

**A Brookings Press Briefing**

**ONE PERCENT FOR THE KIDS:  
New Policies, Brighter Futures for America's Children**



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**PANEL II: INVESTING IN CHILDREN IN THE UNITED KINGDOM**

**Moderator:** E.J. Dionne, Jr.

**Panelists:** **John Hills** - Director, Centre for Analysis of Social Exclusion, London School of Economics  
**Michael Wiseman** - Professor of Public Policy, Public Administration and Economics, George Washington University



**MR. DIONNE:** Thank you all.

John Hills is Professor of Social Policy and Director of the ESRC Research Centre for Analysis of Social Exclusion. They put all that together and CASE becomes the acronym, and I won't ask you to explain how that magic happens, at the London School of Economics. His research interests include income distribution and the welfare state, social security, housing and taxation. He became a member of the Pensions Commission in January 2003. He was co-Director of LSC's Welfare State Program from 1988 to 1997; Senior Advisor to the Commission of Inquiry into Taxation in Zimbabwe. He worked with the House of Commons at the Institute for Fiscal Studies. He is the author of many, many works including "Understanding Social Exclusion", social exclusion having become one of the important slogans, if you will, as well as programmatic concerns of the Blair government.

Mike Wiseman is Research Professor of Public Policy, Public Administration and Economics at the George Washington University and Visiting Scholar in the Office of Disability and Income Assistance Policy at the Social Security Administration. He is a consultant on program management and evaluation to the Administration for Children and Families in the Department of HHS. He has also worked on public policy and evaluation in the United Kingdom.

So John Hills will tell us how Britain does this and what it does well and badly, and then Michael Wiseman will reply and then we'll open it up for questions.

Again, it's a great pleasure to have you with us. Thank you.



**MR. JOHN HILLS:** Good morning. Thank you very much both for the introduction and to Brookings for inviting me over here. It's always a great pleasure to come to Brookings in Washington. I always learn a great deal and feel at home, and thank you for organizing London weather for me this morning. [Laughter]

I was at first rather alarmed when I discovered that I was the only other international, really non-U.S. contributor to this volume and I was rather worried that Belle had asked participants from a large number of other countries but it turned out that Britain was the only one who was willing to join this particular coalition. [Laughter]

But as Belle explains in her introduction, the UK does at present offer a model of a country which has made a serious attempt to reduce child poverty and it's a country which started as high up the international lead table of child poverty as almost the United States.

You have somewhere in your handouts a small handout with some graphics taken mainly from my chapter in the book. I start that with this I think the historic pledge which Prime

Minister Tony Blair made back in March 1999 when in the middle of a talk marking, celebrating one of the founding fathers of the British welfare state, Sir William Beveridge, he said to the great surprise of the audience, and I have to say I think to the great surprise of the government officials in the audience, he announced "Our historic role will be for ours to be the first generation to end child poverty. It is a 20 year mission, but I believe it can be done."

What's remarkable about that statement isn't so much that he made it, but that ever since the British government has been taking it seriously. They have set much shorter term targets than just waiting for 20 years. The Treasury and the Department for Work and Pensions which administers cash benefits have specific departmental targets on which a lot of their credibility rests, of reducing child poverty by 2004-5, by next year, by a quarter from its level just before Tony Blair made that speech. And not against a fixed, absolute poverty target of the kind that you have in the United States but against a moving target which rises as average living standards rise. That is a very tough target but they have been taking that seriously.

The biggest item in taking it seriously, you'll see in the graph on the first page of the handout there, has been the amount of support which is now going through mainly the tax system, but through the tax and cash benefit, cash transfer system, specifically earmarked for children. That is rising. If you look at the solid line in that diagram in real terms by 7.5 billion pounds between 1998 and the current financial year.

To translate that into what it feels like in U.S. terms, simply multiply any numbers I give like that by ten. Our national income is one trillion pounds, yours is \$10 trillion or thereabouts, so 7.5 billion pounds to the UK economy feels like \$75 billion to the U.S. economy. I guess this is part of where Belle and colleagues got the title from.

Per child the amount of support going through the tax and transfer system is rising from 20 pounds a week to 31 pounds per week. That's the average. More of it goes to low income families than that. That's rising over that same period. Again, if you want to know what that feels like, multiply by something like two, two and a half to get what it would feel like in U.S. dollars per week given living standards here.

