



PROTECTING CHILDREN IN TOUGH ECONOMIC TIMES:

What Can the United States Learn from Britain?

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Child poverty in the United States stands at its highest level in twenty years, with more than one in five children living in poverty.¹ Moreover, on many indicators of well-being, U.S. children are not faring well.² The most recent international comparisons of educational performance showed U.S. children lagging well behind their peers in other countries in reading, math, and science.³ U.S. children also fare poorly, compared to those in other countries, on indicators of health.⁴ But the U.S. also faces record-high deficits, at the state and federal levels. As budgets are pared back to reduce deficits, do children inevitably have to suffer, or is there a way to prioritize programs for children while also cutting public spending?

An earlier companion piece to this report, “Tackling Child Poverty and Improving Child Well-Being: Lessons from Britain”, chronicled the remarkable campaign to reduce child poverty carried out by Britain’s Labour government, which served three terms between 1997 and 2010.⁵ The anti-poverty initiative, begun in earnest in 1999, included a set of welfare to work reforms, as well as reforms to the tax and benefit system to raise incomes in lowest-income families. It also included a host of investments in children, including significant investments in early childhood education, designed to promote social mobility and opportunity, and reduce poverty in the next generation. Over the course of a decade, this ambitious effort led to a halving of child poverty, measured in absolute terms as it is in the U.S., and to improvements in children’s school achievement and other outcomes.⁶

Following elections in May 2010, a new coalition government, led by the Conservative Party in partnership with the Liberal Democrats, came into office. The new government is committed to reducing government deficits, and in fact has implemented deep cuts in public spending, with more to come. Remarkably, the new government has also expressed its intention to maintain the commitment to combat child poverty and promote social mobility, and has taken concrete steps to do so.

As the U.S. makes our own difficult decisions regarding our budget and deficit, the approach taken by the British coalition government over the past year offers some useful lessons. Early on, the Conservative-Liberal Democrat government articulated core values that would underlie their spending decisions:

- **Holding the line on child poverty**, so that no children are made poor by the spending cuts, is a core principle, repeatedly expressed by Prime Minister David Cameron and Chancellor of the Exchequer George Osborne (who heads the Treasury), and backed up by increased spending on anti-poverty programs, even in the midst of cuts to other social welfare programs,⁷ and
- **Acknowledging the importance of education, including early childhood education**, which is seen as a key investment for children and for the economy, and therefore shielded from cuts.

Protecting these core areas has meant making some difficult cuts in other areas. For example, an early decision was made to cut spending on the British military, and rely more heavily on joint defense capabilities with neighbor France, so that spending in other more critical areas could be protected. Since the new coalition government came into office, defense spending has been cut by 8 percent, with reductions in personnel across all branches of the military and with at least one aircraft carrier decommissioned.⁸ Another difficult, and politically unpopular, decision was to raise the sales tax (known in Britain as the value-added tax, or VAT) from 17.5 percent to 20 percent.

The British cuts in public spending are the most extensive the country has ever seen. Government departments not protected from cuts are experiencing funding reductions of 25-30 percent or more. Some 500,000 government positions are being eliminated (some through hiring freezes, others through early retirements, but most through lay-offs). Many observers worry that such deep cuts will erode the ability of the government to deliver key public services and will harm children and other vulnerable groups in the long-run.⁹

There is also concern on the part of economists, similar to current concerns in the U.S., that spending cuts of this magnitude could harm the economy and plunge the country back into recession.¹⁰ Time will tell if these cuts will have a negative impact upon Britain's economy.

But, in the midst of these cuts, the British government's commitment to protect children is not only admirable but reflects solid research on the cost and benefits of early childhood investments – something the U.S. would do well to emulate.

Policy makers in the U.S., like those in Britain, face tough choices. There is widespread agreement in the U.S. that the deficit must be reduced with a sensible and long-term plan, but the challenge is how. Should all public spending simply be reduced by a fixed amount, or should spending decisions reflect principles and values? Should cuts focus on the discretionary portion of the budget, or should changes be made to entitlement programs? Should revenue-raising be an integral component of any plan to cut spending? Up until now, much of the debate has focused on *how much* to cut rather than on *how and where* to cut. Recently, however, President Obama has made a statement about principles that he believes should inform funding decisions. Like the British Conservatives and Liberal Democrats, he has clearly stated his unwillingness to reduce spending on education, including early education, because it is an investment in our nation's future.

