

Child poverty in large families

The Government is committed to the abolition of child poverty by 2020. This study investigates the prevalence and characteristics of poor children in large families (three/ four or more children) in the UK and how we compare with other countries. It also explores how the tax and benefit system has varied by family size over recent years and how this compares with other countries. It discusses how the tax and benefit system might be adapted in favour of large families so that the child poverty target might be achieved.

- The UK child poverty rate for large families is among the highest in the OECD.
- The proportion of large families has declined over the last 60 years. Now only a third of children live in a family with three or more dependent children and only 10 per cent in a family with four or more.
- However, in 2004/5, 50 per cent of children in 4+-child families were poor compared with only 23 per cent in one-child families.
- Children in 4+-child families constitute 19 per cent of all poor children.
- Parents of children in large families are more likely to be not working, from ethnic minorities, have had their first child at younger ages, be less educated and have a young child.
- All these characteristics are associated with a higher risk of poverty. However, the study found that large families had a higher risk of child poverty independently of these factors.
- The UK tax and benefit system favours small families rather than large families. In other countries, when tax and benefit systems vary with the number of children, higher benefits are paid to larger families.
- Child Benefit and/or Child Tax Credits could be geared to reduce child poverty in large families, but there are several trade-offs to be made.
- Helping large families at the expense of small families may lead to an increase in child poverty overall, because of the relative numbers of children in the different-sized families.
- Using universal benefits (such as Child Benefit) is more expensive than more targeted measures (such as Child Tax Credit). However, means-tested benefits suffer from non take-up and increase the 'poverty trap'.
- There is a trade-off between the effectiveness of a policy in terms of equity for children in large families and the cost to government.



Background

The abolition of child poverty is key to the Government's social policy strategy. In 1999, the Prime Minister's Toynbee Hall speech promised "to eradicate child poverty within a generation". Child poverty is associated with poor well-being during childhood and leads to poor outcomes in adulthood. For a child to be poor just because they live in a large family is a particular injustice. This is already recognised to some extent in the tax/benefit system, which varies payments for families with different numbers of children.

Large families

What is a large family? Where possible (using the available data) the study defines children in families with four or more children (4+-child families) (10 per cent of all children) as living in a large family. Otherwise a large family is defined as having three or more children (3+-child families) (incorporating 4+-child families, to make 30 per cent of all children). Over the last 60 years there has been a reduction in the proportion of families with three or more children. However, they still constitute a third of all children and have a much higher risk of poverty than those in smaller families.

Child poverty in large families

50 per cent of children in 4+-child families are poor compared with only 23 per cent in one-child families. Children in 3+-child families constitute 42 per cent of all poor children, with children in 4+-child families making up 19 per cent of all poor children. However, child poverty in large families has been falling since 1998/9 (see Figure 1). This could be the result of improvements in the employment rates in large families but the researchers conclude that it is more likely to be due to the impact of Working Families Tax Credit and Child Tax Credit.

The characteristics of poor children in large families

The study shows that children in large families are more likely to have a parent who:

- is not in employment;
- is from an ethnic minority background – particularly Pakistani or Bangladeshi;
- had their first child at a young age;
- has a pre-school child in the household;
- has lower level of educational attainment;
- lives in London or Northern Ireland;
- is disabled.

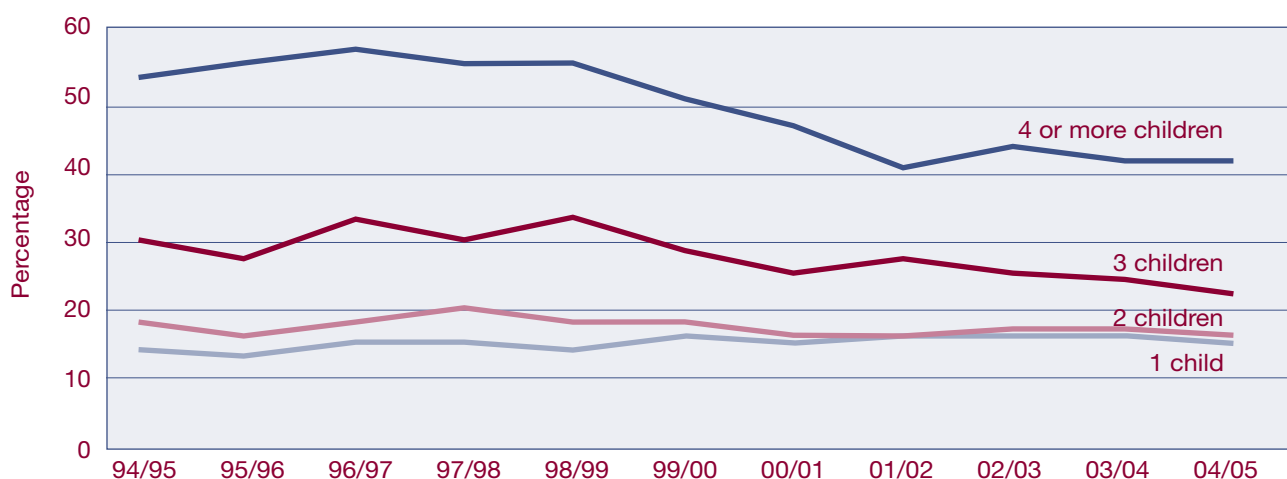
All of these characteristics are also associated with a higher risk of child poverty. However, the research has shown that there is also a 'large family effect', independent of the other characteristics of the families. A child in a 3+-child family was between 50-180 per cent more likely than a child in a one-child family to be poor. A child in a 4+-child family was between 280-800 per cent more likely to be poor than a child in a one-child family – other things being equal.

