financial support for all families and children, both in and out of work. This support recognises the extra costs and responsibilities that parents face when their children are growing up, and the importance of children for the future of society as a whole.

3.16 The last two Budgets have increased support for all children and reduced the tax burden on the typical family. Extra resources have been targeted on those in greatest need, particularly where there are young children.

Child Benefit 3.17 Support for children is built upon universal Child Benefit paid direct to the main carer. It is an effective way to reach families, with virtually full take-up. Child Benefit was introduced in 1977, but failed to rise in real terms throughout the 1980s and for most of the 1990s, and in some years was not even indexed in line with inflation. Budgets 98 and 99 raised the level of Child Benefit for the first child by more than 35 per cent: from £11 in April 1997 to £15 by April 2000. The rate for subsequent children will be increased to £10 a week from April 2000. Chart 3.2 shows that the rate for the eldest child will be at its highest level ever in real terms from April 1999.



Children's Tax Credit 3.18 Further support has been directed towards 4.5 million families with a new Children's Tax Credit, which will be introduced in April 2001. This will replace the married couple's and related allowances. The new Children's Tax Credit will be worth up to £416 a year, more than double the value of the married couple's allowance. To allow more resources to be targeted on lower and middle income families, the credit will be withdrawn from families with a higher rate taxpayer.

3.19 Together with the other measures announced in the last two Budgets, this means that the tax burden on a typical family on average earnings with two children will fall to its lowest level since 1972.

3.20 With the Children's Tax Credit added to Child Benefit, 4.5 families who were receiving £11 a week in 1997 for their first child will, by April 2001, be receiving up to £23 a week – £1,200 a year.

Supporting mothers when their children are young

3.21 Further help has been targeted at children under 11 as this is the time when families are most likely to be under financial pressure. Budget 99 announced an additional £4.70 per week from October 1999 for children under 11 in families on the Working Families' Tax Credit or on Income Support. They will receive at least a further £1.05 a week in April 2000.

3.22 The period before and immediately after birth is crucial to a child's development. The Social Fund Maternity Payments paid to mothers in low-income households to help with the initial costs of having a new child had been frozen at £100 since 1990. In Budget 99, a new Sure Start Maternity Grant replaced the Maternity Payment. The Grant is worth £200 and is linked to contact with a healthcare professional to ensure that families receive expert advice on child development.

3.23 Budget 99 also included new measures to ensure that the lowest-paid women have access to maternity pay. Entitlement to Maternity Allowance has been extended to women earning less than £66 per week but at least £30 a week.

3.24 Similarly, the new parental leave provisions will mean that from December 1999, working fathers and mothers can each take up to three months off work, with job protection, to be with a young child. Many of these families will already be entitled to claim Working Families' Tax Credit or Income Support during such leave. The Government is also examining whether the Working Families' Tax Credit or other measures can give additional help to the mother who wishes to stay at home in the first months after her child is born.

The effects of the last two Budgets on families and children

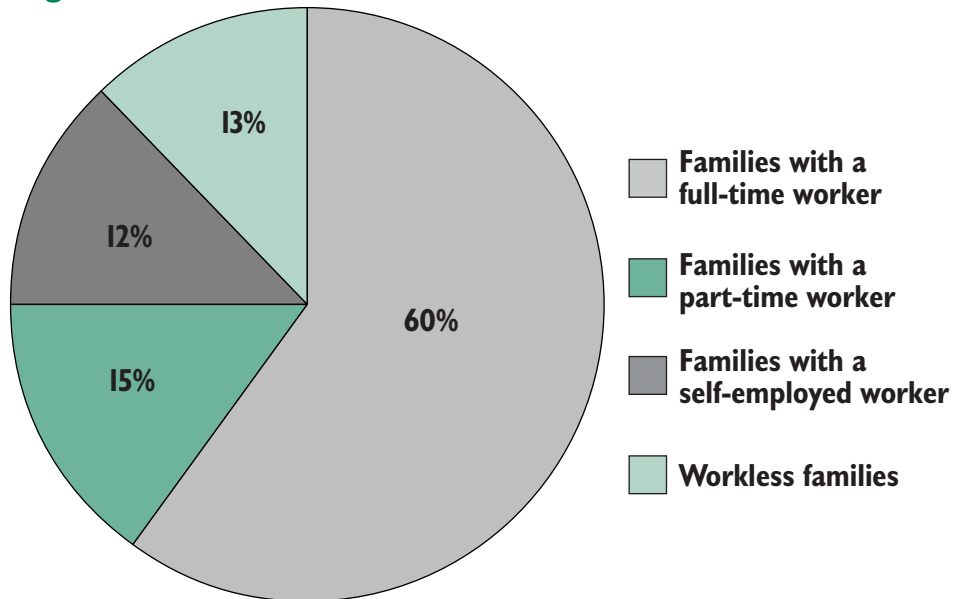
3.25 Taken together, the minimum wage and the measures in the last two Budgets will lift around 800,000 children out of poverty (see Box 3.1). This estimates the direct effects of the measures on family income, but does not take account of any increase in the numbers of parents seeking work as a result of the reforms. This should have an additional impact, as described in paragraph 3.9-3.12.

