

Paper presented at the WELLCHI Network Conference 2

**Well-being of children and labour markets in Europe
Different kinds of risks resulting from various structures and changes in the labour
markets**

*Centre for Globalisation and Governance, University of Hamburg
March 31 – April 1, 2006*

Employment and child poverty in Britain¹

Alan Marsh, *Policy Studies Institute, London*

Please do not cite or quote without permission of the author

*'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'*

Tony Blair
Toynbee Hall, March 1999

Nowadays nearly all fathers work. So why is any child poor?

THE EVOLUTION OF A WORK-BASED FAMILY WELFARE POLICY

Full employment in the mid-1960s was thought to have all but abolished child poverty. Less than one in ten families with dependent children had incomes below the poverty line of half the national average, compared with three in ten today. Long-term unemployment was rare and even the relatively few lone parents then² had employment rates higher than today.

Yet by the late 1960s it was already clear that there was a problem with low-wage single-earner families, especially those with more than two children. Rising out-of-work benefits and falling tax thresholds left many such families with small difference between their incomes in or out of work. No one was comfortable with the idea that benefits given to relieve need

¹ This paper is an updated and expanded version of Alan Marsh and Sandra Vegeris 'Employment and Child Poverty' in P. Dornan (ed) *Ending child Poverty: the first five years*, Child Poverty Action Group, London (2004).

² By 1972 Britain had approximately 500,000 lone parents, a quarter of them widows, the remainder mostly divorced women with jobs.

during periods of unemployment were acting as a disincentive to work³. Just as every generation seems to have to re-discover child poverty for itself, the 1970s contemplated the return of *in-work* family poverty.

The policy response was to introduce Family Income Supplement, which added enough to the incomes of working families with dependent children to leave them a little better off in work than on benefits. Despite the manifest inadequacies of FIS, withdrawing under some circumstances £1.20 of any new pound earned and claimed by less than half those eligible, this marked the start of what has proved an extraordinary British commitment to wage supplementation.

From 1988 the deficiencies of FIS were addressed in part by Family Credit, which offered higher rates of in-work benefit and lower qualifying hours. Research showed that FC drew more lone parents into work, fitting short-hours jobs around school hours (Marsh and McKay 1993). It helped couples through temporary troughs of low income without recourse to unemployment. Take-up among eligible families rose and most families entitled to more than trivial amounts got money sooner or later.

New technology has since allowed in-work benefits to move to the Inland Revenue and evolve into the integrated tax credits introduced in stages during the past five years. These are underpinned by a National Minimum Wage, which, though set low, prevents too much of the wage subsidy finding its way to employers⁴.

Tax credits remain the Government's main policy instrument to combat child poverty by minimising non-employment among their parents. By 'making work pay', tax credits are designed to provide enough incentive to work while meeting the increasing challenge of keeping low-paid families' standards of living in touch with those of the working majority. Transitions to work are smoothed by allowances that shore up income until the first wage slip arrives. For lone parents, the new opportunity to keep the full value of any child support payments from non-resident parents was especially helpful.

Wage supplementation was the first of the three pillars of welfare-to-work policy set in place. These three are:

- *Making work pay*: in-work tax credits plus transitional benefits
- *Active case management* through New Deal programmes, including increased requirements upon unemployed two-parent families to actively seek work. In the case of lone parents, there are now mandatory requirements to receive work-focussed advice and

³ An administrative device called the 'wage stop' prevented families receiving more in benefit than they had had in wages but did not count in-work expenses such as travel. This tended only to discriminate against the unusually low-paid, including disabled parents.

⁴ It is possible to argue of course that the extension of wage supplementation to all low-paid workers has turned the NMW into a device that transfers a large part of its total cost to employers. Other advantages, though, including causing employers to value and train their workers more, and the pitiable wages still being recorded by some FC claimants as late as 1999, have won all-party support for the NMW.

encouragement, delivered through new Jobcentre Plus offices, as well as the voluntary provisions of the New Deal for Lone Parents.