On top of those tax transfer changes there have been a very long list of other measures, some of them bearing similarity to recommendations by my co-authors in the volume.

We have a new, what's called a sure start program which borrows directly from ideas of early Head Start here. That's focused on children in low income neighborhoods. We have from a rather low base a big expansion in child care provision. We have an expansion in preschool division for not only just universal now for all four year olds but extending to be universally available for all three year olds.

A rather interesting measure—the most recent budget in March established new child trust funds, sometimes called baby bonds, where the government is now putting an amount into a trust fund for all newborn children which will accumulate and be available as a larger lump sum they hope when the children reach 18. That affects all children born since last September with an amount of 250 pounds for everybody, 500 pounds for children from low income families going

into that trust fund. There are new services for teenagers, there will be an allowance for low income teenagers, 16, 17 year olds, to stay on in school.

If you look at the overall commitment, and I have to pick my words very carefully here, I think it genuinely is approaching one percent of national income in terms of new money committed in this direction to try and make a reality of Blair's pledge.

How has the strategy worked? There hasn't been a great declaration of a war on child poverty but there have been a whole series of measures which certainly add up to a major assault on it. I think rather interestingly and importantly, those measures started with a series of welfare to work measures. The stress of the initial programs was on welfare to work measures through what's been called the new deal. Another bit of borrowing from your terminology. Especially aimed at young people under age 25, but also at single mothers. Although it has to be said with a lot more carrots and a lot fewer sticks than U.S. welfare reform.

Following that, but only after that, the tax and benefit system has been transformed. If you turn to the next page you will see the new structure which started this April of support going through the tax and transfer system to families with children.

The whole system is founded on a universal child allowance, child benefit now worth over 15 pounds per week for the first child in every family. On top of that is a new payment which has amalgamated all the allowances for children that used to go through welfare, through other bits of the cash benefit system and through the tax system into a single payment called the child tax credit. That, remarkably, is -- first of all understand what we mean by that, this is a fully refundable tax credit. It is paid to everybody on a low income and lesser amounts to people on higher incomes. It is the same now whether you are out of work or whether you're in low paid work up to about \$20,000 a year of family income and then it's tapered down. It's the same for one parent and two parent families. We equalize up support for two parent families compared with what used to be available for one parent families. And it's also been equalized upwards between younger children and older children. The money used to be less for younger children.

What about the impact of all of this? It is of course too early to say. Some of these changes literally happened the month before last. The first two years of the Blair Administration between 1997 and 1999 were marked by austerity as far as public spending was concerned. There is now a payoff to that in that not only are we running a surplus rather than a deficit, but national debt is now down. There is much more room in the national budget now because debt interest has fallen.

There are long lags between announcements and implementation, and there are lags before we get the statistics, and for some of these measures because they are deliberately designed to be long term measures focused on some of the 20 year parts of the pledge, it will be a very long time before we can measure impact.

But you can already see some of the effects of this. If you see the diagram at the bottom of the second page there this shows the distributional effect of not the most recent tax and transfer changes but the ones that were implemented up to last year. If you put them together

compared with a standstill tax and transfer system, for families with children in the poorest tenth of the income distribution, they by themselves were equivalent to an increase in income of 20 percent. So these changes have been clearly progressive.

If you want to think about the impact on poverty the diagrams on the next page give you an indication of what's been going on. I'm showing two lines there. The dark line with triangles on it gives a measure of poverty against something like the U.S. poverty line, against an absolute measure which is indexed for price changes. It's actually slightly lower if you convert purchasing power parities into the UK you would see slightly more people in poverty against the U.S. standard than against that one, but only slightly more.

The gray line is the line which we use more conventionally and other people in other parts of Europe use more conventionally, what's happening against a tough target of a poverty line which move with current living standards and rises over time if the economy is doing well.

What you will see from that is you will see three periods. If you concentrate just on children in the bottom diagram there, between the late 1970s and the early 1990s relative poverty for children more than doubled. More children were being left behind, if you like, while absolute child poverty against a U.S. style line fell only a little despite the fact that average living standards had risen by more than 40 percent.