Of course, there are many sources of variation between the U.S. and Britain, and our respective governments operate very differently. In Britain's parliamentary system, the party that holds a majority of seats in Parliament forms a government, headed by the Prime Minister. Rarely, when no single party has a majority, a coalition government may be formed, as is presently the case in Britain. The governing party (or parties), so long as they continue to hold a majority, can simply announce policy measures, with a fairly high level of confidence that they will be enacted by Parliament as proposed. In addition, unlike the U.S. where the federal budget is a product of negotiations between the Executive Branch and Congress, the British Chancellor of the Exchequer leads a comprehensive review of government spending and then announces the budget on behalf of the government, and that budget goes into effect as announced. Thus, policymaking and budgeting are considerably more centralized (and simple) in Britain than it is in the U.S., and the government in office has significantly more control over it.

Britain's commitment to ending child poverty

Although the anti-poverty reforms of the past decade were led by a Labour government, the commitment to end child poverty in Britain *cuts across party lines*. This commitment can be seen in the enactment of the Child Poverty Bill just prior to the May 2010 election. This landmark legislation, passed with the support of all three major political parties, committed future governments to the goal of ending child poverty in Britain and also set up a mechanism to monitor progress toward that goal – a non-governmental Child Poverty Commission. Not only did the Conservatives and Liberal Democrats *not oppose* the bill; they lined up to speak in support.¹¹

Since coming into office in May 2010, the new Conservative-Liberal Democrat coalition government has stressed its commitment to ending child poverty. On the night he took office as Prime Minister, David Cameron emphasized his commitment to helping the most vulnerable in society in a short speech delivered in front of 10 Downing Street. Echoing the approach taken by former Prime Minister Tony Blair, who pledged “work for those who can, security for those who cannot,” Cameron said he would expect that “those who can should and those who can't we will always help.”¹²

The Conservative-Liberal Democrat government is focusing considerable attention and resources on child poverty and the social welfare system. In its first months in office, the government sponsored a child poverty review, a review of early intervention programs, a child protection review, and a social mobility review. It also announced plans to simplify and streamline the welfare system. Prime Minister David Cameron has also stressed his personal vision for a “Big Society” in which people from all walks of life get more involved in helping their neighbors.

Protecting children while cutting spending

But the new government is also committed to drastically cutting public spending. As Chancellor George Osborne pointed out, Britain has, “at £109 billion pounds [\$176 billion in U.S. dollars], the largest structural budget deficit in Europe.”¹³

How is it possible to protect poor children while also cutting public spending? The compromise appears to be that the government will do what it can to ensure that spending cuts do not result in an increase in child poverty. Thus, in their emergency budget of June 2010, the government announced that they would offset other public benefit cuts by increasing Child Tax Credits by £150 (about \$243) per year for the lowest income families with children, and pledged that as a whole, the measures included in the budget would not raise child poverty. Chancellor George Osborne explained as follows:

Mr. Deputy Speaker, I do not disguise from this House that the combined impact of the tax and benefit changes we make today are tough for people. That is unavoidable given the scale of the debts our country faces, and the catastrophe that would ensue if we failed to deal with them. My priority in putting together this Budget has been to make sure that the measures are fair. ***We will provide additional support to families in poverty.*** These are among the most vulnerable people in our society and they need our help. I have decided to increase the child element of the child tax credit by £150 [about \$240] above indexation next year. This is a £2 billion [about \$3.2 billion] a year commitment to low income families. ... ***I can tell the House that the policies in this Budget, taken together, will not increase measured child poverty over the next two years.***¹⁴ (emphasis added)

Prime Minister Cameron followed this up by saying in no uncertain terms:

We are absolutely committed to meeting the child poverty targets. This Budget, despite all its difficulties, does not add a single family to child poverty.¹⁵ (emphasis added)