- *New services.* Sure Start is a complex series of provisions to improve early child rearing practices, as a local provision. It is linked to a National Childcare Strategy to improve the supply side of the central problem of providing acceptable alternative care while parents, especially lone parents, are at work.

Pilot projects are now being undertaken to test ways to extend welfare-to-work interventions through post employment advice and assistance for people moving into work from benefit.

The remainder of this paper reviews evidence for the effectiveness of work-based family welfare policies and reflects on the continued contribution that work may make to the eradication of child poverty by 2020. The key issues are:

- Is work increasing among families with dependent children?
- Does such movement into work substantially increase income and raise families' standards of living?
- Can families remaining out of work be kept out of poverty too?

MOVEMENT INTO WORK

The growth of worklessness among British parents between 1975 and 1995 repeatedly outpaced the development of policy. Among parents in couples, worklessness was cyclical and in this period remains low. Among lone parents, the problem grew unchecked for 20 years, recovered in the late 1990s, but remains high.

Lone parents

The largest part of worklessness in households with dependent children is among lone parent families⁵. By 1991, their employment rates had fallen to fewer than three in ten working the kind of hours that nowadays attract wage supplements (16 or more hours per week). Since then, their employment rates have recovered to a little under half (48 per cent) in work of 16 or more hours a week, with a further ten per cent working part-time. More than half of this 48 per cent receive Working Tax Credits; more than three-quarters of those entering work do so.

⁵ There are more than 800,000 lone parents either not working or working less than 16 hours a week. This compares to about 300,000 out-of-work couples.

However, this apparent improvement in employment rates is tempered by the context of a rising total number of lone parents⁶. While the proportion in work and receiving wage supplements grew from 1988, the total number of lone parent families out of work and receiving Income Support also grew. It has fallen since 1997 but only back to the number seen in 1991. Fifteen years on, we still have about 800,000 women bringing up children alone on an out-of-work benefit never designed for families to live on for very long periods.

Welfare-to-work policies of increasing wage supplementation and active case management have contributed substantially to this rise in employment among lone parents (Gregg and Harkness 2003). A lone parent entering work at, say, the average of 23 hours a week at the minimum wage now receives typically as much from the Government as she does from her new employer. It is hard to see how she'd manage without it.

Nevertheless, other factors have contributed independently of policy to the rise in lone parents' employment rates. For examples:

- The economy improved generally and unemployment fell – though it may be fair to say that policy had something to do with a better economy too.
- More jobs became available that offered the kind of flexible short-hours working that lone parents welcomed because they could fit such work in around school hours.
- The lone parent population has aged. Their average age rose from 33 ten years ago to 35 today. For a group where eight out of ten fit into the 25 to 50 age band, this was a large rise.
- Being older, lone parents now have fewer children under age five (36 per cent down from 47 per cent ten years ago). In addition, the commonest school entry age fell to four years at the end of the 1990s.
- Lone parents participated in rising education levels. The proportion among them without any qualifications fell from a half to a quarter in eight years.

These changes – increasing numbers, ages and employment – have their origins in the same cause: slow outflow. Average duration in lone parenthood rose. For example, among PSI's earlier study of 900 lone parents interviewed at intervals between 1991 and 2001, only half had a new partner.⁷

⁶ Lone parents grew in numbers from 500,000 to 1.75m today, or from seven to 24 per cent of all families.

⁷ Marsh, A. and Vegeris, S. (2004) *The British lone parent cohort and their children*. DWP Research Report (in press).

Couples

Except in economic recessions, there is relatively small concern about long-term unemployment among couples with children. Their difficulties have centred instead on the adequacy of wages in work, especially for single earner couples. Family Credit improved their position and tax credits have offered more. Though still means-tested, Child Tax Credits run so far up the income distribution (to about £800 per week) that the minimum CTC rate now approaches universal entitlement. But the portion of the extra cash given for the two adults in low-paid couples (the Working Tax Credit component) is the same as that given for lone parent families, so they can feel relatively poorer.

In recent years, typically five to six per cent of couples were out of work⁸. Two thirds of these couples have at least one parent (occasionally both) who is long-term sick or disabled and about a third of them receive disability benefits. Many of the rest are out of work only a short time. Thus, probably less than two per cent of couples with children are presently longer-term unemployed in the traditional sense of seeking work and failing to find it.

