Child benefit: fit for the future

60 years of support for children

Fran Bennett with Paul Dornan

CHILD POVERTY ACTION GROUP

CPAG policy briefing: August 2006

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CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this purpose, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes and publications.

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Executive summary

- August 2006 marks the sixtieth anniversary of universal benefits for children in the UK – first family allowances, then child benefit.
- Support for all children redistributes resources to those with additional costs, to the time in the lifecycle when extra is needed, and to the next generation. And it shows the value society places on children, not just as an investment but also in their own right.
- Universal benefits also help prevent poverty. Countries with generous non-means-tested support for children tend to have low rates of child poverty.
- Child benefit is multi-purpose. It is simple to claim and is claimed by virtually all those entitled. Despite the 'light touch' means test, and the high take-up, child tax credit still does not match child benefit on these criteria.
- Child benefit provides essential help for many of those on low incomes. Payment to the mother, and clear labelling of child benefit as being meant for children, helps to ensure it is spent on the things that children need.
- These are also features of child tax credit. But child benefit also provides stability when incomes fluctuate, and 'follows the child' through changes in partnership status – so it plays an essential protective role.
- The history of child benefit shows its resilience, despite many challenges. But recent policy has placed increasing emphasis on means-tested help for children, with child tax credit overtaking child benefit as the major form of support.
- There is a growing consensus that it is time to rebalance support for children towards child benefit. Child benefit is no longer deducted from the extra help given to children in low-income families. So increases benefit them in full.
- There is also support for rebalancing the structure of child benefit towards larger families. The current structure of support for children in the UK which gives proportionately more to one child families is unusual internationally.
- Children in larger families run a higher risk of poverty. Tackling this is important to achieve the goal of halving child poverty by 2010. Policy options to help do this, while also putting more emphasis on child benefit, include a higher rate for second and subsequent children, or more help for families with three or more children. The first of these options produces a more sensible structure from where we are now.
- Such an increase would not only help tackle poverty in larger families, but also help encourage 'second earners' in couples with children into employment. And it would be a fitting decision for the Government to make in the sixtieth anniversary year of universal benefits for children.

One Introduction

> Child benefit remains the fairest, the most efficient and the most cost-effective way of recognising the extra costs and responsibilities borne by all parents.
> Rt Hon Gordon Brown MP, Chancellor of the Exchequer, Budget speech, March 1998

> The Government believes it is right that society should recognise the importance of family life by providing financial support for every family with a dependent child.
> HM Treasury, *Tax Credits: reforming financial support for families*, 2005, para 6.2

> It is right that families with children at all income levels should receive some recognition for the additional costs of bringing up children and that the tax/benefit system should allow for some general redistribution of resources from those without children to those who have the responsibility of caring for them.
> Department of Health and Social Security Green Paper, *Reform of Social Security*, HMSO, 1985, p48

August 2006 sees the sixtieth anniversary of family allowances – the predecessor of child benefit. Beveridge, whose report in 1942 laid the basis of the post-war welfare state in the UK, saw family allowances as an essential building block for his scheme to work. Frank Field MP, a former director of the Child Poverty Action Group (CPAG), has described the significance of the Family Allowances Act:

> The living standards of children were to some extent to be decided upon by the nation as a whole, not solely by the capriciousness of the market.[1]

CPAG came into being in part to fight for an increase in family allowances. And it has subsequently had a long association with child benefit, having championed its introduction in the late 1970s to replace family allowances and child tax allowances as a fairer system of support for children.

So this report, written for CPAG, focuses on child benefit: its rationale, its history and its multiple functions. It sets out the case for investing more resources in it, to rebalance the system of financial support for children in the UK towards more emphasis on child benefit. And it explores ways of doing this which would also rebalance the current structure of child benefit towards more support for larger families. It has been written now in part because of the sixtieth anniversary of universal benefits for children, given without regard to their parents' circumstances – some thirty years of family allowances, and some thirty years of child benefit – and in addition so that its arguments can feed into the forthcoming public expenditure round and contribute to the Government's thinking about child poverty.

The rest of this report is structured as follows:

- **Chapter 2** outlines how child benefit works, the key arguments for supporting all children, and how child benefit is of particular value for children in poverty.
- **Chapter 3** examines its importance and the various functions that it has.
- **Chapter 4** uses the history of child benefit to highlight key issues and challenges.
- **Chapter 5** analyses what has happened to the rates of child benefit over time.
- **Chapter 6** suggests policy directions for the future.
- **Chapter 7** draws brief conclusions.

Notes

1 F Field, 'A Family Legacy', the *Guardian*, 7 February 1996

Two Background

Child benefit: the facts

- The vast majority of developed countries have some form of cash benefit and/or tax arrangement to take account of the presence of children in households, which is not paid only to those on low incomes. This kind of support is usually called 'universal'. It is generally seen as part of family policy, as well as social security or tax policy.
- In the UK, this form of payment is represented by child benefit. After retirement pension, child benefit is the most commonly received benefit in the UK, according to the 2004/05 Family Resources Survey, with 28 per cent of households in receipt of it.[1] In that year, child benefit cost some £9.6 billion compared with just over £7 billion in 1996/97.[2] Child benefit provided the majority of all support for children from its introduction in the late 1970s until very recently.[3]
- Child benefit is usually paid to the mother.[4] The details of this arrangement are explained in *Supporting Families: the financial costs and benefits of children since 1975*.[5] In 2002, 95.5 per cent of child benefit 'customers' were women, according to the Government.[6]
- The amount of child benefit paid does not depend on the age of the child. It is paid to virtually all children in the UK aged under 16, and to those aged 16 to 19 who are in full-time non-advanced education or some other specific circumstances. Child benefit is now paid at the same rate to lone parents and two parent families (there used to be an addition for lone parents, called one parent benefit, but this is being phased out).
- But since May 2004, child benefit (and child tax credit) claimants must also have a 'right to reside' in the UK under national or European Community law.[7] This means that asylum seekers and those with work permits, for example, are no longer entitled to claim child benefit. CPAG now describes child benefit as 'near universal', rather than fully universal, because of these immigration restrictions.[8]
- Child benefit is ignored when child tax credit is calculated, so it does not reduce the amount of child tax credit paid. There is no legal obligation on the Government to uprate child benefit each year in line with prices or earnings increases. Nevertheless, in practice the convention has been to uprate it in line with prices, with some exceptions (see below).

The case for supporting children

> In 1945, it was decided that because of the importance of the childrearing role of the family to the future of the whole community, the community should share with parents the cost of children, through family allowances. Child benefit has now taken over this role.
> J C Brown, *Child Benefit: options for the 1990s*, Save Child Benefit, 1990, p10

Why should parents be helped with the costs of children? A good place to start is the rights of children themselves. Article 27 of the United Nations Convention on the Rights of the Child declares that children have a right to 'a standard of living adequate for the child's physical, mental, spiritual, moral and social development'. It makes clear that parents or others responsible for the child have primary responsibility, but that governments should assist parents.[9] This makes it clear that society as a whole has a responsibility towards children.

Other arguments which support the payment of child benefit and other similar benefits include the following.

- **Horizontal redistribution.** Since those with children have higher costs than those without, they need additional support at whatever level of income they live on, in order to equalise the tax contribution between those with and those without children.
- **Lifecycle redistribution.** Most people have children at some point, and that is a time when needs are higher and income tends to be lower; so child benefit helps to redistribute resources (and the tax contribution) over the lifecycle.
- **Intergenerational redistribution.** Since everyone – childless people, as well as those with children – will benefit in due course from the productivity of children being brought up now, society should share the cost of bringing up those children with their parents, as an investment by us all in the next generation.
- **Value placed on children.** A payment to all children is concrete evidence of the value placed on children and child-rearing by society. In 1999, the Chancellor of the Exchequer described children as 20 per cent of the population but 100 per cent of our future.[10]

In the 1980s, there was a widespread view that children were equivalent to a private consumption choice of their parents.[11] They were, it was argued, no more deserving of public support than, say, the choice to have a yacht or a second holiday. But to think of children in this way devalues them as human beings with their own human rights.[12] As Eleanor Rathbone – who fought for family allowances for over two decades, and died just before they were introduced – wrote in 1940:

> Children are not simply a private luxury. They are an asset to the community, and the community can no longer afford to leave the provision for their welfare solely to the accident of individual income.[13]

We seemed then to have forgotten what she had said so eloquently. Now, there is instead an emphasis on investment in children, seeing children as precisely such an 'asset'. This means that they are seen more as a 'public good', rather than a private consumption choice.[14] Of course, there are also dangers in going too far in this direction. Children may be seen more in terms of 'human becomings' in the future – their potential value to society, after they have become adults, and can contribute productively – rather than 'human beings' in the present.[15] The experience of childhood itself may be undervalued. But it is nonetheless a more positive attitude towards children, that recognises the importance of supporting society's future development, and that provides the basis on which to build a case for generous levels of support:

> If children can be viewed, at least partly, as a public good, then shifting some of their cost to society at large can be seen as promoting distributional justice.[16]

A report about child benefit written in 1990 put the issue clearly:

> Having children is an individual decision and must remain so, but to the extent that this choice is governed by economic considerations, policies should seek to ensure that the choice is not weighted against children.[17]

Child benefit and child poverty

These arguments are about the case for supporting all children. It is in the area of financial assistance that this case is most often queried; universal services for children, such as education and health care, are not usually questioned. CPAG, like many other organisations working against child poverty, is well aware that child benefit as a universal benefit has a role not only in supporting all children but also in protecting children against poverty. And it not only supports children living in families already in poverty, but also plays a vital role in helping to *prevent* poverty and deprivation, rather than just trying to patch things up when they have already gone wrong.

The importance of this preventative role is underlined by research that looked at payments contingent on the presence of children in European countries (the 15 member states before the accession countries joined). This research demonstrates that such payments make a significant contribution to poverty reduction in one group of countries with low rates of child poverty – and these countries mainly make use of universal benefits like child benefit and tax concessions, 'though their systems are not particularly targeted on low-income children they nevertheless perform well in protecting children from poverty'.[18] Countries which target payments on children in low-income households, on the other hand, may have similar levels of expenditure, but tend to have higher rates of child poverty.

The Work and Pensions Select Committee endorsed this:

> …it is notable that countries who deliver financial support for children predominantly via non-means-tested benefits, for example, Denmark, Norway and Luxembourg, have comparatively low levels of child poverty.[19]

Though it added, 'but at the cost of high taxation.'

The Commission on Families and the Wellbeing of Children also put the case for 'entrenching a universal system of financial support for parents [in the UK]' in the context of child poverty in its report.[20] This was based on the broader argument that adequate support for children in families on lower incomes was related to such universal support:

> The Commission is of the view that the social solidarity required to sustain adequate protection for the worst-off children is strengthened if some significant benefit is extended to every family.[21]

CPAG's manifesto to eradicate child poverty in 2005 called for the combined value of child tax credit and child benefit to be uprated at least in line with the fastest growing of either prices or earnings. But it added: 'The element of this that is child benefit ought to be maximised'. This report explains why.