Box 3.1: The impact of the last two Budgets on child poverty

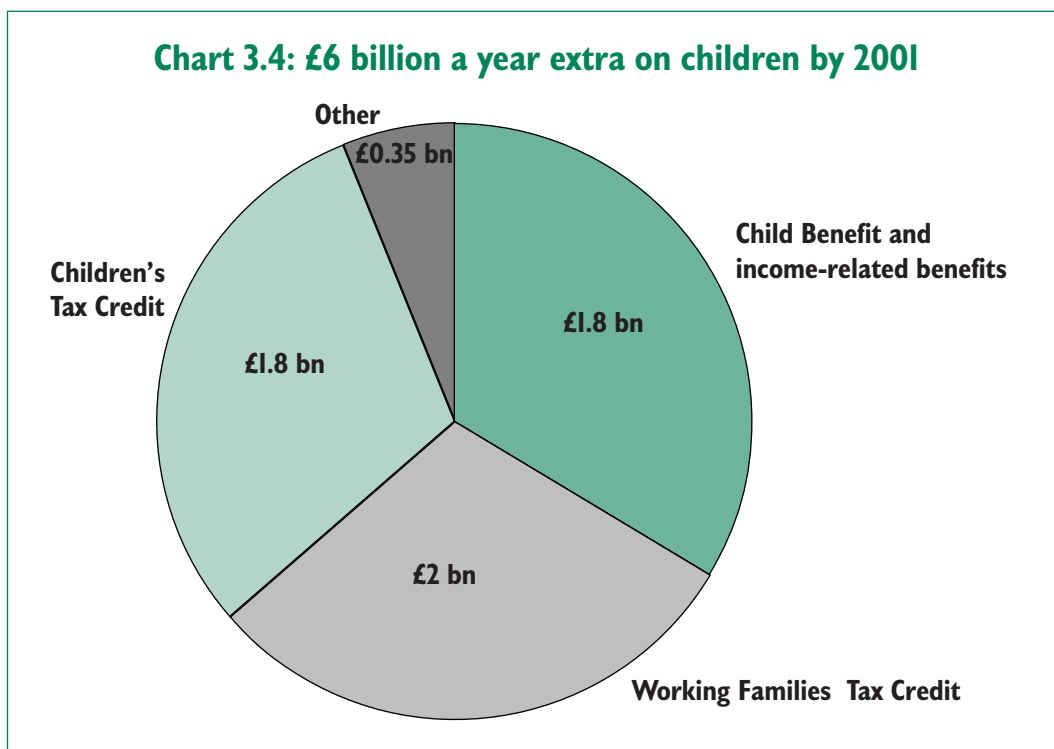
The measures in Budgets 98 and 99, such as the Working Families' Tax Credit, increases in Child Benefit and Income Support, reforms to National Insurance and the 10p rate of income tax, are estimated to lift around 800,000 children and around 600,000 adults out of relative poverty – a family income less than half the average.

Chart 3.3 shows that the greatest direct impact is for families with at least one adult in work. However, the chart does not include any additional, indirect, effect from the measures on the numbers seeking work and escaping poverty over the longer-term.