In the mid 1990s the picture was a bit more confused. Absolute poverty fell, relative poverty wobbled around. If you look at the position, and I don't think they can take all the credit for this, but if you look at the position since Blair was elected in 1997 absolute child poverty against a U.S. style line has halved by the time the most recent figures we have for 2001 and 2002. Relative child poverty is also down, more slowly of course, because living standards have been growing rather rapidly. But our own calculations at CASE, where I come from, and also the Institute for Fiscal Studies -- so these are not government calculations-- are that they will just about hit the target of reducing relative child poverty against a moving target by a quarter when we've got the figures in for 2004-2005, given the most recent changes.

So finally, I rather hesitate to come to somebody else's country and to suggest lessons for your policy from that, but at the end of the chapter I do suggest three things that stand out.

First of all, the Blair government has used multiple approaches to try and tackle child poverty and disadvantage, and disadvantage more generally. There has been a lot done through the tax and transfer system for families with children. Much less so for other kinds of families. A lot of money is now going into education and a lot of initiatives are being taken in terms of tackling long term disadvantage including neighborhood poverty. It seems to me that is eminently sensible given what we know of the multiple drivers of long term disadvantage and links between childhood poverty and disadvantage and later outcome. So I have great sympathy with the multiple approaches which are outlined in the rest of the book.

The second thing which leaps out and I think is much harder for a U.S. audience is that behind the rhetoric which has continually stressed the assistance which is being given for the working poor, and that is what has been stressed the whole way through, very quietly the strategy

has also given a great deal more by way of resources for the non-working poor. If you want to summarize the strategy, it has managed to do that, to increase transfers to low income families with children without damaging work incentives and perhaps in some instances improving work incentives a little. That is very different from the Clinton Administration measures connected with EITC which helped working families a lot and increased work incentives a great deal. A big difference.

Finally, this has been done in a country which does have some of the same underlying political constraints as this one and where the scale of the problem in terms of child poverty rates in the 1990s was equally bad.

I think the figures I present in the chapter and I've just talked about would have seemed very surprising if those series of measures had been taken to a UK audience talking ten years ago. So perhaps if we come back here in ten years time or maybe even shorter, we might be able to hear a record of the implementation of some of the kind of measures which are outlined in the book, as unlikely as that may seem at the moment.

**MR. DIONNE:** Thank you very much.

[Applause]

I just want to note the saying that I hesitate to come to someone else's country and suggest new approaches to policy. Americans don't seem to have a problem doing that so I'm very glad you took the opportunity to do it here. Thank you.



**MR. MICHAEL WISEMAN:** I have five minutes to respond, and it's a pleasure to do so. Connecting to Britain seems at the moment to be strategically advantageous, as we all know. I note that even the new Esquire contains an article entitled "A Salute to Our British Allies." It offers some revealing insights into that nation's human capital stock, so it's everywhere.

It's impressive that John Hills' chapter, the last in the book, is the first in the forum. The reason as Belle indicates in her One Percent introduction is that the Labour Government's changes in transfers have in total increased outlays on children annually by an amount approximately equal, perhaps slightly less than one percent of GDP, the target that's discussed here. An equivalent change in this country would be \$100 billion. That's the cue that the authors of the present volume take.

But there's more involved than the number. Many of the reforms described, as John points out, seem to echo policy proposals made by other authors in the present volume. If nothing else he says "Over the next few years the United Kingdom will offer something of an experimental test bed for this kind of agenda." This test bed idea raises the possibility of picking up more than cues, maybe even lessons.

Lessons are more than cues. They're elements of scripts for how to bring about change. Few American scholars, policymakers and journalists I would say, appreciate how much effort New Labour has devoted to drawing lessons from American social policy.

I think it useful to reflect a bit on the lesson gaining in this process, where the process itself may offer a guide for how we may come to reverse the trade, something that I think the authors of One Percent would surely like to do.

Broadly speaking, New Labour borrowing has occurred on at least three levels. The level of rhetoric, ideology of reform; and the strategic level, the strategies developed in implementing reform; and in the details, the nitty gritty of implementation. Let me just touch briefly at each of those three levels.

