

# **A review of the comparative evidence on child poverty**

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## Objectives

This paper aims to review the comparative evidence on child poverty and learn lessons for the UK. It updates previous efforts of this kind (see Stewart 2005 and Bradshaw 2005). It begins with a critical review of the sources, goes on to compare child poverty rates and variations in family and other characteristics of poor children and then reviews comparative data on the policies designed to reduce child poverty. It ends with a conclusion.

## Sources

In recent years there has been a general improvement in the comparative data available on child poverty. There are basically five sources relevant to this paper:

1. The Luxembourg Income Study (LIS) can be used to compare child poverty rates in 30 countries. Data is available for five yearly periods for many of these countries from circa 1980 and for some countries including the UK from circa 1970. The LIS website (<http://www.lisproject.org/keyfigures.htm>) provides child poverty rates at 40, 50 and 60 per cent of the median, the distribution of children around those thresholds and child poverty rates by family type. The LIS data is derived from national surveys which are contributed by each country and then organised into a common framework. The LIS child poverty data for circa 2000 (1999 for the UK) has recently been subjected to extensive analysis for UNICEF by Corak and Chen (2005) and Corak (2005) including the production of the *Child Poverty in Rich Countries League Table* (UNICEF 2005).
2. From time to time the OECD asks national governments to furnish them with poverty data to a given specification. The latest version includes child poverty data for 24 countries for circa 2000 including the UK (d'Ercole and Förster 2005).
3. The main vehicle for child poverty comparisons within the EU is the European Community Household Panel (ECHP). This is used by EUROSTAT to produce the Laeken Indicator on child poverty for the EU15. The latest and last sweep of the ECHP was in 2001 (income data for 2000) and the 2001 child poverty data has been analysed extensively by Ritakallio and Bradshaw (2006). ECHP is being replaced by the Survey of Income and Living Conditions (SILC) covering the EU25 but there will be something of a hiatus in the series as countries operationalise SILC. The first child

poverty data from this source will not emerge for all countries until 2007. Meanwhile EUROSTAT has produced updates of ECHP based on national data including a comparison for most countries including the UK at 2003 ([http://epp.eurostat.cec.eu.int/portal/page?\\_pageid=1996,45323734&\\_dad=portal&\\_schema=PORTAL&screen=welcomeref&open=/&product=EU\\_MASTER\\_living\\_conditions\\_welfare&depth=2](http://epp.eurostat.cec.eu.int/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/&product=EU_MASTER_living_conditions_welfare&depth=2)).

4. EUROMOD is a simulation model for all the EU countries. The tax benefit rules for each country are linked to population surveys and the model can be used to explore the impact of policy and policy changes on, inter alia, child poverty rates (see Lietz, Sutherland and Corak 2005).
5. A number of studies have been undertaken at York to explore the impact of tax/benefit packages on model families (including poor families). A comparison of child benefits packages for 20 countries as at July 2001 (Bradshaw and Finch 2002) has been updated for eight countries to January 2004 (Bradshaw and Mayhew 2006) and fifteen countries (Bradshaw 2006a).

There are a number of problems with these data (Bradshaw 2006b):

1. The child poverty data is out of date – for most sources it is circa 2000 and the most recent EU comparisons are for 2003.
2. The measure of child poverty is very reliant on income comparisons. Of the sources listed above only the ECHP (and eventually SILC) enable a comparison using more direct indicators of child deprivation.
3. Income comparisons use thresholds which are arbitrary (50 per cent of the median in LIS and OECD and 60 per cent median in ECHP).
4. They also use equivalence scales which have little scientific basis. The Modified OECD scale is now most commonly used in ECHP and the square root of n (which is very similar) in LIS/OECD. Both are less generous to children than the original OECD equivalence scale.
5. There is a general tendency to use national relative thresholds for comparing poverty rates despite the fact that the real level of those thresholds can be very different<sup>1</sup>.

