

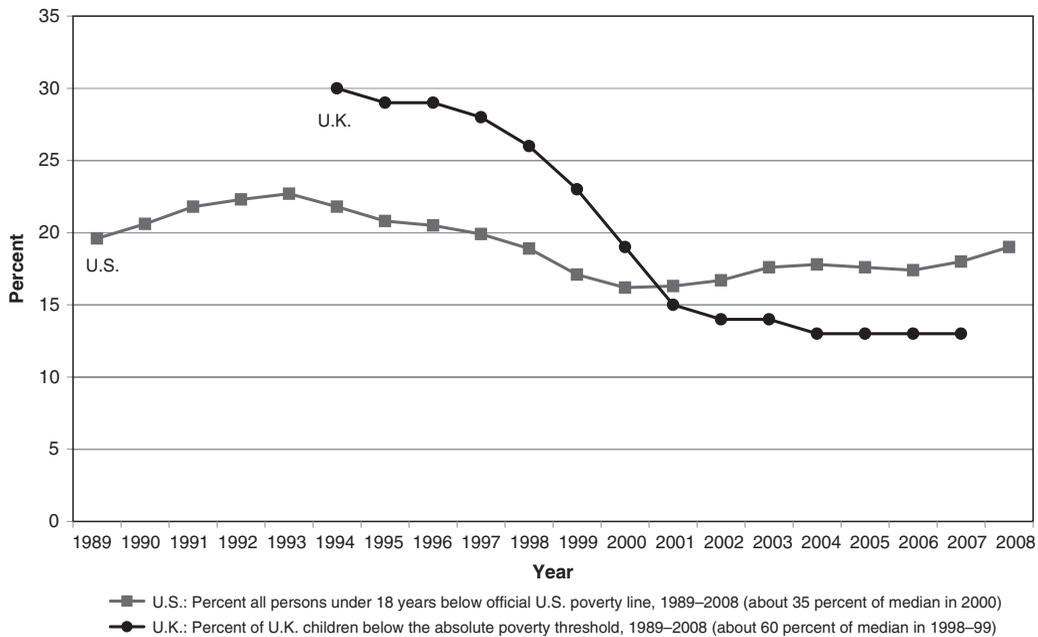
## FIGHTING POVERTY: ATTENTIVE POLICY CAN MAKE A HUGE DIFFERENCE

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International studies of child poverty usually find that the United States and United Kingdom are at the bottom of the league table in terms of child poverty (UNICEF, 2000, 2007). According to the Luxembourg Income Study (LIS), key figures (<http://www.lisproject.org/key-figures/key-figures.htm>) on the fraction of children in households with less than half of adjusted median disposable income, the United States and the United Kingdom were ranked last and next to last among 21 countries in terms of child poverty. For instance, in 1994 to 1995, the U.S. child poverty rate was 24.5 percent while the U.K. rate was 19.7 percent on this relative poverty measure (LIS key figures). These high rates of child poverty have been seen as a major cause for concern in both the United Kingdom (Bradshaw & Chen, 1997) and the United States (Smeeding & Torrey, 1988; Smeeding, Danziger, & Rainwater, 1997; Smeeding, Rainwater, & Burtless, 2001).

Indeed, the U.S. and U.K. do not fare well in international child poverty comparisons even when a U.S.-style absolute poverty line is used. Both Smeeding (2006) and Gornick and Jäntti (in press) make 11 country comparisons using the LIS data for the U.K. (1999) and the U.S. (2000), measuring poverty against the U.S. absolute poverty line (converted from U.S. dollars to other currencies using the 2005 Purchasing Power Parities compiled by the OECD, deflated to the correct year) as well as in relative terms (using the half median income definition). Because LIS measures and standardizes its incomes differently than either the U.K. or the U.S. measures in Figure 1 below, the estimates in these papers are not directly comparable. Still, in all of these standardized comparisons, the U.S. and U.K. are among the three worst-performing nations in terms of child poverty.

But the situation of low-income children in these two countries has diverged drastically over the past decade, as the United Kingdom has implemented an ambitious, national government-led antipoverty initiative, while the United States, in contrast, has focused on cutting the welfare rolls and welfare dependence in spite of high child poverty.



