

# **The New Government and Family Related Benefits in the UK**

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**Open Seminar**  
**Tackling Child Poverty: Lessons from the UK and  
New Frontiers in Japan**  
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# A bit of history

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- ◆ Until 1945 financial needs of children not recognised by the state – poor law, UAB, fostering or adoption
- ◆ Eleanor Rathbone's campaign for family allowances – motives:
  - ◆ Poverty - Rowntree
  - ◆ Gender equity – feckless men
  - ◆ Pronatalism – eugenics movement



# A bit more history

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- ◆ Family allowances opposed by Trade Unions who campaigned for a “family wage”
- ◆ Adopted by Beveridge in 1942 report in order to ensure that UB could be paid at subsistence level w/o undermining work incentives
- ◆ Enacted by Conservative Government (to hold wage demands down) but
  - ◆ Only for second and subsequent child
  - ◆ At lower rates than Beveridge proposed



# Other elements in the post war child benefit package

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- ◆ Free school meals
- ◆ Maternity grants
- ◆ Welfare foods
- ◆ Child additions in the benefit scales
- ◆ Free health care
- ◆ Child tax allowances
- ◆ **Character universality**



# Emerging problems

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- ◆ Family allowances too low
- ◆ National assistance covering housing costs – no help for housing costs in work – wages trap led to Housing benefit and Council Tax benefit
- ◆ Health charges and exemptions introduced
- ◆ **Character became means-tested**
- ◆ Meanwhile Child Tax Allowances
  - ◆ costing the exchequer more than FA
  - ◆ Of most value to higher rate tax payers
  - ◆ No help to poorest non tax payers



# “Rediscovery of Child Poverty”

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- ◆ *Poor and the Poorest 1965*
- ◆ *Circumstances of Children 1966*
- ◆ Child Poverty Action Group established 1968
- ◆ 1970 election “Poor worse off under Labour”
- ◆ Tories win - Family Income Supplement introduced



# Family Income Supplement

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- ◆ Income tested benefit
- ◆ Working 24 plus hours
- ◆ Based on five weeks pay slips
- ◆ Paid to mother
- ◆ Lasted six months regardless of income changes
- ◆ Same threshold for lone parents and couples
- ◆ Take up a problem and created a poverty trap
- ◆ Became Family Credit - a means-tested in-work benefit until replaced in 1999 by WFTC



# Child benefit

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- ◆ Introduced after bitter Cabinet battle between Barbara Castle and Dennis Healey exposed by “deep throat”.
- ◆ Combines CTA and FA in one cash benefit
- ◆ One parent benefit
- ◆ Paid for every child, at a higher rate for the first child £20.30, £13.40 (April 2011)
- ◆ To the mother transfer wallet to handbag.



# Arguments over CB

## ◆ Against

- ◆ Duchess of Westminster gets it (or did)
- ◆ Very expensive
- ◆ Could be better targeted – large families, young kids, taxed back, withdrawn
- ◆ Children private responsibility
- ◆ Encourages feckless breeding
- ◆ Misspent - vouchers better

## ◆ For

- ◆ Maintains horizontal equity
- ◆ Children are a public good/human capital
- ◆ Why should parents carry the burden alone
- ◆ Encourages childbirth
- ◆ Benefit for women
- ◆ Contribution to work incentives
- ◆ Secure source of income



# Post 1979 (Thatcher)

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- ◆ Child benefit left to “wither on the vine”
- ◆ Benefits for 16-18 year olds abolished
- ◆ Income Support frozen
- ◆ Surges in youth unemployment and children living in workless households
- ◆ Family Credit replaces FIS –16 hours
- ◆ One parent benefit and lone parent premium in Income Support abolished



# Hike in poverty

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- ◆ Between 1979 and 1997 the relative child poverty rate in Britain increased 3 fold



