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## **A “third way” in welfare reform? Evidence from the UK**

John Hills and Jane Waldfogel

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## A “third way” in welfare reform? Evidence from the UK

John Hills and Jane Waldfogel

### **Abstract**

Recent US welfare reforms, whether promoting work first or human capital development, have had in common an emphasis on employment as the key to improving the life chances of children living in single mother families. We describe in this article a different type of reform – what we call a “third way” in welfare reform. The welfare reforms carried out in the UK since the “New Labour” government of Tony Blair was elected in 1997 have included promotion of paid work, but alongside two other components -- an explicit commitment to reduce and eventually eliminate child poverty, and a campaign against long-term disadvantage under the label of tackling “social exclusion”. Welfare-to-work reforms promoting employment for single mothers have been active but not as punitive as in the US. At the same time, the tax credit and cash benefit system has been radically overhauled, benefiting low-income families with children, whether parents are working or not. Early indications suggest a more rapid fall in child poverty in the UK since its reforms began than in the US since its reforms, and a faster rise in single-mother employment,

## **INTRODUCTION**

In the 1980s and 1990s, a range of welfare reform experiments were undertaken in the US, culminating in a sweeping national reform, the replacement of AFDC with TANF, in 1996. These welfare reforms were the subject of no fewer than 36 articles in JPAM over the past 5 years, and were the focus of 2 of the last 3 APPAM Presidential addresses.

As varied and widespread as these welfare reform efforts have been, virtually all have had as their focus boosting the employment of single mothers on welfare. Practitioners and analysts have debated the merits of two different types of employment strategies – work-first vs. human capital – but advocates of both approaches have agreed on the central role of employment.

Recent employment-oriented reforms have been remarkably successful, in that the employment of low income single mothers has increased dramatically, while welfare caseloads and child poverty have fallen. Yet, even in the strong economy of the late 1990s, many single mothers did not work, and many children remained poor (including some of those with working parents), and of course the economy will not always be as strong as it was in the late 1990s. As Mary Jo Bane noted in her Presidential address to APPAM, “The problems of poverty and of too many children who are not thriving in this country have not been solved” (Bane, 2001, p. 191). Logically, if child poverty is to be further reduced, or eliminated, something must be done to raise the incomes of children whose mothers do not work (as well as those who work but on low incomes). And, if child poverty is to be reduced in the long-run, interventions beyond raising parental employment may be needed. However, recent welfare reforms in the US provide little evidence on these points.

What would a package of welfare reforms that went beyond employment-related measures to make a more comprehensive assault on child poverty look like? Under what conditions could such reforms be politically feasible? And, what would the impact of such a package be -- would the positive effects of raising incomes for families both in and outside of work be offset by negative effects (such as discouraging employment and promoting welfare dependency)? How would these effects compare to those of the tougher and more work-oriented reforms that have been undertaken in the US? These questions are of great interest to policy analysts and practitioners in the US, but can not be addressed using evidence from the US.

To answer these questions, we turn to evidence from the UK, which has implemented a sweeping set of welfare reforms designed to reduce and eventually eliminate child poverty. We refer to these as a “third way” in welfare reform, picking up on the term the Labour government uses to describe its political philosophy and distinguishing them from the two types of reforms (work-first and human capital) that have dominated the US landscape. In the sections that follow, we describe the origins of the UK’s “third way” welfare reform agenda and outline the package of reforms. We then present evidence as to the impacts to date of the UK reforms, and compare them with those of the US reforms. We conclude by considering the prospects for adopting “third way” welfare reforms in the US, and with some overall conclusions.<sup>1</sup>

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<sup>1</sup> We note that comparative analysis is necessarily limited and that we must be cautious in drawing strong conclusions. There are a host of institutional differences between our two comparison countries, and there may also be differences in the target populations (e.g. single mothers) across the two countries. We try to the extent possible to focus on differences in changes over time, rather than differences in levels, as a way to address the problem of pre-existing differences across countries (i.e. we consider whether employment grew more in one country, rather than whether employment levels are higher).

## THE ORIGINS OF THE UK WELFARE REFORM AGENDA

When Tony Blair and his party won the UK election of May 1997, they did so under the banner of “New Labour”. Like the New Democrats in the Clinton administration, New Labour has followed a distinctive path in its welfare reform and other policy initiatives. In the UK, this path has been referred to as a “third way”, distinct from both European social democratic policies and from free market economic liberal approaches (Giddens, 1998; 2000).

New Labour’s agenda for welfare reform in the UK has been very broad, reflecting its ambitions as well as the broader conception of the welfare state.<sup>2</sup> In this article, we focus on the subset of reforms that are most analogous to US welfare reform – that is, policies that are focused on low-income families with children.<sup>3</sup> But it is important to understand the ideas that underpin “third way” reforms. Most central to welfare reform is the notion of mutual responsibility. Individuals have a responsibility to participate in society, and to support themselves, to the extent possible, but so too does government have an obligation to support those who can not support themselves. This sentiment is reflected in a statement that is often made in Government documents about the goals of “third way” welfare reform: “work for those who can, security for those who cannot”. In this way, “third way” thinking is responsive to criticism from the right, but without abandoning the principles of the

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<sup>2</sup> In the UK, as in continental Europe, the “welfare state” is seen as encompassing health and education services, not just cash benefits. The cash benefit system itself is based on a variety of entitlement systems, including: social insurance benefits for old age and disability; other “universal” benefits such as the flat rate child allowance, Child Benefit, paid to all parents with children; and means-tested benefits for those with low incomes. Notably, safety-net cash protection for the poorest, Income Support, has near *universal* coverage, including two-parent workless families as well as lone parents, single people, and the elderly. Although the language of “welfare reform” and of “welfare-to-work” has been adopted by UK politicians to refer to cash assistance for the poorest, the context and public understanding of what welfare reform means in the UK remain very different from the US debate. In particular, when UK policy makers refer to reforming welfare, they mean the broader “welfare state”, not just means-tested programs for low-income lone-mother families.

<sup>3</sup> For a discussion of the larger set of reforms, see Hills, in press; and Waldfogel, 2002. See also Walker and Wiseman (eds), 2003.

founders of the social democratic welfare state, such as William (later Lord) Beveridge.

The distinct policy mix that makes up the UK's program of welfare reform for low-income families with children has three elements, which we discuss in more detail below:

- Promotion of paid work and reductions in “workless households” (households where no adult is working in the labor market), alongside reforms of cash benefits. The prime objective is “work as the best form of welfare for people of working age” (DSS 1998; DWP 2002a, Appendix 2), but this is coupled with the slogan “work for those who can, security for those who cannot.”
- A commitment by Tony Blair to “end child poverty within a generation”, followed by a series of measures implemented by Chancellor of the Exchequer (Treasury Secretary) Gordon Brown which have increased cash benefits for the working and non-working poor with children, and remodelled parts of cash assistance into tax credits.
- Investments in children and an assault on “social exclusion” (a term that goes beyond poverty to incorporate social dimensions of disadvantage and also concerns about long-term and intergenerational poverty), involving a wide range of social policies, including the establishment of a special Social Exclusion Unit reporting directly to the Prime Minister and charged with tackling issues such as teenage pregnancy and the problems of low-income neighborhoods.