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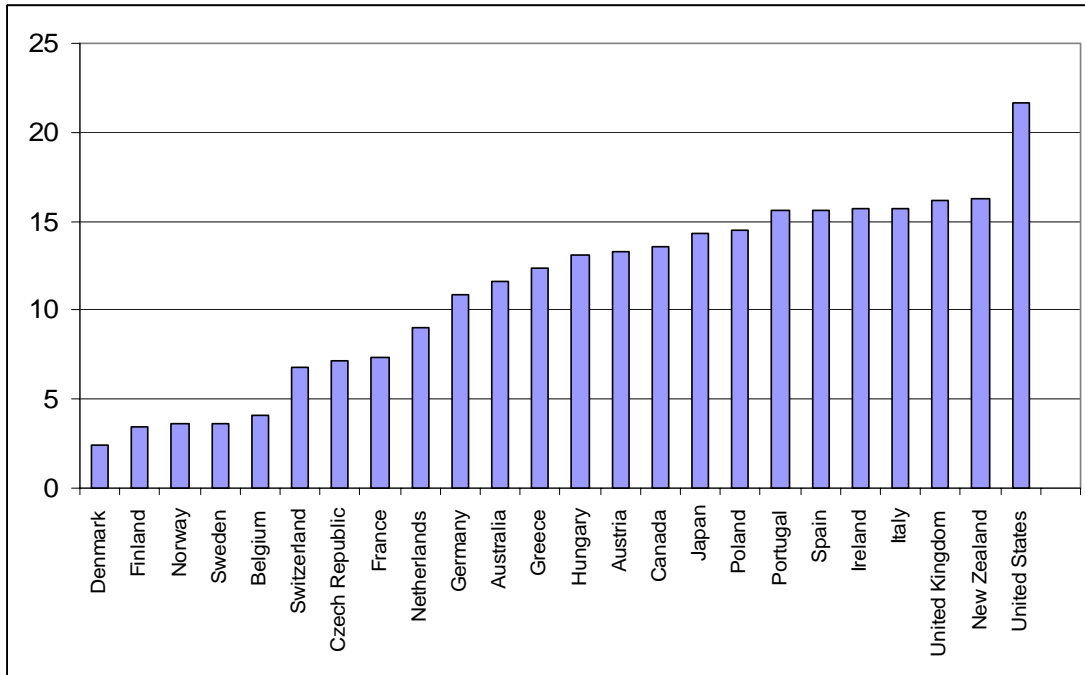
<sup>1</sup> For example 60 per cent median in the UK in 2001 was 8,702 euros per year and in Slovakia it was 5,818 euros per year. LIS uses 50 per cent of the median in its comparisons. For Mexico 50 per cent median is so low in their income distribution that it is well below the Mexico official poverty line which is based on a mere physical necessities budget standard.

## Child poverty rates

However the evidence from these sources was very influential in galvanising the government's anti poverty strategy. They knew from national sources that child poverty had increased in the UK in the 1980s and had not fallen in the 1990s. However comparative evidence demonstrated that:

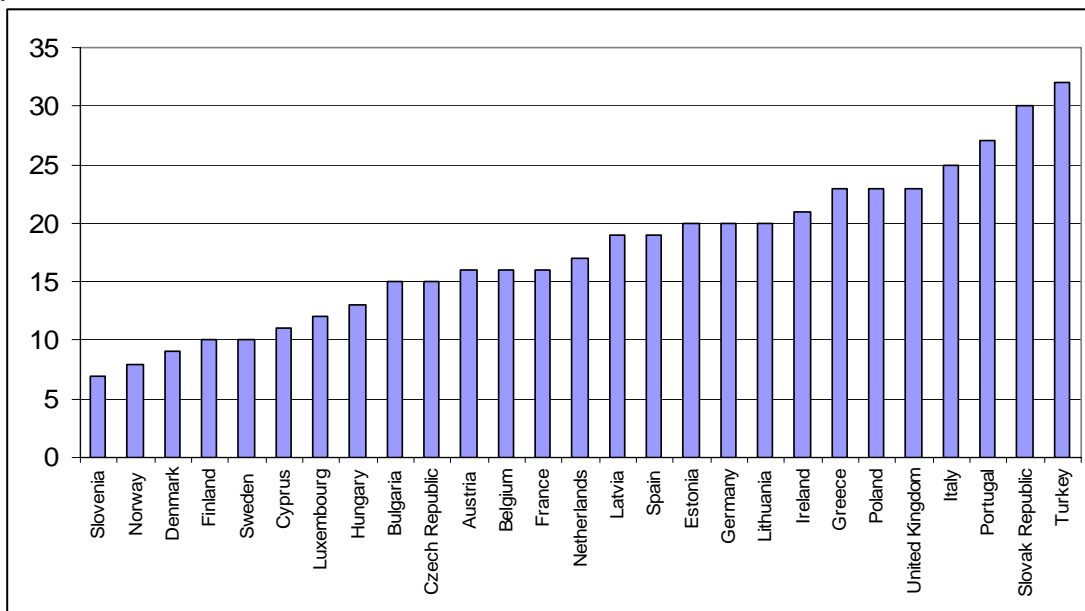
- By the mid 1990s the UK had the third highest child poverty rate out of 25 developed countries (Bradbury and Jantii 1999) - only lower than the US and Russia and very much higher than our EU partners.
- Between the mid 1980s and mid 1990s child poverty had increased fastest in the UK (Oxley *et al.* 2001). Further not all countries had experienced increases in child poverty during this period despite facing similar economic and demographic circumstances – some had achieved reductions.
- EUROSTAT data from the ECHP for EU 15 (Ritakallio and Bradshaw 2006) shows that the UK had the highest child poverty rate in the EU until 2000. The 2001 ECHP found that the UK had fallen to the fifth highest child poverty rate in the EU 15 (Ritakallio and Bradshaw 2006).
- Both OECD (d'Ercole and Förster 2005) and LIS (UNICEF 2005) data show that the UK was one of only a few countries that had reductions in their income child poverty rates over the 1990s. Figure 1 presents the league table of child poverty derived from the OECD (d'Ercole and Förster 2005) with the UK with the third highest child poverty rate.
- The most recent data from EUROSTAT for 2003 (for most countries) has the UK child poverty rate ranked at 21st equal with Greece and Poland out of 27 countries (see Figure 2).

Figure 1: OECD child poverty rates (less than 50 per cent of the median) of persons aged 0-17yrs: most recent data (around 2000)



Source: d'Ercole and Förster 2005

Figure 2: Child (under 16) poverty rates. Household income less than 60 per cent of the median



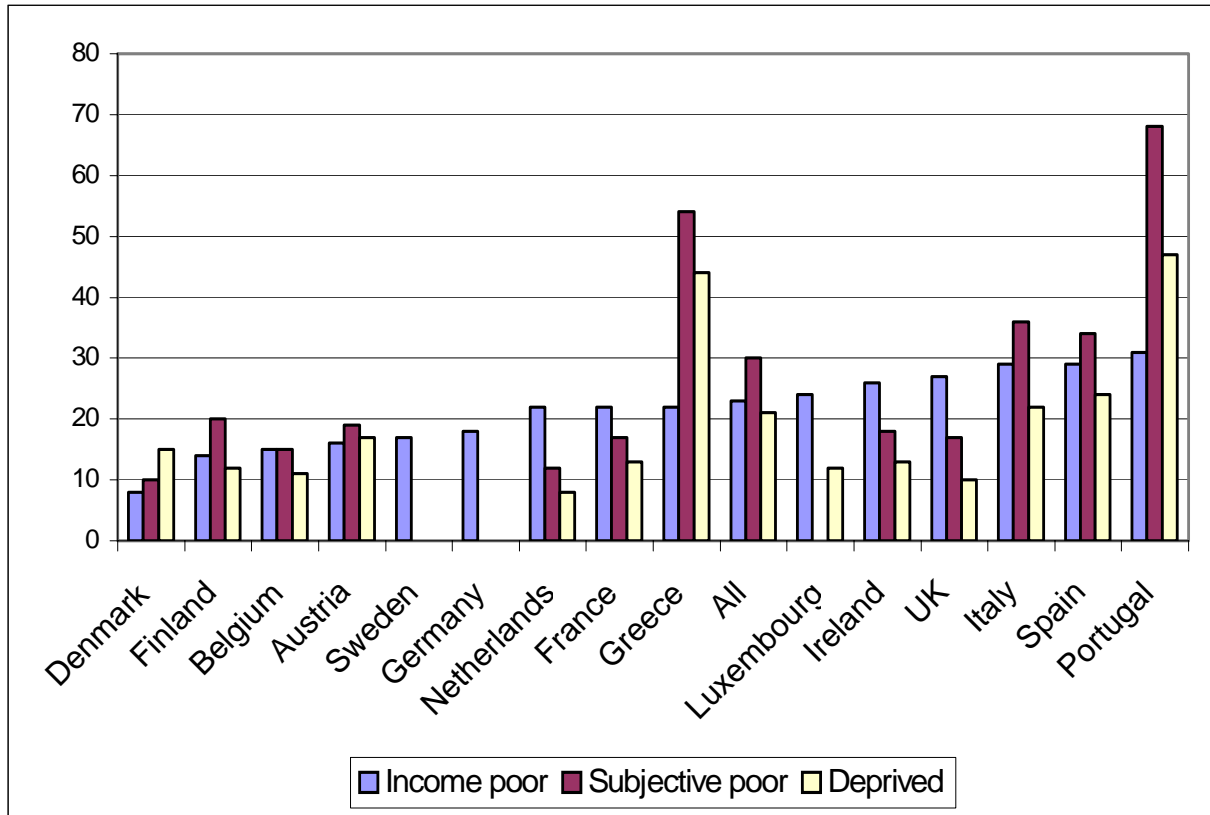
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## Characteristics of poor children