By contrast, 54 per cent of couples with children are now dual earners, which is becoming the aspirational form for British families. Nearly all the rest (40 per cent) are single-earner couples but one in ten of these have the mother as their sole working partner. About a fifth of working couples that claim tax credits base their claim on the mothers' job. But quite a large number of single earner couples remained below the 60 per cent of median threshold, partly because their take-up rates for tax credits are lower than the rate among lone parents. So work may well be the best form of welfare and a families' first protection from poverty, but dual earning is a guarantee. When these trends are combined with efforts to get more lone mothers into work, it is increases in *women's* work that policy expects to raise the bulwark between a family and higher risks of poverty.

There is also among couples a strong link between child poverty and ethnicity. Pakistani and Bangladeshi couples have larger families and high rates of unemployment while those who are in work usually rely on low single-earner wages. Their incomes are so compressed that Bangladeshi families who are better off than 90 per cent of other Bangladeshi families still have incomes below the White average. (See Berthoud 2002).

⁸ Diana Kasparova, Alan Marsh, Sandra Vegeris and Jane Perry, *Families and Children 2001: Work and childcare* DWP Report No. 191 (2003) Corporate Document Services (Table 2.1, Page 32)

THE IMPACT OF WORK UPON POVERTY RATES AND FAMILY LIVING STANDARDS

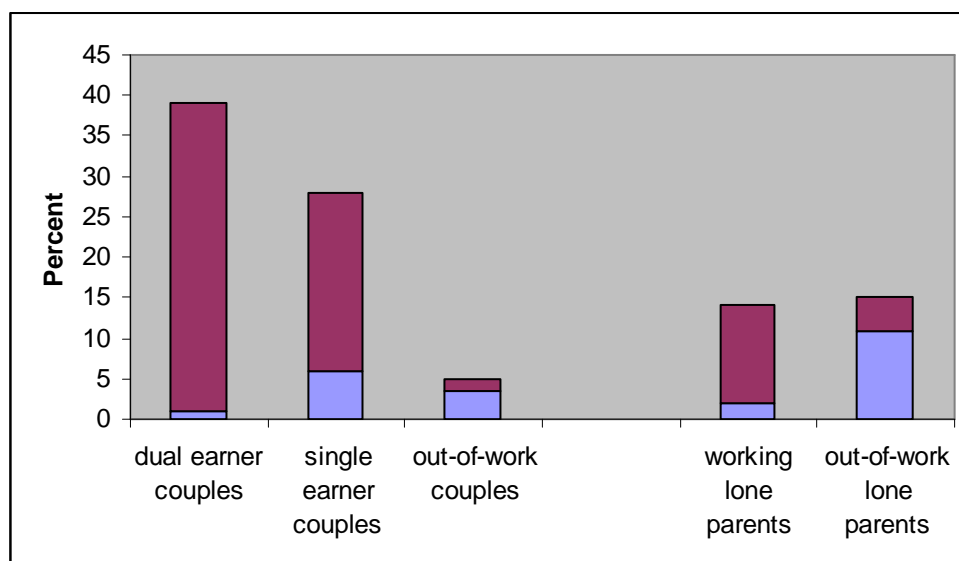
Income poverty

The Government's work-based family welfare policy now delivers £6.8 billion of *extra* money to British families each year, compared to the annual rate of subsidy in 1997. For every two pounds transferred in benefits and tax credits to families in 1997, three are transferred in 2006, in real terms. More families now work; nearly all couples and approaching half the lone parents have 'full time' jobs and about a fifth of working families now receive wage supplements whose cash value can match wages among the lowest paid. Even the out-of-work families are more than £40 a week better off in real terms. Sutherland, Sefton and Piachaud (2003) estimated that these changes and the higher entitlements to tax credits and childcare payments would lift a quarter of families who would otherwise have remained 'in poverty' above the threshold of 60 per cent of median income by 2004, meeting the Government's interim target. Brewer et al (2004) thought that the target should be met '*comfortably, measuring incomes before housing costs (BHC) and is on course to just hit its target measuring incomes after housing costs (AHC).*'