How did welfare reform, and these particular elements, come to be priorities, and come to be politically feasible? Three major factors paved the way for New Labour to set these priorities, and for the public to support them. One was mounting evidence

that the position of children in the UK was growing worse, along a number of dimensions. The second was an accumulation of evidence that poverty had long-run effects on children's outcomes but that programs to improve children's life chances could be effective in redressing those effects. The third was that the specific program New Labour adopted was consistent with public attitudes and voter preferences. We discuss each of these factors below.

### **The worsening position of children**

The choice of worklessness, child poverty, and social exclusion as priorities follows from the social problems inherited by the Blair government. While in 1979, 9 per cent of working age households had no member in paid work, by 1997, over 20 per cent were in that position (DSS, 1999, chart 4.5). Of these, about half were in poverty, using a relative yardstick (described below). The proportion of families with children headed by lone parents had risen from 13 to 23 per cent, and less than half of these had paid work, only about one in six working full-time (Haskey, 1998). A growing share – 40 percent – of these lone-mother families were headed by women who had never been married, and the majority – 60 per cent – received means-tested cash assistance (Income Support), a higher proportion than in other economies in continental Europe. Overall, 24 per cent of all children were living in workless families in 1997, compared to 10 per cent in 1979 (DSS, 1999, chart 3.1).

Meanwhile, UK income inequality had risen rapidly in the 1980s, and under the relative definitions most commonly used in the UK and elsewhere in Europe, the proportion of people living in poverty had more than doubled.<sup>4</sup> Figure 1 shows that the relative poverty rate (measured against a threshold of 50 per cent of mean income

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<sup>4</sup> The UK does not have an official poverty line but government statistics on poverty have tended to use a relative measure. Historically, this was the share of individuals in families below 50 percent of average income. More recently, the more commonly used measure in government reports is the share of individuals below 60 percent of median income.



before housing costs) rose to above 20 per cent in the early 1990s (and is only a little lower at 18% in the latest figures for 2002-03), compared to around 10 per cent in the 1960s, and a low point of only 6 per cent in 1977. Figure 1 shows that the increase in relative poverty was particularly fast for children, rising from 8 per cent in 1968 to around 25 per cent in the 1990s, and with only a small overall decline over the 1990s.

(Insert Figure 1 around here)

If an absolute standard, analogous to the US poverty line is used, adjusted only for inflation, the numbers in poverty rose at the start of the 1980s, fell in the mid-1980s and again for a short period during the mid-1990s, and fell quite rapidly between 1997-98 and 2001-02. Against an absolute line of 50 per cent of mean income as it was in 1996-97, adjusted only for inflation, 30 per cent of the population were in poverty in 1979, 23 per cent in 1991/92 (averaging two financial years), 18 per cent in 1997-98, but only 11 per cent in 2002-03 (DWP, 2004, table H5; figures before deducting housing costs). For children, even against an absolute standard, poverty was little lower in 1992 despite economic growth than it had been in 1979, but since then it has fallen significantly, halving between 1997-98 and 2002-03. Using a fixed real line of 50 per cent of mean income as it was in 1996-97, 34 per cent of children were in poverty in 1979, rising to 40 per cent in 1981, before falling to 30 per cent in 1991/92, 24 per cent in 1997-98 and 12 per cent in 2002-03 (DWP, 2003a, table H6, BHC figures).<sup>5</sup>

Although measurements using an absolute poverty line showed child poverty falling somewhat in the 1990s (and more dramatically since 1997), for the public and the government, what mattered most was poverty defined in relative terms, which as

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<sup>5</sup> This line is a slightly lower one than would be obtained by converting the US poverty line at Purchasing Power Parities as in Figure 2.

we have seen in Figure 1 had reached historically high levels by the 1990s. Another concern was that in international terms, the UK went from being a country with an income distribution that was towards the more equal end of the OECD countries in the 1970s, to having one of the most unequal distributions, and hence one of the highest relative poverty rates, in the mid-1990s (Smeeding, Rainwater and Burtless, 2001, figure 5.1). Against a less generous poverty line than used in Figure 1 (half national median income), only the US and Russia out of twenty-five countries examined had higher relative child poverty rates in the mid-1990s. The UK figure of 21 percent compared to 26 percent in the US, but only 12 percent in Germany, 10 percent in France, and below 6 percent in the Scandinavian countries (Bradbury and Jantti, 2001, table 3.2)). The UK's position in international terms was little better if defined with reference to the US poverty line. Figure 2 shows results for selected countries for child poverty using an absolute international threshold based on the US poverty line, converted using Purchasing Power Parities and consistent income definitions. Using this definition, the UK's child poverty rate was 28.6 per cent in the mid-1990s compared to 12.4 per cent in Germany and 18.5 per cent in the US.<sup>6</sup>

(Insert Figure 2 about here)

This mounting evidence about growing income inequality and poverty was well-publicized (see, for example, the report of an "Inquiry into Income and Wealth" organized by the Joseph Rowntree Foundation and published in 1995), and public attitude surveys reflected strong support for the government taking steps to reduce inequality (Hills, 2002) At the same time, within government, there was growing concern about social dimensions of inequality -- a litany of statistics showed the UK in the late 1990s to have had social problems which had either worsened in the

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<sup>6</sup> The US poverty line is commonly seen as not very generous. However, because US incomes were so much higher than those in the UK in the mid-1990s, the US poverty line translated in PPP terms to a

previous twenty years, or were unfavourable in international terms (although in some aspects not as bad as in the US, and with regard to labor markets not as bad as in continental Europe). Those focussed on in an overview by the Social Exclusion Unit (SEU, 2001a) included, for instance, the situations of young people leaving foster care, ethnic minorities, teenage mothers, workless households, and children excluded from school, as well as problems related to drug addiction, crime levels, numeracy of school children, and adult illiteracy. A particular concern was the position of children in low income neighborhoods, with large disparities between areas in reliance on means-tested benefits, employment rates, crime rates, rates of passing school exams, mortality rates, and housing conditions (SEU, 2001b, para 1.4).