Notes

1 R Chung and others, *Family Resources Survey: UK 2004-05*, Department for Work and Pensions, 2006

2 House of Commons *Hansard*, Written Answers 30 March 2006, col 1111W

3 S Adam and M Brewer, *Supporting Families: the financial costs and benefits of children since 1975*, The Policy Press for Joseph Rowntree Foundation, 2004

4 Information about benefits and tax credits in this report is taken from CPAG's *Welfare Benefits and Tax Credits Handbook 2006/07*, but the summary here should not be taken as a full or definitive interpretation of the law.

5 See note 3

6 House of Commons *Hansard*, Written Answers 17 July 2002, col 295W

7 House of Commons *Hansard*, Written Answers 2 May 2006, col 1438W. An EU national will generally only have a right to reside if s/he is working in the UK, or has done so for some time. If s/he is not working in the UK, an EU national will generally only have a right to reside if s/he has sufficient resources or income to avoid becoming a burden on social assistance (basic means-tested benefits such as income support)

8 Child Poverty Action Group, *Ten Steps to a Society Free of Child Poverty: CPAG's manifesto to eradicate child poverty*, CPAG, 2005

9 UNICEF, 'Child Poverty in Rich Countries, 2005', *Innocenti Report Card No. 6*, UNICEF Innocenti Research Centre, 2005

10 For some useful summaries of the arguments in favour of supporting all children, including some or all of these, see J Brown, *Child Benefit: investing in the future*, CPAG Ltd, 1988; J C Brown, *Child Benefit: options for the 1990s*, Save Child Benefit, 1990; T Ridge, 'Benefiting Children? The challenge of social security support for children' in J Millar (ed), *Understanding Social Security: issues for policy and practice*, The Policy Press, 2003; S Adam and M Brewer, *Supporting Families: the financial costs and benefits of children since 1975*, The Policy Press for Joseph Rowntree Foundation, 2004; and D Hirsch, *Financial Support for Children: defining responsibilities and adequacy*, Report to the Commission on Families and the Wellbeing of Children, National Family and Parenting Institute, 2005

11 A Dilnot, J Kay and C N Morris, *The Reform of Social Security*, Oxford University Press, 1984

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13 E F Rathbone, *The Case for Family Allowances*, Penguin, 1940

14 G Esping-Andersen with D Gallie, A Hemerijck and J Myles, *Why we Need a New Welfare State*, Oxford University Press, 2002

15 R Lister, 'Investing in the Citizens of the Future: transformations in citizenship and the state under New Labour', *Social Policy and Administration* 37:5, 2003, pp427-443

16 M Matsaganis and others, *Child Poverty and Family Transfers in Southern Europe,* Euromod Working Paper EM2/04, 2004, p16

17 J C Brown, *Child Benefit: options for the 1990s*, Save Child Benefit, 1990, pp15-16

18 M Corak, C Lietz and H Sutherland, *The Impact of Tax and Transfer Systems on Children in the European Union*, Innocenti Working Paper 2004-05, UNICEF Innocenti Research Centre, 2005, piii

19 House of Commons Work and Pensions Select Committee, *Child Poverty in the UK*, Second Report, Session 2003-04, HC 85, The Stationery Office, 2004, para 203

20 Commission on Families and the Wellbeing of Children, *Families and the State: two-way support and responsibilities*, The Policy Press, 2005

21 See note 20, Executive Summary, pp17-18

Three The importance of child benefit

Multi-purpose

As noted in Chapter 2, child benefit is multi-purpose. It is an instrument of 'horizontal' redistribution, from those without children to those with. It acts as a form of savings bank, redistributing resources over the individual/family lifecycle, from those times when people need the money less to those times when they need it more, whatever the level of income they live on. It also performs a 'vertical' redistribution function, in that those with children are likely on the whole to be less well off than those without.

Essential

One father who was interviewed in 2006 for the Within Household Inequalities and Public Policy research project for the Gender Equality Network (GEN5)[1] said: 'In an ideal world [child benefit] would belong to the children – and in a way it does, because it helps us live'. And a mother interviewed for the same research, who had had the main responsibility for spending on the children when living on a low income in a previous relationship, said: 'I had child benefit – as long as I had that, they never went without'. It is not accidental that many organisations with the greatest practical experience of working closely with families living in poverty are among the most enthusiastic supporters of child benefit, because they know that many rely on it.

Simplicity

> [I] put on the political map the idea of the child benefit as a great simplification of the many ways in which our governments had tried to bring help to those caring for our nation's future citizens.
> Letter to The *Times*, 29 October 1987, from Sir John Walley, former Deputy Secretary in the Ministry of Social Security in the 1960s

Child benefit is easy to claim and only has to be claimed once for each child, the qualifying rules are simple, and its amount and structure do not change as children get older.[2] Its 'costs of compliance' are, therefore, low for claimants. It does not distinguish between lone parents and couples, married or unmarried parents, or those in or out of paid employment. In 2004/05, only 1.05 pence in the pound was spent on administration costs,[3] compared with some 3 pence in the pound spent on managing and paying child tax credit.[4] At a time when the Government is actively investigating the possibilities of simplifying the benefits system, child benefit could be seen as a model.

Take-up

Child benefit has reached more children living in low-income families than any of the benefits or tax credits specifically designed for them, and also reduces the numbers who need them. Means-tested systems have been described as better at excluding all the better-off than at including all those living on low incomes.[5] As Peter Kellner once argued:

> If 'targeting' is the central aim of the benefits system, then in one important sense universal benefits are better than means-tested ones, for virtually everyone entitled to them takes them up.[6]

Child benefit has almost universal take-up, with the Government estimating this recently at 98 per cent.[7] The new child tax credit reached 79 per cent of those eligible in its first year, 2003/04.[8] But this includes families who were still on income support or income-based jobseeker's allowance and getting support for their children via those benefits, not child tax credit.[9] There were higher take-up rates among the lowest income families, with 93 per cent take-up for families with children on incomes in work of less than £10,000 per year. While this low income group is not broken down between lone-parent and two-parent families, other figures show that 91 per cent of working lone parents,[10] compared with 73 per cent of eligible couples with children with one or more earners claimed child tax credit and it is likely that many of those with an earner, and with incomes of under £10,000, will have been headed by lone parents. (Take-up by those entitled only to all or part of the family element was only 69 per cent.)[11]

The Government should be congratulated for managing to boost the take-up of child tax credit compared with working families' tax credit and family credit – though this is not really comparing like with like, as it admits.[12] The more comparable figure, according to the Government, was 89 per cent take-up of child tax credit among families with children on low incomes in employment, higher than the take-up of working families' tax credit.[13]

This is very encouraging. It does follow the pattern of means-tested benefits in the past, when those who had most to claim were more likely to take up their entitlement, and those out of work, and lone parents in work, were more likely to claim than two-parent families with an earner. Take-up of child tax credit is higher. But the reforms to a means-tested system to remove the stigma of claiming – by paying it to parents in and out of employment, by associating it with the tax system, and by including a per family element paid to most families – have still, however successful, not managed to raise the take-up rate to the same level as for universal child benefit. The Government contrasts the number of individuals on child tax credit (20 million) with those on family credit (under 3 million).[14] But it would be more accurate if such comparisons also included the children's rates and family premium in means-tested benefits which low-income families out of work used to get, as well as the various tax allowances/credits for families. Moreover, the report on take-up of tax credits by the Government states that 'there are a number of methodological challenges involved' in obtaining a clear picture of take-up, and that whilst many have been dealt with 'fully or partially', 'others ... remain unaddressed'.[15] There is presumably room for improvement, therefore, in the take-up figures published.

What is also of concern is the evidence emerging (p20) about some families deciding not to renew their claims for tax credits because of their experience of overpayments and administrative problems. This evidence is so far anecdotal. But the published figures on terminations of tax credit awards in 2004/05 show high numbers of families who must be either failing to report their incomes for the previous tax year by the right date, not returning their signed award notice, or ceasing to meet the qualifying conditions.[16] The breakdown between these categories is not available, but may suggest that one reaction to the problems some people have experienced is not to renew a claim. Because of the two-part structure of child tax credit, this means that such families would miss out on the family element, to which most families should be entitled, as well as the child element for low- to moderate-income families. And working tax credit, if relevant, would also be lost.

A ladder out of poverty

Child benefit helps provide a ladder out of poverty because it is not reduced when other income goes up. It does not contribute to the unemployment trap – the situation in which people may be little or no better off in work than out – because it is paid at the same level whether a family has a parent in employment or not. This should also be true of child tax credit, which has been described as a 'seamless' system of support, once all those on income support and jobseeker's allowance have been moved onto it. But tax credits still contribute to the poverty trap – the situation in which people may be little or no better off earning additional income – because they are reduced (along with means-tested benefits, such as housing benefit and council tax benefit) when other family income increases when a family has a parent already in employment. Housing benefit and council tax benefit are withdrawn first, and then working tax credit, followed by child tax credit.[17]

This may act to help dissuade a parent already in employment from working longer hours, or a parent at home in a two-parent family from taking up paid work.[18] While the numbers of 'heads of working households' with marginal deduction rates of over 70 per cent have been reduced by half a million, from 740,000 to 240,000 between April 1998 and 2006/07, the numbers with rates of over 60 per cent have increased from 760,000 to 1,730,000.[19] (The increase in those with marginal deduction rates of 40-70 per cent results primarily from the introduction of tax credits and the extension of working tax credit to new categories of people.) Child benefit, by contrast, provides people with a floor to build on through their own efforts.

Perceived disincentives may be just as important as actual ones. For example, those contemplating going into work often think they will not be entitled to any help with their rent. And it is not clear how important financial (dis)incentives are to parents' decision making, compared with other factors, such as the ages of their children and the availability of childcare provision. Research has suggested that previous tax credits and associated reforms are likely to have increased employment overall, in particular among lone parents. (Evidence suggests that tax credits contributed nearly half of the rise in lone parents' employment from 46 to 56 per cent since 1997.)[20] This net increase in employment, however, probably included a reduction in second earners' employment in couples (mainly affecting mothers).[21] The Government is aware of this problem and changed the structure of tax credits to try to lessen disincentives for second earners.[22] And from April 2006 it has also raised the amount of income disregarded ten times, from an increase of income compared with the previous year of £2,500 to £25,000 to get round some of the recent problems of overpayments.[23]

But perhaps more important than any potential disincentive effects are the mixed messages which seem to be being sent by the Government if parents' efforts to increase their income result in high marginal deduction rates, as the withdrawal of tax credits and means-tested benefits is added to the payment of higher income tax and national insurance contributions. This is particularly important now, given the Government's focus on encouraging 'second earners' within couples into employment as a key feature of its accelerated anti-poverty strategy.[24]

Payment to the mother

CPAG has studied the payment of child benefit to mothers, and revealed how highly it is valued by them.[25] This has also been borne out by official studies, including qualitative research commissioned by the Government.[26] Research evidence has shown that money coming into the family via the 'purse' rather than the 'wallet' is more likely to be spent on children.[27] In addition, child benefit is particularly valuable for women who may not receive a fair share of the resources coming into the household. There is a series of studies which demonstrates the importance of child benefit to mothers, both as a form of independent income and to meet children's needs.[28] In terms of individual income, around one-fifth of income from benefits (not including tax credits) received by women in 2004/05 came from child benefit.[29]

Participants in the GEN5 study were asked what they thought about child benefit usually being paid to the mother. There was overwhelming support for this in principle. It was clear that most people just took it for granted. One or two people drew on their own experience to say that it should be paid to whoever is looking after the child. Several people said that it would make no difference in their own relationship, but that they knew of other families where the children would not get as much if child benefit was not paid in this way. One woman said that child benefit provided an 'independent income' for mothers.