As it turned out, the latest estimates from the Institute of Fiscal Studies (Brewer et al 2006) show that the Government remained two or three percent points shy of the 25 per cent target, raising some 700,000 children out of poverty by 2004/5 from among the 1998/99 target total of 3.1 million (BHC) rather than the required 800,000. These falls in poverty rates were fastest among working families, slightly exceeding the 25 per cent target, pointing independently to the combined effects of a National Minimum Wage and improved wage supplementation through tax credits and cash for childcare. These falls were slower among non-working families at about 15 per cent for non-working couples and worse for non-working lone parents at only 8 per cent, relying as they do almost solely on sharply increased Income Support rates for younger children and above inflation rises in Child Benefit rates. Nevertheless, even among families working full time, still 13 per cent of lone parents and 21 per cent of single-earner couples remained in poverty, measured after housing costs are taken into account.

Chart One shows the present distribution of employment among British families and the proportion of each working and non-working group whose incomes fall below 60 per cent of the median equivalised income. It is far to add that these changes have been measured against fairly strong growth in median incomes over the same period.

Chart One Employment among British families and those in each working and non-working group whose incomes fall below 60 per cent of the national median equivalised income:



The five columns in Chart One sum to 100 per cent. Each column shows the proportion of *all* families who are above and below the poverty line in 2004/5. It is interesting to note that being a working lone parent carries a smaller risk of poverty than being a single earner couple. Indeed, among couples whose incomes fall below the poverty, more of them are found in work than out of work. This may reflect no more than the low rates of unemployment among couples, but it still seems hard to accept that so large a proportion of parents of young children working full time, nearly all of them working over 30 hours a week and often much longer hours, should remain in poverty. Some of this is attributable to non-take-up or under-reporting of tax credits at the time they were surveyed. Recently increased instability in the delivery of these tax credits has made this worse.

Measuring hardship

Researching changes in the living standards of families with children from year to year provides an alternative means for monitoring child poverty and the relative importance of work⁹. The Families and Children Study (FACS) includes items from which a hardship index has been constructed.

Hardship here means ‘going without’ things that most people acknowledge families should not go without and incorporates being unable to repay debt, and living in unacceptably poor housing. The index considers three dimensions of living across nine measures:¹⁰

⁹ This approach has now been incorporated into the Government's planned programme of research to measure progress towards the elimination of child poverty. See *Measuring Child Poverty* (2003) DWP.

¹⁰ For more details on the construction of the hardship index, which derives from 80 separate measures, refer to Appendix E in Vegeris, S. and Perry, J. (2003) *Families and children 2001: Living standards and the children*. DWP Research Report no. 190, Leeds: CDS.

1. **Accommodation:** The family has....

- Three or more problems with housing and is unable to afford repairs, if a homeowner;
- Lives in overcrowded accommodation;
- Cannot afford adequate heating.

2. **Finances:** The family has....

- No bank account and two or more problem debts that cannot be serviced
- Worries about money almost all the time and runs out of money most weeks.

3. **Expenditure** The family goes without.....

- food items
- clothing items
- consumer durables
- social participation (including trips out, having friends home and holidays)

...because they cannot afford them.

A family satisfying any one of these is assigned a point on the hardship index, ranging from zero to a maximum of nine. Index scores are then categorised into a summary index:

<i>SCORE</i>	<i>CATEGORY</i>
<i>0</i>	<i>'not in hardship'</i>
<i>1-2</i>	<i>'moderate hardship'</i>
<i>3-9</i>	<i>'severe hardship'</i>

The incidence of hardship.

This is a cautious, conservative measure of hardship. Thus, in 2003, 72 per cent of British families were not in hardship, 23 per cent were in moderate hardship and just five per cent were in severe hardship. However families in severe hardship were concentrated among:

- out-of-work couple families (21 per cent in 'severe hardship');
- lone parent families (16 per cent);
- families with three or more children (12 per cent); and
- ethnic minority families (13 per cent).

