Supporting families

The financial costs and benefits of children since 1975

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1

Introduction

How governments should direct money to families with children seems to be a constant part of the political and policy debate. The present government has made many changes to the structure of financial support to families with children, culminating in the child tax credit and working tax credit, perhaps the most radical reform in this area since child benefit replaced family allowance in the late 1970s. One of the government's desires for the new tax credits was to "[help] parents to understand what they could expect to receive, and [facilitate] public debate about the correct level of support in the context of the government's aim to abolish child poverty within a generation"[1]. This statement suggested two intellectual challenges that provided the motivation for our project: to examine how the support that parents "could expect to receive" has changed, and to compare this with possible views of "the correct level of support".

Although the new tax credits may be simpler than the programmes that they replace, more than 35 different programmes have been used since 1975 to provide direct financial support to families with children, and the way they interact means the overall impact has not been transparent. It has sometimes been hard to tell, for example, whether the current system of child-contingent support is more or less generous than those it replaces. One aim of this report is to quantify the government support for households with children provided through the tax and benefit system in the UK since 1975. Our definition of this support is not limited to those parts of the system that are explicitly labelled as being child-related; instead, we include any transfer that an otherwise-equivalent household without children would not receive, and we call this 'child-contingent support'. Our methodology is to use the Institute for Fiscal Studies' (IFS) tax and benefit micro-simulation model, TAXBEN, to calculate the extra income that each household in the Family Expenditure Survey (FES) was entitled to because it had children. This allows us to look at the distribution of financial support across the whole population rather than just individual households. We are able to show how support in a given year varies with household characteristics like the number of adults, number and age of children and household income, and how this structure has changed over time.

Comparisons of the amount of child-contingent support received by households over time are useful in telling us whether support for children has become more generous. But they can leave out some important factors:

- The characteristics of households with children, such as their position in the income distribution, may change. This means that, if support for children increases, we would not know whether it was due to policy becoming more generous, or to households with children becoming relatively poorer and thus receiving more income-related child-contingent support.
- The prices of things bought by households with children will change over time, which means that child-contingent support of a given value will be worth different amounts to households at different times, even if we use the Retail Prices Index (RPI) to adjust cash values to control for average (in some sense) changes in prices.

[1] HM Treasury (1999, para 3.30). Details of the new tax credits can be found in HM Treasury (2002).

This report suggests a way to control for these two factors; having done this, we can move a little closer to understanding whether government policy has become genuinely more or less generous to households with children over time.

To deal with the first phenomenon, we estimate what child-contingent support would have been like if the number and characteristics of households with children did not change. This allows us to decompose observed changes into those due to deliberate tax and benefit policy changes, and those due to changes in the characteristics of families with children.

To investigate the second phenomenon, we make use of recently estimated data on the inflation rates faced by individual households. These household-specific inflation rates vary across households in a given year because they buy different goods and services, the prices of which will be changing by different amounts. Household-specific inflation rates provide a better guide to whether more money implies a higher standard of living than using the change in the aggregate RPI. We use this new data to investigate whether the costs of things bought by households with children have been increasing more or less quickly than the costs of things bought by households without children.

But these methods do not enable us to say whether the amount that households receive is enough for their needs – concepts that are hinted at by the government's use of the phrase "correct level of support". Assessing what the "correct" level of support is, and comparing this with our estimates of what households have received, is the second challenge motivating our project. Clearly, however, there can be no definitive answer to what level of support is "correct": much depends on one's view of the rationale for supporting children. As one possible view of the "correct" level – and certainly a useful baseline for comparison – we look at estimates of the cost of children. This report does not add to the literature that estimates how much money families or children need to achieve various standards of living; instead, we compare results derived elsewhere to our estimates of how much child-contingent support households have been entitled to. This allows us to judge how far child-contingent support has compensated households with children for their extra needs, and how far responsibility for bearing the financial cost of children has been left to parents and other relatives.