# Why do we worry about child poverty

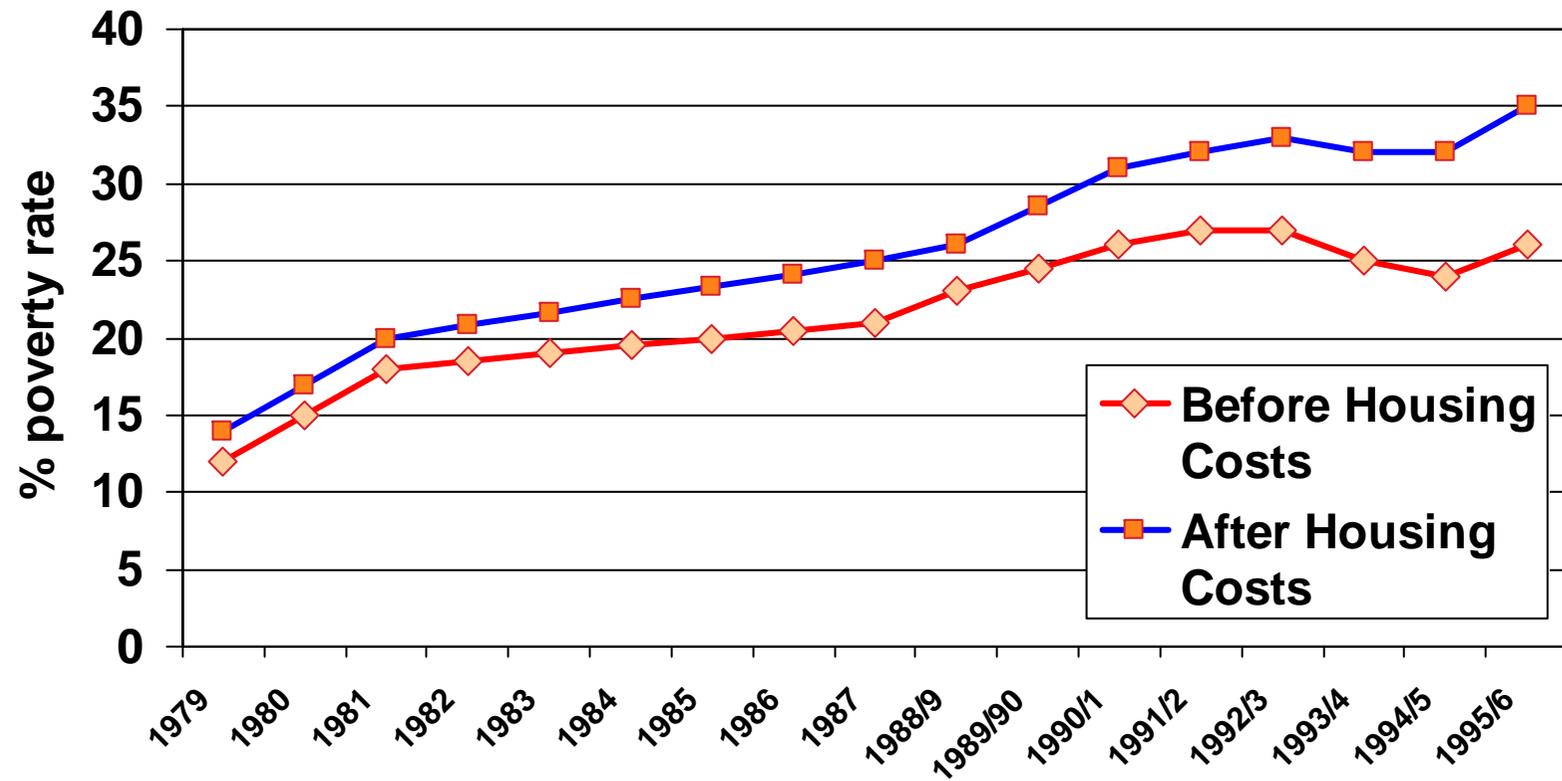
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- ◆ Moral arguments – religious duty
- ◆ Justice arguments – it is not fair, children not to blame
- ◆ Poor investment – poor outcomes - waste of talent
- ◆ Poverty associated with many social problems that harm us all
- ◆ Costs a lot – losing 1% of GDP per year
- ◆ Key indicator of government failure



# Child poverty: 1979-1995/6

60 per cent equivalent household income



# Hike in poverty

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- ◆ Between 1979 and 1997 child poverty in Britain increased 3 times
- ◆ **Bigger increase than most industrial societies**