Child benefit confers protection for the individual's pension record, through home responsibilities protection, if entitlement to child benefit persists for a whole tax year. This is an important means of preserving the future rights of parents caring for children. This protection is going to be made more flexible under the Government's recently published pension proposals (contained in a White Paper published in May 2006).

Although child tax credit is paid to the main carer, usually the mother, take-up depends on a joint claim being completed, including details of both partners' incomes. And child tax credit may be reduced when the other partner's income increases, without a guarantee that any such increase will be passed on to the person mainly responsible for meeting the children's needs. Child benefit still seems to be the only almost completely regular and reliable benefit paid for children, and can be claimed without loss of dignity or privacy.[30]

Labelled for children

An allowance for children should be paid in a way which lends itself to being seen as 'children's money'.[31] Participants in the GEN5 study were completely clear that child benefit was meant for the children's needs: '…never thought who child benefit belonged to – it never crossed my mind – it's for the kids'. As one mother said: 'It was his [her son's] – to help me provide what he wanted – school trips, shoes etc.' There was no ambiguity about this. In practice, however, those on the lowest incomes found it difficult to separate it out from the general housekeeping: '…we can't afford to set money aside. It just pays what we need to pay.' This bears out evidence in *Mother's Life-line: a survey of how women use and value child benefit*[32] and elsewhere, which demonstrates the constraints on low-income families' budgets.

Stability

Child benefit provides some security and stability to children and their parents in the changing labour market of the twenty-first century, with its growing proportion of part-time and temporary jobs and increasing self-employment.[33] The Commission on Social Justice suggested that the increasing prevalence of fluctuating incomes was one of the reasons why arguments against means-testing were not old-fashioned but, on the contrary, particularly relevant to today's conditions.[34]

Those living on low incomes are particularly likely to have incomes that fluctuate. One respondent in the GEN5 research contrasted the stability of child benefit favourably with their experience of income based jobseeker's allowance and child support:

> Child benefit isn't like that; it goes towards the kids and it's a set amount, doesn't matter what the circumstances. But the others are all forms and paperwork… it's not worth the hassle.

The difficulties surrounding the introduction and impact of tax credits show how important this is. This family had decided not to apply for child tax credit again because of their recent experiences of overpayments and administrative difficulties. This was not the only family in the small GEN5 study in this position. The new tax credits are as vulnerable as all complicated means-tested systems are to administrative overload and other similar problems, and while many low-income families budget on a monthly basis, they operate on annual income.

On average, as a recent study showed, benefit incomes are more variable than net pay.[35] But benefits had a mixed pattern, with child benefit being stable,[36] which for some families led to somewhat more regular total income.[37] In the list of different items of income, child benefit had the highest number of respondents reporting that the amount was 'approximately the same' each time they had received it over the past nine months. In nearly a third of cases, on the other hand, income was more variable after tax credits than before.

Family fluidity

Child benefit remains the only benefit for children paid to the main carer in couples regardless of the resources of their partner. It therefore has a child protection function.[38] Times of transition (in parental relationships and/or employment status) seem to be associated with severe or persistent child poverty.[39] A significant advantage of child benefit, therefore, is that it 'follows the child' through changes in the family unit. This makes it a thoroughly modern benefit[40] – and is different from child tax credit, for which a new claim must be made with any change in partnership status.[41] It is not clear what the scale of this problem is, however, since it seems that information about the number of child tax credit awards which ended in 2003/04 because of a change in partnership status is not available.[42]

This was one of the reasons why the Women's Budget Group, in its recent report on the links between women's and children's poverty, argued for:

> …higher priority for child benefit within the overall package of financial support for children, as the best means of protecting children, particularly during transitions in parents' partnership status.[43]

It could be argued that the family element of child tax credit performs some of the functions described above, either partially or fully. But it does so only at the expense of higher administrative costs and joint assessment for many couples, because it is still based on an income test, although it represents an attempt to make the tax credit system more inclusive.[44]

Notes

1 Work in progress as part of the Gender Equality Network funded by the Economic and Social Research Council (RES-225-25-2001) (www.genet.ac.uk – see Project 5). The research for Project 5 is being led by Fran Bennett, Sue Himmelweit and Holly Sutherland, and the qualitative research is being carried out by Fran Bennett and Sirin Sung. The examples here represent preliminary findings only. Subsequent references to the research in this report use the acronym GEN5.

2 Apart from the payment for the first eligible child passing to the next child in families with more than one child as the first child becomes too old to be eligible (hence 'first or eldest eligible').

3 House of Commons *Hansard*, Written Answers 30 March 2006, col 1111W

4 This is calculated by the authors on the basis of the net amount spent on child tax credit in 2004/05 (£10 billion); Department of Inland Revenue, *Annual Report and Accounts 2004/05,* HC 446, The Stationery Office, 2005 – see Note 3 to Trust Statement, pp77-78

5 J Brown, *Child Benefit: investing in the future*, CPAG Ltd, 1988

6 Peter Kellner, the *Guardian*, 12 November 1988

7 House of Commons *Hansard*, Written Answers 7 March 2006, col 1296W

8 HM Revenue and Customs, *Child Tax Credit and Working Tax Credit: take-up rates 2003-04*, HMRC, 2006

9 See note 8, p9

10 'Work' and 'working' in this publication refer to paid employment unless otherwise specified. This is not intended to imply that unpaid caring is not work.

11 See note 8, p9

12 See note 8, p5

13 Take-up of working families' tax credit was 62-65 per cent in its first full year, 2000/01, and reached 72-76 per cent in its last year of operation, 2002/03. See note 8, Table 2, p8

14 HM Treasury Press Notice, 1 February 2006

15 See note 8. For example, the source of information about income used in the take-up estimates is the Family Resources Survey. But this asks largely about current income – ie, providing a snapshot, rather than the annual income level which is the basis of calculating definitive entitlement to tax credits (pp13-14).

16 HM Revenue and Customs, *Child and Working Tax Credits Statistics: finalised awards 2004-05, supplement on payments in 2004-05*, HMRC, 2006, Table 4

17 Once working tax credit has been withdrawn, the child element of child tax credit is then phased out; but the family element is retained at a flat rate, until an annual joint income of some £50,000, when it begins to be withdrawn. So the 'poverty trap' does not bite uniformly up the income scale.

18 Technically, the latter could be described as an example of the unemployment trap. But the Government's analysis of marginal deduction rates tends to look at families as a unit, not individuals.

19 House of Commons *Hansard*, Written Answers 22 May 2006, col 1441W. 'Marginal deduction rates' means the percentage of an extra pound earned which is reduced by paying additional tax and national insurance contributions and reductions in tax credits and means-tested benefits.

20 D Primarolo, Statement to Select Committee on Treasury for its enquiry into administration of tax credits, 1 February 2006

21 M Brewer and J Browne, *The Effect of the Working Families' Tax Credit on Labour Market Participation*, Briefing Note 69, Institute for Fiscal Studies, 2006 (web publication only at www.ifs.org.uk)

22 HM Treasury, *The Child and Working Tax Credits*, The Modernisation of Britain's Tax and Benefit System No. 10, HMT, 2002

23 This reduces or eliminates the effect of extra earnings in any one year (although this will be taken into account if it continues in the following year). The impact of the disregard is not reflected in calculations of the numbers subject to certain marginal deduction rates.

24 J Hutton MP, Secretary of State for Work and Pensions, Speech to Fabian Society on launch of Commission on Life Chances and Child Poverty report, 10 May 2006

25 See for example, A Walsh and R Lister, *Mother's Life-line: a survey of how women use and value child benefit*, CPAG, 1985. For this study, CPAG sent out a self-completion questionnaire via the Pre-School Playgroups Association, and although the response rate was low, 2,000 questionnaires were analysed.

26 A Hedges and J Hyatt, *Attitudes of Beneficiaries to Child Benefit and Benefits for Young People*, Social and Community Planning Research, 1985; Department of Health and Social Security, Green Paper, *Reform of Social Security*, Vol 1 Cmnd 9517 and Vol 2 Cmnd 9518, HMSO,1985

27 J Goode, C Callender and R Lister, *Purse or Wallet? Gender inequalities and income distribution within families on benefits*, Report No. 853, Policy Studies Institute, 1998; S Lundberg, R Pollak and T Wales, 'Do Husbands and Wives Pool their Resources? Evidence from the UK Child Benefit', *Journal of Human Resources*, Vol. 32, No. 3, 1997 pp 463-480

28 R Walker, S Middleton and M Thomas, 'Mothers' Attachment to Child Benefit', *Benefits,* September/October 1994, pp14-17

29 Unpublished analysis by the Department for Work and Pensions of data from G Johnson and J Semmence, *Individual Income 1996/97-2004/05*, Women and Equality Unit, 2006

30 J C Brown, *Child Benefit: options for the 1990s*, Save Child Benefit, 1990

31 See note 30

32 See note 25

33 F Bennett, 'Foreword' in J Brown, *Child Benefit: investing in the future*, CPAG Ltd, 1988

34 Commission on Social Justice, *Social Justice: strategies for national renewal*, Vintage, 1994

35 J Hills, R Smithies and A McKnight, *Tracking Income: how working families' incomes vary through the year*, CASEreport 32, Centre for Analysis of Social Exclusion, London School of Economics, 2006

36 See note 35, p5

37 See note 35, p50. The authors do point out that fluctuations in some benefit and tax credit income make up in practice for fluctuations in other forms of income, as they are intended to.

38 See note 30

39 L Adelman, S Middleton and K Ashworth, *Britain's Poorest Children: severe and persistent poverty and social exclusion*, Save the Children, 2003

40 See note 5

41 See note 22, para 4.7

42 House of Commons *Hansard*, Written Answers 21 November 2005, col 1579W

43 Women's Budget Group, *Women's and Children's Poverty: making the links*, WBG, 2005, pv

44 House of Commons Select Committee on the Treasury, *The Administration of Tax Credits,* Sixth Report, Session 2005-06, HC 811 Vols I and II, The Stationery Office, 2004 suggests that the Government should cost the removal of the family element from child tax credit and its addition to child benefit instead (para 51).

Four

The history of child benefit: key issues and challenges

Child benefit introduced

Child benefit has now been an established part of the social security system in the UK for almost thirty years.[1] It was phased in from 1977 to 1979 by Labour, replacing family allowances and child tax allowances. Child benefit was, therefore, intended to improve the distribution of resources both within the family (by increasing the amount payable to mothers) and between families (by being fairer than child tax allowances). Child benefit was an alternative to the previous Conservative government's proposals to implement a system of tax credits, which would have led to the payment of family allowances to fathers.[2]

Eleanor Rathbone and others had campaigned for financial support for children like family allowances for many years before their introduction.[3] One telling argument was that attempting to vary men's wages by family size did not seem sensible, but wages could not be expected to meet the needs of all kinds of family, especially those with several children. Family allowances were introduced in 1946, with the first payments being made on 6 August. At that time, they were only paid for the second child onwards, in a watering down of Beveridge's scheme under pressure from the Treasury. So child benefit was the first social security benefit payable to all first children as well.[4] (This may seem rather paradoxical now, given that the current structure of child benefit means that there is a much higher payment for the first or eldest eligible child.)[5] Many mothers in fact still call child benefit 'family allowance'. The value of family allowances was not maintained throughout the 1950s and 1960s. And, as mentioned in Chapter 1, CPAG was established (in 1965) to lobby the new Labour government for an increase in family allowances as a major means of combating family poverty.

