



# Halfway house

## Halving child poverty by 2010 is still possible – but only if the government acts fast

*“The great and unacceptable concentration of poverty amongst households with young children is the greatest indictment of our country in this generation and the greatest challenge of all.”*

Gordon Brown, July 2004

*“We need to think of poverty in relative terms – the fact that some people lack those things which others in society take for granted... in the next 25 years, I want my Party to be in the vanguard of the fight against poverty...”*

David Cameron, November 2006

*“One of the biggest scars on our society is child poverty. It is worse today than when I grew up in Glasgow.”*

Menzies Campbell, March 2006

Ending child poverty is now mainstream public policy, a goal adopted by all the main political parties. This reflects the outrage that in a wealthy country like the UK, so many children go without the basics that most take for granted.

Increasing family income is critical to improving children’s standard of living. There is clear evidence that as child poverty has fallen in recent years, low-income families have provided more necessities for their children.<sup>1</sup>

In the context of the emerging political consensus on child poverty, and with the government’s 2010 target of halving child poverty approaching fast, the

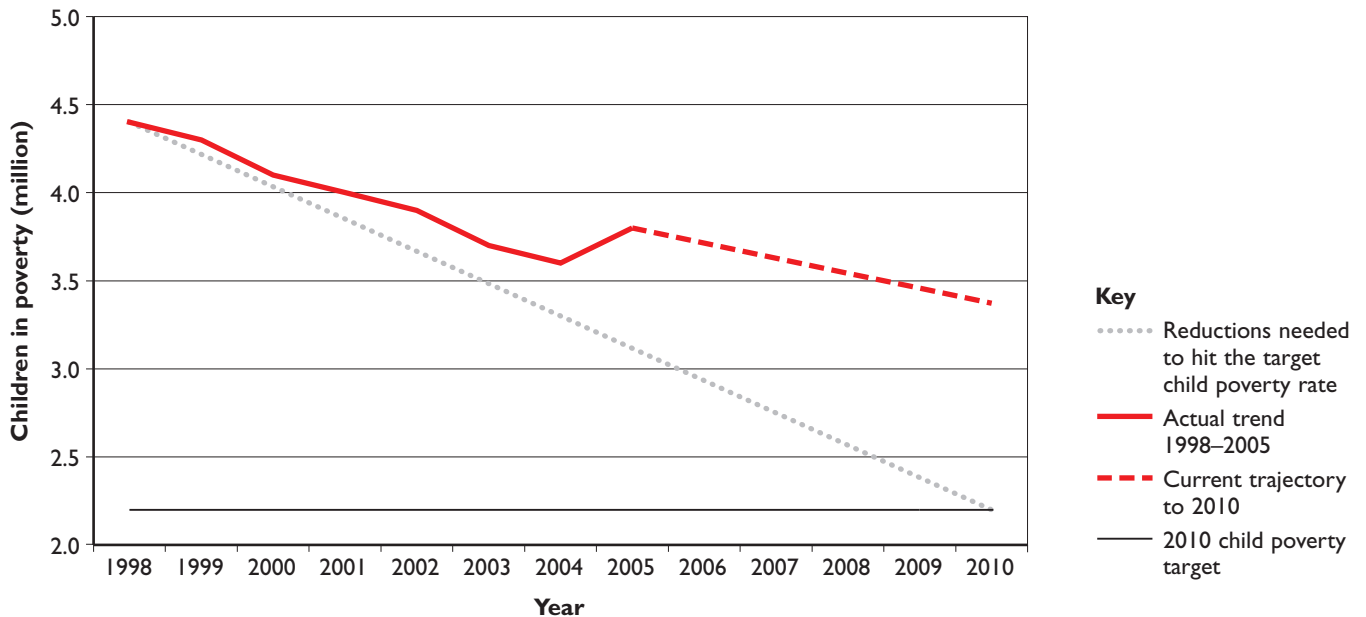
2007 pre-budget report is a key opportunity to create the conditions for real change for children. At least £4 billion extra is needed a year to meet the 2010 target.<sup>2</sup> Save the Children believes that a minimum of £1 billion needs to be invested immediately if the government is to have any chance of meeting this goal.

As figure 1 (overleaf) shows, halving child poverty will require taking 2.2 million children out of poverty by 2010.<sup>3,4</sup> At the present rate of progress, the government will fall short of this target by more than one million children. If progress continues at the same rate as between 1998 and 2005, the target of halving child poverty will not be met until 2024.