Since almost no one in a well-paid job registers a single point on the Hardship Index, our discussion below of the role of work in combating hardship focuses on moderate and low-income families¹¹. Table One shows the proportion of working and non-working families in severe hardship for a large representative snapshot of families over four points in time, between 1999 and 2003.

In each year, severe hardship is concentrated among the worst-off families who were out of work or receiving tax credits, as you would expect. It is worth noting here how rates of severe hardship are very similar for lone parent and couple families when their very different employment rates are accounted for.

However, work clearly helps since families on tax credits in 1999 were half as likely to be in severe hardship compared to the out of work families and those with only moderate incomes had only small risks of severe hardship.

In the three years following the 1999 survey, something quite remarkable occurred. Severe hardship almost vanished among working families - lone parents and couples alike. This was partly due to the way tax credits (compared to Family Credit in 1999) gave extra money to the lowest paid and at the same time 'captured' more families who had higher incomes anyway. However, the extra money given at the same time through higher rates of Income Support, especially for the younger children, appears to have reduced rates of severe hardship among the out-of-work families too. Among couples, it halved, so by 2002 they stood on the same point on the scale as the Family Credit couples had stood only three years earlier.

¹¹ 'Moderate and low-income families' are out of work, working and eligible for Working Tax Credits, or have a total family income 10 per cent above the point at which their eligibility for WTC runs out.

Table One: The proportion of low- and moderate-income families in 'severe hardship', by family type and work-and-tax credit status, 1999 to 2003

	1999	2000	2001	2002	2003
Lone parents					
Not working	41	37	28	26	22
Working, on tax credits	21	12	10	6	6
Moderate income	4	2	3	2	-
Couples with children					
Not working	41	34	22	21	17
Working, on tax credits	23	15	9	6	2
Moderate income	4	2	1	1	-

Source: Families and Children Study (1999-2002), cross-sectional data.

*Note: Moderate income is defined as those families with incomes just above eligibility for tax credits.

This welcome development is tempered only by the way the falls in severe hardship among out-of-work families levelled off between 2001 and 2002, leaving one in five out-of-work families still experiencing severe hardship in 2003. Given that over half of lone parent families were out of (full time) work in 2002, and their falls in hardship were smaller than for the couples, this remains a substantial challenge for child welfare policy. Hardship will remain at around this level unless out-of-work families receive substantially more cash or more of them move into work.

THE IMPACT OF ENTERING WORK

Hardship falls when families enter work. Chart two tracks families who were not in work in 1999 but who were working 16 or more hours a week by 2001. Positive shifts were seen at both ends of the hardship index – the proportion of families experiencing severe hardship fell from about 30 to 10 per cent. Correspondingly, families who avoided hardship altogether almost doubled from 27 to 50 per cent.

In greater detail, Chart three shows changes in the different measures comprising the hardship index for families who entered work between 1999 and 2001. Prior to work (1999), all but one of the factors (unaffordable heating) was an issue for more than 15 per cent of out-of-work families. After becoming a working household, hardship fell substantially on all but two of the factors.

Here the magnitude of change is not as important as the areas of change. Newly working families reported they were much more capable of meeting the costs for food, clothing, consumer durables and social participation. Fewer of these families had worries about finances or problems with debts and more could afford the costs of heating. However, issues around the costs of accommodation – overcrowding and housing repairs – did not change. As a result, hardship for newly working families transformed from a more general construct to

one focused on problems with housing. Recent trends in the housing market do not encourage a view of better housing for poorer families. Problems with overcrowding will continue unless family sizes among the most disadvantaged fall.