Child tax allowances had a much longer history. They were first introduced in 1798, though they were abolished again in 1805. They were reintroduced in 1909.[6] The amounts of child tax allowances paid were related to the age of the child. They were of more value to taxpayers than family allowances, and were worth even more to higher rate taxpayers (the better off) who benefited at their marginal, highest, rate of tax. In addition, they were available for the first child as well, and they continued as long as a child was dependent, even if this went on beyond the age of 18, when family allowances stopped.

Child tax allowances were usually paid to fathers, because men were more likely to be earning. They were obviously meant for children but, as they just formed part of tax-free allowances, they were not separately paid or identified as money for children, unlike family allowances.[7] Not surprisingly, they also cost the Treasury more in lost income tax than the amount spent on family allowances. As a Conservative Chancellor put it much later:

> I am clear…that [reintroducing child tax allowances] would not be an effective way of channelling resources to those who need them. A better way of directing help straight into the pockets of mothers…is child benefit.[8]

Child benefit under threat

Labour had originally intended to merge family allowances and child tax allowances in the new benefit called child benefit in the mid 1970s, but under financial pressure originally decided to abandon these plans. CPAG revealed leaked Cabinet papers about the way in which this *volte-face* had happened.[9] The public furore this caused helped to lead first to the introduction of one parent benefit, a small non-means-tested benefit for lone parents, and then to the phasing in of child benefit from 1977 to 1979.

When the Conservatives came to power in 1979, therefore, child benefit had only just been fully phased in. And it had been introduced by Labour. For the new Conservative government, child benefit was popular and did not create disincentives to work, but it was also universal and cost a lot. And it was a benefit, not a tax allowance or tax relief, so it increased public expenditure. No increase was implemented in 1979 by the Conservatives, despite the existence of legislation which by then obliged governments normally to index-link personal tax allowances,[10] and a suggestion from the Conservative Party that it would treat child benefit in the same way in government:[11]

> …Tensions within the party led eventually to the decision to retain the benefit but increase its value well below the rate of inflation in 1980.'[12]

But, after much pressure from CPAG and others, the Government did make good the resulting shortfall in the value of child benefit before the 1983 election. Child benefit was, however, still seen as 'welfare' spending.

There was then a major social security review, announced by the Conservative government in 1984 and leading to a Social Security Act in 1986, with a new system being introduced in 1988. Many supporters of child benefit believed that it might be abolished, means-tested, or taxed. CPAG was the catalyst behind the formation in 1985 of Save Child Benefit, a grouping of originally about sixty organisations, ranging from women's organisations to trades unions and from churches to children's charities. In the event, as a result of campaigns by Save Child Benefit and others, child benefit was retained. Indeed, the relevant Green Paper opened its chapter on support for children by stating:

> The principle that we should give financial support to those who bear the extra responsibility of bringing up children is one to which this government are committed.[13]

And it described child benefit as 'simple, straightforward, well understood and preferred as it is.'

Child benefit withering away?

In the middle of the social security review in 1985, however, child benefit was cut in real terms by 5 per cent.[14] In 1986 and 1987, it was increased in line with prices, but the cut was not made good. And after 1987, child benefit was frozen for three years at £7.25 per week per child. Save Child Benefit argued that families on the basic tax rate got less support for their children than in the 1950s. The Government made clear that its priorities were tax cuts (especially in the 1988 Budget) and a new structure of means-tested benefits, which was introduced in 1988. Even supporters of child benefit were arguing that it might be better to make changes to secure the future of support for all children.[15]

So by the late 1980s, Save Child Benefit had over seventy national organisations as members, and debate was again rife about the future of child benefit. Rumours of an internal government review abounded: 'universal child benefit ... is to be consigned to a slow death'.[16] One argument was that it was outdated and no longer necessary.[17] Women's equality had progressed so far, it was argued, that women did not need an independent income from child benefit. The economy had grown and better-off people had benefited from tax cuts, so they did not 'need' child benefit. 'Targeting' was the buzzword of the day, and means-testing was (paradoxically) presented as somehow new and modern. In opposition, as noted earlier, Conservatives had seemed to see child benefit increases as equivalent to tax cuts for families; this was no longer mentioned. The fear was that child benefit might either be allowed to wither away until it could be argued that it was not worth keeping, or be radically restructured by means-testing or taxing it.

Malcolm Wicks (then Director of the Family Policy Studies Centre) wrote that child benefit had only been saved by the existence of a comma in the sentence in the Conservative election manifesto of 1987 that 'child benefit will continue to be paid as now, and direct to the mother.'[18] He argued that, had it not been for the comma, child benefit could have been means-tested. Yet, as one commentator pointed out, no one had suggested that personal tax allowances be taken away from 'the rich'.[19] It was only child benefit, as a benefit rather than a tax relief or allowance, which was threatened in this way, despite the fact that public expenditure and revenue foregone – money not collected in tax – have the same effects on the economy. This suggested that there was a double standard in operation, for ideological rather than practical reasons.

Child benefit reprieved, but restructured

Many proposals were put forward to restructure, reduce or radically change child benefit. But in 1990, the Government, under its new Prime Minister John Major, declared that child benefit 'is and will remain a strong element in our policies for family support'. It announced a restructuring of child benefit, to introduce a higher rate for the first or eldest eligible child. There would be an increase of £1 per week, but only for the first or eldest eligible child, from April 1991, and a further increase of £1 per week from October 1991 (together with 25 pence extra for other children). The Government also pledged to increase child benefit in line with inflation in future.

As a result of this reprieve, Save Child Benefit symbolically announced that it would rename itself the Coalition for Child Benefit. But there was criticism of the new structure of child benefit, with its higher payment for the first or eldest eligible child. The rationale put forward by the Government was that there was a larger difference between the resources of those with one child and no children, compared with the difference between families with one child and those with more children. But this justification was examined and found wanting.[20] Among other things, one study examined the Government's argument that a major reason for the difference in income relative to needs between people with and without children was not just the direct costs of children (such as food and clothing) but also indirect costs, especially in foregone earnings – the likelihood of one parent, usually the mother, giving up paid work. But a few pounds extra in child benefit could not make up for this, and also confused the indirect costs of having children with the direct costs.

Other studies using different approaches over the next few years found that having any children at all did make more difference to costs than the number of children,[21] but that, while the first child did bring greater costs, larger families tended to fall into lower income groups.[22] The real reason for the new structure of child benefit was in reality probably political, in that it was the cheapest way for the Conservative Government to ensure that every family with dependent children received an increase in child benefit.

So child benefit increased in cash value under the government of John Major (1990-97), which was much less hostile to it. The differential between the first child and others increased significantly. For the first child, child benefit was close to its 1987 value. But overall, between 1979 and 1997 total financial support for a family on average earnings with two children fell by 6 per cent because of the previous freezing of child benefit and because the direct tax contribution from such a family, taking account of child benefit, rose from 19 to 21 per cent.[23]

Labour abolishes one parent benefit, reinforces new child benefit structure and restricts entitlement

Before the 1997 election, the Conservatives had committed themselves to abolishing the additional benefits for lone parent families. One parent benefit (the addition to child benefit for lone parents, originally introduced in 1976) was therefore frozen in the 1995 Budget. Labour won the election, but continued with the Conservatives' policy intention by incorporating one parent benefit into the main child benefit rates. In July 1998, it was abolished for new claimants; existing claims were frozen, but no new claims were accepted. The new Labour Government was keen to prove its credentials in terms of managing the economy, and so had persevered with the Conservative Government's proposed cuts, despite evidence suggesting that there was a case for a form of one parent addition for child benefit.[24] While one parent benefit was only a small amount, there was strong opposition to the reduction of benefits for lone parents, including a backbench rebellion by Labour MPs. For most families, the subsequent increases in benefits for all children have compensated for this,[25] but it took several years for them fully to do so.

The Labour Government then not only retained but also reinforced the new structure of child benefit, with its higher rate for the first/eldest eligible child. Between April 1997 and April 2003, the rate of child benefit for the first child increased by 25.3 per cent and the rate for subsequent children by 3.1 per cent in real terms.[26] Most of this increase took place in 1999 for the first/eldest eligible child, with additional small real increases for all children in April 2000.

In 2004, the Government introduced new immigration rules, which now mean that someone has to have a 'right to reside' in the UK in order to be able to claim child benefit, therefore excluding many migrants from entitlement.

Child benefit for the over-16s: under scrutiny, but extended

The abolition of child benefit for the over-16s was also mooted before the 1997 election. This may also have been intended to convey a tough message about Labour's ability to control public spending and manage the economy. Labour argued that child benefit was not 'universal' for the over-16s because some did not receive it. But this was because they did not qualify under the eligibility rules because they were no longer in full-time non-advanced education. At one point, it looked as though the Government was going to abolish child benefit for the over-16s to pay for the national extension of the pilots of means-tested educational maintenance allowances paid direct to children from low-income families staying on at school. This was despite evidence that child benefit made an important contribution to the incomes of families with 16 to 18-year-olds.[27]

However, in the 2002 public expenditure review, the Government stated that educational maintenance allowances would be paid for by reduced social security spending and debt repayments, rather than by withdrawing child benefit for older children.[28] This was important, in that it allowed parents to continue to receive some income to maintain their children. And in fact, in the subsequent review of financial provisions for young people, 'Supporting Young People to Achieve', the Government took the opportunity to extend eligibility for child benefit. Under the 2005 Child Benefit Act, child benefit is now available for young people completing a course which they started before their nineteenth birthday (up to age 20). Those in specific unwaged training programmes will also be eligible.[29] These reforms rectify long-standing anomalies.

Child benefit to be taxed?

In April 1997, child benefit was £11.05 per week for the first or eldest eligible child and £9 per week for other children. In the March 1998 Budget, the Chancellor announced that from April 1999, the rate for the first or eldest eligible child would be increased significantly – by £2.50 per week in addition to the normal uprating.[30] But he also said that were child benefit to be raised in future, there would be a case for child benefit payments to be taxed, at least at the higher tax rate. However, research by the Institute for Fiscal Studies demonstrated that to do this 'either raises almost no revenue or significantly increases the complexity of the tax system while raising relatively little revenue.'[31] The alternative suggested was a decrease in the higher rate tax threshold for everyone, with the revenue spent on increasing child benefit and related benefits.