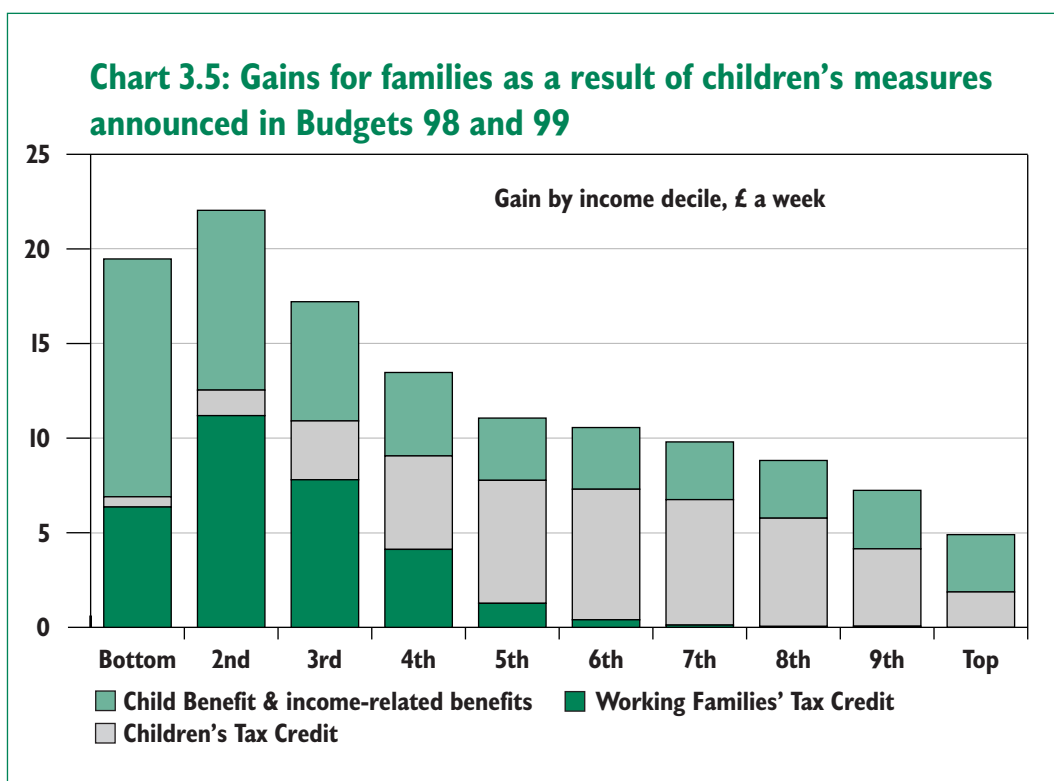
Chart 3.3: Children lifted out of relative poverty by Budgets 98 and 99



3.26 The Government has increased the amount spent on children for all family types at all income levels. By the end of the Parliament, the Government will be spending £6 billion extra each year on children. Chart 3.4 shows the composition of this sum.



3.27 Chart 3.5 shows the distributional impact of the main measures below. It shows how the Working Families' Tax Credit targets families at the lower end of the income distribution, and how the Children's Tax Credit is tapered away for families with a higher rate taxpayer.



REFORM FOR THE LONGER-TERM

3.28 Although the reforms so far have delivered extra resources in the fairest way possible, the Government sees a case for going further in improving the transparency and administration of income-related payments for children through the tax and benefit system.

3.29 The Chancellor announced in Budget 99 that the Government's long-term goal is to bring together the different strands of support for children in the Working Families' Tax Credit, in Income Support and in the Children's Tax Credit, to create an integrated and seamless system of financial support for children paid to the main carer, building upon the foundation of universal Child Benefit.

3.30 An Integrated Child Credit, for those in and out of work would be paid to the main carer, complemented by an Employment Tax Credit paid through the wage packet to working households, with or without children. In principle, an Integrated Child Credit would have a number of attractions, providing:

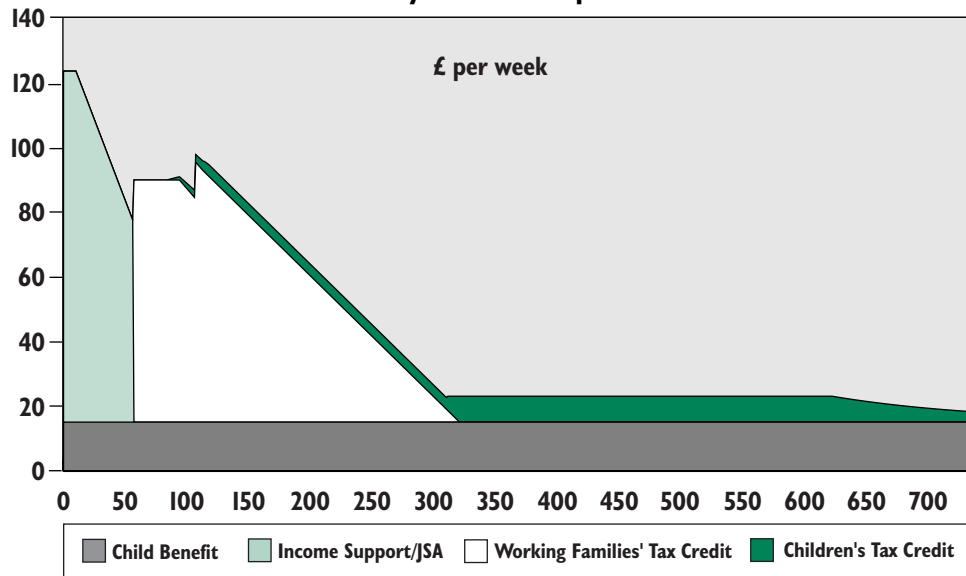
- **a seamless and transparent system of support for children**, helping parents to understand what they could expect to receive, and facilitating public debate about the correct level of support in the context of the Government's aim to abolish child poverty within a generation;
- **a portable and secure income bridge spanning welfare and work**, which is likely to improve work incentives. Survey evidence suggests that the financial disruption associated with moving from Income Support into employment often discourages parents from making the transition to work;
- **a common framework for assessment and payment**, which would give every family a stake in the system of child payments while allowing extra resources to be directed at those most in need;
- **a system where all support for children was paid to the main carer**, in line with universal Child Benefit;
- **efficiency gains** for the Government and **reduced red tape** for parents, from moving away from a system where income-related support for children is delivered through four different mechanisms, administered by four separate units covering three government departments.

3.31 Chart 3.6 shows the system of family support in the tax and benefit system for a couple with one child that will be in place when the Children's Tax Credit becomes available in April 2001. By way of illustration, it also shows how that system could look if the existing pattern of support was broadly replicated within an Integrated Child Credit, creating a seamless payment across the welfare to work divide.

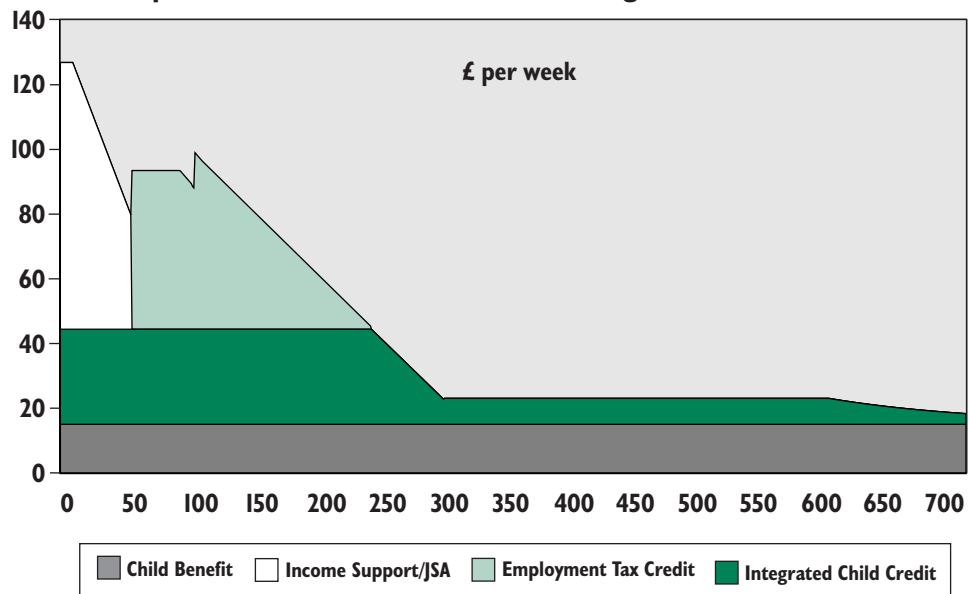
3.32 The introduction of an Integrated Child Credit would be a major structural reform for the longer term, posing a number of operational and policy challenges. A critical test will be whether the integration of child payments can be delivered efficiently and effectively.

3.33 Similar reforms are being introduced in other countries and Box 3.2 sets out further details on the reforms currently underway in Canada and Australia.

**Chart 3.6: The structure of financial support for children
The system from April 2001**



A possible future structure with an Integrated Child Credit



The chart shows the link between gross household weekly income and the level of family support delivered through the tax and benefit system. Eligibility for WFTC depends on someone in the family working more than 16 hours a week, and an extra credit is paid where someone works more than 30 hours. For illustrative purposes, both charts assume a weekly wage of £57 at 16 hours a week and £108 at 30 hours.