In practice, however, our aim is frustrated by the paucity of studies of the costs or needs of children. We adopt three approaches. The first is to look at explicit estimates of the minimum financial cost of a child. We use two estimates of this, one derived from focus groups and one produced by valuing the items considered essential to reach some specified standard of living; the choice of items is derived from a combination of officially recommended standards, expert advice, what surveyed individuals (usually parents) consider essential, and actual expenditure patterns (as reported in large-scale household surveys). We also calculate what the costs of children might have been in other periods of time if their material needs did not change. As a slight variant, we look at estimates of the income needed for a household with children, again produced by valuing the items considered essential to reach some specified standard of living. By comparing these estimates with what households have been entitled to, we can attempt to say whether the total government transfers to households with children have been enough, together with households' private incomes, to cover their needs.

The second approach is to look at estimates of the costs of children implicit in equivalence scales. Equivalence scales attempt to capture the relative needs of households of different compositions; when thinking about children, they effectively ask what level of extra resources a household with a child would need to enable it to reach the standard of living it would have without that child. There are many equivalence scales in use, and in this report we focus on three: the McClements scale, which is used to adjust household incomes when constructing the income distribution in the UK (see, respectively, Appendix 2 of DWP, 2003, Gordon et al, 2000 and Citro and Michael, 1995); a scale used in a recent survey of poverty and social exclusion in Britain; and a simple mathematical scale recommended by a panel of experts in the US. We compare the estimates of the cost of children implicit in each of these equivalence scales with the level of child-contingent support to which households are entitled.

However, using equivalence scales in this way may be inappropriate for policy analysis. Most equivalence scales give estimates of the cost of children as a proportion of household income, implying that children cost rich parents more than they cost poor parents, yet this does not mean governments will want to provide more support for rich households. Our third approach, then, is to calculate the cost of children implied by equivalence scales at a particular income level. The income level that we choose is 60% of median household income, a commonly used poverty line[2]. We can then compare child-contingent support to the costs of children implied by equivalence scales for a household on the poverty line.

As a by-product of our work with equivalence scales, we show that the McClements scale has not kept pace with changes in the costs of children relative to the costs of adults[3]. This means that even if the McClements scale provided an accurate estimate of the relative costs of different sorts of households when it was first estimated, it is not accurate now.

It is worth mentioning some things that we do not attempt in this work. The changing composition of families with children, and the changing position of families with children in the income distribution have been analysed elsewhere[4]. Although the structure of child-contingent support is an important determinant of the level of child poverty, we do not attempt to address questions such as what child poverty might have been if child-contingent support had been structured differently, or what role child-contingent support played in reducing child poverty in the past[5]. The impact of recent tax and benefit reforms on the income distribution – and, in particular, on the incomes of those with children – has been examined by a number of researchers using micro-simulation models, and we do not add to that line of research[6].

The layout of the report is as follows. In Chapter 2, we outline our methodology and provide some background, discussing the reasons governments might support children at all, our definition of child-contingent support and the way we estimate it, the way we obtain household-specific inflation rates and, as background, a summary of the key socioeconomic changes in the population of households with children since 1975. Chapters 3 and 4 illustrate some of the core features of child-contingent support programmes in Britain, and how these have changed since 1975. They present our estimates of the amount of child-contingent support received in each year, and show the relative importance of changes in the characteristics of households with children and discretionary policy changes in explaining the changes in child-contingent support since 1975. In Chapter 5, we review some of the ways in which the cost of children might be measured, introducing the three broad approaches mentioned earlier and the particular estimates we use. In Chapter 6, we compare these estimates of the cost of children with our estimates of child-contingent support and look at what we can say about whether a particular level of child-contingent support is 'enough'.

This report is the final stage in a project funded by the Joseph Rowntree Foundation. In earlier work, we focused our attention on the ways that governments have supported families with children financially, and how child-contingent support varies across families of different types and over time[7]. Readers who wish to see more details of how children have been recognised in the tax and benefit system, or more quantitative analysis of the changes since 1975, should refer back to our earlier work.