**Figure 1: Halving child poverty by 2010**

Number of children in poverty, current and required trajectory to meet the target of halving child poverty by 2010 (based on after-housing costs)



Note: Current trajectory based on average annual reduction from 1998/99–2005/06  
Source: Department for Work and Pensions (2007) *Households Below Average Income* / Author's calculations

## The child poverty target

The main indicator of poverty used by the UK government, the opposition parties, the European Union, and the OECD is households with incomes below 60% of the median. The child poverty target is therefore relative and dynamic. In a growing economy, the median income gets higher as average incomes rise alongside average costs and living standards.

The 60% figure is widely agreed as indicative of the minimum income that enables people to keep up with these changes in living standards. Broadly speaking, people with income above this level are likely to be able to make ends meet and to be able to afford the necessities, both material and social, for living in modern Britain.

Households with income below this level are more likely to be adversely affected by a shortage

of resources. They are more likely to face tough choices between things that most people take for granted, and to face punitive debt repayments and sanctions that exacerbate their financial struggle even further.

## Why we're falling short

Figures on child poverty published by the government in 2007 showed that, for the first time in many years, child poverty had risen. Instead of moving closer to the critical target of halving child poverty by 2010, the government had moved further away.

Child poverty increased because the incomes of those below the poverty line rose at a slower rate than average incomes. It is average incomes that determine the poverty line. For child poverty to fall, the incomes of those at the bottom need to rise at a faster rate than average incomes.



### Reducing child poverty – a motorway metaphor

Imagine two cars on a motorway. The first is 100 metres ahead of the other. If they both travel at the same pace, the distance between them stays the same. If the car in front goes quicker, it will pull away and the gap becomes wider. For the car behind to catch up it needs to travel faster than the car ahead.

Similarly, if average (median) incomes rise by 3% in a year, for those below the poverty line to move closer to it, or over the line, their incomes must rise by at least 3.01%. If their incomes rise by less than 3% they will fall further into poverty, and if they rise by exactly 3%, their poverty – their relationship to average living standards – will remain the same.

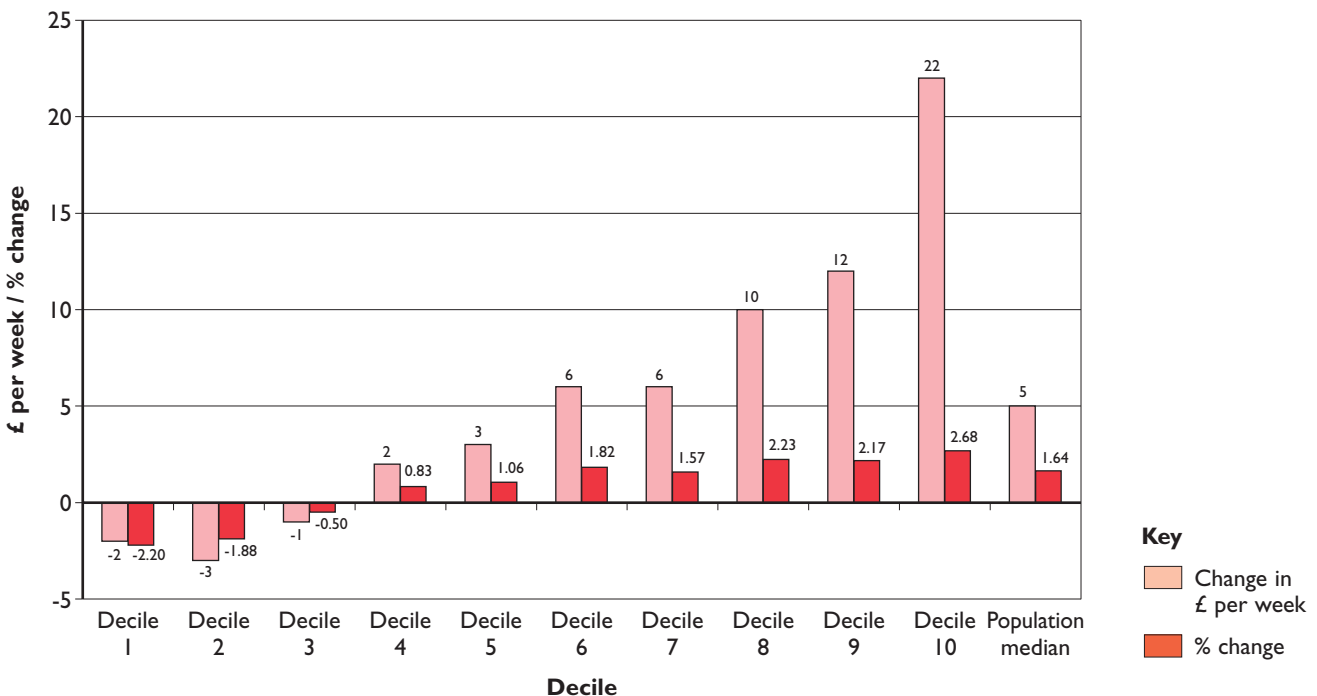
Between 2005 and 2006, incomes for the poorest 30% of households actually fell in real terms (see figure 2). While the wealthiest 10% saw their incomes rise by 2.7%, the incomes of the poorest 10% fell by 2.2%. For a family of four in the most affluent 10%, annual real incomes rose by £1,602; for the same sized family in the poorest 10%,

incomes fell by £146. If the same happened for the next five years, the most affluent households would see increases of over £8,000 while the poorest would see their income fall by nearly £750.