Save Child Benefit had argued that it would seem odd to tax a benefit that had developed in part from a tax allowance. The Social Security Select Committee also questioned the proposal, suggesting that unmarried couples would evade the tax and urging the Chancellor to avoid breaching the principle of independent taxation.[32] The suggestion of taxing child benefit has never been taken any further and this government is now on record as saying that it will not tax child benefit.[33]

However, this was not the final word on taxation. The married couple's tax allowance, after being reduced in value, was abolished in 2000.[34] Over 6 million couples who received it had no children.[35] The Government was aware of the arguments, put by CPAG among others, that the resources released as a result should be directed into child benefit, and in fact said that it had used the savings from phasing out the allowance to help fund the increase in child benefit in 1999. But it was also keen to develop further its ideas for additional means-tested support for children directed through the tax system.

It could not do so immediately, though.[36] So in the meantime – though only after a year's delay – it introduced an interim mechanism known as children's tax credit (one per family, like the married couple's allowance). This was a traditional form of tax credit, more like a tax allowance, which was not available to those who did not have enough income to pay any income tax. It only lasted for two years (2001/02 and 2002/03). About 5 million families were eligible,[37] some via self-assessment. Most couples could choose how they shared the tax credit (or not), but in couples with one partner on higher rate tax, that partner had to claim, and it was withdrawn as income increased. Some of the complications envisaged in taxing child benefit therefore applied to this temporary tax credit.

Child benefit withdrawn for truancy?

In 2002, the Prime Minister suggested taking child benefit away from parents whose children were persistently truanting from school.[38] This was despite the fact that the Social Exclusion Unit had reported on truancy in a report published in 1998 which made no mention of financial penalties as one of the policy options. As research shows that child benefit is seen as specifically for children, any such withdrawal was likely to be detrimental to children's welfare. In separated families, it was also likely to punish the parent who was already trying to take responsibility for the child/ren. The proposal was withdrawn several months later in response to criticism, including from within government.[39] As Ruth Lister (former CPAG Director) wrote in a letter to the press, 'the many objectives of child benefit have never included the inculcation of good behaviour'.[40]

Child tax credit introduced

From the time Labour took office in 1997, the Chancellor was enthusiastic about introducing something in the UK resembling the earned income tax credit in the United States. But the Government was not able to introduce tax credits in the form it favoured immediately. So working families' tax credit was implemented in 1999, replacing family credit (a benefit, despite its name) as an alternative form of in-work support for families with children. The Government initially wanted to pay working families' tax credit through the pay packet, but after widespread opposition – and new research evidence confirming the importance of paying money for children to mothers[41] – it decided to give couples the choice of who claimed and was paid.

In April 2003, the Government introduced new tax credits – working tax credit and child tax credit – to replace working families' tax credit. Support for children was separated from support for low income in work. Child tax credit rolled up means-tested allowances for children whose parents were in and out of work,[42] and subsumed children's tax credit. All remaining non-means-tested additions for children were to be phased out for new claimants, except for child benefit. Child benefit administration was moved to the Inland Revenue (now HM Revenue and Customs) at the same time, to match child tax credit.[43]

Child tax credit has two elements – a per family payment and a per child payment – and the only part families on higher incomes may get is the per family payment. For families above a low to moderate income, this is essentially a flat-rate payment, which begins to be withdrawn once joint income reaches some £50,000 per year. The per family element of child tax credit is doubled in the first year of a baby's life. Child tax credit is paid to the main carer; it is up to the couple to declare which of them is the 'main carer'.[44]

Child tax credit has generally been welcomed as a rationalisation of existing means-tested help for children, as a payment which will not vary solely as a result of parents' employment status and because it is significantly more generous than previous means-tested support. The Government's claim that child tax credit 'builds upon' child benefit was intended to support its definition of 'progressive universalism': 'support for all, and more help for those who need it most, when they need it most'.[45] But in practice child benefit remains completely separate from child tax credit. The family element of the child tax credit has been frozen recently, while the child element of child tax credit is being increased in line with earnings, and child benefit in line with prices.

Sustainability of child benefit

The history of child benefit above shows that it has been resilient to a series of threats over nearly thirty years since its introduction. The only significant changes have been the new structure giving more to the eldest child from 1991 onwards, and the rules enacted in 2004 which restrict child benefit to those with a 'right to reside' in the UK. (One parent benefit for lone parents had also been abolished.) In comparison, means-tested support for children has been changed many times.

A benefit which goes to virtually all children is of course expensive. But it can also be argued that it is more likely that such a benefit will have 'substantial and wide-ranging support',[46] and may be difficult to abolish; provision for the poorest children only, whilst cheaper, is often more precarious. The multiple purposes of child benefit, as described above, mean that it has many constituencies of support. The Government has tried to imitate this in the new child tax credit, in particular by incorporating the family element, which means that child tax credit was intended to be paid to some nine out of ten families with children following an income test. But so far, it does not appear to have succeeded in 'branding' child tax credit in the same way as child benefit, despite the generous help which child tax credit undoubtedly gives to many families.

Notes

1 J Bradshaw and C Stimson, *Using Child Benefit in the Family Budget,* The Stationery Office, 1997 provides a useful history of both child benefit itself and publications about child benefit, though only up to 1997.

2 See note 1

3 E F Rathbone, *The Case for Family Allowances,* Penguin, 1940

4 If (as CPAG would argue) tax allowances and reliefs are seen as equivalent to cash benefits, child tax allowances were the first form of family support to be paid to first children.

5 This means that in a family with more than one child, the higher rate of child benefit passes to the second child once the first child is old enough to be no longer eligible (and so on, in larger families).

6 J Brown, *Child Benefit: investing in the future,* CPAG Ltd, 1988

7 J C Brown, *Child Benefit: options for the 1990s*, Save Child Benefit, 1990

8 Norman Lamont MP, Chancellor of the Exchequer, Budget speech, 20 March 1991, reported in *Financial Times*, 21 March 1991, p20

9 *New Society*, 17 June 1976; H Land, 'The Child Benefit Fiasco' in K Jones (ed), *The Yearbook of Social Policy in Britain,* Routledge and Kegan Paul, 1977

10 This is usually known as the Lawson-Rooker-Wise amendment, and means that there is a usual presumption of annual index-linking, in order to counteract 'fiscal drag' (more income being drawn into the tax net automatically because of the effects of inflation).

11 Private Office of the Prime Minister in a letter to CPAG, May 1979

12 J Clasen, *Reforming European Welfare States: Germany and the UK compared*, Oxford University Press, 2005, p167

13 Department of Health and Social Security, Green Paper, *Reform of Social Security,* Vol 1 Cmnd 9517 and Vol 2 Cmnd 9518, HMSO, 1985, p47

14 Save Child Benefit leaflet, 1990

15 See note 7

16 David Hughes, *Sunday Times*, 23 October 1988

17 This was examined by F Bennett in J Brown, *Child Benefit: investing in the future,* CPAG Ltd, 1988

18 The *Independent*, 26 October 1989

19 Janet Daley, in the *Independent*, 1 November 1989

20 J Ditch, S Pickles and P Whiteford, *The New Structure of Child Benefit: a review*, Coalition for Child Benefit and CPAG, 1992

21 R Berthoud and R Ford, *Relative Needs*, Policy Studies Institute, 1996 and Social Policy Research Findings 109, Joseph Rowntree Foundation

22 R Dickens, V Fry and P Pashardes, *The Cost of Children and the Welfare State*, Social Policy Research Findings 89, Joseph Rowntree Foundation, 1995

23 HM Treasury Press Release, 5 April 2001

24 As commentators have noted (for example, S Adam and M Brewer, *Supporting Families: the financial costs and benefits of children since 1975*, The Policy Press for Joseph Rowntree Foundation, 2004), there is still some recognition of lone parents' position in parts of the financial support system, in that they have the same allowance structure as couples for working tax credit.

25 K Stewart, 'Towards an Equal Start? Addressing childhood poverty and deprivation' in J Hills and K Stewart (eds), *A More Equal Society? New Labour, poverty, inequality and exclusion*, The Policy Press, 2005, pp143-165

26 Department for Work and Pensions, *Abstract of Statistics 2003*, DWP, 2003 cited in K Stewart, 'Towards an Equal Start? Addressing childhood poverty and deprivation' in J Hills and K Stewart (eds), *A More Equal Society? New Labour, poverty, inequality and exclusion*, The Policy Press, 2005 (April 2003 prices)

27 See note 1

28 It has been suggested that this was linked with the Government's decision to introduce higher education tuition fees (*Financial Times*, 16 January 1998) – ie, that ministers thought it would be damaging for the Government to impose both at once.

29 Child Poverty Action Group, *Welfare Rights Bulletin* 191, pp3-4

30 This was also passed on to families on income support, via an increase of the family premium.

31 T Clark and J McCrae, *Taxing Child Benefit*, Institute for Fiscal Studies, 1998, p12. This is in part because of the effects of independent taxation, introduced in 1990, and in part because the vast bulk of taxpayers do not pay tax at the higher rate.

32 Social Security Select Committee, *Child Benefit*, HC 114, Fourth Report, Session 1998-1999, The Stationery Office, 1999

33 See for example, House of Commons *Hansard*, Written Answers 12 January 2006, col 765W

34 The additional personal allowance, the equivalent for lone parents, was also phased out at the same time.

35 House of Commons *Hansard,* Written Answers 24 March 1999, col 255

36 HM Treasury, *The Child and Working Tax Credits,* The Modernisation of Britain's Tax and Benefit System No. 10, HMT, 2002, para 2.28

37 HM Treasury Press Release, 5 April 2001

38 The *Times*, 30 April 2002

39 The *Independent*, 19 July 2002

40 The *Independent*, 20 July 2002

41 For example, J Goode, C Callender and R Lister, *Purse or Wallet? Gender inequalities and income distribution within families on benefits*, Report No. 853, Policy Studies Institute, 1998

42 Not all families out of work have been moved onto child tax credit yet, but this is expected to happen imminently. In the meantime, they are receiving the same amount of support in their means-tested benefits as those already on child tax credit.

43 Working tax credit, which is available to childless people too and is claimed on the same form as child tax credit for families with someone in paid work, is not dealt with in detail here. Neither are the changes to in-work support for disabled people and some of those aged 50 plus.

44 In cases of dispute, couples can contact HM Revenue and Customs, which uses guidance to determine the issue.

45 HM Treasury, *Budget 2003: building a Britain of economic strength and social justice – economic and fiscal strategy report, and financial statement and Budget report*, HC 500, The Stationery Office, 2003, para 5.1. See also M Brewer, T Clark and M Wakefield, 'Social Security in the UK under New Labour: what did the third way mean for welfare reform?' *Fiscal Studies*, Vol 23, No 4, December 2002

46 See note 7

Five

The value of child benefit over time

In 2006/07, child benefit is worth £17.45 per week for the first/eldest eligible child.[1] Other children receive £11.70 per week. This chapter examines how child benefit has got to this level, and how it has varied in both its purchasing power (that is, in relation to prices) and its relationship to typical living standards (for which average earnings is used as an indicator). It asks two central questions:

- How has the value of child benefit and its different rates varied over time?
- What would child benefit be worth now if it had been uprated consistently in line with either prices or earnings?

This examination does not go back to the beginning of family allowances in 1946, but starts with child benefit in the late 1970s. For clarity, most of the analysis in fact begins in 1979 (after the full implementation of child benefit). For simplicity, it also ignores one parent benefit, an addition for lone parents, which was integrated into child benefit and abolished for new claimants in 1998. Chapter 4 on the history of child benefit gives more detail on the background to the changes in the value of child benefit described below.