[2] See DWP (2002a).

[3] This updates work from over a decade ago which was also funded by the Joseph Rowntree Foundation: see Banks and Johnson (1993, figure 5.2).

[4] Historical trends in child poverty in the UK are analysed in Gregg et al (1999), with more recent estimates in Palmer et al (2002).

[5] Goodman et al (1997) and Clark and Leicester (2002) ask how much of the observed changes in inequality can be directly explained by tax and benefit reforms, but neither focuses on children.

[6] Analysis of how recent or prospective reforms to child-contingent support might affect child poverty can be found in Piachaud and Sutherland (2001), Sutherland (2002) and Brewer and Kaplan (2003). Ridge (2003) reviews the impact of the current government's social security reforms on children.

[7] See Adam et al (2002).

2

Methods and definitions: what is child-contingent support and how do we model it?

In this chapter, we provide details of our methodology and some background. In particular, we discuss:

- why governments might choose to support households with children;
- the definition of child-contingent support used for this report, and the way we estimate it;
- the derivation of household-specific inflation rates and what they tell us about the changing cost of living for different sorts of households;
- and, as background, a summary of the key socioeconomic changes in the population of households with children since 1975.

Why do governments support households with children?

Although we do not seek to explain why UK governments have supported households with children, it is important to understand what goals governments might have for child-contingent support, because different goals will require differently structured programmes.

Households with children tend to receive support from governments because governments usually want to redistribute income. Households with children tend to have relatively low incomes because the amount of paid work they can do is restricted by the need to look after the children. Governments may, therefore, provide support to low-income households with children as they do for other low-income groups, such as pensioners, the unemployed or people with disabilities. This is a vertical-equity argument: it is about fairness, in some sense, between rich and poor. However, this redistribution could be achieved by a tax and benefit system that did not recognise children at all: if households with children tend to be poor, a progressive or pro-poor transfer system will benefit them more in any case. A pursuit of vertical equity, therefore, suggests a transfer system that uses non-child-contingent transfers to redistribute from rich to poor (by having, for example, a progressive structure to income tax). Indeed, making rich-to-poor redistribution conditional on having children would be unfair on low-income households without children. So we need more than just a concern about low income to justify why governments support households with children.

One fundamental point that determines whether governments want to support households with children is whether governments have (or should have) an interest in the well-being of children over and above the parents' own. A view that children are the private concern of their parents, for example, might lead governments not to support households with children, whereas a child-first view, maintaining that, because children did not choose their parents and cannot affect their household circumstances, they should not be made to suffer from their parents' actions, would justify support. This is indeed the approach encapsulated in the UN Convention on the Rights of the Child[8].

Even in a world in which parents do act in their children's best interests, however, there are a number of other reasons why governments might choose to support households with children.

[8] This grants children the right to benefit from social security, and to "a standard of living adequate for the child's physical, mental, spiritual, moral and social development" (UN, 1989).

Some possible rationales that might justify support for all children are:

- to compensate households for the extra costs associated with having children, ensuring fairness (in some sense) between households with and without children;
- conditioning transfers on the presence of children may help redistribute income from rich to poor while avoiding disincentives if households with children are more likely to be poor than those without;
- to improve children's life chances because the outcomes from children's development affect all of society;
- to influence fertility decisions.

There are also some rationales for supporting children that might justify support for children that is related to income:

- Society may care more about poverty among households with children than about poverty in households without children, because children have no control over their circumstances.
- Parents may face constraints on borrowing when they have children and need to reduce time in paid employment; income-related transfers to households with children may help ease this market failure.