Chart two: The distribution of hardship scores among families when they were out of work in 1999 and when they were in work of 16 or more hours a week in 2001

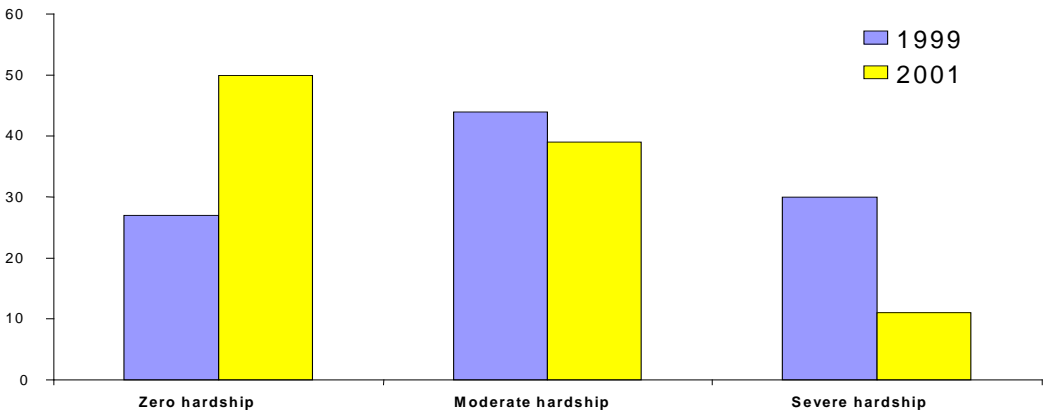
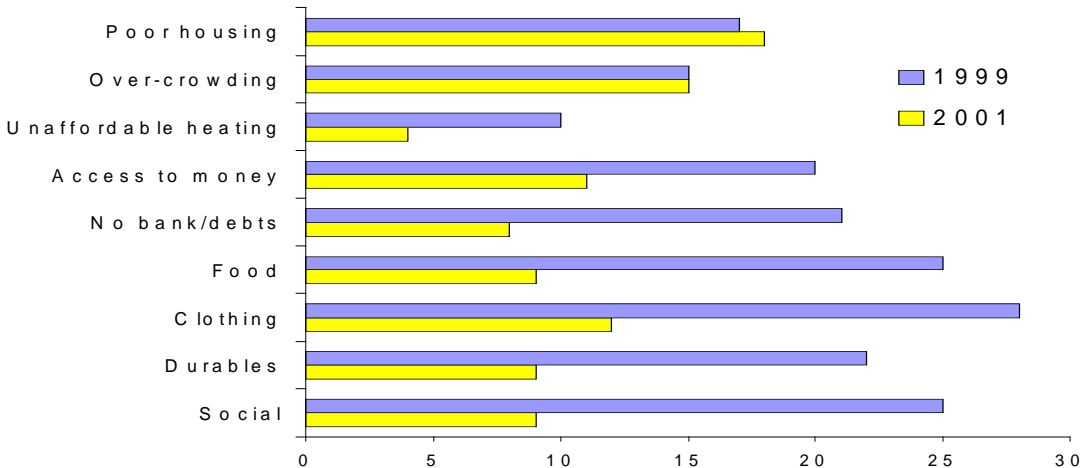


Chart three: Changes in individual measures of hardship, before and after families entered work



Source: Families and Children Study (1999-2001), panel data. Sample as above.
 Sample: Low-to-moderate income families who were out of work (or working fewer than 16 hours a week) in 1999 but who had entered work of 16 hours a week or more when they were interviewed again in 2001.

HOW MUCH MORE WORK?

Easing a minority of poor children over an arbitrary threshold and reducing hardship has not yet been too costly in fiscal or political terms. Public sympathy for Labour's project has yet to be tested by the kind of taxation required to lift those deeper in poverty over the line and keep all children above it. The IFS estimate that without extra tax-funded resources only a 'dramatic' increase in parents' earnings would meet the later targets of raising a half and then all poor children above the threshold (Brewer et al, 2002) and now there is some catching up to be done even to restore level progress..

What scope remains, then, for a dramatic increase in earnings among British parents? It bears repeating that nearly all the extra work that will increase the income available to children and remove them from poverty is extra *women's* work. And much of this will be from lone parents, whose employment rates rose only slowly, from 29 per cent in 1991 to 48 per cent working 16 or more hours a week in 2004. Given the growth in flexible-hours employment, increased wage supplements (including larger childcare payments), their increasing average age and fewer children under five, it would have been amazing - not to say alarming - if their employment rates had not risen. It is possible to be surprised they did not rise more.