Comparative research on the characteristics of poor children can provide some insights into the types of children which are at greater risk of poverty in the UK than elsewhere. Ritakallio and Bradshaw (2006) have explored the characteristics of poor children using the ECHP.

- After Sweden the UK has the highest proportion of children living in lone parent families in the EU15.
- It also has the second highest child poverty rate (after Portugal) for lone parents.
- This is mainly because the UK has the highest proportion of children in lone parent families who are not in employment.
- The UK also has the highest proportion of all children living in workless families.
- Workless families have a comparatively high child poverty risk in the UK (third highest after Portugal and Italy).
- The UK has a comparatively high risk of child poverty in large (4+ children) families – it is only higher in France, Italy and Portugal.
- Given its overall child poverty rate the UK has a comparatively lower persistent poverty rate – children poor for all of the last three years. This perhaps indicates that there is more movement in and out of poverty in the UK than in some other countries.
- While child poverty in the UK is high when measured against relative income, Figure 3 shows that it is lower than the European average on a subjective measure (based on people's own perceptions) and in terms of deprivation (based on whether people in different parts of Europe can afford a common set of items). For example, 10 per cent of UK children and nearly half of Greek children are 'deprived' against an international material standard, even though more UK children than Greek children have family incomes below 60 per cent of their country's median.

Figure 3: Comparison of child poverty rates (% children living in poor household) using different indicators



Source: Analysis of ECHP by Ritakallio and Bradshaw (2006)

## Lessons for policy from comparative sources

There is no doubt that child poverty is to a considerable extent a function of policy. This can be illustrated in three ways.

Figure 4 shows the ‘before cash benefit child poverty’ rates and the ‘after cash benefit child poverty rates’ (in this analysis only cash benefits are taken into account so if countries are using tax benefits the impact of their transfers system is being under represented). It can be seen that the UK starts with a child poverty rate that is lower than Sweden’s. However Sweden reduces its child poverty rate by 74 per cent while the UK reduces its by only 38 per cent.



Figure 4: Child poverty rate (household income less than 60 per cent of median) before and after cash benefits circa 2003: Eurostat 2005

