

MEDIA BRIEFING: Budget 2009

Introduction

CPAG quote - *"The Government is on track to have lifted over a million children out of poverty by 2010, but must reach another 700,000 to keep the promise to halve child poverty. The toughest part of reaching the 2010 target is done and the final step must now be taken."* Kate Green, Chief Executive of Child Poverty Action Group.

The dramatic downturn in the UK and global economies over the last 12 months calls for strengthened political resolve to end child poverty.

- The poorest families urgently need targeted investment to protect their family security and the future economic security of the UK.
- Most of the action has been taken – a final and affordable step is all that is needed.
- All 3 main parties are committed to ending child poverty and support the importance of measuring relative poverty.

CPAG's headline budget calls

CPAG is united with over 150 organisations in the Campaign to End Child Poverty in calling for commitments to:

- Invest at least £3 billion through benefit and tax credits to complete progress towards the 2010 target of halving child poverty.
- Raise benefit levels to alleviate poverty for families losing jobs or unable to access work.
- Provide an effective targeted stimulus for the economy using investment targeted to low income families who will immediately spend in their local businesses.

CPAG is also calling for measures focused on the additional contribution the better off can make to ensure the investment is affordable and fiscally sustainable.

Public support exists for increasing taxes on the high-earning low-tax elite so they contribute fairly towards the tremendous challenge the nation must face together:

- Reverse the inheritance tax cut for the richest estates, saving taxpayers an estimated £1.4 billion in 2010/11. We can no longer afford this change and it will actively undermine social mobility by increasing wealth disparities.
- Go further and faster with the top rate of income tax. A 50 per cent income tax rate on earnings over £100,000 (which is four times typical earnings) could raise £7.9 billion.
- Make pension tax relief fairer. Tax relief on private pensions costs the UK £17.5 billion each year, over half of which goes to those paying the upper rate of tax. It

constitutes a large subsidy to richer taxpayers. Pension tax relief should be capped at the basic rate for all taxpayers.

CPAG quote - *"Family security and economic security are two sides of the same coin, so families must be an urgent priority in the Chancellor's Budget. The promise to end child poverty was made by all parties for good times and bad. Unless the Chancellor urgently provides a targeted economic stimulus to protect families, we will repeat the mistakes of the 1980s recession when poor families were hung out to dry leaving a legacy of intergenerational poverty that still costs us today."* Kate Green, Chief Executive, CPAG.

CPAG has also made a detailed submission in a letter to the Chancellor of the Exchequer, which will shortly be published here:

http://www.cpag.org.uk/info/briefings_policy/CPAGbudgetltr140409.pdf

Party commitments

Labour

- The Labour Government introduced targets to halve child poverty by 2010 and end child poverty by 2020 with Cabinet Ministers continuing to state their firm commitment to both targets.
- *"Child poverty is a scar on the soul of Britain"*
Gordon Brown, 1 March 2008
- **CPAG quote** – *"Gordon Brown was right to say child poverty is a scar on the soul of Britain. Without investment right now to protect family security, the scar will grow. It was a culture of inequality and greed that led us into the recession, it is only a culture of fairness with an end to poverty that will lead us back to enduring economic security."*

Conservatives

- David Cameron has committed to the aspiration of ending child poverty by 2020.
- *"Today, I can confirm that David Cameron's Conservatives are committed to the government target of ending child poverty by 2020. It is an aspiration, not a pledge, because we do not know how far from it we will be when we enter government."*
Oliver Letwin, April 11, 2006
- *"We can end poverty – I mean it!"* David Cameron, 1 May, 2008
- **CPAG quote** - *"When David Cameron said, 'we can end poverty, I mean it' he challenged voters to test his credibility. The time has now come for him to prove his resolve and put support for struggling families at the heart of his party's calls on the Chancellor."* Kate Green, Chief Executive, CPAG.

Liberal Democrats

- The Liberal Democrats adopted the 2010 and 2020 targets at their 2007 conference.
- *"Children should be free to realise their aspirations and not be held back by the circumstances of their birth."*
Nick Clegg, 2 January 2008
- **CPAG quote** – *"Nick Clegg's commitment to ending child poverty must be given force by his party's clear support for action in the Budget to end the culture of*

inequality that leaves Britain amongst the worst European countries for child poverty.” Kate Green, Chief Executive, CPAG.