Source: U.S. Census Bureau (2009); U.K. Department of Work and Pensions (2009): HBAI, P73.

**Figure 1.** Absolute poverty in the U.S. and U.K. 1989–2008.

Figure 1 compares child poverty trends in the United Kingdom and the United States using almost the same type of “absolute” poverty standard: the U.S. poverty line, worth about 30 percent of U.S. median income in 1998 or 1999, and the U.K. absolute poverty line, set at 60 percent of U.K. median income in 1998/99 (the slash indicates that data come from the two years). Both estimates use a “fixed” poverty line, adjusted only for price changes across years. The U.S. poverty line is the official one used by the U.S. government and is annually adjusted for changes in the consumer price index only (for example, see U.S. Census Bureau, 2009). The U.K. poverty line, the official measure of absolute poverty used by the U.K. government, is anchored at its 1998/99 value of 60 percent of median income in that year and adjusted for prices using their consumer price index (for example, see Department for Work and Pensions, 2009). Because U.K. incomes were about 65 to 70 percent of U.S. incomes in 2000 (Munzi & Smeeding, 2008), the value in dollars of the U.K. line turns out to be a bit higher than the value in dollars of the poverty standard for the United States (0.65 to 0.70 times 60 percent is 39 to 42 percent of the U.S. median, compared with the U.S. poverty line, which was 30 percent to 35 percent of the U.S. median during the span of the middle to late 1990s).

We can see that child poverty in both nations began to fall from the mid- to late 1990s, owing mainly to strong wage growth and tight labor markets in both countries, as well as the impact of welfare reforms in the United States in the 1990s. However, the trends diverge after 1999. In March of that year, British Prime Minister Tony Blair announced his campaign against child poverty; he made a pledge to end child poverty in a generation and promised to halve it in 10 years time. He and Chancellor Gordon Brown introduced a set of antipoverty policies, designed to achieve specific poverty reduction targets, and committed real resources to them. By 2000/01, the absolute child poverty rate in the United Kingdom (around 15 to 16 percent) was about the same as in the United States measured against this similar “real” resource level. But as we entered the 21st century, and when both economies became

less vigorous, the United Kingdom continued to have policy-driven reductions in child poverty. Child poverty in the United States stopped declining and even began to increase again. The absolute poverty rate for U.K. children fell to 13 percent by 2004/05 and has remained at this level through 2007/08 (the latest period for which U.K. data are available; see Brewer et al., 2009), while the official U.S. child poverty rate was 18 percent in 2007 and rose to 19 percent in 2008, according to the most recent United States Census Bureau estimates (U.S. Census Bureau, 2009).

When Blair declared war on child poverty in 1999, 3.4 million children—1 in 4 children in the country—were in poverty (whether defined in absolute terms, as we do in the United States, or in relative terms, as is customary in the United Kingdom and Europe). How much progress was made over the ensuing decade depends on the measure that is used. Absolute poverty, which, as we have seen, is the most comparable to the U.S. measure, fell nearly 50 percent (1.6 million) by 2004 and by fully 50 percent (1.7 million) by 2007/08, as shown in Figure 1. Relative poverty (using the 60 percent of median income standard, as is customary in Europe) fell 15 percent (500,000 children) by 2004 and then remained roughly constant through 2007/08 (see Brewer et al., 2009).

Why did poverty fall more in absolute terms than in relative terms? Trends in absolute poverty reflect the effects of government policies and labor market conditions that raise incomes at the bottom of the income distribution in absolute terms. Trends in relative poverty, in contrast, are also sensitive to changes in the income of the median household, which is being used as the reference group. If real incomes were rising for the median family, as they were during this period, and if inequality of income was growing, as it was during this period, that would make it difficult to achieve reductions in relative poverty. Indeed, the U.K.'s European neighbors mainly experienced flat or rising rates of relative child poverty over this decade, while the U.K. was achieving a 15 percent reduction (Waldfogel, in press). Independent analyses by Mike Brewer at the Institute for Fiscal Studies suggest that if the government had not undertaken its antipoverty initiative, child poverty in the U.K.—measured in relative terms—would have risen substantially over this period due to these underlying changes in the economy and the income distribution (Brewer, 2007).