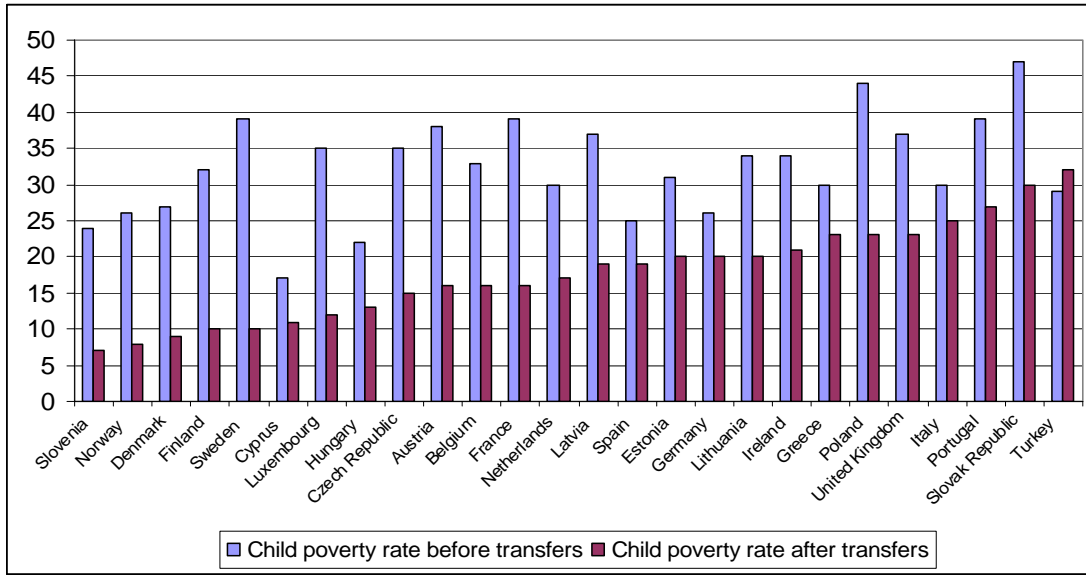


Figure 5 shows that those countries which make the most effort to reduce their 'before benefit transfer child poverty' achieve the lowest child poverty rates.

Figure 5: After transfer child poverty rate by poverty rate reduction due to transfers

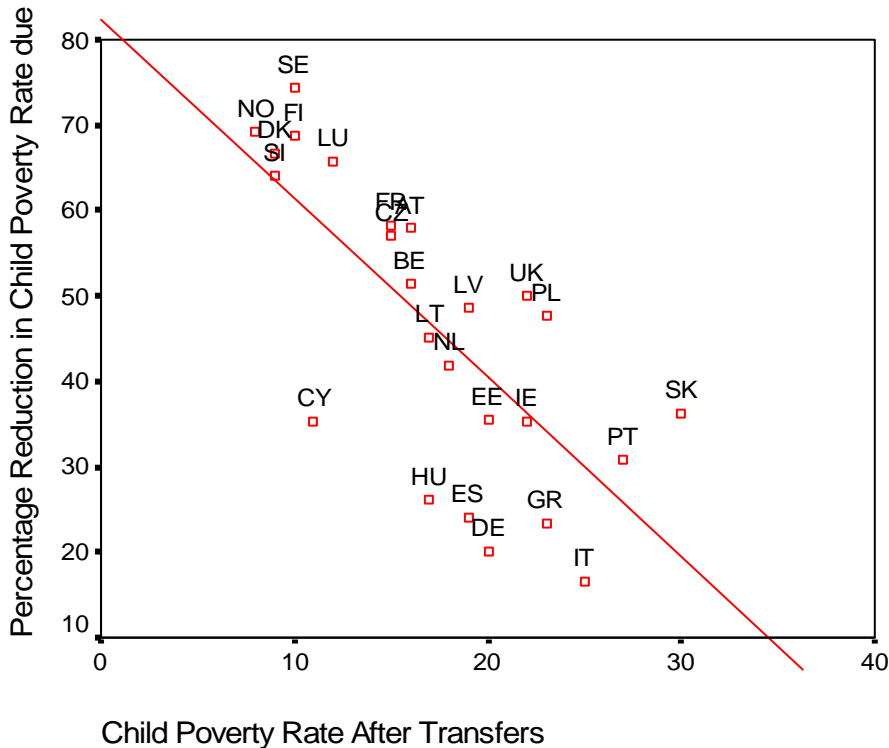
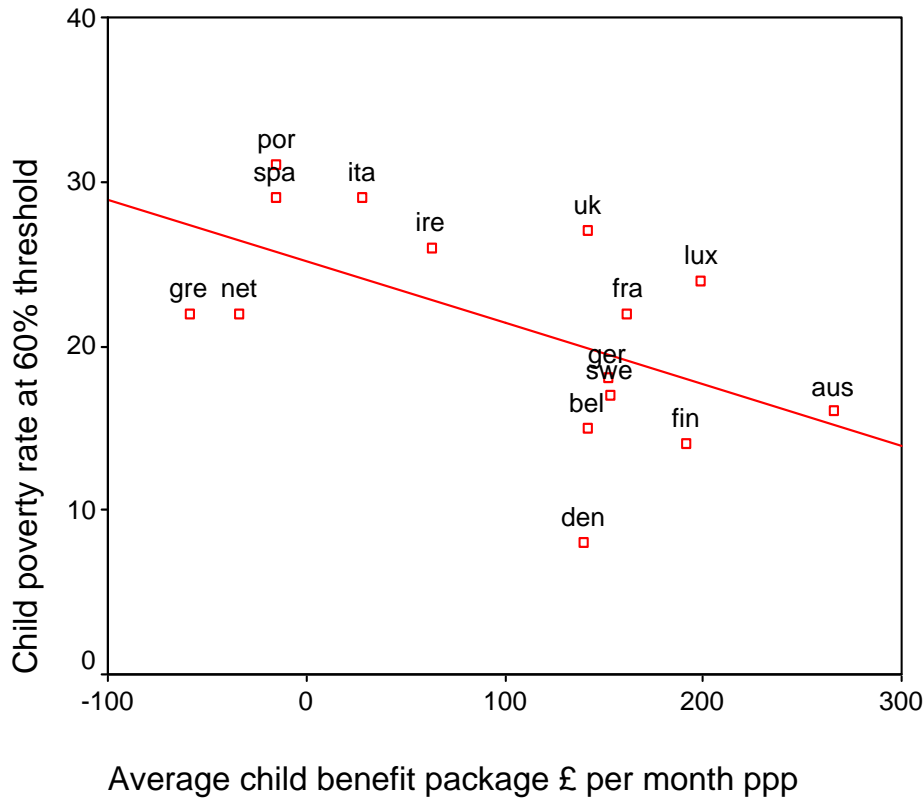