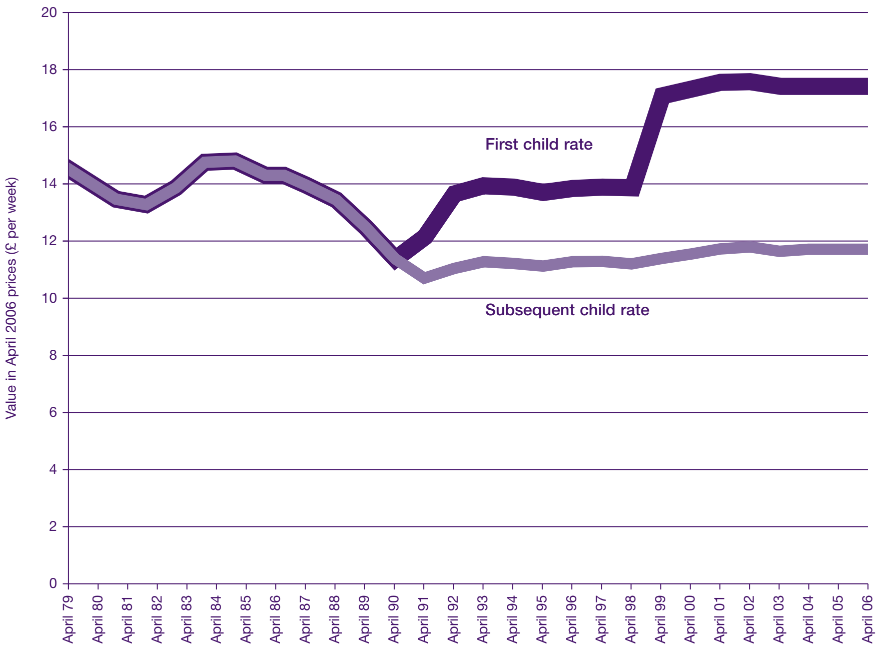
Following its full introduction in 1979, child benefit was increased by less than the rate of inflation. It then rose in value to the mid 1980s. But following the implementation of the 1986 Social Security Act, which repealed the statutory requirement to consider an annual increase in child benefit,[2] child benefit was frozen for several years. Before 1991, the rates for the first child and subsequent children were equal; but, as explained in Chapter 4, a new higher rate was introduced for the first/eldest eligible child in 1991, and the rate for other children was frozen for longer. At the same time as this new structure of child benefit was created, the Government committed itself to increasing child benefit with price inflation from 1992 onwards.

Inflation-related uprating has protected the value of the rate for second and subsequent children in relation to prices through the 1990s and up to the present day, but it has not reversed the decreases in value in the 1980s. The gap between the first and subsequent child rates was increased in 1999, with a one-off increase directed at the first child that more than reversed the 1980s reduction in the value of child benefit for these children. As the Government said in its response to the Work and Pensions Committee's report on child poverty, it has increased the rate of child benefit for the first or eldest eligible child by 25 per cent in real terms.

The Appendix records the rate of child benefit in each year since its introduction. There is no current statutory requirement to uprate child benefit,[3] though in recent years the practice has been to uprate it annually with increases in prices, in line with movements in the retail prices index. Different uprating policies have been used over the period to protect, or reduce, the value of different elements of child benefit compared with inflation and with changes in living standards (as over time incomes have risen faster than prices). Figure 5.1 expresses the rate of child benefit in real terms – ie, holding its value constant over time in terms of April 2006 prices.

Figure 5.1

Child benefit in real terms (2006 prices), 1979-2006



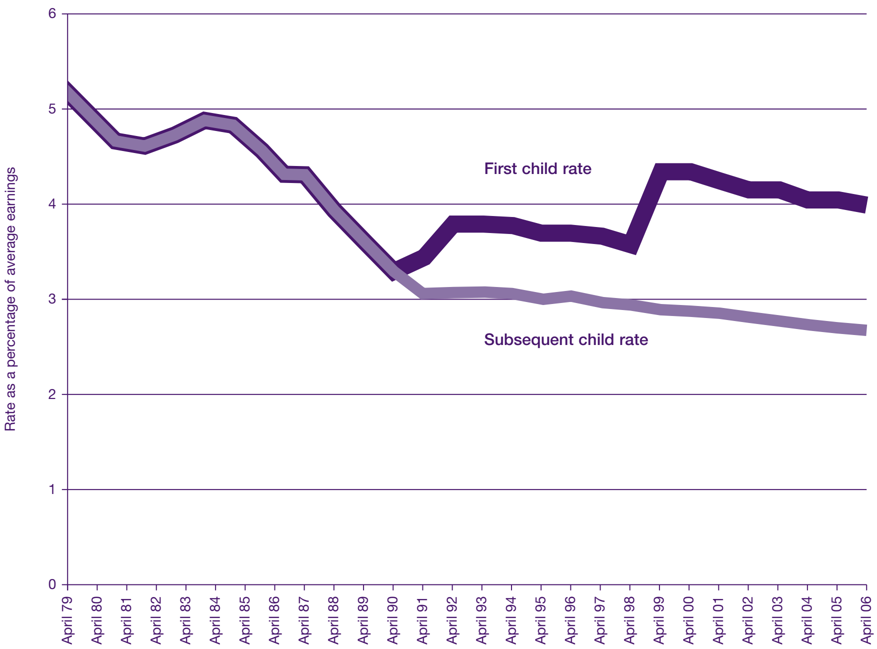
Note: benefit rates are drawn from Institute for Fiscal Studies, *Fiscal Facts*, available at www.ifs.org.uk, accessed June 2006. The rates have been converted into 2006 prices using Department for Work and Pensions, *The Abstract of Statistics for Benefits, Contributions and Indices of Prices and Earnings: 2004 edition*, DWP and National Statistics, 2005 (figures prior to 1987) and National Statistics, *Retail Prices Index: monthly index numbers of retail prices 1948-2006 (RPI) (RPIX)*, downloaded from www.statistics.gov.uk/STATBASE/tsdataset.asp?vlnk=229&More=N&All=Y, accessed June 2006

By 2006, therefore, the first/eldest eligible child rate was worth more in real terms than in the 1980s, and the rate for other children much less. However, over the same period growth in average earnings outstripped prices as living standards rose. Many people would argue that child benefit and other benefits should be uprated in line with prices or earnings, whichever is higher, in order that those claiming them keep up with any improvement in general living standards. Examining the value of child benefit as a proportion of average earnings offers a measure of the extent to which children – through child benefit – have gained (or not) from rising living standards in society as a whole.

Figure 5.2 examines what each element of child benefit is worth as a percentage of average earnings. If children shared equally in any growth in average earnings, the percentage would hold constant. By contrast, the chart shows that the value of each element declined consistently after the mid-1980s (with exceptions for first children in the early 1990s, and with the one-off increase to the first child rate in 1999). The increases to the first child rate in the 1990s arrest a falling trend, but are eroded by the subsequent growth in average earnings, while child benefit only went up with prices. The rate for second and subsequent children has fallen, being worth 2.7 per cent of average earnings in April 2006, compared with around 5.2 per cent in 1979.

Figure 5.2

Child benefit as a share of average earnings (1979-2006)



Note: benefit rates are drawn from Institute for Fiscal Studies, *Fiscal Facts*, available at www.ifs.org.uk, accessed June 2006. Average earnings have been estimated from National Statistics, *2005 Annual Survey of Hours and Earnings*, downloaded from www.statistics.gov.uk/StatBase/Product.asp?vlnk=14203, accessed June 2006, deflated using the average earnings index drawn from Department for Work and Pensions, *The Abstract of Statistics for Benefits, Contributions and Indices of Prices and Earnings: 2004 edition*, DWP and National Statistics, 2005, prior to 1990, and National Statistics, *Average Earnings Index for the Whole Economy, not Seasonally Adjusted*, downloaded from www.statistics.gov.uk/StatBase/tsdataset.asp?vlnk=392&More=Y, accessed June 2006, after 1990. Average earnings are for all adult earners (the figures here are higher than in *The Abstract of Statistics for Benefits, Contributions and Indices of Prices and Earnings: 2004 edition* because this publication uses full-time earnings only; but the trend is the same). The April 2006 average earnings index figure has been estimated using the average of the previous three years' increases.

The story told in Figures 5.1 and 5.2 is different in pattern, but fits together. While the cash level of child benefit went up (see Appendix), in real terms its value has held more constant. Over the period, the value of the rate for second and subsequent children fell, but the rate for first children rose, thereby weighting the system towards smaller families. While uprating in the 1990s and 2000s has inflation-proofed child benefit, as a share of rising incomes the value of child benefit has fallen back since the early- to mid-1980s. To demonstrate the long-term impact of this: if child benefit had held the same value as a percentage of (rising) average earnings as in 1979 (around 5.2 per cent), in April 2006 children would have been getting around £22.85 per week, £5.40 more than first children received and double what second and subsequent children got.

Notes

1 Some lone parents entitled to one parent benefit prior to its abolition also get an extra 10 pence per week for the first/eldest eligible child, as one parent benefit was frozen at the amount for which they previously qualified.

2 K Greener and R Cracknell, *Child Benefit*, Research Paper 98/79, House of Commons, 1998

3 Department for Work and Pensions, *The Abstract of Statistics for Benefits, Contributions and Indices of Prices and Earnings: 2004 edition*, Department for Work and Pensions and National Statistics, 2005, Appendix A

Six Policy options

Introduction

Government reforms to tax and benefits since 1997 have had a major impact on child poverty and on families' living standards more generally. The Government has said that as a result, by October 2007 families with children will, on average, be better off in real terms by £1,550 per year, and those in the poorest fifth by £3,350 per year.[1] One study found that government expenditure on child-contingent support overall rose by nearly 70 per cent in real terms between 1997/98 and 2002/03,[2] while another says that it increased by over 50 per cent between 1999 and 2003.[3] While the Government could go further – and intends to – this is by any measure a real and significant positive change, and the Government should be given due credit for it.

A step backwards was taken, however, by the exclusion from child benefit of the children of asylum seekers and those with work permits. Since 2004, they have had no entitlement to child benefit because their parents do not have the 'right to reside' in the UK. In addition to the problems this creates for the families themselves, it is more likely, as noted earlier in this publication, that support for children is better protected when all families have an entitlement. This measure potentially weakened the basis for that support.

In introducing the new tax credits system, the Government said that it aimed to encourage:

> public debate about the correct level of support [for children] in the context of the Government's aim to abolish child poverty within a generation.[4]

There is room for debate not only about the level of support for children but also about the balance between universal and means-tested support. The Government's principle of 'progressive universalism'[5] may suggest that there is no tension between the two. However, Adam and Brewer in *Supporting Families: the financial costs and benefits of children since 1975*[6] show that child benefit as a proportion of total financial support for children has virtually halved between 1979 and 2003, falling from 79 to 42 per cent.[7]

And, given the relative importance of income-tested child tax credit compared with universal child benefit in the current system of support for children, one author has argued:

> 'Progressive universalism' is gradually replacing the 'universal principle', and this diminishes the symbolic importance of collective social responsibility for children as individuals in their own right whatever their parents' circumstances.[8]

Moreover, the Government's view of 'progressive universalism' implicitly suggests that universal benefits cannot be progressive. But this depends on both their incidence and the way in which they are financed, and many commentators have argued that a broad-based benefits system is more likely to be sustained in the longer term than one which is focused solely on those on low incomes.