# Hike in poverty

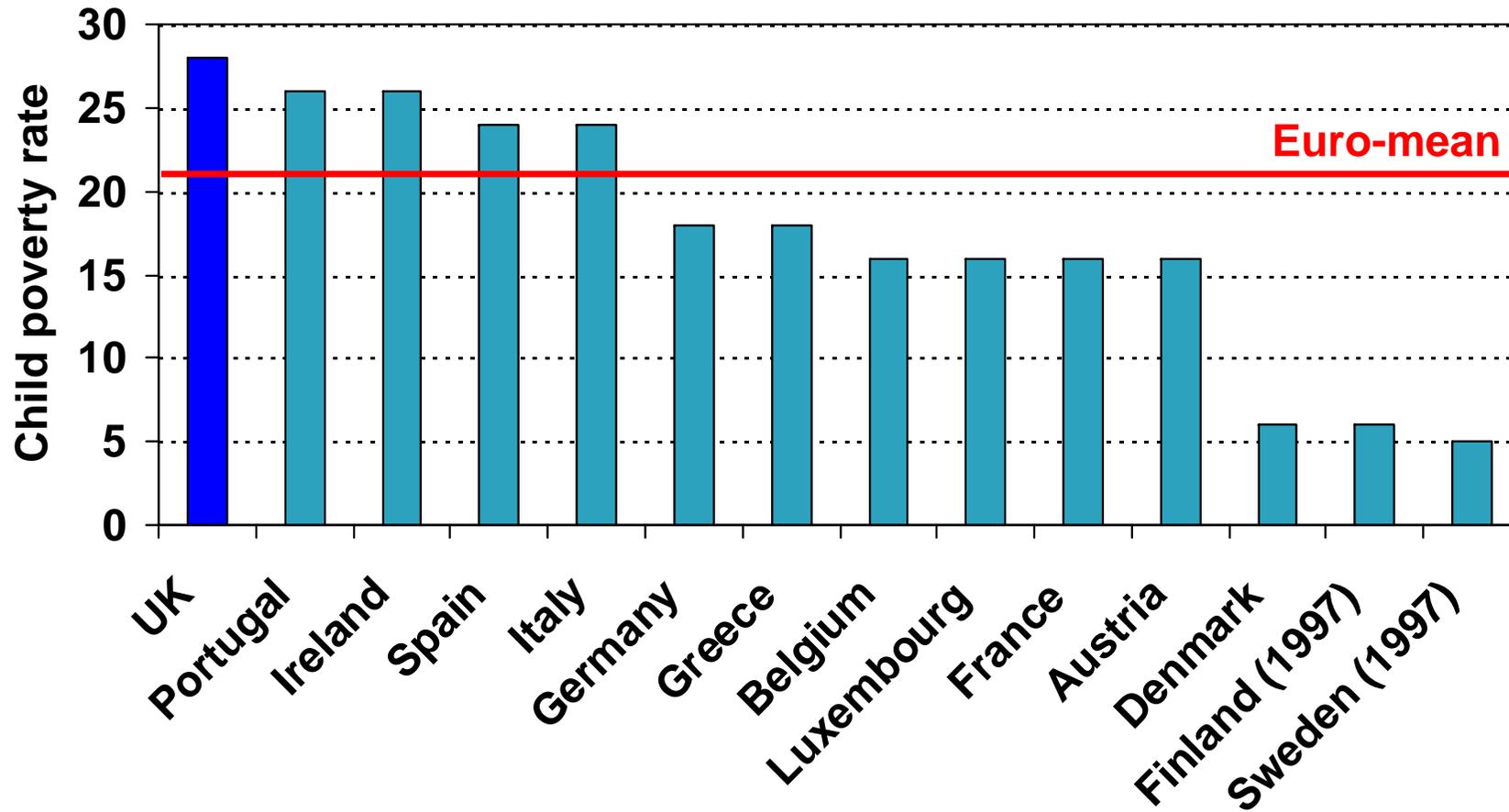
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- ◆ Between 1979 and 1997 child poverty in Britain increased 3 times
- ◆ Bigger increase than most industrial societies
- ◆ **In 1995 UK has the highest child poverty rate in the EU.**



# Child poverty rates 1995

60% of the national equivalised median income.