This pattern of growth is not inevitable. The government could share out the ‘proceeds of

**Figure 2: Changing incomes in a year, 2005/06**

Income growth in percentage and pounds per week, by decile (equivalised, real terms, after housing costs)



Source: Department for Work and Pensions (2007) *Households Below Average Income* / Author's calculations



economic growth' more evenly, and they have done so in the past.

The previous six years saw a very different pattern of income growth. From 1998/99–2004/05, income grew across all income groups, though at very different rates:

- The poorest 10% of households experienced by far the lowest levels of growth at just 10%, equivalent to £8 overall per week.
- The second and third poorest deciles saw the highest levels of income growth at 30% – a £37 and £46 increase, respectively, in incomes per week.
- The most affluent 10% saw income growth of 17%, equivalent to a £119 per week increase in incomes.
- The average (median) income grew at 21%.

With the incomes of many in poverty growing by substantially above the average in percentage terms, households at the bottom began to catch-up with the average. The result was a 6% point drop in child poverty from 1998–2005.

The very low relative growth in incomes for those in the bottom 10% is a major cause for concern. It is vital that the poorest are helped the most by government policy. Yet the evidence is that those with the least have benefited the least. This is why Save the Children has been calling on the government to introduce a measure of severe poverty to ensure that policy focuses adequately on those at the bottom.

The positive changes noted above for the second and third poorest deciles have not come about by accident. Large increases in social security and tax credit spending have focused support on many vulnerable households, including families with children. What's more, there has been a wider policy agenda focused on families in poverty, including significant investment around the welfare to work agenda. At the same time, in the context of overall economic growth, other income groups have not suffered from an approach targeting support at

families in poverty. Many households on middling and even higher incomes have benefited from both the working and child tax credit. The 20% of households on the highest incomes – with average household incomes of £38,168 – saw real terms income growth of £3,692 over the period that child poverty came down by 6%.<sup>5</sup>

## **Why change is possible: the slow-moving poverty line**

The poverty line moves much more slowly than government acknowledges (see figure 3). This means that the child poverty target is definitely achievable.

Over the past four years the poverty line has grown at an average of £2.45 per week (in real terms) for a family of one parent and one child, and £4.41 per week for two parents with two children. That's equivalent to just £127.76 and £229.32, respectively, per year for these two family types. Incomes for those in poverty only needed to grow at these rates to maintain existing poverty levels; any increase above these would have reduced levels of poverty. This scale of change is achievable if there is political will.

## **Where next? Pushing forward to meet the goal of ending child poverty**

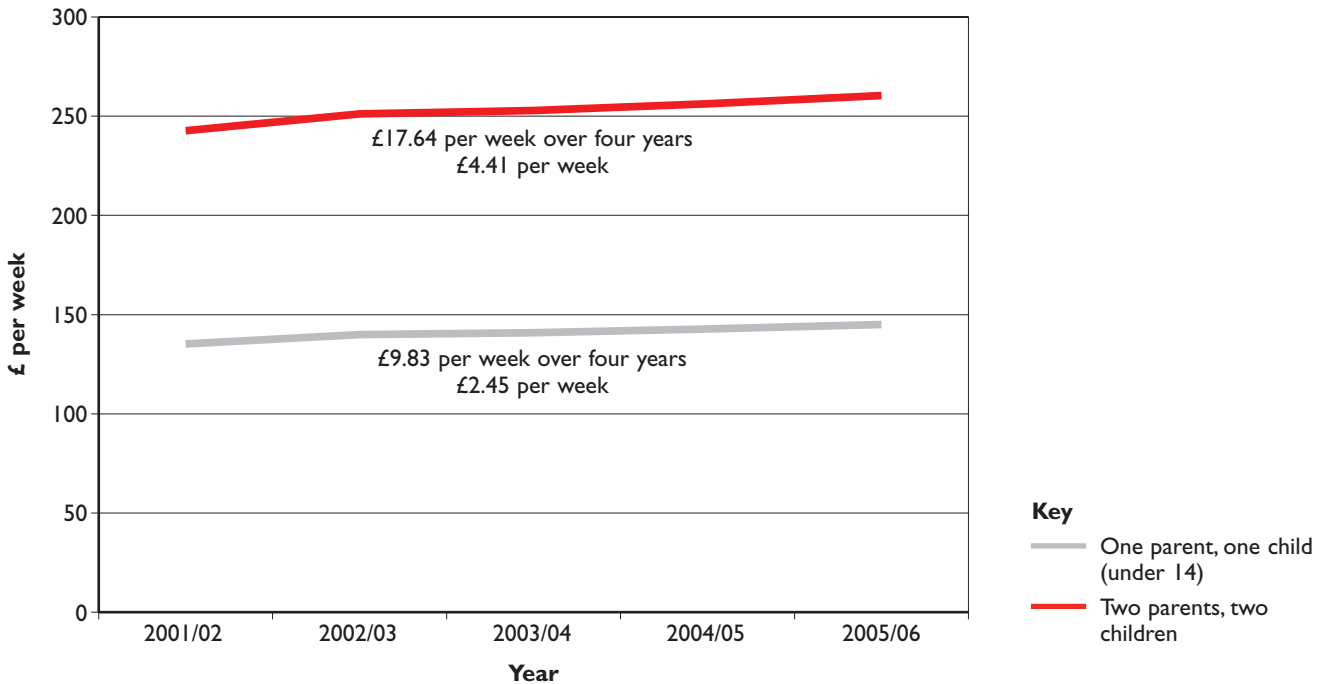
The 2007 pre-budget report is critical. The 2010 target for halving child poverty is a key staging post in the long-term commitment to eliminate child poverty. Meeting the 2010 target will give great impetus to this drive – at the same time as bringing huge benefits to millions of children and their families.