Time for child benefit

> The most important trend [in financial support for children] has been the increasing importance of means-tested or income-related child-contingent support programmes, and the corresponding decline in the universal child benefit.
> S Adam and M Brewer, *Supporting Families: the financial costs and benefits of children since 1975*, 2004, p54[9]

There is a growing consensus that the time is ripe to shift the balance between the universal and means-tested elements of financial support for children. In its manifesto for the 2005 election, CPAG argued that child benefit:

> ... provides a well-functioning mechanism that does not suffer the administrative or technical difficulties of child tax credit; it has a vital role in tackling child poverty. The element [of support for children] that is child benefit ought to be maximised and provides a key way to build a national consensus towards increasing the value of benefits to children.[10]

End Child Poverty is an alliance of seventy-five organisations, including CPAG, which campaigns for the eradication of child poverty in the UK. The first of the ten demands in its *Ten for a Million Charter* – published in 2005 in the run-up to the general election – also argued for an increase in child benefit:

> A real increase in universal child benefit would ensure that the money reached the poorest families and complement the child tax credit while raising no problems for work incentives.[11]

It suggested an increase to £20 per child per week, to restore the value of child benefit to 4.7 per cent of median full-time earnings (in 2004).

There is also support from others, outside groups concerned with child poverty. 'Get Heard' was a participatory exercise involving workshops in which a large number of people with direct experience of poverty throughout the UK developed ideas to feed into the next National Action Plan on Social Inclusion, for 2006-08. (A National Action Plan is prepared every few years by each member state of the European Union, including the UK, and sets out each government's strategy against poverty and social exclusion.) The Department for Work and Pensions supported the Get Heard project. The final report of Get Heard included a section (2.1.5) on what participants wanted to see in terms of more financial help for low-income families.[12] The first item in the list, drawn up on the basis of report-backs from that exercise, was an increase in child benefit.

The case for the importance of improving life chances for children has been made powerfully by the Commission on Life Chances and Child Poverty set up by the Fabian Society. In its final report, published recently, it developed a strong case for shifting the balance back from tax credits to child benefit, to 'allow both elements to work more effectively alongside each other.'[13] Moreover, it argued that this would help families who have experienced insecurity as a result of, for example, administrative difficulties with the new tax credits and overpayments being clawed back.

The Work and Pensions Select Committee, in its report on child poverty, argued that:

> The national strategy on child poverty should reassert the commitment to retain universal child benefit uprated in future to maintain and enhance its real value as one of the foundations of all future support for children.[14]

As noted, the Government argues that child tax credit 'builds on' child benefit. It is not clear quite what is meant by this. But in practice, child benefit is ignored when child tax credit is calculated, so families on low incomes benefit by the full amount of any increase in child benefit. In the past, child benefit was deducted from means-tested benefits for families with children. This meant that critics could argue that increases in child benefit did not help children in poverty directly – though CPAG often argued that the more they got in child benefit the better, and that the real issue was how much society was prepared to give to parents on low incomes to support their children in total.[15] But now every increase in child benefit – though more expensive – benefits children in low-income families directly, as it is not offset against their child tax credit.

The other rebalancing which can be undertaken is between the level of support provided for different children, or different kinds of families. In the UK in recent years, child-contingent support has increasingly emphasised the first child in the household.[16] One suggestion for which support has been growing is to provide more child benefit for larger families. More specifically, the call is for the rate of child benefit for second and subsequent children to be increased. Some have just called for such an increase in principle. Others have suggested that the rate for second and subsequent children should be raised towards, or by a sufficient amount to equal, the level for the first or eldest eligible child.

The Commission on Social Justice called for the rate of child benefit to be the same for all children as early as 1994, and the Coalition for Child Benefit did the same in 1997. More recently, End Child Poverty pointed out that the rate for second and subsequent children is one-third lower than that for first children,[17] yet research had found that family spending on second and subsequent children was just 10 per cent lower than for first children.[18] It added that the birth of the second child is when mothers are more likely to leave the labour market, as childcare becomes both more expensive and more complicated to organise. End Child Poverty called on the Government to 'raise child benefit and pay an equal rate to all children, whether first born or not.'

To have increased child benefit in 2005/06 for second and third children (then £11.40 per week) to the same rate as for the first child (then £17) would have cost £1.56 billion and benefited 5.3 million children.[19] This does not take into account similar increases for fourth and subsequent children, and so is an unrealistically low calculation in terms of raising the rate for all children beyond the first. But it does give some idea of the order of magnitude of the costs and of the number of beneficiaries of such a move.

Large families and poverty

> Central to this reduction [in child poverty] is the support delivered directly to families through the child tax credit and increased child benefit – and the expanded opportunities and support for parents to work. I recognise that we need to do more. And I promise we will.
> Response from the Prime Minister in January 2006 to a letter from CPAG calling for further action on child poverty, forty years after its founding members delivered a similar letter to the then prime minister, Harold Wilson.

The association between poverty and family size was the focus of Eleanor Rathbone's study of 1924, *The Disinherited Family*, which was so influential in the campaign for family allowances, introduced sixty years ago.[20] The higher risk of poverty for children in large families has in fact been spelt out in research for many years,[21] though it seems to have been rediscovered by the Government recently. The definition of 'large' is usually three children or more, though sometimes it is four or more.[22] Over the last thirty years, there has been a reduction in the proportion of children in families of three children or more, from 43 per cent in 1972 to 32 per cent in 2003;[23] about a third of these live in households with four or more children.[24] And rates of poverty have in fact recently fallen most for children in larger families.[25] But such children still have a disproportionate risk of living on a low income.

In line with the income poverty risk, data from the Families and Children Study show a similar pattern for material deprivation, in which larger families suffer more.[26] This is important for the Government's target of reducing child poverty by half by 2010 compared with 1998/99, because its new child poverty measures will be in use by then, including one measure which includes material deprivation as well as relative low income (see p41).[27]

The Government had already expressed concern about the increased risk of poverty for large families in its fifth *Opportunity for All* report, while arguing that research focusing on family size was limited.[28] Subsequently it has commissioned such research. At the time of writing, two reports are due to be published shortly which will help to fill the gaps in our understanding: one from the Department for Work and Pensions[29] and one from the Joseph Rowntree Foundation.[30] In the meantime, however, official statistics are clear about the increased risk of poverty for children in large families. Despite the decrease in recent years, 1.4 million of the 3.4 million children defined as poor after housing costs live in families with three or more children; and children in families with four or more children have nearly double the risk of children as a whole of living in poverty measured on this basis.[31] Because the differential risk is shown as larger when income is measured before housing costs, the Government's new measures of child poverty from 2010 onwards will emphasise the influence of family size on the child poverty figures, as they all use income before housing costs.

There is an overlap between large families and other groups at risk of poverty (such as younger children, minority ethnic groups, those living on benefit and social tenants), but being in a large family is still a specific driver of living in poverty.[32] The increased risk of poverty for large families is not inevitable, however. In Norway, for example, there is no linear connection between the number of children in a family and living on a low income, with a link only for families with five children or more.[33]

Skewed support system

One factor which may affect large families is the system of financial support for children. This may lead at worst to a greater risk of poverty, or at best to unequal resources in proportion to need for different sizes of family. In the UK, as already noted, our financial support system for children is geared more towards the needs of smaller families:

> The last 28 years have seen structural changes to child-contingent support programmes that place more weight on whether a family has *any* children than on *how many* it has.[34]

While it could be argued that there may be economies of scale for larger families, to weight the system towards one child families in the way that the UK does is internationally unusual.[35]

Several elements of our system of financial support for children contribute to this effect. In addition to the higher rate of child benefit for the first or eldest eligible child, child tax credit contains a per family element which is the same no matter what the family's size; means-tested benefits had a family premium, introduced in 1988, which had a similar effect; and help with childcare costs through working tax credit does not increase after the second child. As the Government noted in 2003, recent research had found:

> 'First-child bias' in our system of financial support leads to the UK performing less favourably for large families in a league table comparison of 22 advanced countries.[36]

The new child support formula has a similar pattern, in awarding 15 per cent of net weekly income as maintenance from a non-resident parent for one qualifying child, 20 per cent for two children, or 25 per cent for three children or more.[37]

The way forward?

The Government's next target in terms of tackling child poverty – to halve it by 2010 – is highly ambitious and will require great political will. Making suggestions for policy changes to help the Government achieve this, the Institute for Public Policy Research has called for new measures to help larger families. It highlights the lower rate of child benefit for second and subsequent children, as well as the fixed per family payment in child tax credit, as possible places to start from in terms of policy reform.[38] The report of the Fabian Commission on Life Chances and Child Poverty, as well as calling for a rebalancing of child benefit and child tax credit in favour of child benefit, suggested more specifically that one option was for the rate of child benefit for second and subsequent children to be increased.[39] And Ed Balls MP (now Economic Secretary to the Treasury), who spoke at the launch of the Commission's report, has also been reported as being 'keen on ideas such as raising child benefit for second and subsequent children ...'[40]

The *Child Poverty Review* included a 'long-term aspiration' to improve financial support for large families.[41] The commitment to uprate the child element of the child tax credit in line with earnings over the lifetime of this Parliament helps to redress the balance slightly for large families, and seems to be what is being referred to in the Review document. But it does of course simultaneously tilt the balance of financial support for children further towards child tax credit and away from child benefit. And more than this incremental improvement is needed if the Government is to make 'accelerated' progress it says is needed.[42]

There are various policy options. As mentioned above, the rate of child benefit for second and subsequent children could be raised either towards, or to equal, the rate for the first/eldest child. Bradshaw[43] suggests the alternative of a premium for the third and subsequent children in child benefit for families in employment (which would be like France, Italy, New Zealand, the Netherlands and Sweden).[44]

The first option, of raising the child benefit rate for second and subsequent children, would be likely to be more expensive (though this would obviously depend on the amount decided on, and in particular whether the idea was to equal the rate for the first or eldest eligible child). But it would also be likely to be more popular, given that more families would benefit from it. It would also place more emphasis on correcting the bias in our financial support system towards families with only one child, and on rebalancing that system towards its non-means-tested component, child benefit. A structure of child benefit which gave more for the first/eldest child and then skipped over the second child, to give more support for the third child onwards, would also seem more complicated than necessary. (If all children got the same rate, further options would then open up.)

