

## The cost of children and the welfare state

In recent years, reforms to both child benefit and the means-tested benefit system have brought about significant changes to the relative support provided by the benefit system to large and small, and one and two parent families with children. Using new estimates of the costs of children, this study, by Richard Dickens, Vanessa Fry and Panos Pashardes, found that:

- f** One parent families face substantially higher child costs in relative terms than two parent families.
- f** Among one parent families, the first and second child in the family add much more to costs than third and subsequent children, irrespective of the age of the child.
- f** Among two parent families, there are also economies for larger families, in particular for those with older children.
- f** Standard measurement methods that do not fully take into account how children affect family spending patterns can give misleading measures of the costs of children.
- f** *The researchers conclude that:*
  - The single parent premium (which combines additional support for one parent families with extra support for the first child) should be retained, and possibly strengthened.
  - Likewise, the research provides evidence to support the preservation of one parent benefit as part of the child benefit structure.

## Background

Changes to the structure of the benefit system for families with children, including the introduction of income support in 1988 and the higher level of child benefit for the first child in 1991, have brought about alterations in relative support provided to different family structures. Relative benefit levels had previously been stable for many years.

This study examines the relative costs in terms of (non-durable) consumption goods (for example, food, clothing, transport and heating bills) of attaining a given living standard faced by different sizes and types of family. The study uses the annual Family Expenditure Surveys conducted by the government for the years 1970 to 1992 to examine what consumption patterns can tell us about the relative living standards of families with and without children. The expenditure levels, spending patterns, and other characteristics of over 60,000 one and two adult non-retired households were analysed.

## Measuring child costs

A consumer demand approach was used to estimate the costs of children. This approach makes inferences about family living standards from information about their pattern of consumption of different kinds of goods (in particular the relative importance of luxuries and necessities in the family budget).

A problem for many studies using this approach has been how to separate out those differences in family spending patterns that arise because some are better off than others from those that arise because families with children, regardless of living standard, spend differently from those without children. The frequent answer has been to assume that the relative importance of at least some consumption goods (e.g. food) is not affected by the presence of children in the family.

The present study uses a more general approach that assumes children could potentially affect relative spending on all goods. Moreover, the researchers demonstrate that making false assumptions about how children affect spending patterns can cause considerable distortions in estimates of their costs.

Using this method also means that the estimates take into account more fully how families with children adjust their spending when prices change.

This is vital in order for an accurate calculation to be made of how the costs of children change over time - in other words, the differences in the impact of cost of living increases faced by those with and those without children.

Previous studies have also concentrated on the costs of children (and less frequently additional adults) in two parent families. Children in single parent families currently constitute a significant group among those receiving support from the welfare state. The scope of the present study is therefore wider, and compares the level and structure of child costs in one and two parent families.

## The costs of children in one parent families

The study finds that:

- The costs of a child relative to a single adult in one parent families are substantially higher than in two parent families (more than 30% of the cost of a single adult for a child under 11 compared with approximately 20% in a two parent family; approximately 50% for a child aged 11-18 in a one parent family compared with under 30% in a two parent family).
- The costs of a child over the age of 11 in one parent families are significantly higher (at 51% of the cost of a single adult) than that of a child aged under 11 (at 33%).
- The costs of additional children in one parent families fall with increasing family size. For children under 11, the cost of a third child is about two-thirds that of the first, and for children over 11, it is about three-quarters that of the first.

## The costs of children in two parent families

The study finds that:

- The costs of a child (relative to a single adult) are lower in two parent than one parent families.
- Costs of young children (aged under 11) in two parent families fall only slightly with increased family size.

- Costs of older children (aged 11 to 18) in two parent families do fall considerably with increased family size, with a third child in this age bracket adding to family consumption costs by just over half that of the first child.
- Older children cost significantly more than younger ones - as in the case of one parent families, the cost of a child aged 11-18 is about 50% more than that of a child under 11 (in a one child family).

### Income support and the costs of children in one parent families

The rate of payment of income support is substantially greater for the first child than for subsequent children, particularly for single parents. If income support is intended to provide a comparable 'safety net' standard of living for all households regardless of structure, then current rates embody a view that there are very substantial economies of scale among families with children - after the first child, additional children are relatively 'cheaper' to keep.

The results of the study provide support for two principle features of the structure of income support for one parent families:

- that they should receive additional support for children relative to two parent families;
- and:
- that this should be concentrated on the first child.

The single parent premium (in conjunction with the family premium) combines these two features, though its absolute size is currently low. In the context of recent discussion concerning the future of the single parent premium, the study provides evidence in support of its retention and possible strengthening.

### Income support and the costs of children relative to adults

As a result of the family premia, additional income support in respect of the first child can be as much as or greater than that for an additional adult family member. Neither the estimates presented in this

study nor previous ones suggest that the consumption costs of children exceed those of adults.

This suggests that we are moving away from a situation in which the social safety net at least attempts to provide a comparable minimum standard of living for all citizens, towards one in which support is concentrated on priority groups (families with children).

An implication of this move is that income support rates provide an inappropriate benchmark or poverty line for assessing the relative poverty of different groups in society, in particular attempts to discover whether poverty has increased/decreased more among families with children than among families without children.

### Child benefit, one parent benefit and the costs of children

Like income support, child benefit currently incorporates a small addition for all families for the first child and a further more substantial addition, one parent benefit, for the first child for one parent families.

The one parent benefit has been frozen in the 1995 Budget and is to be phased out, but the results of this study on the costs of children generally support the maintenance of the present structure. In particular, the finding of higher child costs among one parent families provides an additional rationale for the preservation of one parent benefit. Whether the priority in structuring child support is to direct it where costs are greatest or where incomes are lowest, there is a case for a form of one parent addition to child benefits.

In contrast, the case for the (financially less significant) higher rate of child benefit for the first child in all families is less clear cut. The present study adds to the evidence that the first child brings greater costs. On the other hand, it is larger families who tend to fall into lower income groups.

### Changes in the costs of children

When the prices of goods bought by families with children rise at a different rate from other goods, the relative costs of children will change. The results of the study suggest that for both one and two parent families, the cost of living was rising faster for families with children than those without during the early and to a lesser extent late 1970s, but more slowly during the mid 1970s and the first half of the 1980s.

### About the study

The Family Expenditure Survey used in the study is a large annual sample survey which contains detailed information on the income, consumption and family circumstances of a representative sample of about 7,000 UK households.

### Further information

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### Related *Findings*

The following *Findings* look at related issues:

#### *Social Policy*

- 49** UK income distribution during the 1980s (Jun 94)
- 50** UK income distribution 1961-1991 (Jun 94)
- 53** Strategies used by low-income families with children to make ends meet (Jul 94)
- 65** Income maintenance and living standards (Nov 94)
- 67** Attitudes to spending on children (Dec 94)
- 72** The difficulties of setting up home for young single mothers (Feb 95)
- 84** Single lone mothers (Oct 95)
- 87** Mapping British society (Nov 95)

The following *Summary* is also relevant:

#### *Social Policy*

- 4** Family and parenthood: supporting families, preventing breakdown (Feb 95)

For further information on these and other *Findings*, contact Sally Corrie on 01904 654328 (direct line for publications queries only; an answerphone may be operating).



Published by the  
Joseph Rowntree Foundation  
The Homestead, 40 Water End  
York YO3 6LP  
Tel: 01904 629241 Fax: 01904 620072  
ISSN 0958-3815

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