The tax and benefit system

UK policies are not particularly sensitive to the needs of large families:

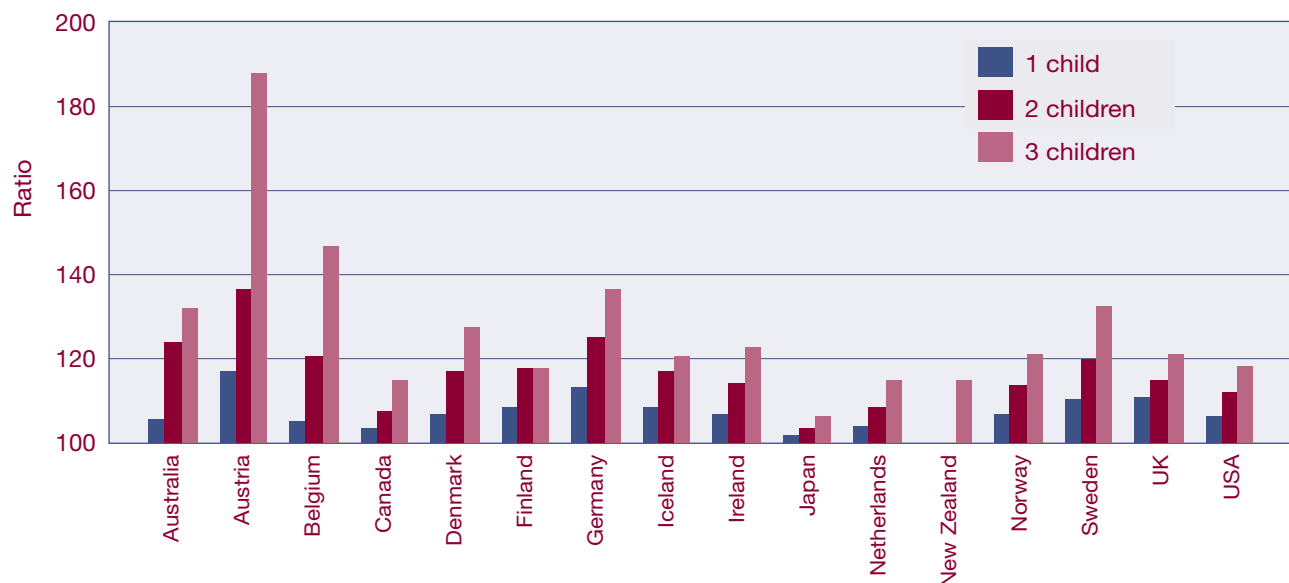
- Child Benefit is paid at a higher rate for the first child in a family.
- The Family Premium in Income Support effectively results in there being a premium for the first child in a family receiving Income Support.
- Working Tax Credit is paid at a standard rate regardless of the number of children.
- Child Tax Credit is a standard amount for each child (except that there is a premium for a disabled child).

Figure 1: **Child poverty** (% living in households with less than 60 per cent of contemporary median household income) rate by the number of children in the family. Before housing costs



Source: HBAI, Table E4.1 (2005)

Figure 2: **Child benefit package by number of children**
(childless couple=100). Average earnings. After taxes, benefits and housing subsidies.



Source: HBAI, Table E4.1 (2005)

However, increases in Child Tax Credit have benefited large families more because the child rate has been increased in line with earnings whilst the family element has been frozen.

- The Child Support Agency formula allows 17 per cent of the income of a non-resident parent for the first child, 20 per cent for the second child and 25 per cent for the third child and any subsequent children.
- Childcare Tax Credit allows 70 per cent of the costs of regulated childcare for up to two children only.