By contrast, missing the target would be a huge let-down to another generation of children that had been promised a decent standard of living and a brighter future. Save the Children believes that the government needs to act fast to get back on track to meet the 2010 target.



**Figure 3 The slow-moving poverty line**

Real terms increase in the poverty line by family type, 2001/02–2005/06



Source: Department for Work and Pensions (2007) *Households Below Average Income*

### Invest £4 billion where it matters, with at least £1 billion now

Research by the Joseph Rowntree Foundation, based on modelling by the Institute for Fiscal Studies, showed that the government would need to spend £4.5 billion extra per year – highly targeted at particular tax credits – to meet the target of halving child poverty by 2010.<sup>6</sup> After the 2007 Budget, with extra resources directed to child benefit and tax credits, the estimate is now that £4 billion a year will be needed. Realistically, the government needs to invest at least £1 billion now if the 2010 target is to be met, and a further £3bn by March 2009.

#### Seasonal grants

One element of this £4 billion investment should be seasonal grants, a lump sum payment paid at a rate of £100 per child in summer and winter, and £100 per household in winter, targeted at those in receipt of maximum child tax credit (households with children in receipt of out-of-work benefits or

the working tax credit). Seasonal grants could take 440,000 children out poverty, and meet a range of goals around deprivation, educational inclusion and fuel poverty. They are strongly supported by low-income families, and the general public as a whole.<sup>7</sup>

#### A focus on severe poverty

As evidence in this briefing has showed, the poorest households have not gained adequately in recent years. While Save the Children fully supports the headline measure of child poverty, we are also concerned with children in the most severe poverty. We think it is important that government tracks progress against a measure of severe poverty, to ensure that the policy process does not leave those who are most disadvantaged behind. Measuring severe poverty would be an important step towards ensuring that the 1.3 million children, recently identified as living in severe poverty, are not left behind.<sup>8</sup>



## Notes

<sup>1</sup> P Gregg, J Waldfoegel and E Washbrook, *Expenditure Patterns Post-Welfare Reform in the UK: Are low-income families starting to catch up?* CASE paper 99, Centre for Analysis of Social Exclusion, London, 2005

<sup>2</sup> Joseph Rowntree Foundation, *Child Poverty: Update of trends and prospects*, Joseph Rowntree Foundation, 2007

<sup>3</sup> Based on halving the number of children in poverty after housing costs

<sup>4</sup> All data unless otherwise stated is from Department for Work and Pensions (2007) *Households Below Average Income*

*1994/95–2005/06*, and author's calculations based on this data. Unless otherwise stated, all monetary values are for households with two adults and no children. Equivalisation is done using the modified OECD scale.

<sup>5</sup> This figure is based on income before housing costs, median for the highest quintile.

<sup>6</sup> Hirsch, D, *Ending Child Poverty: Firing on all cylinders*, Joseph Rowntree Foundation, 2006

<sup>7</sup> YouGov survey of low-income families for Save the Children, 2007

<sup>8</sup> Middleton, S and Magadi, M, *Severe Child Poverty in the UK*, Save the Children, 2007

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**Save the Children is a member of  
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