### **Evidence on long-run effects of poverty, and the effectiveness of programs**

As well as evidence on the extent of social problems, the UK Government was able to quote two other kinds of evidence in support of its strategy: evidence on the long-term impact of childhood disadvantage; and evidence on the effectiveness of particular interventions (see for instance a key Treasury document, *Tackling Poverty and Extending Opportunity* (HM Treasury, 1999). Drawing in particular on longitudinal analyses of UK birth cohort data, the Treasury quoted a wide range of academic evidence on the long-term impact of childhood disadvantage (see *CASE/HM Treasury, 1999*). Another government document, *Tackling child poverty: Giving every child the best possible start in life* (HM Treasury, 2001), also quotes a range of research evidence on the impact of child poverty on long-run outcomes. Together, this evidence contributed to a view among policy-makers that reducing child poverty, and particularly persistent child poverty, would improve children's long-term outcomes.

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higher level than the absolute UK measure referred to above, so somewhat more children fell below it.

The Treasury has also cited evidence on program effectiveness, with much of this evidence coming from the US. The UK's early years initiatives were buttressed by evidence from the US on the long-term benefits of early years interventions (Karoly et al., 1998), as well as evidence primarily from the US literature on the effects of early childhood interventions, child care, and maternal employment (Waldfogel, 1999). The "New Deal" welfare-to-work initiatives were influenced by the extensive US literature on welfare-to-work experiments, in particular the many studies carried out by the Manpower Demonstration Research Corporation (MDRC), as well as by visits of UK policy advisers to reforming states such as Wisconsin and to model programs such as New Hope and Riverside (GAIN), as well as by evidence from other countries, in particular Sweden (Cebulla, 2002). In justifying the introduction of Britain's first national minimum wage, the US evidence (notably Card and Krueger's 1994 study) was quoted alongside UK evidence (from when the old sectoral minima were abolished in the 1980s). Evidence from the US experience with the Earned Income Tax Credit was important in the design of the UK's Working Families Tax Credit, although evidence from other countries – particularly Australia and Canada – has also been important in the design of some of the tax credit reforms.

### **Public opinion and voter preferences**

The research base allowed New Labour to claim that its policies were informed by evidence, rather than political beliefs. Indeed, a defining characteristic of the "third way" is its emphasis on "what works?" rather than ideology. But, of course, it is not usually expert opinion that sways politicians, but public opinion and voter preferences. The package of welfare reform and other policies adopted by New Labour has resonated strongly with majority preferences. These preferences include a much higher priority given to reducing inequality than might be found in the US, and

with concern about inequality growing over time as income inequality in the UK increased (Hills, 2002). Attitudes in the UK also indicate support for a differentiated welfare reform strategy: a preference for a work-based strategy, and against cash benefits, for those who can work (e.g. young people or single adults), alongside support for more generous cash benefits, without strict work requirements, for those perceived as not able to work (e.g., those caring for young children or for disabled dependents), and a strategy that combines work and cash benefits for working parents (see Hills and Lelkes, 1999; Hills, 2002). It is precisely this kind of strategy that Blair outlined when he announced his package of welfare reforms. It is telling that in contrast to Clinton's promise to "end welfare as we know it", Blair's stated aim was to "make welfare popular again".

## **THE STRATEGY**

As outlined in the introduction, the UK welfare reform strategy can be divided into three parts. This strategy is intended to be greater than the sum of its parts -- there are synergies and complementarities between its different pieces. The work-based elements, for instance, are not just aimed at reducing worklessness, but also at reducing child poverty and social exclusion. Child care is intended to improve outcomes for children and break the cycle of intergenerational disadvantage, but also to promote mothers' employment so as to reduce worklessness and social exclusion. Here we describe the basic elements of the UK's welfare reform strategy; in the following section, we consider evidence on impacts to date.<sup>7</sup>

### **Promotion of paid work and making work pay**

This aspect of the UK reform package has much in common with the US, with reforms stressing both the promotion of paid work, and policies "to make work pay".

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<sup>7</sup> For other discussions, see also Brewer and Gregg, 2001 and in press; Hills, 2003; Waldfogel, in press; Walker and Wiseman, 2003a and b).

At the center are a series of welfare to work measures, collectively known as the New Deal. As noted earlier, these programs were strongly influenced by the evidence from US experiments. However, although most of the New Deal programs include compulsory employment (for groups such as young people or single adults), the New Deal for Lone Parents is an essentially voluntary scheme, in contrast to US equivalents. Lone parents receiving Income Support (the means-tested cash assistance program) are invited in for an interview with a Personal Adviser to discuss job search, training options, and the benefits and tax credits which boost incomes of those working, especially 16 hours or more a week. Attending such interviews is now compulsory, but taking up training or work is not. Thus, although there is certainly more of a push toward work than formerly, there are still no sanctions for lone mothers who do not take up work.

Another element that is similar across the US and UK is administrative reform. As part of the UK package of reforms, what had been separate offices paying benefits to unemployed people and giving advice on job search and employment opportunities are being combined into “Jobcentre Plus” offices, where new claimants start with a “work focussed interview”. In spirit this matches the notion in the US of switching the emphasis to “how can we help?” from “what benefits are you entitled to?” (see, for instance, Ellwood, 1998; Gais et al., 2001).<sup>8</sup>

To help “make work pay”, New Labour brought in the UK’s first National Minimum Wage in April 1999 (previous sectoral minima had been abolished by the Conservatives in the 1980s). The minimum wage in the UK is set at a higher level than in the US: its rate in mid-2002 was equivalent to 45 per cent of median hourly full-time earnings, compared to the US equivalent at 34 per cent of the US median

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<sup>8</sup> In March 2002 the parts of the Benefits Agency dealing with working age people and the Employment Service were merged into a single agency, “Jobcentre Plus”.

(Low Pay Commission, 2003, table A5.2).<sup>9</sup> At the same time, various reforms to income tax and National Insurance Contributions have reduced the direct tax burden on both the low paid and their employers. In particular, various jumps – or notches – in tax liability have been removed.

As a further measure to “make work pay”, the government introduced a new tax credit in October 1999, then known as the Working Families Tax Credit (WFTC), for couples with children or single parents and working 16 or more hours per week (with higher benefits if they work 30 or more hours). This (essentially refundable) tax credit replaced a previous cash benefit for low-income working families (a program called Family Credit) but at a more generous level and with a slower rate of withdrawal as earnings rise.<sup>10</sup> The WFTC at its inception was similar in many respects to the US Earned Income Tax Credit (EITC). However, there were some differences. Unlike the US EITC, UK tax credits are paid regularly through the year. Also, as discussed below, benefits for those with children and out of work have also been increased, so that while gains from work relative to non-work have increased, they have not done so nearly as markedly as in the US. As explained in section B below, the WFTC was subsumed into a new and again more generous tax credit system in April 2003.

### **Improved cash assistance for low-income families and other tax-benefit reforms**

New Labour has also made substantial changes to the tax and benefit system as a whole, with a series of measures aimed at reducing child poverty. Comparing the system as it had evolved by 2003-04 with that inherited in May 1997, the key features

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<sup>9</sup> Its current rate (October 2003) is £4.50 an hour for those aged 22 or over, and £3.80 for those between 18 and 21.