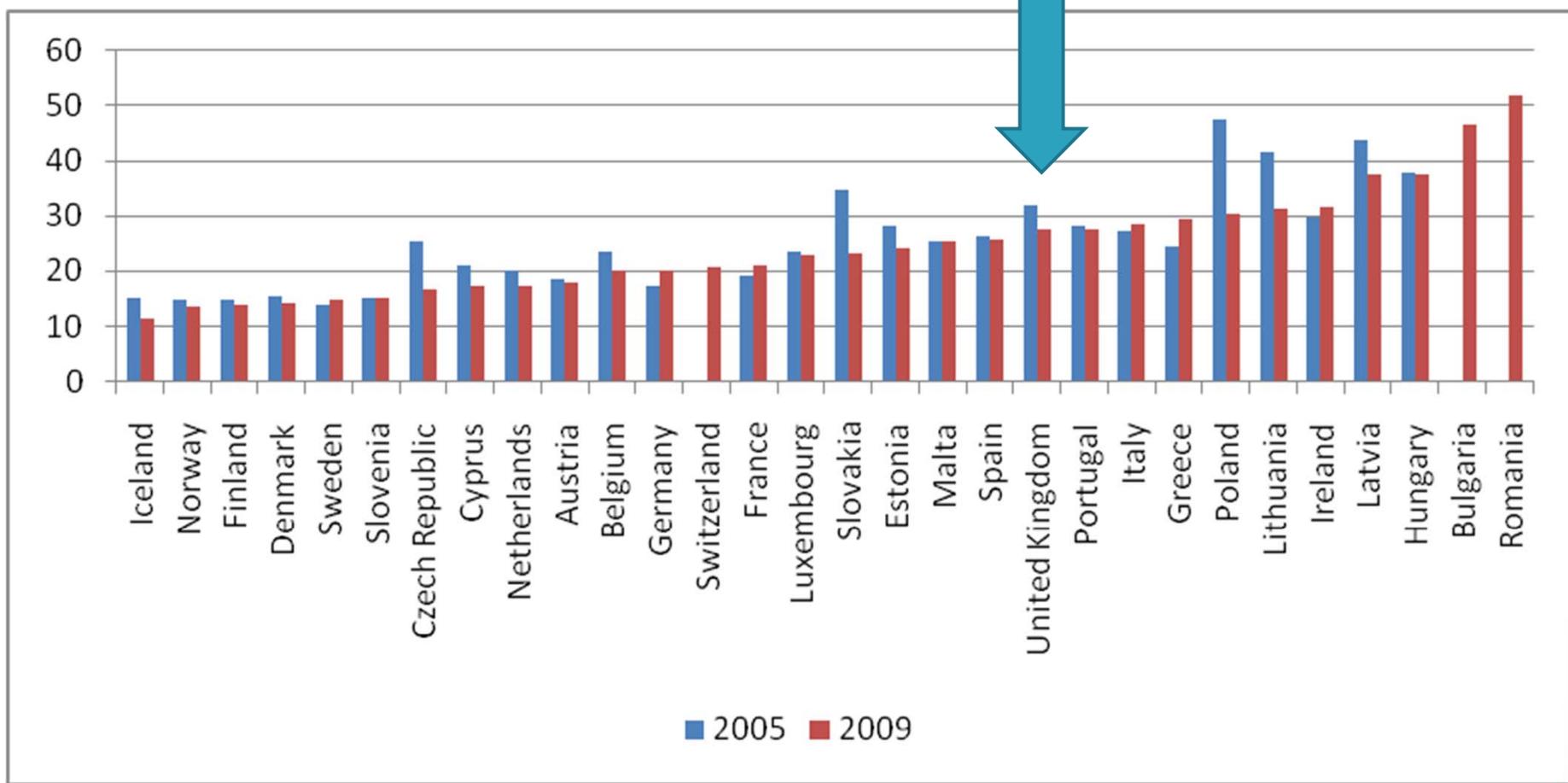
# Hike in child poverty

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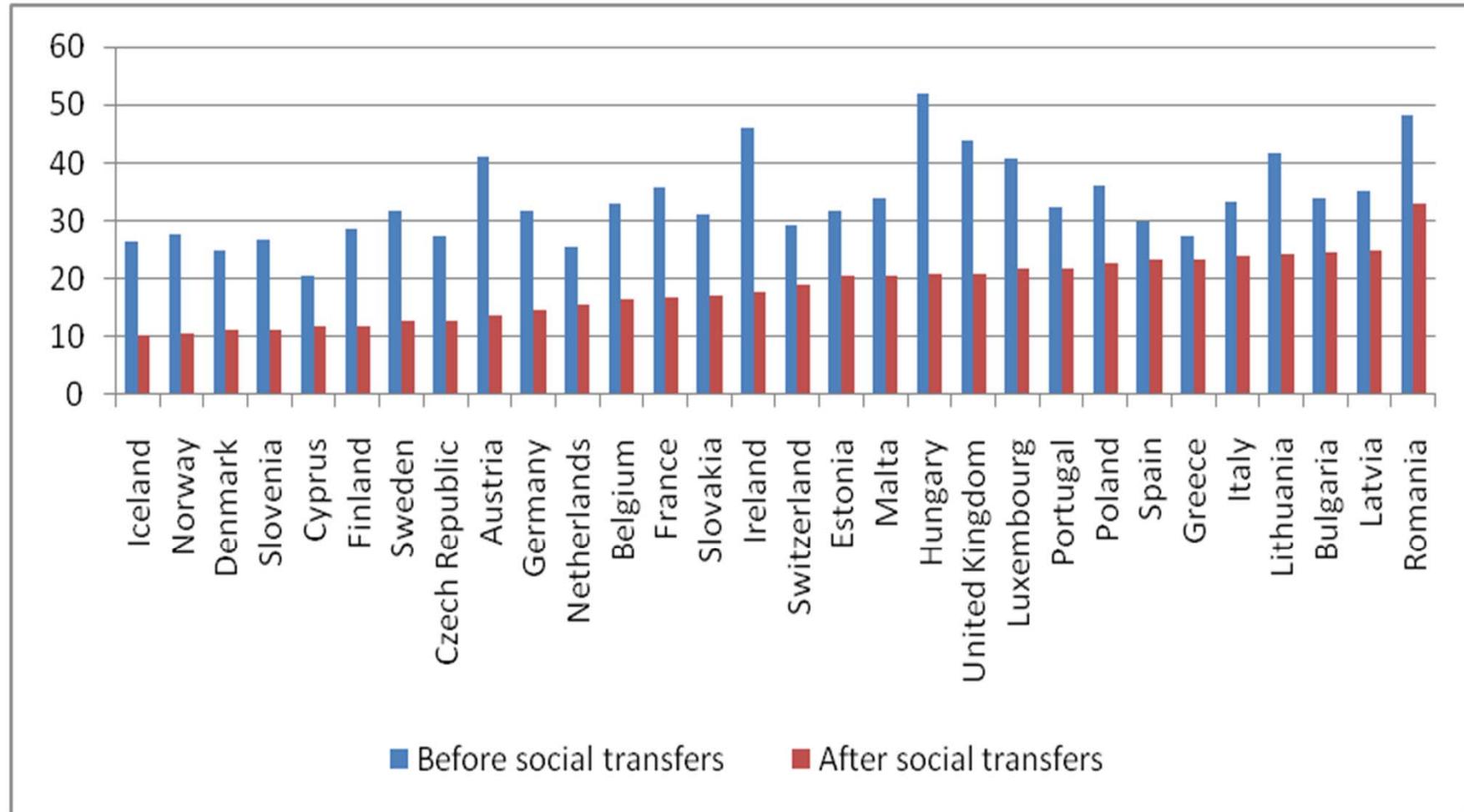
- ◆ Between 1979 and 1997 child poverty in Britain increased 3 times
- ◆ Bigger increase than most industrial societies
- ◆ UK in 2001 has the fifth highest child poverty rate comparatively
- ◆ **Evidence suggests that this was driven by economics and demographics, but particularly by policy failure**