Measuring child poverty

- The Government uses a basket of measures for child poverty, looking at relative low income (the headline measure), persistent poverty and material deprivation.
- The headline poverty measure is 60% of medium household income (equivalised for household size).
- The official measure tracks progress before housing costs, because international comparisons are available. Campaigners often quote after housing costs figures as this gives a better indication of disposable income, which is a clearer indication of the lived experience of poverty. Currently there are 2.9 million children in poverty measured before housing costs and 3.9 million children in poverty after housing costs.
- More information on UK poverty stats can be found here:
<http://www.cpag.org.uk/povertyfacts/index.htm>

The Poverty line

In 2006/07 the poverty line - the amount of money below which, after adjusting for size and composition of household and after housing costs, a family was characterised as poor was as follows:

- £231 per week (£12,012 per year) for lone parent with two children aged 5, 14
- £312 per week (£16,224 per year) for couple with two children aged 5, 14

Progress so far

Since the baseline year for the Government’s target, child poverty has fallen by 600,000.

	Millions	% of children
Baseline year: 1998/99	3.4	26
Latest figures: 2006/07	2.9	22
Current estimate: 2010/11	2.4	-
<i>Target for 2010/11</i>	<i>1.7</i>	<i>-</i>

Source: HBAI 1998/99-2006/07 (rounded figures before housing costs)

Child poverty and the recession

As we enter recession, most financial crisis meetings are taking place not around boardroom tables, but kitchen tables. The principal effects of the recession on child poverty will be:

- An increase in the number of workless households below the poverty line due to job loss.
- An increase in material deprivation, due to both job loss and cuts to working hours, leaving millions of low-income families facing a harder daily struggle to get by.
- A possible decrease in median income, and therefore a slight lowering of the poverty line. (While some families closest below the poverty line may therefore become just above the line, any reduction in the headline count is expected to be offset by those families moving into poverty due to job loss.)

Child poverty and economic stimulus (see appendix for full analysis)

While a major untargeted fiscal stimulus is not expected in the Budget, leading voices recognise targeted stimulus may be necessary, including the Governor of the Bank of England, Mervyn King, who warned MPs against a major round of fiscal expansion, but argued:

- *“That’s not to rule out targeted and selected measures that may find those areas... that can do some good.”* Mervyn King (Treasury Select Committee evidence, 24 March, 2009)

A new analysis commissioned by CPAG shows how cost effective investing in low income families can be both to tackle poverty and to inject demand to protect jobs:

- It has an economic stimulus effect estimated to boost the UK economy by £1.60 for every £1 invested;
- Investment in tax and benefits is progressive, helping close the costly inequality gap;
- Targeting on those with the lowest incomes means money is more likely to be immediately spent in the economy, which gives significant support to jobs; and
- The Government recoups a significant proportion in taxes, leaving the net spend up to a third lower than the initial spend.

Groups at greatest risk of poverty

Although **the average risk of a child being poor in 2006/07 was 22% (before housing costs) and 30% (after housing costs)**, the risk for different groups of children varies greatly according to family type and circumstances.

Risk of children living in poverty, UK

	Before Housing Costs (%)	After Housing Costs (%)
In receipt of Income Support	55	76
Lone parent	37	52
Workless households	63	81
Three or more children in family	33	42
One or more disabled adults and no disabled child	33	41
Pakistani/Bangladeshi ethnicity	55	63
Black or Black British ethnicity	31	48
Local authority tenure	47	61

Source: HBAI 2006/07

CPAG’s full manifesto, published in March 2009, can be linked to here: <http://www.cpag.org.uk/manifesto>

Appendix: Illustrative example of the fiscal impact of increasing benefits and tax credits

To understand the stimulus implications of increasing benefits and tax credits, CPAG commissioned the Institute for Public Policy Research (ippr) to analyse the implications of investing in tax credits and benefits. This analysis was done using ippr's tax-benefit model. Additional analysis was undertaken by Howard Reed of Landman Economics. This appendix summarises their work. Government will be thinking through the implications of any particular move; this appendix summarises a model of work which shows the possible economic and distributional implications. This is exploratory work, intended to be illustrative of the effects.