<sup>10</sup> Cash benefits for low-wage working families with children were first introduced in 1972 alongside the safety net minimum income program for all low-income families, including those without work. These benefits were made more generous and renamed Family Credit by the Conservative government in 1988.

include: significant real increases in the value of the universal child allowance, Child Benefit; introduction of a tax credit benefiting all taxpayers with children except those with the highest incomes, doubled in the first year of a child's life; substantial increases in the generosity of in-work tax credits for low-income working families with children; and substantial increases in allowances for younger children in non-working families receiving Income Support.

In April 2003, all of the various benefits and tax credits for children (apart from Child Benefit) were amalgamated into a single Child Tax Credit, which has the same value for one and two-parent families. The overall effect has been to equalize upwards support for children in one- and two-parent families. Figure 3 illustrates the structure of support that has emerged.<sup>11</sup> In effect, the system involves a fully refundable tax credit with equal value to those out of work and in low-paid work. The credit is worth less to those with higher incomes: the most generous part of it is withdrawn at a rate of 37 per cent of gross income above a threshold of £13,230 per year in 2003-04). This system is run by the Inland Revenue (the tax authority, comparable to the US Internal Revenue Service) using a system of annual income assessments to establish the size of the credit, but with regular payments of credits through the year. Payments are direct to the mother, rather than through the pay check.

Figure 3 shows the combined level of support for a couple with one child depending on their gross household income. If out of work, or working less than 16 hours on a very low income, they would be entitled to the adult part of Income Support on top of the Child Tax Credit, but this is reduced at a rate of 100 per cent as earnings rise.

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<sup>11</sup> Figure 3 shows the level of support for a couple with one child. Benefits for families with more children would be higher.



As illustrations of the value of all this to families in different circumstances in 2003-04, a non-working two child family with no earnings at all would receive a total of £178.50 per week. The same family with one earner working 38 hours per week at the minimum wage (£4.50 per hour from October 2003) would end up with a net income of £283.63 (after allowing for tax credits, Child Benefit, income tax, and social insurance payments). A non-working lone parent with one child would receive £108.90. If she worked 16 hours per week at the minimum wage, her net income would be £184.25.<sup>12</sup> These numbers compare with values of the effective poverty line (after housing costs) being used by the British government of £253 for the two-child two-parent family (at 2002-03 prices, so somewhat more by 2003-04) and £141 for the one-child lone parent family. In other words, income from benefits out of work is around 70-80 per cent of the poverty line, but for such families in work, incomes are at least 110-130 per cent of it.

The reforms and increasing generosity of the system have led to a substantial increase in the numbers receiving in-work tax credits. The WFTC went to twice as many families as the in-work cash benefit it replaced – 1.4 million by 2002-03 out of a total of 15 million families with children. The April 2003 reforms further increased the numbers receiving equivalent assistance, and the system became more generous again in real terms in April 2004.

The treatment of child support has also been reformed. Working mothers for whom the father is paying child support can now keep the full amount of their child support payments as well as their tax credits, thus providing another source of stable income as they transition to work. Non-working mothers on Income Support continue

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<sup>12</sup> Non-working tenants would be entitled to an allowance meeting all of their housing costs up to certain limits; this allowance would be substantially lower for the cases with earnings, reducing the net return to work for them. However, all these cases would be fully entitled to health care from the National Health Service, so medical costs do not enter the equation in the UK, in contrast to the US.

to gain little from child support payments, so this change significantly increases the gains from work for some.

As well as these reforms affecting weekly income, the maternity allowance paid to mothers with some previous work record has been made more generous, broader in coverage, and is now paid for 26 rather than 18 weeks. The Government is also introducing a system of Child Trust Funds (popularly known as “baby bonds”) for all children born since September 2002. These funds will receive an initial endowment (more for those from poorer families) and will build up through matched savings to produce an asset to be accessed on reaching adulthood.

Taken together, these tax and benefit changes represent a very substantial investment in low-income children and families. In real terms, the cost of benefits, tax credits, and tax allowance related to children rose from £14 billion in 1997-98 to £19 billion in 2002-03 (at 2003 prices; Adam and Brewer, 2004, figure 3.1), and it is forecast to rise further by 2004-05 to £23 billion. The increase by 2002-03 was equivalent to nearly 0.5% of GDP, and that by 2004-05, 0.8% of GDP.

### **Investments in children and measures against social exclusion**

The UK welfare reform agenda also includes measures designed to reduce the welfare dependency, and boost the employment, of the next generation, and to improve outcomes for children whose parents are currently on welfare or out of work.

Programs that deliver child care or other services for pre-school age children have been emphasized. The Government sees these programs as helping to promote mothers’ employment and to break the intergenerational cycle of disadvantage (HM Treasury, 2001). For children age 0 to 3, the Government established “Sure Start”, a community-based intervention aimed at families in low income areas. By 2004 the plan is for 500 programs across the country to reach one third of all children under 4

in poverty (HM Treasury, 2002b, para 3.23). All programs include some specific elements (such as home visits to all families with newborns, and part-time child care provision for families with children from age 3 onwards) but programs vary from area to area, depending on local preferences and needs.

There has also been a substantial increase in support for child care for both pre-school and school-age children. In 1997, New Labour pledged to provide at least a part-time nursery place for all 4-year olds. That pledge has now been fulfilled, and will be extended to all 3-year olds by September 2004. The government has also sought to improve the quality of child care, through the development of Early Excellence Centres and through the support of child care networks for home-based providers. An explicit goal of the expanded childcare provision is to raise lone mothers' employment rate to 70 per cent by 2010. Funding for Sure Start, childcare, and other early education programs is to double between 2002-2003 and 2005-2006.

School age children shared in benefits from total education spending rising from 4.5 to 5.1 per cent of GDP between 1999-00 and 2002-3 (and now planned to reach 5.6 per cent in 2005-6). This additional spending has reduced class sizes in the primary grades and has provided support for other school reforms, such as literacy and numeracy initiatives in the primary schools and efforts to improve quality in struggling secondary schools.

Helping adolescents stay in school or make better connections with the labor market has also been a focus of attention. A system of "Educational Maintenance Allowances" has been piloted and will be extended nationally from September 2004. These allowances will pay between £10 and £30 per week to 16-17 year-olds from low-income families if they stay on at school. A new "Connexions" service offers support and advice to all young people aged 13-19. Like many other recent

initiatives, this has started with pilot schemes in low-income areas, and was extended across the country in 2003.

Taken together, spending on these child-related programs was expected to approach 0.3% of GDP by 2004. Thus, while expenditures in this area were less than in tax credit and benefit increases, they were still very substantial.