Ideology included the commitment to a sort of proactive work-oriented welfare policy, adopting the idea, enunciating the idea of mutual obligations between state and beneficiaries. The government was to provide benefits to care, beneficiaries were to attempt to achieve self support. In ways the new Labour policy adopted some of the rhetoric of welfare dependency, but in Britain the emphasis has been not on the underclass, per se, but on the problem of inter-generational transfer dependency as a result of what they term the scarring effect of growing up poor. That's the ideology level.

Strategy borrowing has included new benefits, linking benefits to individual efforts to move to work as well as creation of these new mechanisms that were modeled clearly on the earned income credit. These are mechanisms for making work pay. The culmination of this effort is the combination of the universal working tax credit and the child tax credit described in John's chapter. This is a textbook system almost for simultaneously adjusting for variation benefits by family size -- that's where the child tax credit comes in -- while establishing near-uniform treatment of people in the work place. Where when one works at low wages one gets a subsidy.

These general programs are combined with programs targeted to specific sub-groups of the poor and particularly in areas of high unemployment. Like the Clinton and Bush Administrations the Labour government has worked to form alliances with business groups to promote hiring of welfare recipients and to raise business awareness and sense of participation in the work effort.

Lessons about implementation learned by Britain and the U.S. include appreciating the obvious benefits of experimentation. The idea of delivering benefits through a network of job placement centers, and the growing use of private organizations for providing services under performance based contracts.

Two additional points should be made before we look at the return possibilities. The first is that in some ways the Labour Government made better use of the American Laboratories of democracy than we have ourselves, picking and choosing from the substantial body of evaluation data that has developed in the United States over the last 30 years of struggle with welfare reform and incorporating this information in general "knowledge-based" policy.

The second point I want to make is that the insights that our allies collected did not all bear Clinton Administration labels. A very large trove of ideas was collected from Republicans, notably in California before Gray days and Wisconsin and New York City, looking at the reforms introduced by Mayor Giuliani and in the U.S. Congress. Parts of the new Labour program are built on initiatives of the conservative governments of Margaret Thatcher and John Major. It was after all Mrs. Thatcher's government that first introduced an earning subsidy for working families.

But we have things to learn now in return or at least to ponder. I think at the rhetorical level again, starting at that level and moving down, some of these slogans really ring relevant to me. Work for those who can, security for those who cannot is an intriguing mantra. What would it mean to think of security as a policy objective? What would it mean for children to give home security the same status as homeland security?

I think at the rhetorical level also, the importance as John mentions of emphasizing working families and working communities as an intermediate goal, as an essential goal for improving child well being. Britain's government committed to generous treatment of children, but from the beginning the Labour Government has taken an indicator of child welfare the proportion of children in working households. One doesn't secure a child in a working household by focusing on the child.

Can we in a defensible way, again at this rhetorical level, link progress on the child and family strengthening fronts to other broad national objectives as Labour did from the beginning by calling these part of making Britain modern.

Strategically we should be interested in British methods for improving agency accountability. These methods for better integration of tax and benefit systems, something we've been trying to do with our earned income tax and food stamp systems and TANF systems for so long, without great success, and especially promoting evidence-based policymaking.

Then with regard to implementation there's a wealth of specifics to study including the roll-out of targets and accountability both in welfare, schools and the implementation of a job-center based benefit system operation.

Job center business is an area that really has roots in American experience. It started after all in Kenosha, Wisconsin. Not four months after New Labour first came to office we had Ministers of State visiting, it's certainly not a garden spot in the American landscape, but Kenosha and Racine, studying the operation of job centers there and thinking about the development of a policy that linked the receipt of benefits visibly to efforts that were joining them up.

We talk a lot about job centers but in fact in practice for most areas we're still talking about separate operations of welfare, job placement and the like. This year 25 percent of all Britons will receive social benefits through job center operations. Next year it will be 50 percent. In 2005 there will be full roll-out.



So there are opportunities, it seems to me, for joining up and we should again look there. Look backwards, joining up, talking rhetorically. Britain is very involved in community development strategies and focused initiatives in addition to general ones, legitimizing that also is an important picture of Bush policy, trying to understand what it is that we're doing when we single out particular areas, particular places for focused attention is something we should be thinking about together. It's true also in public housing.