Three tests have been suggested for so-called 'fiscal stimulus', that it is timely, targeted and temporary. Investing in benefits and tax credits clearly meets the first two tests: it is fast to apply and it is targeted on those who, by definition, need to spend it the most. We answer the third point by suggesting that increased spending on tax credits and benefits be matched by subsequent progressive tax changes.

The ippr and Landman Economics work is exploratory. Both models (presented below) are estimated to reach the 2010 target. We present these models here to illustrate probable effects. CPAG and other organisations have been calling for investment of £3 billion in benefits and tax credits to help meet the 2010 target. The models presented here help to explain where the economic and distributional effects of such a policy could fall.

The models show that spending through tax credits and benefits is strongly progressive, and because it benefits lower income families most, the stimulus effects are strongest.

The models

Two models are presented for illustration purposes:

- Model 1 is a mix of increases in Jobseekers Allowance (from current main rate £64.30 per week to £75); Child Benefit (currently equalising the weekly rates at £20); and increasing the per child element of child tax credit (by 18%);
- Model 2 increases the per child element of child tax credit (by 32%).

The distributional effect

The distributional effects of both models are laid out in the charts (where the effect falls by tenth of the population). For comparative information the effect of the VAT change is also plotted on each chart. The charts show that each model is very well targeted on lower income families. The difference between the first and second deciles in terms of both child benefit and child tax credit is because children fewer children are found in the very poorest decile.

Chart 1: Model 1 distribution effects

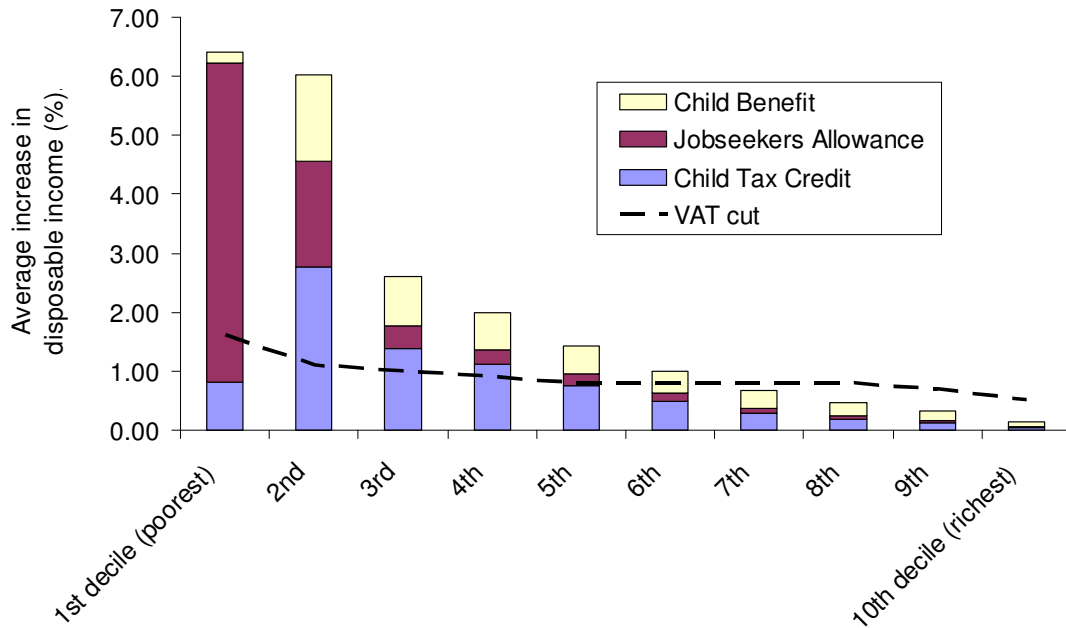
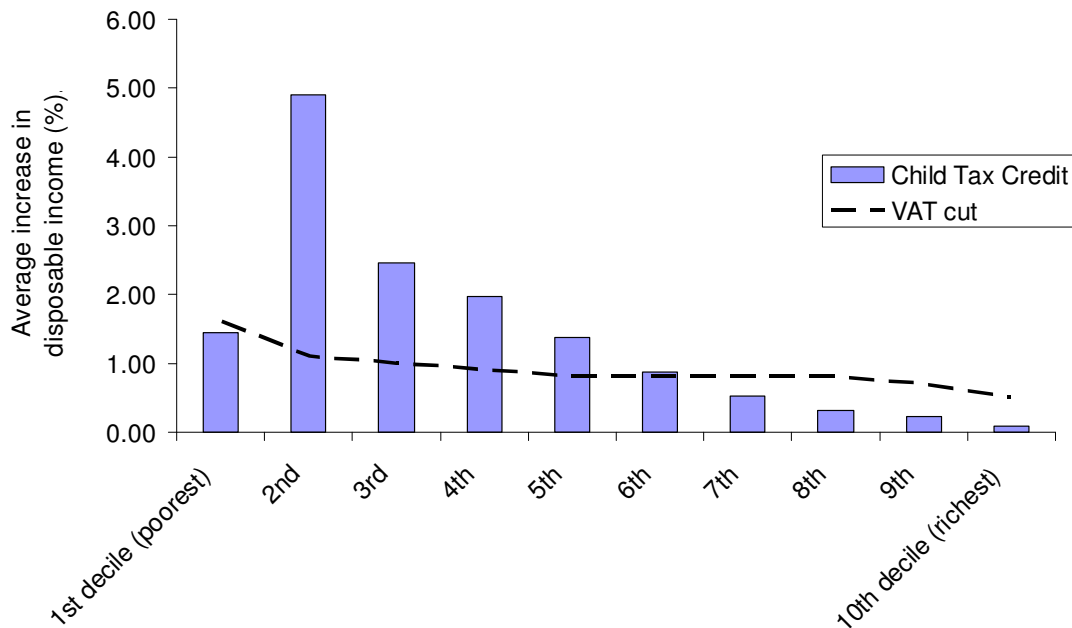