Box 3.2: International experience of reforms to child support

Canadian Child Tax Benefit

Since 1978, Canada has delivered income-related support for children through a refundable tax credit called the **Child Tax Benefit**. Entitlement is assessed on the basis of the previous year's income tax return. The tax benefit is paid to the main carer, with the Inland Revenue linking tax returns for couples. A maximum amount per child is paid for families with income of up to around C\$29,000¹, and then entitlement is reduced by 2.5 per cent of income for families with one child and 5 per cent for families with two or more children. There is no adjustment during the year to take account of changing circumstances.

For families who do not work, this system has historically been complemented by child allowances in safety-net benefits provided by provincial governments. A Working Income Supplement (WIS), similar in structure to the US Earned Income Tax Credit, was introduced in the early 1990s to address the unemployment trap for the low paid. The provincial safety-net child payments and the WIS are now to be integrated with the Child Tax Benefit to create the **Canada Child Tax Benefit (CCTB)** with entitlement assessed as part of annual tax returns. The new CCTB will:

- reduce the barriers to work by providing a seamless system of support;
- provide a broad-based programme covering around 85 per cent of Canadian families, promoting social cohesion and increasing the amount of financial support going to low-income working families.

¹ approx C\$2.40 = £1

Australian Family Tax Benefit

Recent reforms have aimed to simplify the range of benefits and tax credits available to families with children. The basic element of support is a cash means-tested benefit, **Family Allowance**, consisting of payments for each child related to age. It is withdrawn as income increases, though a minimum payment of A\$11¹ a week is made to all families with incomes of up to around A\$73,000. In addition, families can also apply for **Family Tax Payment** as part of their annual income tax returns. It has two elements:

- Part A: a flat-rate payment of around A\$8 a week for families with incomes of less than A\$70,000;
- Part B: a flat-rate payment of around A\$10 a week for families with only one main income earner and a child under five and incomes of less than A\$65,000.

It offsets a family's tax liability except for those with very low incomes where it is paid as a cash benefit. As part of the 1999 Budget, the Australian Government announced that it intends to simplify the system further. Family Allowance and FTP part A will be combined into a new **Family Tax Benefit (part A)** to help families with the cost of raising children. FTP part B and Parenting Payment will be combined into **Family Tax Benefit (part B)** to provide extra help to families with a single income. A separate **Child Care Benefit** will provide help with childcare costs.

¹ approx A\$2.50 = £1

CONCLUSION

This paper has shown that policies to reform the tax and benefit system have already begun to deliver change, marking the first steps in reducing child poverty in the UK. Measures in the 1998 and 1999 Budgets have begun to make work pay, and will help to lift up to 800,000 children out of relative poverty by the end of the Parliament.

The Government's long-term economic ambition is that, by the end of the next decade, child poverty will be reduced by half, as the Government moves forward with its commitment to end child poverty within 20 years. This paper also outlined possible long-term reforms to the way that the tax and benefit system supports children.

A

ANNEX A: SOURCES OF DATA ON FAMILY INCOMES

A.1 The two main sources quoted in this paper containing analysis of family incomes and child poverty are:

- *Households Below Average Income*, (HBAI), produced by the Department of Social Security. HBAI provides estimates of patterns of personal disposable income in Great Britain, and of changes in income over time. It attempts to measure people's potential living standards as determined by disposable income;
- *Child development and Family Income*, by Paul Gregg, Susan Harkness and Stephen Machin, which looks at changes in child poverty and family incomes since 1968, and considers how adult outcomes are associated with factors observed during childhood.

A.2 Analysis of family incomes and poverty relies on nationally-representative surveys of people's incomes. There are three main surveys in the UK which provide this kind of information:

- the Family Resources Survey (FRS). The FRS is a continuous survey covering a sample of the Great Britain population living in households. The first sample was in 1994/5;
- the Family Expenditure Survey (FES). The FES was originally designed to provide data on expenditure patterns, but can provide data on family incomes. The FES uses a smaller sample than the FRS, but has been collecting data since 1968;
- the British Household Panel Study (BHPS). The BHPS is a longitudinal data set. The first wave in 1991 was selected to be a nationally representative sample of the population of Great Britain living in private households. The sample have been re-interviewed every year since, allowing individuals to be tracked over time.

A.3 These surveys were designed to achieve different objectives, and the results from different surveys covering the same year will not necessarily be identical. This reflects, amongst other things, the different objectives, and the usual variation that is unavoidable in random surveys.

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