A complication in using cash transfers to help children is that money is given to parents, not directly to children. If, for example, parents in low-income households make sacrifices themselves in order to protect their children from the effect of low incomes, increasing household income may benefit the parents rather than the children. This is suggested by two recent studies using different methodologies: Gordon et al (2000) and Middleton et al (1997). Furthermore, there is no guarantee that increased spending on a child will improve outcomes later on. Evidence has linked growing up in a low-income household to adverse outcomes later in life, but little is known about how increasing household incomes affects these outcomes. Even if household incomes are correlated with child outcomes, increasing household incomes need not improve child outcomes if there is some hidden factor that is producing the apparent causation: some parental characteristics may lead directly to both higher parental incomes and better child outcomes, rather than the income itself having an effect. These reasons explain why governments provide support for children through public services as well as through cash transfers to the parents, but we do not consider public services for children further in this report.

What do we mean by child-contingent support?

Governments support children and their parents in different ways: public services, direct help through the tax and benefit system, and innumerable laws and regulations. This range of approaches is entirely sensible, as different objectives require different policy instruments.

In this report we are concerned with cash support provided through the social security system and the personal tax system. This means that we do not consider, for example:

- how much governments spend on children through public services;
- how indirect taxes help families with children (through, for example, zero-rating children's clothes for VAT purposes);
- the government's role in enforcing child maintenance agreements[9].

Our definition of support for children includes any transfer that an otherwise-equivalent household without children would not receive (we call this a 'child-contingent transfer', and this report uses the phrases 'child-contingent support' and 'support for children' interchangeably). This means that we count as child-contingent support any part of any tax payment or cash benefit that changes in value with the presence of (or age of, or number of) children, and any tax payment or cash benefit where eligibility is conditional on

[9] It would be possible to include some of these: Eurostat (2001) counts all child-related transfers through the tax and benefit system as well as some (indeterminate) benefits in kind, Clark et al (2001) attempt to add up how the US federal government supports children and Werding (2001) estimates the total value of state support for families in Germany. It is more difficult, however, to value the public services consumed by individual households, which is what would be needed to be consistent with the results presented in this report: recent attempts include Sefton (2002).

having children at all. This includes (see Appendix C for more details):

- the whole of child benefit, one-parent benefit, family allowance, the pre-1980 child tax allowances, the additional personal allowance for non-married couples with children and the new child tax credit, since eligibility for these depends on having children;
- the whole of family income supplement, family credit and working families' tax credit payments, since no equivalent benefit exists for those without children and without a disability;
- the difference in the earnings disregards between a single person and a lone parent in current means-tested benefits and the difference in working tax credit awards between a single person and a lone parent (from 2003).

We do not include as child-contingent support:

- certain maternity benefits which mostly perform the role of state-operated earnings insurance. For example, we do not regard statutory maternity pay and maternity allowance as being child-contingent support, because the eligibility conditions are concerned with a woman being pregnant and working before the birth. But we do count the maternity grant, because it is available to any parent on means-tested benefits with a child under one;
- benefits in kind other than free school meals, mostly because of the difficulties of knowing by how much they benefit individual families.

How are we modelling child-contingent support?

We model entitlements to child-contingent support across the distribution of households with children by applying a computer simulation of the tax and benefit system to data from a large-scale household survey (full details are given in Appendix A). This paints a more accurate picture than looking at the rates of, or spending on, particular programmes that support children, both because the relative importance of different programmes changes over time and because the majority of households receive help from more than one programme. It is also important to consider how child-contingent support varies across the population. Some studies have analysed child-contingent support for particular households, but individual households can never reflect the variation in household circumstances, nor changes in these over long periods of time[10].

We do not attempt to estimate any behavioural response; we estimate the level of child-contingent support given the observed behaviour of households with children (their labour supply, household size, housing and savings, for example). Of course, behaviour would probably change if child-contingent support were removed, or if the households did not contain children.

The unit of analysis in this report is the household, rather than the family, because it is only possible to observe expenditures and, therefore, estimate changes in costs of children at the household level. When, in this report, we refer to the cost of children or child-contingent support for 'couples', this should be taken to mean all two-adult households with children, regardless of the relationship between the adults.