The program to combat social exclusion, and worklessness, has also included a number of community-based initiatives. For instance, the “New Deal for Communities” is spending £2 billion over 10 years in 39 very deprived neighborhoods, intended to improve local employment as well as housing and the physical environment.

## **THE IMPACT OF THE UK REFORMS**

It is too early to measure the impact of the range of measures described above: some have only recently been implemented; others are not yet in force; most will take time to have any impact; key statistics are available only with a lag; and ascribing outcomes to particular instruments is fraught with difficulty. However, some specific parts of the UK reforms have been evaluated, and the overall impact of the tax and benefit reforms has been projected using microsimulation modelling.

With regard to the welfare-to-work effort, an analysis of the voluntary New Deal for Lone Parents suggests that it reduced Income Support receipt by 2.5 percentage points after one year and by 3.3 per cent after 18 months (Hasluck, McKnight, and Elias, 2000). Related evidence on the largest “New Deal” programme, that for young people, concluded that total youth unemployment was between 35,000-40,000 lower than it would have been without the programme, less than half of the actual fall between 1998 and 2001 (White and Riley, 2002). Its employment effects may have been even smaller – a net increase in 17,000 on one

recent estimate (Blundell, et al., 2003), or less than 0.1 percent of total UK employment. These findings suggest that such schemes, even if voluntary, can have positive effects, but cannot be expected to transform employment rates by themselves. With regard to the administrative reforms of welfare offices, evaluations of the pilots of this scheme suggest that clients preferred this kind of service, but did not find any increases in employment beyond those which had already accrued from more intensive pressure towards job search (Green et al., 2001).

As far as “making work pay”, one econometric analysis suggests that the overall net effect of the first phase of tax credit and benefit reforms was to increase employment by 23,000, again less than 0.1 percent of the workforce (Brewer et al., 2003). The effect is small partly because labour supply elasticities are modest, and partly because incomes of those out of work have also been increased (so differentials between incomes in and out of work have not increased as fast as in the US). The main impact of the reforms was not so much to boost employment rates, but rather to reduce poverty in work. Also acting to reduce poverty in work is the minimum wage, which was set high enough to raise the wages of around 7 per cent of workers, mainly women, but which has had no discernible effect on employment levels (Low Pay Commission, 2003).

Some indications of the potential overall impacts on income distribution and poverty rates from the tax and benefit changes can be drawn from modelling exercises which compare the actual tax and benefit system as it has been reformed, with what it would have looked like if things had been left as they were in April 1997, but with benefits and tax brackets simply adjusted for price inflation. Such analysis suggests, for instance, that the tax and benefit measures implemented between July 1997 and April 2003 had an impact equivalent to raising incomes of the poorest tenth by 22 per

cent (Hills and Sutherland, 2004). The gains have been a little larger for families containing children, a gain of 24 per cent for those in the poorest tenth. If this had been all that was going on, the tax-benefit changes by themselves would have reduced the poverty rate for children by 10 percentage points, moving more than one million children above the original poverty line.

What can be seen from statistics on the actual results is not quite as impressive, however. As Figure 1 has already shown, overall relative poverty rates did begin to fall in New Labour's first term in office, but this fall was not necessarily very fast – by between one and two percentage points comparing 2002-03 and 1997-98. For the key target group of children, the fall was faster, around four percentage points (DWP, 2004, tables H1 and H2).

There are two key reasons for the differences between modelling and trend results. One is a matter of timing: not all of the measures had yet come into full effect in 2002-03, so later years should show more improvement. But the second is an important result of looking at poverty in relative, rather than absolute terms. Using a relative poverty line creates a “moving target”. For those whose incomes mainly consist of state benefits, above-inflation increases are needed over time – and we are now talking about over seven years since Labour came into office – simply to hold relative incomes and poverty rates constant (although rising employment rates also help). Trying to make progress against a relative poverty target is like trying to run upwards on a moving staircase which is going down: quite a lot of effort is needed simply to stand still. The modelling results quoted above therefore exaggerate what we might expect to see in actual relative poverty trends. In effect, the modelling results give a better idea for what might be expected to happen to poverty rates in absolute terms in the absence of any other economic changes. Indeed, one recent

analysis using an absolute measure finds that the fall in child poverty measured against a fixed threshold of 50 per cent of 1996-97 real mean income in the five years 1997-98 to 2002-03 was 1.6 million, or 12 per cent of all children (Department for Work and Pensions, 2004, p. 65) (see also Table 1 below).

The British government has recently explained that its twenty year target is to be “amongst the best in Europe” in terms of relative child poverty (DWP, 2003a), that is, to reduce child poverty on the kind of measure shown in Figure 1 to single figures. The rate of reduction in the few years for which we have data since Blair’s March 1999 commitment is fast enough to achieve this target, if maintained. More concretely, independent modelling suggests that with the more generous child tax credits that took effect in April 2004, the intermediate target of reducing child poverty by a quarter by 2004-05 should be met (Brewer, 2004).

Evidence on the impact of measures in the wider parts of the welfare reform agenda – the investments in children and communities -- is even more scarce: the measures are more diffuse, and can be expected to have long-term, rather than short-term impacts. Evaluations of initiatives such as Sure Start are underway but are generally only at the stage of collecting baseline or preliminary outcome data.

## **HOW DO THE UK REFORMS COMPARE TO WELFARE REFORM IN THE US?**

The recent US welfare reforms have been well-documented so we describe them only briefly here (for more details, see chapters in Blank and Haskins, 2001; for a summary of the effects, see Blank, 2002).

Welfare reform in the US shifted the focus of the welfare system from providing cash and other ongoing support to low-income single-mother families as an entitlement to providing assistance to these families on a transitional basis and

contingent on their participation in work or work-related activities. Welfare reform began with state experiments in the early to mid-1990s, through waivers allowing them to apply different rules in the AFDC program. The process of reform accelerated with the passage of comprehensive welfare reform legislation, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996. PRWORA replace AFDC with a new program, Temporary Assistance to Needy Families (TANF).

TANF requires work or participation in a work-related activity at the time of application or soon thereafter, and this and other requirements are backed up with sanctions -- financial penalties that reduce or terminate benefits for families that fail to comply. In addition to these sticks, states have also offered some carrots, such as increased earnings disregards, which allow families on welfare to keep more of their earnings as an incentive to work. And, states have also stepped up efforts to discourage families from coming onto welfare in the first place, putting in place more stringent application requirements as a deterrent to entry as well as offering incentives to divert families from applying.

The states and the federal government have also greatly expanded supports for low-income working families, in an effort to “make work pay”. Particularly important in this regard was a substantial increase in the value of the federal Earned Income Tax Credit (EITC) as well as increased funding for child care and child health insurance. Together, the expanded EITC, child care subsidies, and child health insurance have greatly increased the rewards to work for low-income single mother families. Nevertheless, the investment that the US has made in welfare reforms has not been as substantial as that made in the UK, where additional spending on transfers and services for children is now around one percent of GDP.