I think in a discussion of what we mean when we talk about and measure poverty is important. John has emphasized the British emphasis on relative poverty -- 60 percent of the median income, or something like that. In fact if you look very carefully at what's going on, Britain still has no official poverty measure and the 60 percent measure is a little strange because it doesn't incorporate housing benefit which is an important part of their transfer system. I think relative poverty is important, but I think absolute poverty, talking about the material circumstances of children is also important. And interestingly, Britain has added indices of material accomplishment to the indices related to income. That all means that at the implementation level opportunities abound in the operation of job centers, in the structuring of the delivery of public services.

Let me close with a final point. I guess that's where you always close. [Laughter]

Just a month ago, at the end of April, Elaine Chao, the U.S. Secretary of Labour and the Right Honorable Andrew Smith, the UK Secretary of State for Work and Pensions, convened a three-day conference here in Washington for an exchange of information between the Department of Labour and the Department of Work and Pensions on matters related to ensuring access to jobs for people with disabilities. A substantial delegation from the UK was present and the American representation included both policymakers and people involved in disability in Britain in capacity issues. Apparently that meeting served to launch several joint DOL/DWP initiatives.

This book, One Percent, and John's chapter suggest that opportunities exist for, again to use the British term, joining up between DWP and the Administration for Children and Families, and the Department of Health and Human Services as well as between ED, I think that's what we're calling the Department of Education, and the Department of Education and skills in the UK.

I would hope this book would stimulate broader interest in responding to the substantial challenge that British social innovation presents, regardless of whether the ambitious agenda of one person is attained, we only stand to gain by such exchange.

[Applause]

**MR. DIONNE:** Thank you very much.

I'm always struck by the term "evidence-based policymaking." [Laughter] What a radical idea that is.

We only have a few minutes. What I'd like to do is bring in some questions, and Professor Hills you can respond to some of the comments in the audience.

**QUESTION:** I just wanted to ask Professor Hills if you could say more about the dynamics of getting this initiative off the ground in the UK and sustaining it in times that have not been very good economically in most of the world. What lessons can we learn about how to sustain similar policies in the United States in terms of political and social support?

**QUESTION:** I wanted to ask you to say a little more about these baby bonds. It seems to me that giving large sums to healthy eight year olds has a lower priority than putting more money into national health or increasing child care. So I'd like to hear what you have to say about that.

**QUESTION:** I just wondered if we could have a bit more of an American perspective on the different policy base from which Americans have been trying to launch this kind of reform. Because although it's true that the UK had had a very conservative pro-inequality agenda for a long time, nonetheless we did start from a very strong welfare state base on which the Blair government could build, so I think Americans are at an unfair disadvantage in that sense.

Also I think the whole racial issue in the U.S. which an earlier questioner raised somehow needs to come into the frame here.

**MR. HILLS:** I'll be as quick as I can.

I should note that there's been an interesting nuance in the way government talks about evidence now. They no longer talk quite so much about evidence-based policy, they now talk about evidence-informed policy. [Laughter]

**MR. DIONNE:** Soon it will be faith-based policy. [Laughter]

**MR. HILLS:** You asked about the political dynamics of this. I think there's probably a whole book in it, and Michael may have written it. I think one of the really interesting things when you look at it, and this is an area I've done some work on, is that if you look at the mix of policies that we know evolved over the last six years, if you were starting at it from the old Labour traditional left of center position you might say that this policy had in some ways been a bit disappointing. That all these initiatives added up to very little more than simply taking the old system and increasing everything with living standards.

What we've seen, though, is something very different, what I've called selective universalism. There are particular parts of the system with universal characteristics which have been strengthened, notably the national health system, state schooling. But also elements like the universal child benefit at the bottom of the diagram I showed where there hasn't been a big overall increase in all parts of the cash benefit system. The increases that I've talked about have gone along with reform and those reforms have gone along with, if you like, the progressive parts of public opinion so that it's as if, and this may be exactly what's happened, as if those were the progressive agenda within Treasury and in 10 Downing Street, have looked at which bits of

public opinion they can work with, and then have them built on that and have achieved what I think in many ways are rather impressive results.