Figure 6 plots the average child benefit package in £ per month purchasing power parity derived from Bradshaw and Finch (2002) for 2001 against the child poverty rate for the EU15 for 2001. This comparison includes tax benefits and housing benefits in addition to cash benefits. Again there is a clear relationship between the two.

Figure 6: Child poverty rate by child benefit package



It can be seen in the figure above that the UK child benefit package was middling in 2001. It is also possible to draw lessons about the relative effectiveness of the child benefit package in the UK compared with those which have more redistributive clout. In July 2001 Bradshaw and Finch (2002) found that the UK package was comparatively generous to low wage earning families (because it is more income related). It is also comparatively more generous to one child families. The UK has comparatively low replacement rates and comparatively high marginal tax rates (Bradshaw, Finch and Mayhew 2005). The overall poverty reduction effectiveness of the tax and cash benefit system was undermined by the fact that child tax benefits were taken into account as income in assessing housing benefit and thus subsidies to housing costs were removed at lower incomes in the UK than in other countries (Bradshaw and Finch 2004). Also childcare costs were comparatively high even after the impact of Childcare Tax Credit.

Social assistance scales were in general lower than those in countries with lower child poverty rates.

This analysis of child benefit packages has been replicated for 15 countries (Bradshaw 2006) as at January 2004. Figures 7 and 8 give the average league table obtained. The relative position of the UK depends on whether the comparison is made as a proportion of average earnings (Figure 7) or in purchasing power parity terms (Figure 8). While the UK child benefit package has improved since 2001 and in purchasing power terms the UK package comes second after Austria in this league table, housing costs, childcare costs, and the low level of out of work benefits make our package less effective in reducing poverty than it otherwise might be.

Figure 7: Overall 'average' child benefit package after taxes, benefits, childcare and housing costs (difference from childless couple) % average earnings. January 2004