What effects has welfare reform had in the US, and how do these effects compare to those of the reforms in the UK? Here we consider the evidence on three key outcomes: welfare caseloads, single mothers' employment, and child poverty.<sup>13</sup>

### **Welfare caseloads**

Although it is hard to separate out the effects of the strong economy and of the increased supports for working families that came into effect at the same time as welfare reform, there is no doubt that in concert with the strong economy and the increased work supports, US welfare reform has reduced the welfare reliance of single mothers. Between 1994 and 1999, welfare caseloads fell by half, from 5 million cases to 2.5 million, and recipients as a percentage of the US population fell from 5.5 percent to 2.3 percent (US Department of Health and Human Services, 2000).

Although not all the changes over the 1990s can be attributed to welfare reform, careful studies concur that welfare reform and expanded work supports such as the EITC, in concert with a strong economy, have reduced welfare caseloads (see review in Blank, 2002).

In the UK, there has also been a decline in caseloads, but the reduction is not as dramatic as in the US. The number of single parents claiming Income Support (means-tested welfare) fell from 1 million in 1997 to 837,000 in 2003, a 17 percent reduction (Department of Work and Pensions, 2003b). Thus, on the outcome of reducing welfare caseloads, the US reforms have been more effective. This makes sense, given the explicit focus of the reforms in the US on diverting families from welfare, moving families off welfare, and limiting the time that families can remain on welfare. In the UK, in contrast, reforms have been aimed at boosting employment and earnings, but not necessarily at moving lone mothers off welfare. It is important

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<sup>13</sup> There are of course other outcomes that might be affected by welfare reforms and that we would care about (e.g., family formation, child outcomes, and so on). Unfortunately, comparative evidence

to recall in this context that the generosity of Income Support benefits has risen, which all else equal, would have had the effect of increasing welfare caseloads.

### **Single mothers' employment**

A second important correlate of welfare reform in the US context has been a dramatic increase in the employment of single mothers. The labor force participation of single mothers rose 10 percentage points from 1990 to 1998 for single mothers overall and more than 15 percentage points for never married mothers, the group most likely to have been on welfare (Waldfogel et al., 2002). Although not all the changes can be attributed to welfare reform, analysts agree that welfare reform and expanded work supports such as the EITC, in concert with a strong economy, have increased single mothers' employment (see review in Blank, 2002).

How does the UK compare? Perhaps surprisingly, the more voluntary and less punitive UK reforms seem to have been about as effective as the tougher US reforms at moving single mothers into employment. The data from the UK indicate that the increase in single mother employment has been equal to that in the US, with a 10 percentage point increase between 1996 and 2002. As in the US, we do not know with certainty how much of this increase is due to policy, versus other factors. A recent econometric study by Gregg and Harkness (2003) finds that single mother employment increased 6.6 percentage points from 1998 to 2002 and attributes 5 percentage points of this increase to the effects of policy.<sup>14</sup>

If single mothers' employment did increase as much in the UK as in the US, even though the reforms in the UK were not as tough, factors other than welfare

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on such outcomes is not yet available, so we leave them to future research.

<sup>14</sup> Although not directly comparable, this is a larger share attributable to policy changes than has been typically found in US studies. With regard to within-group differences, the UK study found somewhat larger effects for single mothers with pre-school age children, than school age children, but also found that more-educated mothers were marginally more affected than less-educated mothers, suggesting that

reform must have played an important role, and such factors must have had at least as strong an influence (or a stronger one) in the UK as in the US.<sup>15</sup> One factor that may help explain the similar employment growth in the two countries is the role played by a strong economy. A second factor common to both countries is an increase in tax credits for working families, which have been credited with boosting the employment of single mothers in both countries, although the magnitude of their effects has been debated (Ellwood, 2000a; Brewer and Gregg, 2001 and in press). A third factor may be increased child care provision, which at least one study in the US suggests played a role in boosting single mothers' employment (Bainbridge, Meyers, and Waldfogel, in press).<sup>16</sup>

### **Child poverty**

A third important outcome of both the US and the UK welfare reforms has been a reduction in child poverty. The US program was not explicitly designed to raise the living standards of children, but this was an implicit goal (Haskins, 2001). Although it is difficult to sort out the effects of the strong economy from the effects of welfare reform, it is clear that child poverty rates fell post-welfare reform. According to Haskins (2001), over the period 1993 (the year before welfare caseloads began to fall) to 1999, the poverty rate of children overall fell by about 6 percentage points against the (absolute) federal poverty line (from 26 to 20 percent, not taking taxes and transfers into account, and from 20 to 14 percent, taking taxes and transfers into

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the work incentives were more valuable to the more-educated women who could command higher earnings in the labor market.

<sup>15</sup> It is also possible that single mothers in the UK, although not required to work, were affected by the work requirements being imposed on other recipients. That is, a tougher overall welfare climate may have put informal pressure on single mothers to work. However, no evidence is available on this point.

<sup>16</sup> Of course, there are also differences across countries. In particular, rates of single mother employment were higher to start with in the US than they were in the UK. This might suggest that the overall climate was more supportive of single mother employment in the US, in which case we might expect to find greater gains in employment in the US under welfare reform; or, it might suggest that the most employable single mothers were already working in the US, in which case we might expect to find smaller gains in the US under welfare reform.

account). However, as Haskins (2001) also notes, there is a group of families who are worse off financially post-welfare reform. These families have moved further below the poverty line, as a result of benefit reductions and restrictions on eligibility (for immigrants, for example) (see also Blank, 2002; Primus, 2001).

Reducing child poverty was an explicit goal of the UK reforms, and as discussed above child poverty has fallen since the reforms were introduced in 1997, although not necessarily as quickly as the reformers had hoped. How do the poverty reductions in the US compare to those in the UK? In Table 1, we compare the change in child poverty rates in the US over the period 1992 to 2001, and in the UK over the shorter period 1997-98 to 2002-03 (thus, for each country, we begin with the year prior to the reforms, and end with the most recent year for which data are available). We show in the table two alternative measures of child poverty: an absolute poverty line, the measure preferred in the US; and a relative poverty line (defined as 60% of median income), which is now the UK government's and European Union's preferred poverty measure.<sup>17</sup> On both measures, the data indicate that the UK has been more successful in reducing child poverty. Using the absolute standard, the share of all children in poverty fell by 12 percentage points over the five years of the UK reforms, as compared to 6 percentage points over the nine years of the US reforms. The UK did less well on the relative measure, but still slightly better than the US, over a shorter period.<sup>18</sup>

(Insert Table 1 and Table 2 about here)

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<sup>17</sup> We also calculated poverty rates for the UK using a second relative measure, the share below 50% of mean income (as in Figure 1), and in most instances these were not more than 1 or 2 percentage points different than the results for the other relative measure; however, we do not report those results here because statistics on a comparable measure were not available for the US.