Inflation rates for households with children

When comparing cash values over time, it is usual to take account of the changing prices of goods and services. This adjustment is often made using the RPI. The RPI shows the changing price of a particular bundle of goods and services that is supposed to be representative of the purchases of households in the UK: changes in the RPI are usually thought of as a measure of the average rate of inflation. If we think of a household's own inflation rate as the change in costs that household would face if they continued to buy the same goods and services while prices changed, then every household potentially faces a different inflation rate because different households buy different

[10] For example, Battle and Mendelson (2001) compare child-contingent support for individual households in the UK, US, Australia and Canada; Brewer and Gregg (2003) compare the US and UK; and Meister and Ochel (2003) compare certain Organisation for Economic Co-operation and Development (OECD) countries.

things, and the prices of different goods and services change by different amounts.

Previous work by researchers at the IFS has shown that the average rate of inflation, as measured by changes in the RPI, is often a poor guide to the actual rates faced by individual households (we call these 'household-specific inflation rates'): on average between 1976 and 2000, only about a third of households faced inflation rates within one percentage point of the average rate[11].

Table 2.1 shows our estimates of the average annual inflation rate between 1978 and 2000 experienced by various types of households with children. It extends Crawford and Smith's findings (2002) to show how the cost of living has changed since 1975 for different types of households with children; Appendix B details how the household-specific inflation rates are calculated, and more detailed results can be found in Adam and Brewer (2003). Table 2.1 shows that, on average, there was almost no difference in the inflation rates faced by households with and without children. However, among households with children, the following factors are associated with facing lower-than-average inflation rates:

- being a lone-parent household;
- having many children;
- among couple households, having older children;
- having a relatively low income[12].

Although these differences may look small, the effects are larger when looking over the whole 22-year period. For example, between 1978 and 2000, the prices of things consumed by couples with two young children rose by 6% more than the prices of things consumed by couples with two children over 11, but the difference in annual average inflation rates is just 0.2 percentage points. In addition, individual households could face inflation rates that were considerably higher or lower than the stated annual average over their group.

Table 2.1: Average annual inflation rates 1978–2000, by group

Group	Average inflation (%)
All	6.02
Households with children	6.01
Households without children	6.02
One adult, no children	6.17
One adult, children	5.78
One adult, one child	5.83
One adult, two children	5.81
One adult, three children	5.68
One adult, four+ children	5.37
Two adults, no children	5.97
Two adults, children	6.11
Two adults, one child	6.18
Two adults, two children	6.12
Two adults, three children	5.98
Two adults, four+ children	5.75
For one-adult, one-child households	
Child aged 0-4	5.84
Child aged 5-10	5.84
Child aged 11-18	5.81
First quarter (poorest)	5.79
Second quarter	5.82
Third quarter	5.70
Fourth quarter (richest)	6.08
For two-adult, two-child households	
Both children aged 0-4	6.22
Both children aged 5-10	6.20
Both children aged 11-18	6.02
One child aged 0-4, one 5-10	6.17
One child aged 0-4, one 11-18	5.84
One child aged 5-10, one 11-18	6.03
First quarter (poorest)	5.92
Second quarter	6.10
Third quarter	6.19
Fourth quarter (richest)	6.27

Source: Authors' calculations using data first analysed in Crawford and Smith (2002)

The work described here does not, however, tell us about variations in the total costs faced by such households: they merely estimate how these costs have changed over time, given the spending patterns of such households. Our aim here is to produce a more accurate price index than the RPI that recognises that the items bought by households with children are not the same as those bought by households without children.

[11] Crawford and Smith (2002).

[12] A household's income was compared to those of other households observed in that year with the same number of adults and the same number of children.

Changes in the characteristics of households with children since 1975

In this section, we remind readers of the key demographic trends among households with children since 1975, as they will be important determinants of changes in the level of child-contingent support.