While the current recession has undoubtedly halted the declines in absolute poverty in both nations, the British achievement is stunning to an American audience. Also worth noting is that in the mid-1990s, low-income children in the U.K. were worse off in real terms than were comparable U.S. children (Rainwater & Smeeding, 2003), and now they are better off in real terms. Moreover, the real living standards of children also rose during this decade (Department for Work and Pensions, 2009; Bradshaw, 2003).

The reason for the absolute and relative improvements in the U.K. is that the U.K. had leaders who set a national goal of improving living standards and eradicating child poverty over the decade and matched their political rhetoric with some measure of real and continuing fiscal effort, which has already had an important and substantial impact (Bradshaw, 2003; Waldfogel, 2007; Hills & Waldfogel, 2004; Micklewright & Stewart, 2001). In Britain, Prime Minister Tony Blair and Chancellor Gordon Brown spent an *extra* 0.9 percent of GDP for low-income families with children between 1999 and 2003 (Hills, 2003). Nine-tenths of 1 percent of United States GDP would be about \$150 billion in 2008. This is about half again as large as what we now spend on the Earned Income Tax Credit (EITC), Supplemental Nutrition Assistance Program (SNAP), child care, and Temporary Assistance for Needy Families (TANF) combined, even after the American Recovery and Reinvestment Act (ARRA) stimulus spending increases. Clearly, policy investments of this magnitude can make a difference.

The U.K. antipoverty initiative was more ambitious than the U.S. welfare reforms, not just in the scale of its investments, but also in the scope of policy efforts included (see Waldfogel, in press). Like the U.S. welfare reforms, the U.K. reforms

emphasized measures to promote employment and make work pay. In fact, this part of the U.K. antipoverty program looks a lot like U.S. welfare reform—with measures such as the United Kingdom's first national minimum wage (although this is set at a higher level than in the United States and is updated more regularly for inflation); a working families tax credit, which replaced the U.K.'s prior work-based benefit program, Family Credit (similar to our EITC, but paid throughout the year); and work-oriented welfare reforms (but without work requirements for single mothers, until very recently). Together, these policies have been effective in increasing the employment rates of low-income parents, and in particular, lone mothers.

But the U.K. reforms also included two other types of policies that were not included in the U.S. welfare reforms: measures to raise incomes for families with children, whether or not parents were in work; and a set of investments in children (Hills & Waldfogel, 2004; Waldfogel, in press).

The measures to raise incomes for families with children recognize that there will always be some families in which parents are not able to work, whether temporarily or for a longer period of time, and that children in such families will be vulnerable to poverty unless the government helps provide a basic income floor. The United Kingdom, like most advanced industrialized countries, has long had a universal child benefit that goes to all families with children, though its value had lost ground over time. As part of the antipoverty initiative, benefit levels were raised substantially starting in 1999, with particularly large increases for families with young children, who were seen as being the most negatively affected by poverty. At the same time, cash welfare benefits for families with the youngest children were raised, again to address the needs of what was seen as the most vulnerable population. So these benefit increases were specifically targeted to families with young children. To further strengthen the safety net for families with children, the government also introduced a new child tax credit, targeted to lower- and middle-income families with children, but not conditioned on parents' work. Again, families with the youngest children (in this case, infants) received the largest benefit. There were also some measures to raise incomes for low-income families with adolescents. In addition to the overall benefit increases, low-income families with adolescents could benefit from the new Educational Maintenance Allowance (EMA), which provides an incentive for youth to stay on in school. And, to address shortfalls in assets for young adults, the government introduced child trust funds, which children could access when they became adults.

