‘Young families’
Presentation for the Queen’s International Institute on Social Policy
August 19th 2014

Spencer Thompson
Senior Economic Analyst, IPPR
Key question
How to raise living standards among families with young children?
Summary

1) How living standards of families with children have increased in the past
2) Prospects going forward
3) Recent policy decisions
1 – increase in spending on benefits for children
1 – increase in spending on benefits for children

Figure 16. Breakdown of net equivalent household income growth, 1968 to 2008–09, by household type, low- to middle-income households

Source: Brewer and Wren-Lewis 2011
1 – employment convergence
1 – employment convergence

Figure 2.10
Proportion of mothers (%), earning 50 per cent or more of family employment income, by family income deciles

Source: IPPR analysis using the Family Resources Survey
1 – Contributions to growth

Figure 15. Breakdown of net equivalent household income growth, 1968 to 2008–09 (excluding changes in household size and deductions), low- to middle-income households, by gender

Source: Brewer and Wren-Lewis 2011
2 – Prospects going forward – key question
2 – Prospects going forward – key question

How to raise living standards among families with young children, in the context of deficit reduction and weak real wage growth?
2 – Further employment convergence

Source: ONS (2013) ‘Working and workless households’
2 – gaps largest for parents of youngest children
2 – international comparisons
2 – rates of child poverty

Figure 1: Risk of poverty in couple families with children, 1996/97–2011/12

Source: DWP (2013)
2 – childcare costs

Figure 4.2
Net childcare expenditure by gross annual family income, as a percentage of net family income (excluding childcare benefits).

Source: Alakeson and Hurrell 2012
2 – childcare costs

Figure 4.1
Net childcare costs as a proportion of family net income

Source: Richardson 2012
2 – second earner work incentives after childcare costs

2 – increasing maternal earnings

- Controlling for other factors, pay differential between women who have children and those who do not of around 11 per cent (Lanning et al 2013)
- Rises to 26 per cent when comparing mothers with fathers (IBID)
- Linked to:
  - Break in labour market activity – can account for 60 per cent of the penalty (Staff and Mortimer 2012 using US data)
  - Occupational down-grading following return to work
  - Shift to part-time work – 22 per cent less per hour compared to full-time (Manning and Petrongolo 2005)
2 – Summary

- Employment gaps remain between men and women, particularly mothers and fathers.
- Childcare costs in particular represents a sizable disincentive to move into work, particularly for middle income families.
- Should also focus on strengthening support around childbirth employment transitions to reduce the motherhood wage penalty.
3 - Policy responses
3 - Policy responses – UK vs. Europe

• Little distinction between ‘social insurance’ and ‘social assistance’

• More reliance on means-testing

• More unequal labour market – greater need for means-tested support?

• More reliance on cash transfers to meet social needs
3 - The coalition: short-term cuts

• Cuts to cash entitlements (‘bedroom tax’, benefit cap, child benefit)

• Reduction in real-terms value of entitlements (freezes, below-inflation uprating)

• Welfare spending cap (a cap on total spend)

• Rationale – deficit reduction + political positioning

• Largely unstrategic and / or contradictory
3 - The coalition: longer-term reform

- **Universal credit**: merging six means-tested benefits into one
- **Tax-free childcare**: 20% contribution to childcare costs from the state
- **Work Programme**: employment programme with major private sector involvement
- **Single tier pension**: non-means-tested, flat-rate pension
3 - The coalition: public attitudes

Short-term cuts:

- 77% support removal of child benefit from high earners
- 74% support the benefit cap
- 45% support 1% uprating
- 45% think ‘bedroom tax’ should be abandoned
3 - The coalition: public attitudes - the bigger picture

- Enduring support for collective measures like the state pension and the NHS
- Declining support for out of work benefits / unemployed people
- Slightly more sympathy in latest data – but too soon to know if this is a big shift
- Too little for those who have contributed (78%) / too soft on those who haven’t (76%)
3 - Conclusion

• Coalition reforms un-strategic and/or contradictory

• Concern that employment route to higher living standards may run out of road

• And needs significant up-front investment in tackling childcare costs