The number of dependent children in Britain has fallen since 1975, from a high of 14.3 million in 1975 to a low of 12.0 million in 1988, rising in the early 1990s and stabilising at around 12.6 million (Figure 2.1)[13]. The number of households with children in our data has moved correspondingly from 7.6 million to 7.0 million in 1975 and 2003. The average number of children per household has declined from 1.88 in 1975 to 1.82 in 2003[14].

Another important trend has been the increase in the proportion of children in lone-parent households. In 2000, 26% of families with children were headed by a lone parent, compared with 10% in 1975[15]. Estimates from our data are that the proportion of children in lone-parent households has grown from 8% to 21% over roughly the same period.

The position of children in the income distribution has also changed (Figure 2.2)[16]. In 1975, the third and fourth income deciles contain the most children, with declining numbers of children found in successively richer deciles. In recent years, the bottom two deciles contain more children than any other. The proportion of children in successively richer deciles still declines, but there has been a rise in the

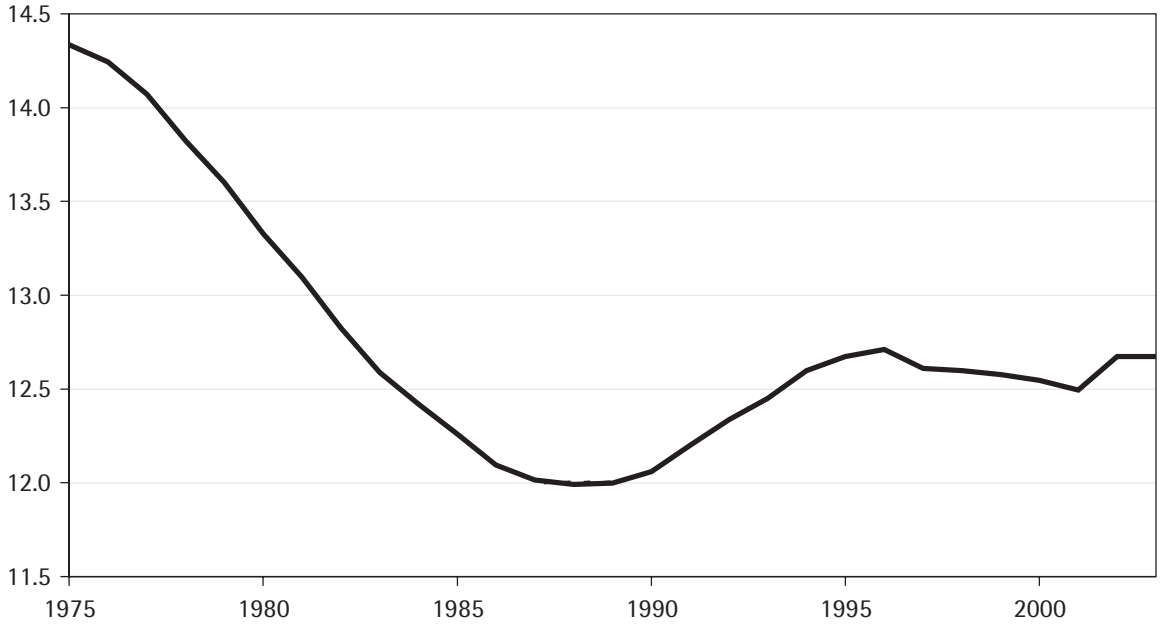
[13] The FES was based on calendar years up to 1993 and financial years since, and our labelling of years in this and all other graphs follows that convention, so '1982' means calendar year 1982 and '1995' means financial year 1995/96.

[14] These numbers are for the data that we use but other sources tell a similar story: the Office of National Statistics (ONS, 2002a) reports that between 1971 and 2000, the mean number of dependent children per family fell from 1.79 to 1.71 for lone parents, from 2.03 to 1.87 for couples and from 1.9 to 1.8 for all families (based on unweighted General Household Survey totals).

