The impact of austerity measures on households with children [1]

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Full report in pdf [2]

Executive Summary:

This paper examines the prospects for incomes and poverty rates among households with children between 2010 and 2015 and attempts to isolate the impact of tax and benefit changes on household incomes, and on the incentives for parents to do paid work and to increase their earnings slightly.

We find that the median (middle) income among households with children is set to fall in real terms by 4.2% between 2010-11 and 2015-16. This is greater than the projected fall in overall median income for this period of 0.9%. Median income is projected to fall by more than 4.2% among families with three or more children, households with young children and those living in private rented accommodation, and less than 4.2% among single-child households, those whose youngest child is aged 11 or more and those who own their home outright.

Relative child poverty is set to increase between 2010-11 and 2015-16 by around 400,000, and absolute child poverty (as defined in the Child Poverty Act (2010)) will increase between 2010-11 and 2015-16 by around 500,000. Again, poverty rates particularly increase among families with three or more children, households with younger children and those living in private rented accommodation, all of which are groups with above average levels of child poverty. As poverty rates particularly increase among large families, both the absolute and relative poverty rate among Pakistani and Bangladeshi children increases by more than 5 percentage points.

Tax and benefit changes to be introduced during this period are one factor driving these trends. The cap on the total amount of benefit families can receive to be introduced in 2013-14 particularly impacts large families. Reforms such as the abolition of the baby element of the Child Tax Credit and the reduction in the generosity of the childcare component of the Working Tax Credit particularly affect families with younger children, and cuts to Local Housing Allowance only affect those in the private rented sector. Overall, low-income households with children, particularly non-working lone parent households, lose more as a percentage of income on average from tax and benefit changes to be introduced over this period than pensioners, those of working age without children and richer households with children.

The introduction of Universal Credit partly offsets these trends. The biggest winners from its introduction are single-earner couples. Households with children that are in rented accommodation particularly benefit from its introduction, so much so that once this is in place they will no longer lose more from these reforms, on average, than home owners. Poorer households with children (who also tend to have more children and younger children) also benefit from the additional expenditure. Existing claimants of benefits and tax credits will gradually be transferred to Universal Credit between April 2014 and March 2018.

Tax and benefit changes introduced in 2011 on average weaken the incentive for those with children to undertake paid work but on average strengthen the incentive for those without children to undertake paid work. Reforms to tax credits increase the amount of benefit received if parents do not work, but reduce the amount of benefit received in work.

The incentive for those in paid work to increase their earnings is also slightly weakened by these changes, particularly the increases in National Insurance contribution rates and the rate at which tax credits are withdrawn as incomes rise.

Tax and benefit changes to be introduced in 2012-13 and 2013-14 do not significantly affect financial work incentives, except for those with large families, for whom the introduction of the benefit cap would significantly reduce the amount of benefit they would receive if they left paid work (meaning that the incentive for them to remain in paid work is significantly strengthened).

The introduction of Universal Credit from October 2013 onwards will significantly strengthen the incentive for lone parents, and those in couples without a partner in paid work, to undertake paid work on average, but tends to weaken the incentive for both members of a couple to undertake paid work rather than just one. It also strengthens the incentive for lone parents, and those with children and a partner not in paid work, to increase their earnings slightly.
Region: Europe [3]
Tags: economics [4]

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[1] https://childcarecanada.org/documents/research-policy-practice/12/01/impact-austerity-measures-households-children [2] http://www.familyandparenting.org/Resources/FPI/Documents/FPI_IFS_Austerity_Jan_2012.pdf [3] https://childcarecanada.org/category/region/europe [4] https://childcarecanada.org/category/tags/economics