Welfare—Britain

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Labour's crusade

Tony Blair's government has declared war on poverty, especially among children. But poverty is almost as hard to define as it will be to eradicate

DELIVERING the annual Beveridge Lecture in March this year, Tony Blair set out the "historic aim" of his government's welfare reforms: that "ours is the first generation to end child poverty for ever...It is a 20-year mission but I believe it can be done." This week, the man Mr Blair describes as "a quiet revolutionary"—Alistair Darling, the social-security secretary—produced the government's first annual report on poverty and social exclusion.

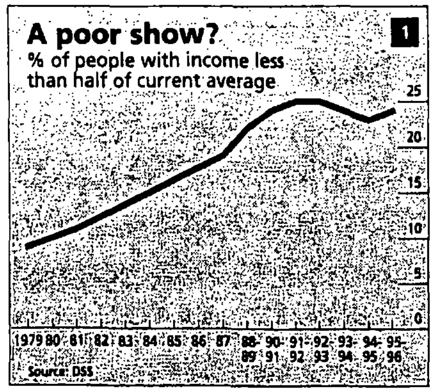
This 168-page document sets out what the government thinks needs to be done, and what its approach will be. There are, in fact, no new policies in the document: the "key initiatives" listed in it (all 49 of them) have been announced before. What is new is that Mr Darling has set out 40 indicators of poverty against which the government says it will measure its progress.

The sheer number of indicators demonstrates the difficulty of answering an apparently simple question: how many Britons live in poverty? Researchers have used a host of definitions. The most cited, by both academics and politicians, is the number of people living on less than half average income. This yields figures that are alarming to some and incredible to others. On this measure, almost one quarter of Britons were poor in 1995-96, the latest period for which data are available. No fewer than 4.6m children, or 34% of the total, lived below the poverty line. And far more Britons are poor, on this definition, than in 1979: then, only 9% of households and 10% of children lived on less than half average incomes.

Ministers are fond of this measure: Mr Darling said yet again this week that one child in three was living in poverty. The comparison with 1979—the year when Margaret Thatcher became prime minister—is especially convenient.

Nonetheless, many Britons find it hard to believe that so many people are truly poor, and that poverty has increased so dramatically. Even some eminent New Labour academics think the notion that one in four Britons is living in poverty is so counter-intuitive that it discredits the very notion of poverty. The doubters have a point. The definition measures inequality, which has certainly increased, rather than poverty. If someone on above average income gets more money, pushing the average up, "poverty" rises even if the real incomes of the poor are unchanged. This, in essence, was what happened in the economic boom of the late 1980s, when most of the rise in relative poverty under the Conservatives took place. Similarly, if a rich person loses some income, "poverty" falls.

Absolutely relative



An alternative is to try and fix a poverty line which does not change as economies get richer—enough to meet a generally acceptable definition of basic necessities, say. However, the only survey to measure poverty in this way has not been updated since 1990. But it is possible to look at the real (inflation-adjusted) incomes of the bottom 10% of the population in 1979 and now.

These figures paint a less dramatic picture. Still, they scarcely justify complacency. The incomes of the poorest 10% of the population in 1995-96 were slightly lower, after housing costs, than those of their counterparts in 1979; their income before housing costs rose a bit. "During the 1980s, despite a 40% overall increase in living standards, the absolute standards [of poverty] didn't fall," asserts John Hills, director of the Centre for Analysis of Social Exclusion at the London School of Economics (LSE). "Compare that with the 70s, the 60s, the 50s and the 40s."

In its report, the government promises to be assessed on both relative and absolute measures. Its own rhetoric and the practice of the anti-poverty campaigners mean that the more demanding relative measures are likely to be given more prominence. However, the government's 40 indicators include much more than just income levels. Ministers expect to be judged on, among other things, the length of time that households spend on low incomes, the proportion of children living in poor housing, educational standards, babies' birth weights, the numbers sleeping rough and suicide rates.

This splurge of measures reflects two things. The first is that it is impossible to find a single measure of poverty. It has many facets, and so it makes sense to collect plenty of in-

formation, most of which will be relevant most of the time. "The search for the definition of poverty is missing the point," says Andrew Dilnot, director of the Institute for Fiscal Studies, a research body. "Just as a rough index of price changes isn't going to tell you everything about inflation, a single measure isn't going to tell you everything about poverty."

Second, the government is concerned as much with future levels of poverty as with current ones. So although it is redistributing money from rich to poor, through measures such as the Working Families Tax Credit (WFTC)—due to be introduced next month—and some increases in pensioners' benefits, it is setting more store by policies which, it thinks, will have long-term effects. In particular, it emphasises the importance of work as a route out of poverty, both for parents on low incomes and for their children once they leave school.