# Child poverty rates in the EU (<60% median)



# Still not making enough effort (2009 data)



# End of child poverty

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- ◆ Prime Minister's pledge:

“Our historic aim, that ours is the first generation to end child poverty forever....It's a 20 year mission but I believe it can be done”



# Results

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- ◆ (Before the recession) employment at record levels
- ◆ Child poverty rate fell until 2004/5 – nearly met five year target
- ◆ Child poverty gap reduced
- ◆ UK one of only seven countries in OECD to have reduction in child poverty 1995-2005
- ◆ UK moved up the international league table
- ◆ All party consensus in Child Poverty Act – sensible targets and new commitment to develop a strategy
- ◆ Here is some data



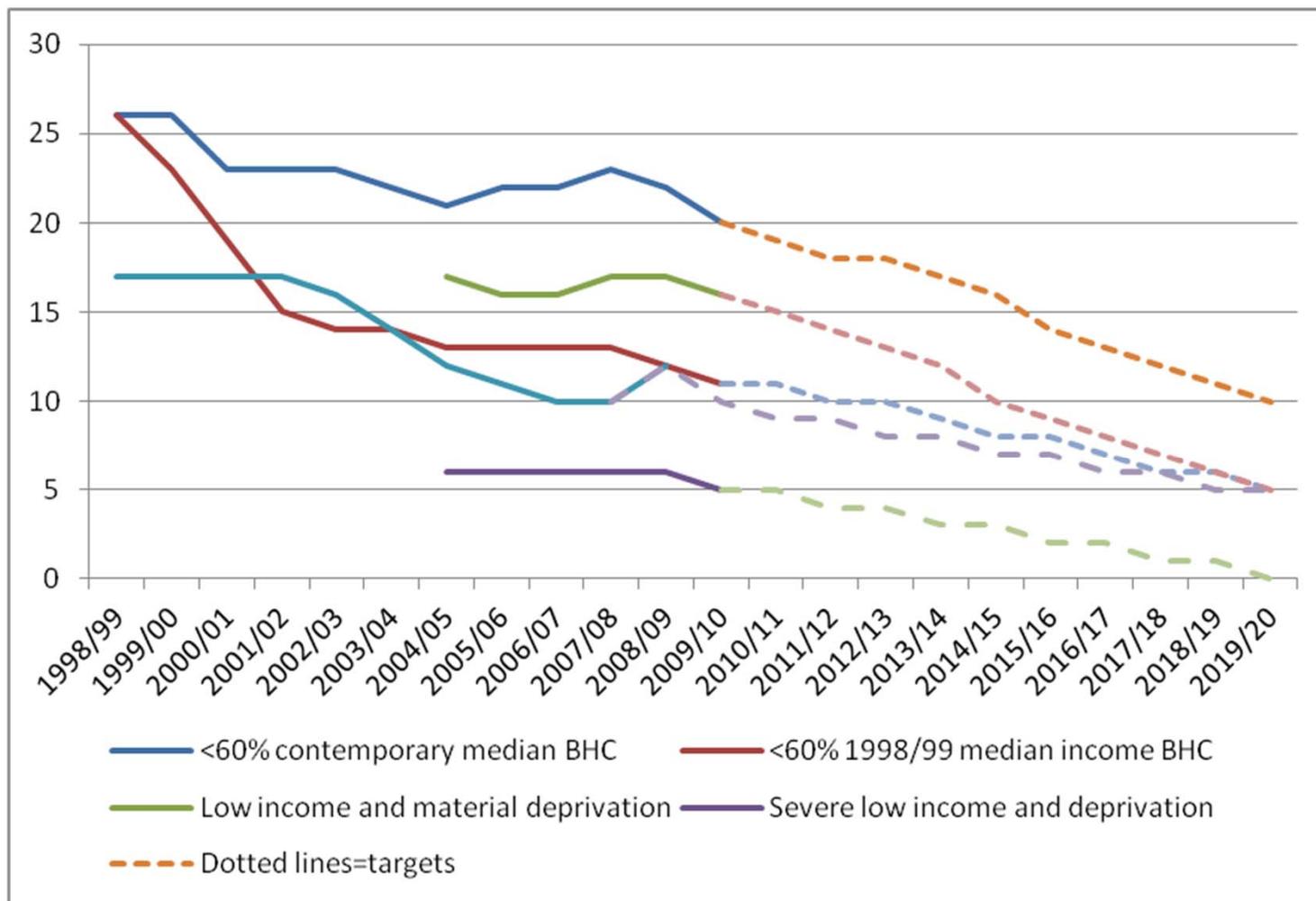
# The child poverty strategy

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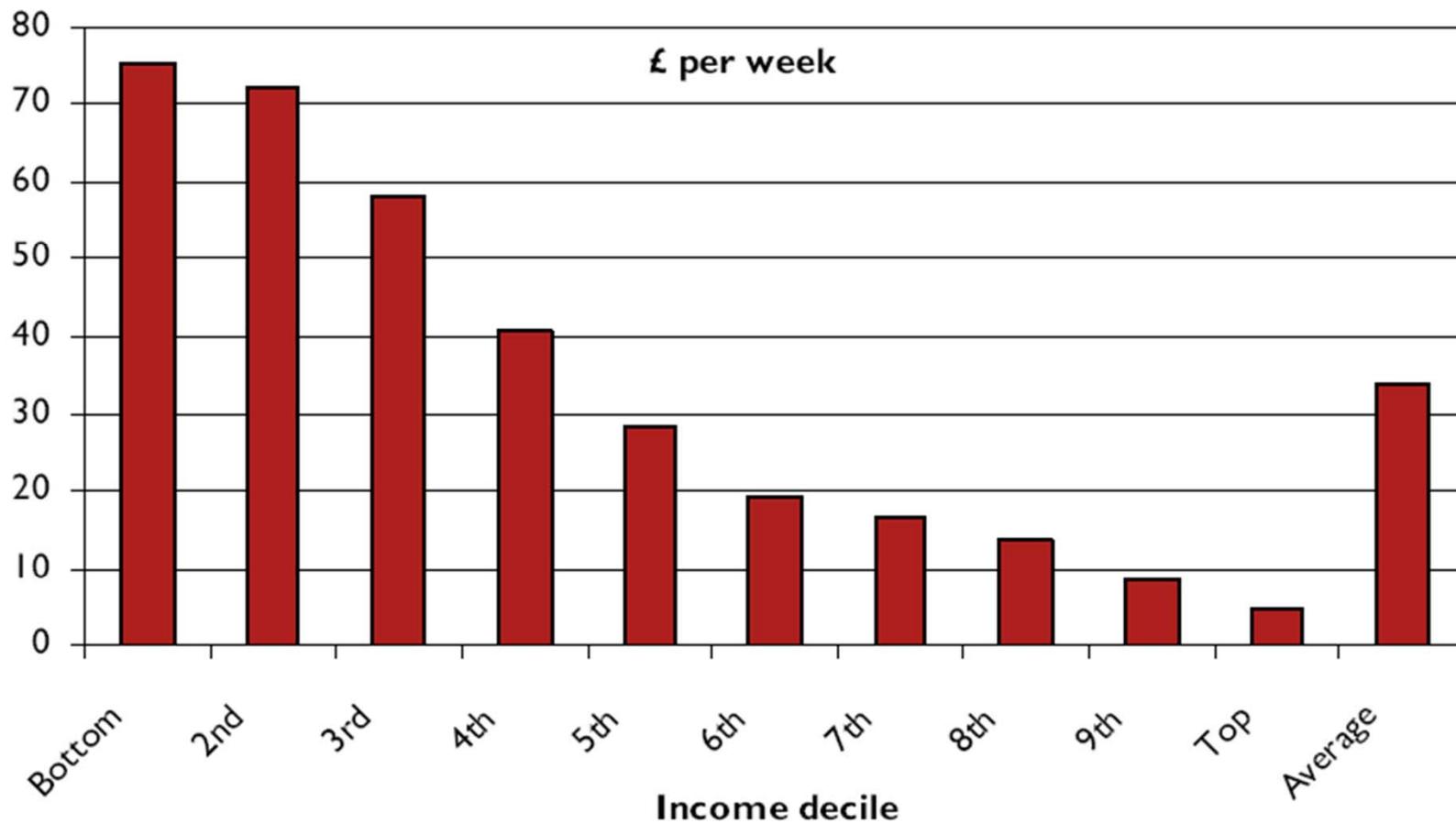
- ◆ Manage economy to ensure low inflation and high employment
- ◆ Welfare to work
- ◆ Increases in in-work benefits
- ◆ Increases in out-of-work
- ◆ Big invest in services - health, education childcare
- ◆ Institutional transformation