<sup>18</sup> None of these poverty statistics tell us about the living conditions of families below poverty. One way to assess those would be to use statistics on the poverty gap – the amount of income by which poor families fall below the poverty threshold. Although comparable statistics on poverty gaps are not available, the data we do have suggests that here too the UK reforms may have been more successful.

The UK reforms have been particularly successful in reducing poverty rates for single-parent families (see Table 2). Figures for the UK indicate that the poverty rates of children in single-mother families have fallen 25 percentage points on an absolute measure, from 40 percent to 15 percent, over the 5-year period. For the US, absolute poverty among single-mother families has fallen sharply as well – by 16 percentage points over the 9-year period -- but less than in the UK. Using the relative measure, the reduction in the UK is 8 percentage points, equal to that in the US, but this still represents a faster decline given that the period is five years rather than nine.

One striking feature of the UK poverty figures is that the absolute poverty rate for children in single-mother families is now not much different from the rate for children overall, indicating the success of the reforms in addressing the problem of deep poverty in single-mother families, although the problem of greater risk for relative poverty remains. In the US, in contrast, children in single-mother families remain at much higher risk of both absolute and relative poverty than other children. Given that single mothers in the US are already working at high levels, and by definition have only one earner to send into the labor market, our data support Ellwood's (2000b) argument that the US will have to find other ways to raise single mothers' incomes if it is to achieve further reductions in child poverty. In the UK, benefits for families with children (including single-mother families with children) have been raised substantially, even for parents who are not working or are only working part-time. As a result of this larger government investment, rates of single-parent poverty have fallen faster in the UK than in the US. However, it is also important to note that we do not know how sustainable these gains will be in the long-run. It may be that policies that raise incomes, even if parents do not work, may not

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Indications are that the poverty gap in the UK is roughly the same as it was pre-reform (Brewer, Clark, and Goodman, 2003), while in the US, the poverty gap increased slightly over the 1990s (Blank, 2002).

be sustainable, either because they depress work incentives or because they erode the public will to support the poor. Six years into the UK reforms, there is no evidence of either of these pitfalls. Nevertheless, how effective each country's reforms will be in the long-run remains to be seen.

### **Summing up**

The overall lesson from the UK reforms is that it is possible, at least in the short run, to boost incomes in and out of work without damaging work incentives. The UK's third way welfare reforms have substantially raised the incomes of low-income families with children, whether or not the parents work. At least thus far, they are on track to make sizable reductions in child poverty, alongside sizable gains in lone-mothers' employment, without resorting to the more punitive aspects of the US reforms. As such, they may provide an example for the US as to how to improve the living standards of those who have not yet been reached by the US reforms, or who are working but still remain in poverty.

### **PROSPECTS FOR ADOPTING "THIRD WAY" WELFARE REFORM IN THE US**

What are the prospects for the US to adopt a "third-way" welfare reform agenda? Could such a program of reform ever be feasible in the US context? We consider here two specific challenges: whether the specific elements of the reform package that the UK adopted could resonate in the US, and more generally whether public attitudes in the US could support a "third way" approach to welfare reform.

It is of course important to note the differences in political structure across the two countries. In the UK, a Prime Minister and Chancellor can effectively declare tax and benefit policies, and these go into effect for the whole country. No U.S. President could do so single-handedly; nor could a Governor for his or her state.

There is also the question of how open U.S. policy makers are to evidence from other countries. Although policy analysis played an important role in the reforms both in the UK (CASE/HM Treasury, 1999; Walker, 1999) and the U.S. (Bane and Ellwood, 1994; Bane, 2002; Gueron, 2003), it is striking how much weight UK policymakers placed on evidence from outside the UK. We have noted how much influence evidence from the US had (see also Glennerster, 2002, and Deacon, 1998), and the UK drew on evidence from other countries as well.

Keeping these issues in mind, we are interested here in two more fundamental challenges – whether the specific elements of third way welfare reform would be feasible in the US context, and whether public attitudes would support this type of reform.

### **Elements of a third way welfare reform package**

The welfare reform program adopted in the UK – with its emphasis on child poverty, and social exclusion as well as worklessness – is at first glance quite different from welfare reform as the US knows it. Is such a program too different to ever be viable in the US? On closer examination, our view is that many of the elements of UK welfare reform are familiar and would resonate in the US context, although they would likely have to be adapted in view of differences in institutional context and values. As we have noted above, several specific elements of the reform were based on previous US experience or research evidence. Thus, the UK welfare reform agenda is perhaps not so foreign after all.

For instance, the emphasis on worklessness in the UK reforms resonates with the high value the US places on the work ethic and responsibility (see, for instance, Mead, 1986, 1992), as does the priority given to promoting work and making work pay. Indeed, several of the elements of the UK's strategy to promote work and make

work pay were drawn from the US. They were applied in different ways, reflecting different attitudes towards recipients' responsibilities and obligations. For instance, in the UK context lone parents are not expected to work, and certainly not to work full-time, when they have pre-school age children. This may be in part because it is not normative for married mothers to do so.<sup>19</sup> There is also a sense by some in the UK that if a child is living with a single mother, it may be more important that the mother should be home to look after the child, particularly when the child is pre-school age.<sup>20</sup> But the basic idea that individuals have an obligation to work to the extent possible is a shared value across both countries; the difference is over what is seen by people as reasonable or "possible".

The goal of reducing child poverty, which was such a prominent feature of the UK reforms, was not an explicit element of the US reform. However, the concept of tackling child poverty is not a foreign one. The US has a long tradition of concern about child poverty and a long history of initiatives targeted to addressing it. Indeed, the showcase UK children's initiative, Sure Start, drew heavily on US evidence, and in many respects is similar to the US's Early Head Start. Yet, it also remains the case that no US president has made a commitment like Tony Blair did to end child poverty in the next generation (although a US president, Lyndon Johnson, did declare War on Poverty). Whether the US might yet develop the political will to make such a commitment (or to renew Johnson's commitment) remains to be seen.

The third leg of the UK welfare reforms, social exclusion, is a concept that is foreign to the US, as it was in the UK a decade ago – but perhaps not so foreign as it

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<sup>19</sup> Only 52 per cent of all mothers with children aged 0-4 were in full- or part-time employment in Spring 2002 (Office for National Statistics, 2002).