Even if the numbers of lone parents go on rising, it is likely that the proportion among them in work will continue to rise. Policy has made *working* lone parenthood a viable option for all but those with the steepest barriers to overcome. Those who receive some child support payments (and half the working lone parents do) can expect a standard of living similar to that of most single-earner couples. This prospect is quite new and welcome. But this means of course that direct entry to lone parenthood by single working women is now much easier than in the past. This transition is also assisted by improved maternity rights and benefits, recently increasing paid maternity leave for working new mothers. Equally, mothers in couples may discover that an uncertain income from a husband can be replaced by increased tax credits were they to become a single parent instead. Thus more 'mainstream' families, with higher rates of employment may be drawn into spells of lone parenthood. Crucially, much depends on whether or not a mother is in work when she becomes a lone parent. Those in work will tend to stay in work.

In this light, the Government's target to put '70 per cent of lone parents in work by 2010' also begins to look challenging. If it is to embrace part time hours it may be easier to achieve; already 56 per cent work any hours. But it may make a correspondingly weaker contribution to reducing child poverty – though again the latest figures indicate the sharpest falls in poverty rates (down from 45 to 27 per cent) occurred among lone parent working part time. It also means that nearly all those lone parents who must get jobs to help the Government to its target are the ones with younger children. But we are no more likely to see 70 per cent of lone parents with pre-school children in full time work than we will see 90 to 100 per cent of the lone mothers of teenagers in work. Already, those lone parents with only teenage children

have employment rates close to those of older men (about 65 per cent). It seems hard to ask more of them, especially since those older lone parents that do not work usually have good reason. Many are unwell.

This initiative could be made stronger if more cash support were given for work below the WTC threshold of 16 hours a week than the present £20 earnings disregard. There is intuitively a case for easing lone mothers into work at lower hours anyway - this is what mothers in two parent households do. Otherwise, in order to improve their families' living standards, lone parents need to jump straight into the WTC range beyond 16 hours a week. For enough to do so to meet the 70 per cent target they will need childcare provision of Scandinavian quality and scale and about 360,000 full time jobs between them.

It is already the case that women who become lone parents *as workers* (single or married) usually stay in work. In the longer run, a policy that holds most promise for the improvement of children's living standards will begin by further strengthening women's position in the labour market, completing their integration into the labour market on equal terms with men. It may one day cease to be 'obvious' which parent supplies most of the earnings and which most of the care when children are young, even when parents do not live together. In new parental leave allowances, for example, we have the beginnings of policy that encourage balanced parenting and this may promise a lot in terms of children's long-term protection from poverty.

REFERENCES

- Richard Berthoud (2002) 'Poverty and Prosperity Among Britain's Ethnic Minorities' *Benefits* 33:10 (1)
- Jonathon Bradshaw (2001) 'Child Poverty Under Labour' in *Tackling Child Poverty in the UK: An end in sight?* London, Child Poverty Action Group
- Mike Brewer, T. Clark and Alissa Goodman (2002) *The government's child poverty target: How much progress has been made?* London, Institute of Fiscal Studies
- Mike Brewer, Alissa Goodman, Jonathan Shaw and Luke Sibieta (2006) *Poverty and Inequality in Britain: 2006* Commentary No. 101, London, Institute of Fiscal Studies
- Paul Gregg and Susan Harkness (2003) 'Welfare Reform and Lone Parents' Employment in the UK', Centre for Market and Public Organisation, Working Paper No. 03/072
- Diana Kasparova, Alan Marsh, Sandra Vegeris and Jane Perry (2003), *Families and Children 2001: Work and childcare* DWP Report No. 191 Leeds, Corporate Document Services
- Alan Marsh and Jane Perry (2003) *Black and Ethnic Minority Children and Poverty*, National Children's Bureau, London
- Holly Sutherland, Tom Sefton and David Piachaud (2003) *Poverty in Britain: the impact of Government policy since 1997*, Joseph Rowntree Foundation, York.

Sandra Vegeris and Jane Perry (2003) *Families and children 2001: Living standards and the children*. DWP Research Report no. 190, Leeds: Corporate Document Services