In October 2010, the government presented the results of its comprehensive spending review. While announcing sharp reductions in means-tested benefits (and the elimination of child benefits for high-income families), the government again emphasized that child tax credits for the low-income would rise so that measured child poverty would not increase. In the words of Chancellor George Osborne:

But Mr. Speaker, we want to ensure that low income families with children are protected from the adverse effect of these essential savings. Because this Government is committed to ending child poverty. I can announce today that I am increasing the child element of the Child Tax Credit by a further £30 [about \$50] in 2011-12 and £50 [about \$80] in 2012-13 above indexation. This will mean annual increases of £180 [about \$290] and then £110 [about \$180] above the level promised by the last government. This will provide support to 4 million lower income families – and I can confirm that using the same model that we inherited, the Spending Review has no measurable impact on child poverty over the next two years.¹⁶ (emphasis added)

While there is some debate about whether these Child Tax Credit increases will be sufficient to fully protect children from the impact of the other cuts as the Treasury maintains they will be, even critics agree that children will be at least partially protected, particularly in the short-run.¹⁷ In the longer-run, as the other cuts take hold, it seems likely that child poverty will increase, unless the government extends the protective measures it has put in place for

the coming few years or introduces other measures to raise incomes for low-income families with children^a.¹⁸ In addition, while announcing deep cuts in most public services, the government pledged that it would expand funding for schools, and that it would not cut the Sure Start program (which provides home visiting, parenting support, and child care for disadvantaged families with infants and toddlers in low-income neighborhoods) or the universal preschool program for 3 and 4 year olds. In fact, the plan is to expand preschool programs for disadvantaged 2 year olds.¹⁹ Chancellor George Osborne defended funding for these programs because “It is a real investment in the future of our children and in the future growth in our economy too.” As he explained:

The most important ingredient a twenty-first century economy needs is well educated children, who believe in themselves and aspire to a better life whatever their background or disadvantages.

In June, after the Budget, when the Chief Secretary and I turned our attention to how to allocate spending between government departments, we set ourselves a goal. We wanted to see if it was possible – even when spending was being cut – to find more resources for our schools and for the early years education of our children. I can tell the House that we have succeeded. It has meant other departments taking bigger cuts. But I believe strongly that this is the right choice for our country’s future.

There will be a real increase in the money for schools, not just next year or the year after – as the last government once promised – but for each of the next four years ... ***And we will also provide support for the early years of our children.*** The increased entitlement to 15 hours a week free education for all three and four year olds – introduced under this government – will continue. Sure Start services will be protected in cash terms, and the programme will be refocused on its original purpose. And we will help them further by introducing for the first time 15 free hours of early education and care for all disadvantaged two year olds. So these children have a chance in life and are ready, like the rest of their class mates, for school.²⁰ (emphasis added)

On March 23, 2011, Chancellor George Osborne delivered the budget for the coming year. He announced that the government would maintain its focus on austerity, even in the face of economic forecasts showing slower growth and in spite of public protests about the cuts in public spending and planned government lay-offs. But again, he stressed measures to help low-income families with children, including an additional increase in child tax credit, a pay increase for the lowest-paid public employees, and tax reductions for low-income families:

In two weeks time the child tax credit for lower income families will increase by an additional £255 [about \$412]. I can confirm today that in the coming year all workers in the armed forces, prison service, NHS, teachers and civil servants earning £21,000 [\$34,000] a year or less will receive a pay uplift of £250 [\$404]

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^a The Institute for Fiscal Studies projects that 300,000 children will be moved into poverty in 2013 as a result of the budget cuts. However, the government maintains that other changes to the tax and benefit system coming on board in 2013 and later years will reduce child poverty by a larger amount. See endnote 18 for more information.