[15] Source: ONS (2002b, table 3.6), based on unweighted General Household Survey data. The proportion of children in lone-parent families has moved almost identically, from 10% in 1975 to 25% in 2000 (ONS, 2002b, table 3.7). (Confusingly, however, the ONS best estimates are that 2.9million. children lived in 1.75 million lone-parent families in 2000 in Britain, with no comparable estimates available for 1975 [see Haskey, 2002, table 2]).

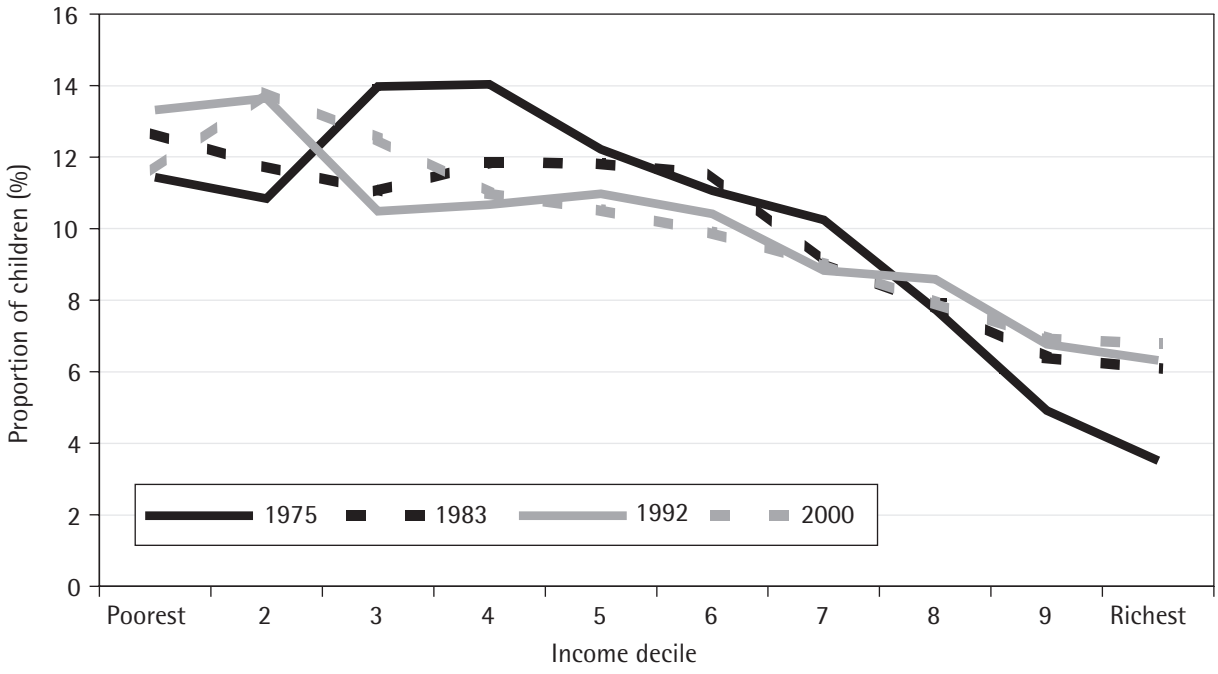
[16] We follow the Households Below Average Income (HBAI) methodology: children are classified by the income of the household in which they live, adjusted for household composition (see DWP, 2003).

Figure 2.1: Number of children in Britain (million)



Source: Authors' calculations based on Department of Social Security (DSS, various) for the number of child benefit recipients, and ONS (2002) for the number of children under 16: see Appendix A of this report for details

Figure 2.2: Position of children in the income distribution



Note: Income deciles are derived by dividing all households into 10 equally sized groups according to their income, where income is measured before housing costs and adjusted for household size using the McClements equivalence scale.
Source: Authors' calculations from the HBAI dataset

proportion of children in the highest decile. This suggests that inequality among children has increased since 1975[17].