# Child poverty fell – but not sustained

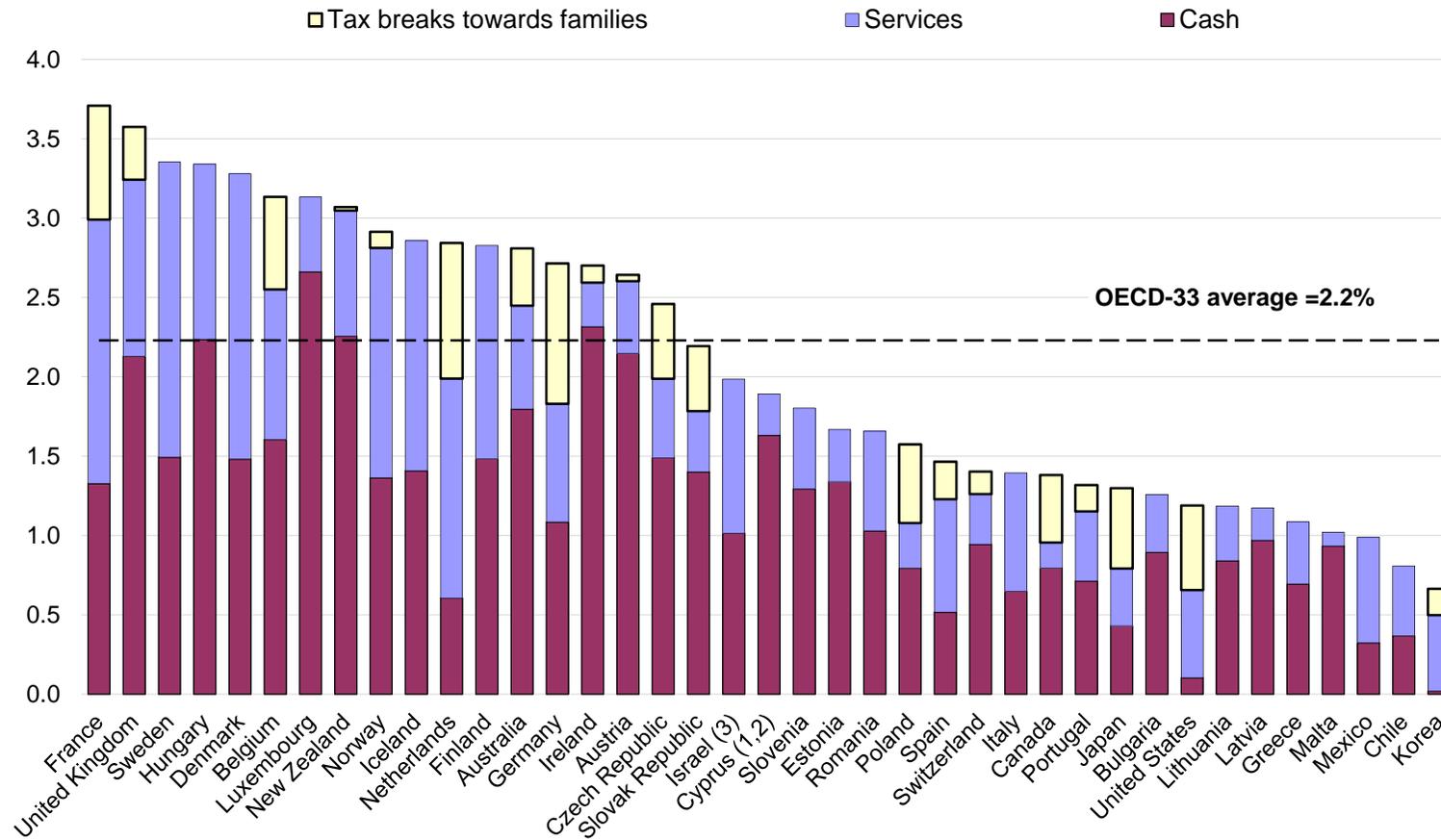


## Chart 4.1 Gains for families with children as a result of changes in financial support for families by April 2009



Source: HM Treasury

## Public spending on family benefits in cash, services and tax measures Percentage of GDP, in 2007.



# Youth and youth transitions

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- ◆ Child benefit/Tax credit paid to parents until 19 if child in full-time education
- ◆ Severe hardship payments in JSA IS.
- ◆ No independent entitlement to unemployed youth until 19 then IS/JSA £51.85 per week until 24.
- ◆ EMA for 16-18 £30 per week to young people plus bonuses payments of up to £500 for staying on. Now abolished