.... And anyone earning less than £35,000 [\$56,600] a year will also be better off because in 14 days' time the personal income tax allowance - the amount people can earn tax free - will go up by £1,000 [\$1,617]. That's the largest rise in history.²¹

As mentioned, just before coming into office the Conservative and Liberal Democrats had joined the Labour Party in supporting the Child Poverty Act of 2010, which committed future governments to child poverty targets and mandated the establishment of a child poverty commission to oversee progress towards those goals. In May 2011, the government followed through on that mandate, establishing a Social Justice and Child Poverty Commission and once again re-affirming its commitment to reduce child poverty.²²

In summary, while there is no doubt that public spending has been significantly curbed with the change in government, Britain's commitment to tackling child poverty has not been abandoned. Although the coming years may not see further reductions in child poverty, the government does seem committed to the goal that child poverty should not increase on their watch. While many benefit programs are being curtailed or even eliminated, the British government is allocating additional funding to income support programs that reach low-income families (in particular, child tax credits), to ensure that they are not adversely affected by the other cuts. They are also more narrowly targeting some benefits (such as the previously universal child benefit) as a way of preserving funding for low-income families. And, they have made a commitment to maintain or even increase their investments in education, including preschool education, which they see as essential to reducing poverty in future.

Implications for U.S. anti-poverty policy

Despite a period of fiscal austerity, the British Conservative-Liberal Democrat government has nevertheless emphasized the importance of maintaining, or even expanding, funding for two key child-oriented policies: income support programs to reduce the likelihood that children live in poverty; and investments in children, particularly education, to promote growth and social mobility and reduce poverty in the long-run. The U.S. could usefully draw lessons from both.

Income support programs for low-income families with children

The U.S. has an extensive set of income support programs that are provided solely, or mainly, to low-income families with children, and indeed several of these received expanded funding under the American Recovery and Reinvestment Act (ARRA) or related initiatives²³, including the December 2010 tax compromise legislation²⁴.

In terms of provisions that benefit low-income children and families, ARRA included \$15 billion to expand eligibility for the Child Tax Credit (CTC) -- which had already been extended to more low-income families the prior year, introduced a Making Work Pay Credit, and included \$4.7 billion to increase the generosity of the Earned Income Tax Credit (EITC) for married couple families and families with three or more children. ARRA also included \$20 billion to fund a 13.5 percent increase in food stamp benefits, as well as \$5 billion in funding for the Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund to establish subsidized employment programs or provide short-term non-recurring cash benefits to families with children. In addition,

ARRA, along with other legislation, increased unemployment insurance benefit levels, as well as the length of time unemployed individuals could claim benefits. The December 2010 tax compromise legislation, among other things, preserved the expansions of the key tax credits related to children (EITC, CTC, and the child care tax credit) through the end of 2012.

Research at the national, state, and city levels has documented how important these income support programs are in protecting children from poverty and in cushioning low-income families with children from the effects of the recession:

- **National:** The U.S. Census Bureau report on poverty in 2009 estimated that the EITC moved 2 million children out of poverty, while the Food Stamp program moved a total of 2.2 million people out of poverty.²⁵ LaDonna Pavetti of the Center for Budget and Policy Priorities estimated that the ARRA expansion in the Food Stamp program alone kept 1.1 million people out of poverty, including 500,000 children.²
- **State:** Research by Tim Smeeding and colleagues for the state of Wisconsin confirms that these anti-poverty programs do effectively reduce child poverty and that ARRA augmented these effects.²⁷ Pre-ARRA, tax credits and Food Stamps together reduced the Wisconsin state poverty rate by 2 percentage points. Smeeding and colleagues estimate that the ARRA expansions reduced poverty in Wisconsin by an additional 1.4 percentage points, with even larger effects for families with children. For these families, the ARRA provisions reduced poverty by an estimated 2.6 percentage points above and beyond the reductions pre-ARRA provisions produced.
- **City:** Recent analyses for New York City, by Mark Levitan and colleagues, provide further evidence of the anti-poverty effectiveness of these programs.²⁸ They found that because of policy changes to tax programs and SNAP, New York City had a lower poverty rate in 2009 than in 2007, before the recession truly began.

Together this evidence is persuasive that continuing, or indeed increasing, the expanded funding for these vital income support programs for low-income families with children would be an effective way to protect the most vulnerable children.