Chart 2: Model 2 distribution effects



Source: original analysis by ippr and Landman Economics; VAT data is taken from a Parliamentary Question answer (Stephen Timms MP), 12 March 2009

The economic impact

This section estimates the possible economic effects of spending through benefits and tax credits using the models described above. These estimates are illustrative make the following assumptions:

- Multiplier effect. This expresses the cost effectiveness of the measure, in terms of the impact on local economies. The assumption here is that for each pound invested the economy benefits by £1.60 (as money is spent more than once).

This is based on empirical work from the New Economics Foundation¹ but is also borne out by separate US evidence² (albeit in a very different economy). The multiplier will be higher for benefits spending than for tax cuts because those receiving it are the most likely to need to spend (see charts above).

- Tax take. Any fiscal stimulus, by increasing demand would also be subject to tax which reduces its real costs. Based on the level of indirect and direct taxation combined, this assumes 40% of any fiscal stimulus will be returned in tax.³
- Job creation effects. Based on a national assumption of GDP divided by the number of jobs in the economy this assumes that an additional £48,000 of demand creates one job.

Model estimates

	Model 1 (increase a combination of jobseekers allowance; child benefit and child tax credit)	Model 2 (increase child tax credit)
Gross cost of the package	£6.8 billion	£4.9 billion
Total size of the fiscal stimulus (including the multiplier effect)	£10.9 billion	£7.8 billion
Increased taxes from job creation	£4.4 billion	£3.1 billion
Final (net) cost of package	£2.4 billion	£1.8 billion
Job creation effect	227,000 jobs	163,000 jobs

¹ I Jackson and G Pugh, 'The regeneration effects of "fair wages"', Staffordshire University, New Economics Foundation and UNISON, 2005. This study looked at the regeneration implications of increases in care workers wages. It also quotes other local studies which suggest similar multiplier effects.

² See D Elmendorf and J Furman, 'If, When and How: A Primer for Fiscal Stimulus', The Brookings Institution, 2008. This study also compares the multiplier effects of investing in tax cuts, infrastructure spending and benefit increases and finds benefit increases significantly more cost effective in increasing demand.

³ Which assumes a tax back of about 40% of any additional demand (both in employment and consumption taxes)