The link between worklessness and poverty, say ministers, is clear. Since 1979, the proportion of the poor who live in households containing children and no working adults, especially one-parent families, has climbed. Persistent poverty is most acute among single-parent households: 29% of those in the bottom 30% of the income distribution in 1991 stayed there for the next five years, a higher proportion than for any other household type. The proportion of children in workless households has risen from one in 14 in 1975 to one in five now. And Britain tops the league for the share of households with children in which no one works.

According to Paul Gregg, an economist at Bristol University, the rise of the workless household is the product of a "polarisation of work" in the past 20 years. It is increasingly likely that households have either two working adults or none. Since 1975, the proportion of workless households has risen from 6% to 18%. Meanwhile, the share of households in which all adults work has also risen, from 56% to 63%.

How can this blight of worklessness be squared with Britain's much-trumpeted low rate of unemployment? Part of the answer is that the proportion of working-age men actually in work is lower than it was ten or 20 years ago, thanks to a drop in the demand for unskilled labour. Many such men do not show up in the unemployment figures, because they are not even looking for work. They may, for example, be registered as disabled—or be working in the black economy. This translates into a rise in the proportion of workless households because their wives are unlikely to work either. More than 75% of mothers of children over five years of age whose partners are in work also have jobs. Fewer than 45% of mothers with unemployed partners work.

To this must be added the effects of the rising number of single parents, among whom employment rates are especially low. Fewer than 50% of single mothers of children aged five to 11 have jobs; among mothers of those aged 12-18, the figure rises to only 60%. Again, many of those not working are not officially unemployed, because they are not looking for work.

Hence, ministers say, the WFTC, which will give more money to parents on low pay, and the New Deal, a scheme for helping the long-term unemployed into work, are at the heart of their anti-poverty strategy. For the children of the poor, education is emphasised: the poorer your family, the worse, on average, you do at school, and the worse your chances of getting a good job, or any job at all. Social policy is another strand: fewer teenage pregnancies, of which Britain has the highest rate in Western Europe, would mean fewer young, unqualified single mothers struggling to make ends meet.

Will the government succeed in eradicating poverty—however it is measured? It is worth bearing the scale of the task in mind. Although ministers are right to say that work is the key to an exit from poverty, to stay out of poverty people have to stay in work. Plenty of people move off the bottom rungs of the income ladder, only to slip back again when they lose their job or the economy turns down: to succeed, ministers will have to break this "low pay, no pay" cycle.

Furthermore, it will be many years before anyone knows whether the government's extra spending on education bears any fruit in improving work opportunities for the poorest children. And with so many measures, what will count as success? Different measures may point in different ways. It is quite likely that in the past couple of years absolute levels of poverty have decreased, simply because employment has risen, while relative poverty has not, because economic growth has meant big increases in income for some at the top.

And now that it has placed so much importance on measurement, says the LSE's Mr Hills, the government ought to brush up the quality of its data. The latest information, used in this week's report, covers a period before Labour came to office. "I don't think they'd put up with two-and-a-half-year-old information on the inflation rate." There may be time for only one more poverty report before the next election. At the current rate, it will not include the effects of Labour's flagship anti-poverty policies: the WFTC and the minimum wage, introduced in April.

Another year's data are due in the next few weeks. It is baffling that ministers did not wait to include them in this report; had they done so, the document would have been much improved. Could it be that they preferred to have a hefty document to wave at next week's Labour Party conference?

London's mayor

Archer's aim

"IF YOU'RE looking for a saint, I won't be your first choice," is one of Jeffrey Archer's favourite lines in his campaign to be mayor of London. Unkind critics (another favourite Archer phrase) might say that that was a bit of an understatement.

Although no stranger to the libel courts, the millionaire novelist is still seeking to silence charges that he lied about his academic record, fiddled his expenses as an official of the United Nations Association and improperly dealt in shares in a company in which his wife was a director. Quite apart from these matters which could be described charitably as in dispute, some of the things he has admitted to doing or happening include paying £2,000 to a prostitute he never met and being arrested on suspicion of shop-