Investments in children were also emphasized. These were primarily intended to address the intergenerational effects of poverty and to reduce poverty in the next generation, but likely also contributed to current poverty reductions by, for example, providing more support for child care for working parents. The period of paid maternity leave was doubled to 9 months (and with the goal of extending it to 12 months), and paid paternity leave (two weeks) was introduced for the first time. As part of a national child care strategy, universal preschool was rolled out, first for 4-year-olds and then for 3-year-olds. Schools were also directed to become "extended schools," opening their doors to provide before- and after-school care. Child care assistance for working families was expanded, and legislation was enacted making clear that local authorities had a responsibility to provide adequate child care for those families wishing to use it so that they could work. Parents with young children were given the right to request part-time or flexible work hours, a right that is now being extended to parents with older children as well. Infants and toddlers in the poorest areas benefited from a comprehensive new program, called Sure Start, along with new preschool programs for disadvantaged 2-year-olds.

The program of investments in children also included a series of measures to improve education, again with the goal of reducing poverty in the next generation. Class sizes were reduced in the primary grades and additional teachers and teacher aides were hired. National literacy and numeracy strategies directed teachers to

spend at least an hour a day on reading and an hour a day on math. A decade on, not only had test scores risen, particularly for primary school students, but gaps in achievement between low- and high-income children had narrowed. Later efforts focused on older children, through improvements in secondary schools and measures to persuade more young people to stay in school (including, in addition to the EMA, already mentioned, legislation to raise the minimum school-leaving age), and progress has been seen there as well. The education changes have not come cheap—spending on education doubled over the decade in real terms—but Blair and Brown saw the connection between their country's poor performance on educational league tables and its poor performance on poverty league tables. They reasoned that if they were to reduce the risk of poverty for the next generation, they would have to address the problem of low skills and attainment for the current generation of low-income children.

Together, these antipoverty initiatives—the measures to promote work and make work pay, the policies to raise family incomes, and the investments in children—reflected a very sizable increase in spending on children, with the additional benefits disproportionately going to the lowest-income children (and, as noted, often to the youngest in that group). By April 2010, the average family with children will be £2,000 per year better off, and families in the bottom fifth of the income distribution will be £4,500 per year better off (HM Treasury, 2008).

As discussed earlier, these income gains have resulted in meaningful reductions in child poverty, particularly when measured on a U.S.-style absolute poverty line. They have also been reflected in reductions in measures of material hardship (Brewer et al., 2009), increased expenditures on items for children (Gregg, Waldfogel, & Washbrook, 2005, 2006), and improvements in child well-being (Waldfogel, in press). At the same time, analysts have found little to no evidence of undesirable effects of the expansions in terms of promoting unwed fertility or discouraging work (see review in Waldfogel, in press).

The current worldwide financial crisis and economic downturn has posed challenges for the antipoverty initiative, but the U.K. government remains committed to pursuing it. During 2008 and 2009, they commissioned several reviews of antipoverty policy, and they are continuing to look for new ways to address child poverty, with particular attention to “innovative policy approaches for the next decade that address the fundamental causes of poverty and will have a long-term and sustainable impact” (HM Treasury, 2008). They have also filed legislation (in June 2009) committing the government to eradicate child poverty. These efforts will be worth watching in the coming years.

## IMPLICATIONS FOR U.S. ANTI-POVERTY POLICY

Clearly, the United Kingdom set itself an ambitious agenda when it declared a goal of halving child poverty in 10 years and ending it in 20. Yet, 10 years into their initiative, they have more than achieved their interim goal, if poverty is measured on a U.S.-style absolute poverty line, because of both fiscal effort and persistence. Moreover, they intend to continue to work on the problem and are planning on further reductions. Both the Labour and Conservative parties have expressed support for this goal (see discussion in Waldfogel, in press).

In the United States, 17 states and several cities (such as New York City) have adopted child poverty reduction goals (Levin-Epstein & Gorzelany, 2008; see also the articles on New York City and Connecticut in this issue). At the federal level, while there has not been a statement of a national commitment to end (or reduce) child poverty, some of the measures to address the current recession will have an antipoverty effect, but more must be done. The 2009 ARRA increased the EITC, refundable child tax credits, and food stamps, and extended unemployment insurance,

but only for the next two years. Cash assistance, in contrast, did not increase through the end of 2008 (DeParle, 2009).

A more concerted national effort will be needed if the United States is to achieve anything like the United Kingdom. The United Kingdom has shown it is possible to reduce child poverty in a meaningful way, if you have the political will to stay the course. Will the United States show as much resolve? Stay tuned.

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