One issue the U.S. will have to grapple with is the extent to which benefits for low-income families with children should be conditioned on parental employment. The general tendency of welfare reform in the U.S. over the past several decades has been to increasingly tie cash assistance to work. In line with this, the Earned Income Tax Credit (EITC) is now the largest cash transfer program to low-income families with children. ARRA expanded this program and introduced a new work-conditioned benefit, the Making Work Pay credit. But, for those families with parents who lose their jobs and are not working, programs such as the EITC do not constitute a useful safety net (since the loss of work means the loss of work-conditioned benefits as well).²⁹ Thus, there is clearly a need for at least some assistance not tied to work, particularly in periods of high unemployment such as the present economic recession, as well as for programs that help unemployed low-income parents by providing subsidized employment.³⁰ In line with this, Congress should maintain SNAP benefits, which are highly used by poor families with children,

continue to prioritize the needs of families with children when considering changes to tax system (as has been done with the EITC and the Child Tax Credit), reform unemployment benefits to make them more available to parents who combine work with parenting responsibilities, and seek ways to support families who may be falling through the cracks of the work-based safety net.

Investments in children, in particular, education

Education funding, as the Obama administration has stressed, is critical if the U.S. is to retain our global competitiveness in the 21st century, and if we are to succeed in providing opportunity to all our young people. The single largest item in the ARRA stimulus bill was funding for education.³¹ This funding enabled schools around the country to prevent teacher layoffs and avoid drastic cuts, but with those funds currently depleted, states and localities are struggling to make ends meet. The federal government cannot simply walk away from this challenge. But it is also true that funding must be spent wisely, if it is to yield desired improvements in educational achievement. The Obama administration, through its Race to the Top initiative, has tied additional funding to real efforts at school reform, and future funding initiatives should keep this focus.

But education does not just start with elementary school. Good-quality preschool programs help prepare children for school and also help close gaps between disadvantaged children and more advantaged children (because disadvantaged children gain more from preschool, but would also be least likely to attend in the absence of government programs).³² The U.S. has a host of evidence from rigorous studies about the benefits of preschool programs.³³ In line with this strong research base, prior to the recession, U.S. states were expanding funding for universal prekindergarten programs. Early on in the recession, the Obama administration committed \$2.1 billion in stimulus funding to support expansions in Head Start and Early Head Start through ARRA, as well as a \$2 billion expansion in funding for child care subsidies.³⁴ In May 2011 the Obama Administration announced further investments in improving the quality of early education programs, through the Race to the Top Early Learning Challenge Grants, a \$500 million initiative which will help states provide higher quality early development and education programs to more children, particularly disadvantaged children.

But, in spite of this support from the Obama Administration, these programs are now under threat. States facing strained budgets have little ability to expand prekindergarten, and there are proposals in Congress to reduce Head Start funding. This would be a disaster for children and families, as well as very short-sighted in economic terms, since the short-run savings would be more than offset by long-run costs associated with fewer children having the chance to attend these programs. Waiting lists for child care subsidies are already on the rise in many states. Our most vulnerable children are already suffering the effects of the recession on state budgets, and some federal proposals would make this critically worse. Instead, Congress should be allocating additional funding for Early Head Start and Head Start programs for low-income preschoolers, as well as for child care subsidies for low-income working families.

Leading economists have concluded that spending on high quality early learning programs earns a high rate of return. But without high quality early education, the research is clear that U.S. will end up spending dramatically more in child welfare, remedial education, and criminal justice system costs.

Concluding thoughts

Strained public finances raise serious questions about the ability of both Britain and the U.S. to fund programs that protect children from poverty and diminished opportunities. The politics are also challenging, with conservative parties now wielding considerable influence in both countries. At the same time, the downturn in the economy means that the need for programs for low-income children is greater than ever. Investments in child-oriented programs not only provide a safety net for children whose parents are out of work and help prepare our future workforce, they also help to stimulate the economy and create jobs. Thus, tough economic times should not mean abandoning our efforts to reduce poverty and promote opportunity. One of the smartest things we can do economically, even in tough economic times, is to protect and invest in our youngest and most vulnerable children.

Endnotes

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