<sup>20</sup> When offered the choice between three statements about a single mother's responsibilities, and asked about children under school age, 21 per cent of respondents to the 1998 *British Social Attitudes* survey said that she "has a special duty to stay at home and look after the child", 51 per cent that "she should do as she chooses, like everyone else", and only 17 per cent that she has "a special duty to go out to



appears at first glance. The US has many constituencies that are concerned about persistent poverty and social dimensions of inequality, and the US places a high value on economic mobility and equal opportunity. Although the use of the term “underclass” has gone out of fashion, the concerns that prompted it remain, and in fact were arguably an important motivator for the 1996 welfare reforms (Haskins, 2001). The case that Blair made – that no child should be doomed to a life of poverty and reduced opportunities, cut off from the mainstream and with no hope of ever joining it, or indeed, “left behind” – could well resonate with American values.

### **Public attitudes**

To what extent would public attitudes in the US pose a challenge to adopting a broader, “third-way” welfare reform agenda? One serious challenge is the lack of consensus in the US about whether inequality is a problem that government should address. In contrast to respondents from European countries, US respondents to attitude surveys are less likely to see inequality as a problem that government should address, and are less likely to see the gap between rich and poor as too large (Hills, 2003).

The American public’s comparative indifference to inequality is reflected in the fact that the US still uses an absolute, rather than relative, poverty standard. It may be that using an absolute standard affects how the US defines the problem of poverty/disadvantage and also perceptions as to whether the problem is getting better or worse over time. Figure 2 and Tables 1 and 2 illustrate this point: the figures using an absolute poverty line show overall child poverty in the US to be at a lower level than the UK pre-reform, and declining significantly over the 1990s (albeit not as fast

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work to support the child”. For a school age child, 44 per cent choose the “go out to work” option, 45 per cent “do as she chooses”, and only 5 percent the “stay at home” option (Hills and Lelkes, 1999).

as in the UK recently). By contrast, the figures using a relative line show higher poverty rates for the US than the UK, and ones that decline only slightly in the 1990s.

It is also important to take into account the difference across the two countries in the prominence of issues to do with race, ethnicity, and immigration status, which may affect public attitudes towards welfare, poverty, and inequality. Work by Martin Gilens (1999) has highlighted the extent to which American attitudes toward welfare are related to racialized attitudes about work effort and welfare receipt, and, concerns about immigration were an important factor in the most recent welfare reforms.

These issues do not enter into agenda-setting for welfare reform in the UK in anything like the same way. Although there is a fierce debate currently about benefits for “asylum-seekers” and there has been some recent attention to residential and educational racial segregation, issues of race or ethnicity or immigration are simply not central to the welfare reform agenda.<sup>21</sup>

So, in considering agenda-setting, and whether and how a “third way” agenda could be adopted in the US, US attitudes towards welfare and inequality, and issues of race, ethnicity, and immigration status, will have to be taken into account. Yet, when we do take them into account, they do not much change the conclusions we drew above. Tackling worklessness and child poverty are themes that could resonate in the US, even given the complex racial and ethnic issues and issues around immigration and citizenship. Making a commitment to tackle social exclusion, and to value social inclusion, remains a challenge, given the relatively low levels of public concern about inequality in the US. Nevertheless, as the US becomes more racially and ethnically

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<sup>21</sup> One reason for this may lie in the comparative sizes of minority groups. In the UK, while the non-white population is almost twice as likely to be below the most commonly used poverty line as the white population, non-whites still make up only 16 per cent of the poor (DWP, 2004, table 3.3; numbers in 2002-03 below 60 percent of median income before housing costs). Partly as a result, child poverty is not popularly seen as a black/white issue – a stereotyped “poor child” in the UK would probably be the child of a white lone parent living on a public housing project.

diverse, and as immigrants make up an increasingly important voting bloc in states such as California, Florida, and Texas, tackling social exclusion, or promoting social inclusion, may become more popular and may take on more political importance.

## **CONCLUSIONS**

Recent US welfare reforms, whether promoting work first or human capital development, have all had in common an emphasis on employment as the key to improving the life chances of children living in single mother families. We describe in this article a different type of reform – what we call a “third way” in welfare reform. Drawing on the example of the UK’s recent welfare reforms, we discuss what it would take to make such a reform possible, what elements it might contain, and what impacts it might have. We contrast this case with the case of the recent work-oriented reforms in the US and consider whether this approach might be feasible in the US.

There is much for the US to learn from what the UK has done. In contrast to the US, the UK has pursued a set of more generous reforms, raising benefits for families with children even if the parents are not working, and relying on voluntary work incentives rather than time limits and sanctions to boost single mothers’ employment. The program has been costly and has not resulted in welfare caseloads falling as fast as in the US. But it has been accompanied by a faster increase in single-mother employment and more rapidly falling child poverty, particularly for the children of single parents, even before all the reforms (and costs) have taken effect. Given the continuing high rates of child poverty in single-mother families in the US, the UK reforms may offer some useful ideas, particularly as the country moves into a period of slower economic growth and lower labor demand. Although it is too soon to tell what the overall impact of the reforms will be, the promising start suggests that

US scholars and practitioners should keep an eye on the UK reforms and keep tracking them as their progress unfolds. It will also be important to look at the long-run effects and the overall sustainability of the “third way” reforms.

We have also considered the prospects for the US to adopt a “third-way” welfare reform agenda, one that moves beyond an emphasis on moving families from welfare to work to a commitment to tackling child poverty and social exclusion and improving outcomes for children. We see two important challenges. First, the US would have to develop its own approach to “third-way” welfare reform. It can not be assumed that the US would endorse each specific element of the package that the UK adopted; differences in institutional context and values would have to be taken into account. Second, moving to a “third way” approach to welfare reform is unlikely to be politically feasible in the US context unless there are some shifts in public attitudes towards poverty and inequality. This last challenge is likely to be the stiffest.

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**Table 1 – Child poverty rates, pre- and post-reform in the UK and US, using absolute and relative poverty measures [%]**

UK	Absolute	Relative
1997-98	24	25
2002-03	12	21
Change	-12	- 4

  

US	Absolute	Relative
1992	19	38
2001	13	35
Change	- 6	- 3

Note: Figures for the UK from Department for Work and Pensions (2004), Tables H2 and H6; absolute poverty is defined as income (before housing costs) below 50% of the 1996-97 mean, and relative poverty is defined as income below 60% of median income. Figures for the US from Dickens and Ellwood (2003), table 4; absolute poverty is defined as income below the official US poverty line, and relative poverty is defined as income below 60% of median income ;income for the US includes the value of EITC, food stamps, and housing benefits, in order to be consistent with the UK.

**Table 2 – Poverty rates for children in single-mother families, pre-and post-reform in the UK and US, using absolute and relative measures [%]**

UK	Absolute	Relative
1997-98	40	41
2002-03	15	33
Change	-25	- 8

US	Absolute	Relative
1992	44	67
2001	28	59
Change	-16	- 8

Note: Figures for the UK from Department for Work and Pensions (2004), Tables E7.2 and E3.1. Figures for the US from Dickens and Ellwood (2003), table 5. See note to Table 1 for definitions of absolute and relative poverty.