The treatment of large families in the tax and benefit system has changed over time.

- For unemployed families, the net income of a 3+-child family on Income Support relative to both a childless couple and a one-child couple has improved since 1988.
- However, for employed families, the net income of a 3+-child family on average earnings relative to a childless couple has remained constant and has fallen relative to a one-child couple since 1972.
- For employed families, the net income of a 3+-child family on half average earnings has improved relative to a childless couple but stayed the same relative to a one-child family since 1972.

However, this does not mean that the 'implied equivalence scale' in the tax and benefit system is adequate or correct.

International comparisons

Comparative analyses – using one study including 15 European countries and another study with 23 European and non-European countries – show that, before benefits

are taken into account, the UK has one of the highest poverty rates for children in large families compared with other countries. Only Spain, Portugal and Hungary have higher rates of child poverty in 3+-child families before benefits are taken into account.

When comparing the UK's tax and benefit system to that of other countries, it appears that the UK is middling in the generosity of the benefit package to large families. UK policy is fairly effective in reducing its child poverty rate for large families, reducing the UK child poverty rate in 3+-child families by the fourth highest amount in the countries studied. However, it is less successful in reducing its child poverty in 3+-child families than in one-child families. After benefits are taken into account, it still ends up with the tenth highest child poverty rate out of 23 countries.

Figure 2 shows how child benefit packages vary by the number of children in the family (for couples and keeping earnings constant). It illustrates how unusual the UK is in favouring the first child.

How might child poverty in large families be reduced?

The Child Poverty Review in 2004 announced "a long-term aspiration to improve the financial support available to large families". Long-term implies that it will be achieved by gearing benefit rates towards larger families over a period of years. This study has simulated six possible policy changes in order to explore how the Government might achieve this, and at what cost.

The best outcome in terms of equity for large families is achieved by increasing Child Benefit to the same level

per child and then increasing the benefit for the third and subsequent child by £20 per week. However, it would cost £3.39 billion. Lesser increases in Child Benefit for larger families achieve more modest reductions in the poverty rates but at lower costs.

Adjustments in Child Tax Credit to pay the same amount for each child cost less and achieve good results for large families. There are a number of potential cost-free solutions. However, in most cases, reductions in the child poverty rate of large families are paid for by losses for better-off families. Also, because lone parents tend to be small families they tend to suffer slight increases in child poverty rates.

This illustrates that policy-makers seeking to help large families face several trade-offs.

- About half of all poor children live in one- or two-child families. Any policy which helps large families at the expense of small families is likely to result in an increase in child poverty in small families and also probably in lone-parent families (who are mainly small) and thus also possibly an increase in child poverty over all.
- There is of course a trade-off between the effectiveness of the policy in terms of equity and the cost to the Exchequer.
- There are also choices to be made between universal and selective policy measures. Improvements in Child Benefit for large families are expensive because they go to every large family whatever their income. Increasing Child Tax Credit for large families may concentrate extra help on those who need it most. However, Child Tax Credit suffers from non-take-up and such measures will also increase the poverty trap (high marginal tax rates as earnings rise).

A further factor that might also be an important constraint on policy is the general public's views about what large families deserve and about whether increasing benefits encourages people to have large families. If greater benefits are paid for the third and subsequent child, smaller (and childless) families may object. There may also be arguments about the relative needs of families with different numbers of children and anxiety about policies encouraging 'irresponsible' parenthood. However, as things are now, the question is why are small families so privileged in the tax and benefit system?

About the project

The work is based on the secondary analysis of national and international data. The national data sets included the Family Resources Survey, The Millennium Cohort Study and the Family and Child Survey. The international data was drawn from the European Community Household Panel and the Luxembourg Income Study. The study also drew on national and international data on how the tax-benefit system affects model families.

The work was directed by Professor Jonathan Bradshaw, and involved Emese Mayhew, Naomi Finch and Dr Christine Skinner in the Social Policy Research Unit at the University of York and Professor Veli-Matti Ritakallio at the University of Turku, Finland. Professor Holly Sutherland at the University of Essex undertook policy simulations using POLIMOD.

At the same time as this work was being undertaken Richard Berthoud was commissioned to undertake a study of large families and poverty for the Department for Work and Pensions. His report is published at the same time, Berthoud, R. and Iacovou, M. (2006) **Large families and poverty**, London: Department for Work and Pensions.

For more information

The full report, **Child poverty in large families** by Jonathan Bradshaw, Naomi Finch, Emese Mayhew, Veli-Matti Ritakallio and Christine Skinner, is published for the Foundation by The Policy Press.

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