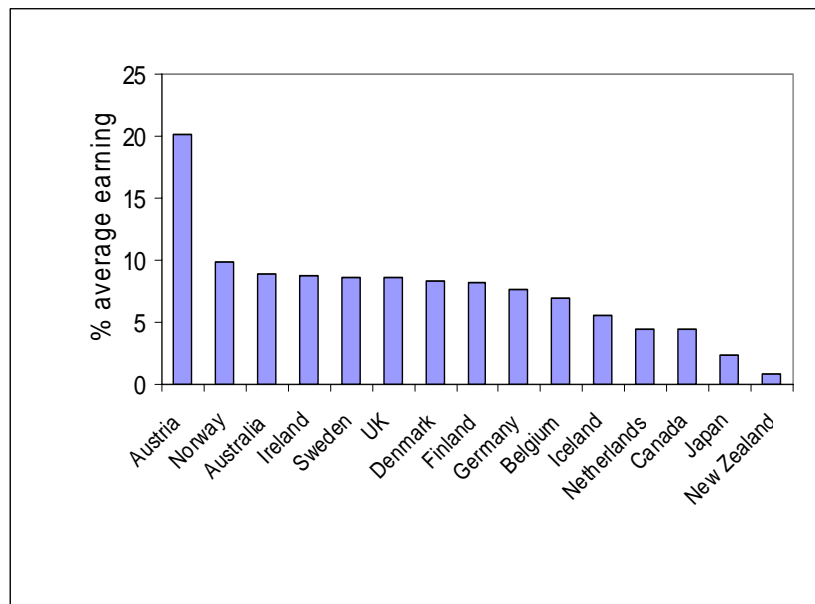
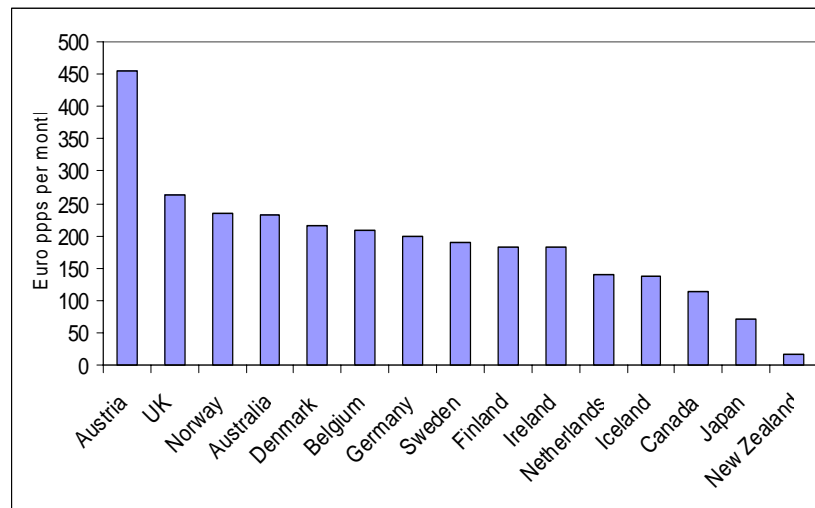


Figure 8: Overall 'average' child benefit package after taxes, benefits, childcare and housing costs (difference from childless couple) Euro purchasing power parities per month. January 2004



## Conclusion

The UK child benefit package has been much improved since 1999 as a result of child tax credits and the increases in Income Support scales for children. The package has moved the UK up the international league table as a result. Employment rates have also improved and are now at the highest levels they have been for over 30 years. This will have had an impact on child poverty rates; indeed we know from national data that child poverty rates have begun to fall. Unfortunately international comparative data on child poverty is much less up to date. The latest comparable data for the EU25 has the UK with the equal 21<sup>st</sup> highest child poverty rate out of 27 countries in 2003 – a rate more than double that of the lowest EU countries. We can expect that position to have improved since then but there is still a long way to go.

The question arises, how do the countries with very low child poverty rates achieve the results that they do? Part of an answer is definitional – to do with their underlying income distribution. Slovenia and the Nordic countries have much less unequal primary income distributions and/or more progressive tax and benefit systems – thus there are fewer people below 60 per cent of the median by definition. They also tend to have lower rates of children living in workless families than we do. This is partly a function of the spatial concentration of our high worklessness in the UK. It is also the result of the fact that we have a high proportion of lone parents with low

proportions of them in employment. The Nordic countries actually 'hide' some of their workless lone parents by generous parental leave arrangements – generous both in level and length. After that the best performing child poverty countries have child benefit systems with certain common characteristics. These include:

- comparatively generous universal child benefits, in many cases with a large families gearing
- comparatively generous out of work benefits or social assistance
- lower childcare costs
- guaranteed child support
- housing benefits that help larger proportions of families on low incomes.

This does not mean that we would have low child poverty rates if we copied their systems. It may be that our 'progressive universalism' is more effective. However these characteristics provide food for thought.

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