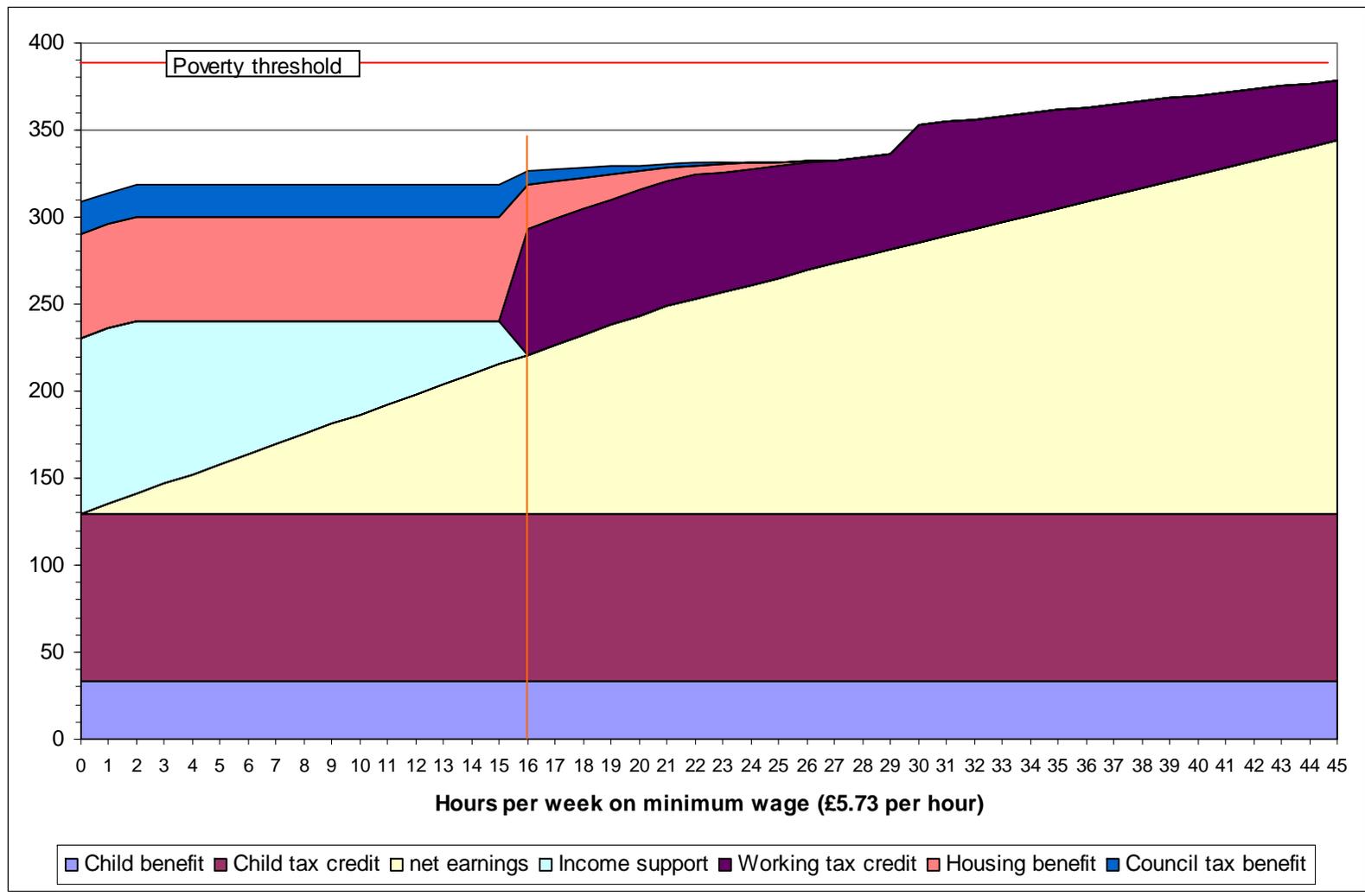
# Conclusion on Labour years

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- ◆ Poverty was dire after the Tory years.
- ◆ After a slow start much was being achieved.
- ◆ Treatment right - dose inadequate



**Net disposable income for a couple plus two children before housing costs by hours supplied at the minimum wage from April 2009. Rent = £60 a week, Council Tax = £18.00 a week**



# Child poverty targets for 2020

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- ◆ Relative low income = Equivalised net household income less than 60% median 2020 target: <10% of children
- ◆ Combined low income and material deprivation = Material deprivation >20% and equivalised net household income less than 70% median 2020 target: <5% of children
- ◆ 'Absolute' low income= Equivalised net household income falling below 60% of the 'adjusted base amount' 2020 target: <5% of children
- ◆ Persistent poverty= Equivalised net household income less than 60% of median for 3 years prior to current year 2020 target: not yet set



# Now recession and new coalition government

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- ◆ Plan to cut £80 billion deficit by 2013
- ◆ 25% from increases in taxes
- ◆ 75% from cuts in services and huge reduction in public employment
- ◆ Whole package highly regressive
- ◆ Children have done much worse than pensioners
- ◆ IFS say it will increase child poverty
- ◆ Unemployment up – youth at record levels
- ◆ Discourse has become behavioural
- ◆ Focus on early years



# Cuts in family benefits

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- ◆ Child benefits frozen for three years
- ◆ To be taken back from higher rate tax payers after 2013
- ◆ EMA abolished
- ◆ Health in Pregnancy Grant and child trust funds abolished
- ◆ Cuts in childcare tax credits 80% to 70% subsidy and Surestart maternity grant restricted to one child
- ◆ Cuts in Child tax credits – reneges on promise for above inflation uprating
- ◆ Uprate benefits by CPI rather than RPI
- ◆ Increase VAT from 17.5% to 20%



# Results

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- ◆ Relative child poverty will remain broadly constant between 2009/10 and 2012/13 at about 19% but will then rise to 24.4% by 2020.
- ◆ Absolute child poverty will rise from 17% in 2009 to 23.2% in 2013 and then remain constant to 2020.
- ◆ This unusual picture comes about because real median household income will be 7% lower in 2012/13 than it was in 2009/10 and remain below its 2009/10 level until 2015/16, due to high inflation and low earnings growth.



# Other measures

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- ◆ UNIVERSAL CREDIT replacing all working age benefits in 2013. Good idea but
  - ◆ Not universal
  - ◆ Means-tested
  - ◆ Leaves out passported benefits
  - ◆ Reliant on massive IT
  - ◆ Benefits cap
  - ◆ Housing benefit room cap for tenants
- ◆ Reassessment of Incapacity to work



# Strategy not working

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- ◆ Unemployment rising - very high for youth
- ◆ Growth effectively nil
- ◆ Private jobs not replacing public jobs
- ◆ Deficit targets not being met
- ◆ EU crisis
- ◆ Double dip recession



# Conclusion

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- ◆ Role of state in supporting financial costs of children contested
- ◆ Has been and still is mainly a private responsibility – increasingly for youth
- ◆ Improvements have been made since 1999 – thanks to the child poverty agenda
- ◆ Child Poverty Act high watermark
- ◆ Now going backwards
  
- ◆ But still much more effort than Japan?