Notes

1 House of Commons *Hansard*, Written Answers 17 January 2006, col 1203W

2 K Stewart, 'Towards an Equal Start? Addressing childhood poverty and deprivation' in J Hills and K Stewart (eds), *A More Equal Society? New Labour, poverty, inequality and exclusion*, The Policy Press, 2005, pp143-165

3 S Adam and M Brewer, *Supporting Families: the financial costs and benefits of children since 1975*, The Policy Press for Joseph Rowntree Foundation, 2004

4 HM Treasury, *Supporting Children Through the Tax and Benefit System*, The Modernisation of Britain's Tax and Benefit System No. 5, HMT, 1999, para 3.30

5 HM Treasury, *Budget 2003: building a Britain of economic strength and social justice – economic and fiscal strategy report and financial statement and Budget report,* HC 500, *The Stationery Office,* 2003, para 5.1

6 See note 3

7 There are various ways of calculating financial support for children, of which this is only one.

8 T Ridge, 'Benefiting Children? The challenge of social security support for children', in J Millar (ed), *Understanding Social Security: issues for policy and practice,* The Policy Press, 2003, p183

9 The Government argues that new tax credits are income-tested rather than means-tested, because they have no capital rule to limit entitlement to people with assets of below a certain amount, but instead just take account of the income from capital. In this report, we continue to use the term 'means-tested', as it is more familiar than income-tested or income-related.

10 Child Poverty Action Group, *Ten Steps to a Society Free of Child Poverty: CPAG's manifesto to eradicate child poverty*, 2005, p5

11 End Child Poverty, *Ten for a Million Charter*, ECP, 2005

12 Get Heard, *Get Heard! People living in poverty contribute to the National Action Plan on Social Inclusion 2006-2008,* UK Coalition Against Poverty, 2006 (project supported by the European Commission, Oxfam and the Department for Work and Pensions)

13 Commission on Life Chances and Child Poverty, *Narrowing the Gap*, Fabian Society, 2006, p185

14 House of Commons Work and Pensions Select Committee, *Child Poverty in the UK*, Second Report, Session 2003-04, HC 85, Vol 1, The Stationery Office, 2004, recommendation 22

15 J Brown, *Child Benefit: investing in the future*, CPAG Ltd, 1988

16 See note 3, p55

17 See note 11

18 S Middleton, K Ashworth and I Braithwaite, *Small Fortunes: spending on children, childhood poverty and parental sacrifice*, Joseph Rowntree Foundation, 1997

19 House of Commons *Hansard,* Written Answers 5 December 2005, col 911W

20 J Bradshaw, 'Child Poverty in Larger Families', in G Preston (ed) *At Greatest Risk: the children most likely to be poor,* CPAG, 2005, pp109-121

21 H Land, *Large Families in London*, Occasional Papers in Social Administration No. 32, O Bell and Sons Ltd, 1969

22 Land's definition of a large family in the 1960s was five children or more (J Bradshaw and C Stimson, *Using Child Benefit in the Family Budget,* The Stationery Office, 1997).

23 See note 20

24 Department for Work and Pensions, *Households Below Average Income: an analysis of the income distribution 1994/95-2004/05*, Corporate Document Services, 2006

25 See note 2

26 N Lyon, M Barnes and D Sweiry, *Families with Children in Britain: findings from the 2004 Families and Children Study*, Department for Work and Pensions Research Report 340, Corporate Document Services, 2006

27 Department for Work and Pensions, *Measuring Child Poverty*, DWP, 2003

28 Department for Work and Pensions, *Opportunity for All: fifth annual report 2003,* Cm 5956, The Stationery Office, 2003

29 M Iacovou and R Berthoud, *The Economic Position of Large Families*, Department for Work and Pensions Research Report, Corporate Document Services, forthcoming 2006

30 J Bradshaw, N Finch, E Mayhew, V-M Ritakallio and C Skinner, *Child Poverty in Large Families*, Joseph Rowntree Foundation, forthcoming 2006

31 See note 24. Poverty is defined here as living in a household on a net disposable income of below 60 per cent of the median, equivalised for households of different sizes.

32 See note 20. These are preliminary results from research by Bradshaw and others about large families for the Joseph Rowntree Foundation (see note 30).

33 A-M Jensen, A Trinekjorholt, J Qvortrup and M Sandboek, with V Johansen and T Lauritzen, 'Childhood and Generation in Norway: money, time and space', in A-M Jensen, A Ben-Arieh, C Conti, D Kutsar, M Nic Ghiolla Phadraig and H Warming Nielsen (eds), *Children's Welfare in Ageing Europe,* Vols I and II, Norwegian Centre for Child Research for COST A19, 2004

34 See note 3, p24, author's emphasis

35 J Bradshaw, 'Child Benefit Packages in 16 Countries in 2004', in J Lewis (ed), *Children, Changing Families and Welfare States,* Edward Elgar, forthcoming 2006

36 See note 28, p101 (citing J Bradshaw and N Finch, *A Comparison of Child Benefit Packages in 22 Countries,* Department for Work and Pensions Research Report 174, Corporate Document Services, 2002)

37 From description of new child support scheme formula at www.csa.gov.uk, accessed 5 June 2006

38 Institute for Public Policy Research, *Maintaining Momentum: promoting social mobility and life chances from early years to adulthood*, IPPR, 2006

39 Commission on Life Chances and Child Poverty, *Narrowing the Gap,* Fabian Society, 2006

40 The *Guardian*, 1 April 2006

41 HM Treasury, *Child Poverty Review*, The Stationery Office, 2004, p6

42 J Hutton MP, Secretary of State for Work and Pensions, Speech to Fabian Society on launch of Commission on Life Chances and Child Poverty report, 10 May 2006

43 See note 20 (drawing on J Bradshaw and N Finch, *A Comparison of Child Benefit Packages in 22 Countries,* Department for Work and Pensions Research Report 174, Corporate Document Services, 2002)

44 Once child tax credit is fully implemented for families out of work, children will get the same level of support in the same way whether their parents are in or out of employment.

Seven Conclusion

To increase the rate of child benefit for second and subsequent children to the same amount as for the first/eldest child would have lifted 250,000 children out of poverty and cost £1.7 billion in 2005/06.[1] More children in small families live in poverty, so additional money for children in small families is likely to take more children out of poverty. However, the objective of the Government's anti-poverty strategy is to abolish all child poverty, including that experienced by children in larger families.[2] Moreover, this report has also argued that there is a case in its own right for equity in the treatment of different children in our financial support system.

Clearly, to increase child benefit is also going to be more expensive in proportion to how many children are taken out of poverty than increasing child tax credit. The net cost of such an increase is also higher now than it used to be, because children in low-income families on child tax credit benefit in full from any child benefit increases. But seeing increases in child benefit as in part equivalent to a tax reduction for families as well may put them in a different light. Although the Government tends to combine child benefit and child tax credit in ministerial statements when it is claiming increases in both as tax reductions for families with children (for example, in the 2006 Budget), increases in child tax credit cannot really be seen as the equivalent of a tax reduction in the same way as increases in child benefit because they are not available to all families with children. This is particularly true of the child element – which is the part of child tax credit the Government has chosen recently to increase in line with earnings – as it is only available to lower-income families. And equivalent means-tested benefits were not usually treated in this way by governments in the past, meaning that comparisons over time can be misleading.

The higher cost of increases in child benefit in terms of public expenditure totals is in part artificial, because child benefit is counted in full. Money given as tax allowances, reliefs or credits can be counted in part or in full as 'revenue foregone'. This means that all or part of child tax credit (depending on which public accounting rules are being followed) does not count as public expenditure. Yet, as argued above, this is misleading, because foregone revenue has the same economic effects as public expenditure.[3] And the labelling of child tax credit wholly or partially as a tax expenditure paradoxically means that in some comparative studies of financial support for children which omit payments made through the tax system, the UK system appears much less generous than it is in practice.

The advantages of child benefit over means-tested help for families also need to be weighed in the balance. It has been suggested recently that:

> …the combination of means tests resulting from different aspects of policy in recent years may be reaching its limits, if it has not done so already.[4]

Many of these means tests simultaneously affect the same families with children and/or young people who are still wholly or partially dependent on their parents. The recent history of the pensions debate has shown that the increase in means testing – even administered in a 'light touch' way, as with pension credit – can reach such a point that consensus can emerge, despite the higher cost, about the need to rebalance the system in favour of non-means-tested provision. Many of the same, or similar, arguments apply to support for families with children (see Chapter 3).

The increased emphasis that the Government is now putting on helping 'second earners' in couples into employment as an integral part of its accelerated anti-poverty strategy[5] also means that the advantages of child benefit become even more apparent. Potential second earners have been the group that many commentators argue may be disadvantaged by expanding the net of means-tested provision. Two-parent families which already have one parent in employment and are eligible for child tax credit are less likely to claim it than lone parents in work (73 per cent, compared with 91 per cent).[6] Child benefit can boost their incomes immediately, as well as helping to support them as the other parent finds employment and the family's total income increases as a result.

CPAG has argued that:

> …benefits and tax credits to poorer families need to rise in real terms. Despite, and indeed because of, its universality, there is a clear and compelling argument [for] maximising the role of child benefit within the balance of financial support to children and families.[7]

This is what this report is suggesting. The Government needs to take the opportunity of the forthcoming public expenditure review to do exactly that. This would mean that it would be fulfilling the Chancellor's boasts in his recent Budget speech, both to 'lock in stability' – for families, as well as the economy to which he was in fact referring – and to 'secure fairness for every child by investing in every child'.[8] And it would be a fitting decision for the Government to make in the sixtieth anniversary year of universal benefits for children.

Notes

1 House of Commons *Hansard*, Written Answers 17 January 2006, cols 1201-3W

2 J Bradshaw, 'Child Poverty in Larger Families', in G Preston (ed) *At Greatest Risk: the children most likely to be poor,* CPAG, 2005, pp109-121

3 Adrian Sinfield has written extensively about 'fiscal welfare', that is social provision made via the tax rather than social security system (see, for example, A Sinfield, 'Fiscal Welfare' in M Powell (ed), *The Mixed Economy of Welfare,* The Policy Press, forthcoming).

4 J Hills, *Inequality and the State,* Oxford University Press, 2004, p268

5 J Hutton MP, Secretary of State for Work and Pensions, Speech to Fabian Society on launch of Commission on Life Chances and Child Poverty report, 10 May 2006

6 HM Revenue and Customs, *Child Tax Credit and Working Tax Credit: take-up rates 2003-04,* HMRC, 2006, p10

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8 G Brown MP, Chancellor of the Exchequer, Budget statement, 22 March 2006

Appendix

Cash value of different elements of child benefit, April 1979 – April 2006 (£ per week)

Date	First/eldest eligible child (couples)	Subsequent children
April 1979	4.00	4.00
November 1980	4.75	4.75
November 1981	5.25	5.25
November 1982	5.85	5.85
November 1983	6.50	6.50
November 1984	6.85	6.85
November 1985	7.00	7.00
November 1986	7.10	7.10
April 1987	7.25	7.25
April 1988	7.25	7.25
April 1989	7.25	7.25
April 1990	7.25	7.25
April 1991	8.25	7.25
October 1991	9.25	7.50
April 1992	9.65	7.80
April 1993	10.00	8.10
April 1994	10.20	8.25
April 1995	10.40	8.45
April 1996	10.80	8.80
April 1997	11.05	9.00
April 1998	11.45	9.30
April 1999	14.40	9.60
April 1900	15.00	10.00
April 2001	15.50	10.35
April 2002	15.75	10.55
April 2003	16.05	10.75
April 2004	16.50	11.05
April 2005	17.00	11.40
April 2006	17.45	11.70

Source: adapted from Institute for Fiscal Studies (no date), available on IFS website: www.ifs.org.uk, accessed June 2006

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