So there has been a great stress on welfare to work and health for the working poor, but at the same time the policy has been focused on reducing child poverty. They've also done quite a lot about pensioner, old age poverty. The stress has been on child poverty, but what's interesting in that is to get a child out of poverty if you are looking at family income as your measure of whether a child is poor, a lot of adults are also being brought out of poverty as well through the same measures.

So there's been a mix and I think what's been interesting is the fact that it isn't just in terms of being handouts or tax reliefs through the tax system. That has happened at the same time as this wider agenda, tackling what we've come to call social exclusion, but compounded disadvantage, neighborhood poverty, and so on.

I don't think either of those would have worked if they hadn't happened together. If we'd only had the social exclusions, softer bits and pieces agenda, they would have been open to the accusation that they were ducking the hard questions and that they weren't doing anything that would cost a lot of money.

On the other hand if they'd only done the things on immediate family incomes, then they'd have been open to the accusation that actually they were building nothing for the long term, so I think that combination has been very important. I think that also runs through the one percent book.

Finally, as far as baby bonds are concerned, I have to say this is not a part of the package. It's costing about one quarter of a billion pounds per year now, it will do from year to year, but I thought likely to be implemented. It's picked up on ideas which started here, other ideas. You can see differences in outcomes for young people who have access to assets and use those assets either to go through college or to get involved in a small business or whatever it is, and the access to that sort of asset should be universally available, and the administration has been persuaded that that's a good idea. There's actually been some research in the UK, which looking at a cohort of children who were all born in March 1958, where they see similar differences in outcomes which when you strip out all the background factors you can and try and get rid of this effect, there does still seem to be something of an asset there.

I think that evidence is, I don't think weak is the right word, but there's not a lot of that evidence, and I'm a bit surprised that by comparison with some of the other measures where we know there are effects and have immediate impact, that the government has been prepared to put resources into something which will start having its effect in the year 2021, although of course the year 2021 is just after Blair's pledge to have abolished child poverty.

So it's an integrating initiative. It's not big by comparison with the other measures. It is being taken a little, not exactly on faith because there is some evidence there, and it's an experiment. Unfortunately it's an experiment we won't see the results of for a very long time.

**MR. DIONNE:** I want to turn to Michael. I thank you for that question because I'm intrigued by this idea and it strikes me that the answer to the question may be that the wealthy kids would have that 250 pounds one way or the other, and that is, in a sense, the price of giving it to all the other kids who wouldn't get it. So it's in effect not a transfer from anywhere because it's tax money in effect from the well off to the well off and the poor. I've been very intrigued by this experiment.

To close -- You can have opening comments to close. [Laughter]

**MR. HILLS:** Two quick ones. We're out of time.

I too think the baby bond idea is interesting. I received a savings bond, we used to give savings bonds to children all the time as part of their gifts. The system is set up as an account that starts as a child is born, comes to culmination at graduation from school, and it will provide at that point a resource that will allow, if we move in Britain to a situation of much more substantial reliance on tuition payments, the freeing of the university system of access, would give all children the resources to buy into that system. So it's extraordinarily long-viewed and something worth watching.

On the pre-conditions, there's no doubt that we're starting from a much different system here and that accounts in part for the failure to learn some of these lessons. I would also mention in particular federalism as a difference in the system. One is really struck by what it means to have the power that the centralized British government has to move on ideas, and rolling out of the job center plus program is a perfect example of that. The fact that since the New Labour started, it's gone through, now this is the third episode in changing the tax and benefit structure to move to this system that is just in place in April. So all of those things.

It may be oddly that from a federalist perspective we may have more lessons to learn about the coordination of policy from watching what happens to social policy as the European Union expands with the open method of coordination and so forth developed there, than we have lessons learned specifically on that problem in Britain.

**MR. DIONNE:** Thank you very much. That's striking. They can learn from our federalism and immediately apply it nationally. [Laughter]

Thank you very much.

Belle set this up brilliantly because we're going to move now from what happened in Britain to the lessons applied in the U.S. with Greg Duncan, Gary Burtless, Andrea Kane, Irv Garfinkel, David Armor, Scott Scrivner and Jens Ludwig.

Then after that Ray Suarez -- Welcome Ray, and thanks for coming early -- will lead the final panel.

Thank you all very very much, and the rest of you all come up. Thank you.  
[Applause]