The party likes his parties

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September 12, 1999

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ARTICLE

Child Poverty Across Industrialized Nations

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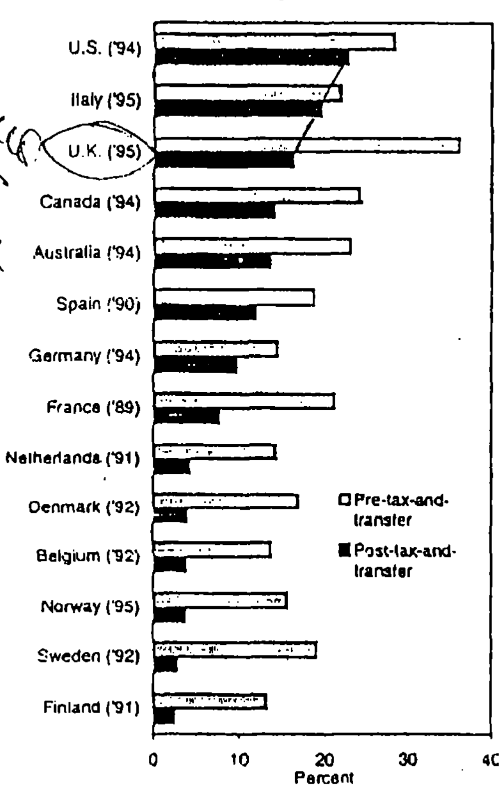
Although the official U.S. child poverty rate declined from 22.7 percent in 1993 to 19.9 percent in 1997, child poverty remains more prevalent in the United States than in many other industrialized countries. A major reason is that government support for low income families is typically more generous in these other countries. However, there is a tradeoff. More generous policies may be associated with adverse labor market effects such as higher unemployment and less job creation.

Child poverty comparisons, relatively speaking. No official international standard exists for measuring poverty, but a common approach in making cross-country comparisons is to use a relative income measure. For example, a forthcoming study examines pre- and post-tax-and-transfer child poverty rates for a number of countries using a poverty threshold based on 50-percent-of-median household income (see chart). This threshold is similar to the official European Commission poverty definition of 50 percent of average household disposable income, but the use of medians rather than averages makes the statistics less sensitive to extremely large or small incomes.

Child Poverty Rates



We should look at wha they do — the unemployment pretty low

Unlike the money income concept used in the official U.S. poverty measure, the income measure used in the study reflects taxes and tax credits (including the EITC) and near-cash transfers (such as food stamps). Like the official U.S. measure, it excludes non-cash transfers such as public housing and publicly-provided health care. The estimated U.S. pre-tax-and-transfer child poverty rate is higher than that of most of the other countries, and it is reduced only modestly through taxes and transfers. In fact, the U.S. post-tax-and-transfer poverty rate is the highest among the countries shown.

Comparing absolute living standards. One reason for the relatively high U.S. child poverty rate is that half of U.S. median income is a high absolute threshold in comparison to other countries. Other countries would have higher child

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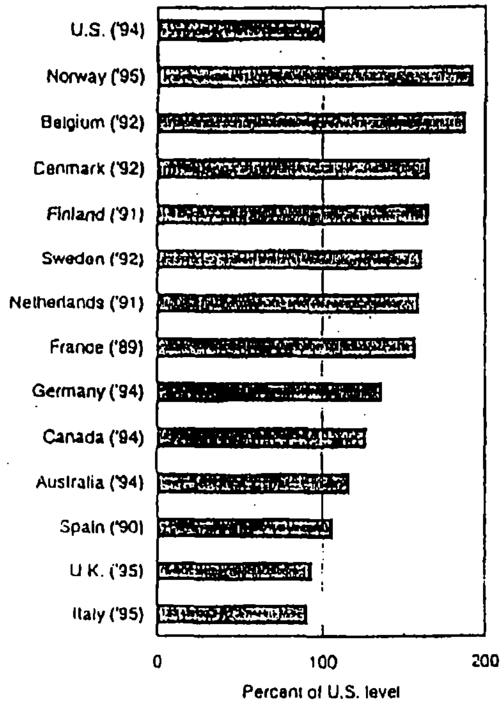
poverty rates based on the U.S. absolute threshold. A consistent measure based on the same absolute threshold does not exist. But, one available measure suggests that many poor children in the United States have limited resources relative to poor children in other countries. In particular, the chart shows that the dollar value of the household income available to the U.S. child at the 10th percentile of the U.S. income distribution is less than that of children at the 10th percentile of many other countries' distributions. Canada's level, for example, is roughly 26 percent higher than ours.

Household Income of Poor Children



Note: The chart shows the level of income at the 10th percentile of the country's distribution of children's household income as a percent of the level of income at the 10th percentile of the U.S. distribution.

Accounting for the differences. Demographic differences explain part of the story. For example, the high proportion of poor single mothers certainly raises the U.S. child poverty rate. But research has suggested that differences in demographics only partially explain the differences in child poverty rates across nations. Instead, the most important factors appear to be differences in taxes and the level of government assistance to low-income families. The United States, for example, provides less cash assistance to low-income families than most industrialized nations. Many European countries pay high levels of unemployment assistance for more than a year after people leave a job, no matter how short their period of employment. Others provide "family allowances"—special cash transfers to families with children.

Conclusion. Child poverty rates vary dramatically across nations, from less than 3 percent to more than 20 percent (using the relative measure). Differences in public policies account for a significant portion of this range. These policies, of course, come with tradeoffs: many European nations have high unemployment rates *and* low child poverty rates, due in part to their extensive system of income transfer programs. The situation in the United States is the reverse. Some poverty experts have criticized both models as being either "too expensive" (in Europe) or "too cheap" (in the U.S).