The growing income inequality among children since 1975 has been accompanied by a huge increase in child poverty measured by a relative income definition. Child poverty (defined as less than 50% of mean income and measured before housing costs to be consistent with figure 4.3 in Adam et al, 2002) rose from 10% to 23.4% between 1975 and 2000[18]. Indeed, children gradually replaced pensioners as the group of the population most likely to experience relatively low incomes during this period[19].

Conclusion

This chapter has attempted to build some foundations for the results that follow. We have given the definition of child-contingent support that we will work with throughout the report, and explained how we will estimate it. We have also shown that it is possible to estimate inflation rates for different household types, and that there are some small but important differences between the changes in the cost of living faced by different households, with lone parents, low-income households and large households having lower-than-average inflation rates (although these factors may interact). We have also reviewed the key socioeconomic changes in the population of households with children since 1975.

[17] See figure 4.3 in Adam et al (2002).

[18] 1975 figure from Gregg et al (1999, figure 1); 2000 figure from Brewer et al (2002, figure 5.1[a]).

[19] We do not explicitly explore the link between child-contingent support and child poverty. Simple comparisons may not be helpful: low levels of child-contingent support might lead to a relatively high level of child poverty, or they might be the outcome of a tax and benefit system where child-contingent support was income-related and households with children were relatively well off and child poverty low.

3

Financial support for children in the UK since 1975

Financial support for children in the UK has seen many changes since the introduction of extra income tax allowances for dependants in 1909. These reforms have changed whether financial support for children is delivered through the tax or social security systems, whether it is universal or means-tested, whether it is paid to the main earner or the main carer in couples, how it treats small and large families, and how it differentiates between old and young children. The aim of this chapter is to describe and quantify trends in child-contingent support since 1975. The end point of our analysis is 2003, when the new tax credits were introduced[20].

Chapter 2 set out both how we define government financial support for children, or child-contingent support, for the purposes of this report, and our methodology for providing estimates of the amount of child-contingent support over time and across households. It also presented a summary of the key demographic trends among households with children since 1975, as they will be important determinants of changes in the level of child-contingent support. In this chapter, we take a preliminary look at the core features of child-contingent support in Britain and how they have changed since 1975. We discuss changes in the generosity of support relative to prices, earnings and gross domestic product (GDP), its importance as a source of household income, and how it varies with the number of adults and children in a household. In Chapter 4, we go on to explore variation in child-contingent support in more detail and relate it to the changes in the programmes providing support since 1975.

As explained earlier, the estimates of child-contingent support presented in this chapter reflect changes in both government policy and the characteristics of households with children since 1975. At various points in this and the next chapter, we attempt to separate the impact of policy changes from population changes. Of course, households will alter their behaviour in response to policy changes, and governments have made policy changes in the light of changes in the characteristics of households. But we can attempt such a decomposition by estimating child-contingent support paid under different years' tax and benefit systems with an unchanging sample of households with children[21]. We show these results, where they aid understanding, in the analysis later in this chapter.

Finally, when comparing changes in child-contingent support over time, we need to account for the changing cost of living: £1 of support in 2003 is not equivalent to £1 in 1975, since it buys less. As discussed in Chapter 2, we make this adjustment using household-specific inflation rates rather than the RPI. In particular, we calculate the average inflation rate experienced in each year by different types of households with children, and we use these numbers to adjust the nominal estimates of child-

[20] Appendix C presents a detailed description of the programmes that have supported families with children since 1975.

[21] See Appendix A for details of how this is done.

contingent support[22]. Results using the RPI are contained in Adam et al (2002).

Support for children since 1975: an overview

There have been many changes since 1975 to the way child-contingent support is provided through the tax and benefit system. Appendix C lists them and provides a time line of programmes.

There are three major points of reform:

- the 1976-79 move from family allowance and child tax allowances to child benefit and one-parent benefit;
- the 1988 Fowler reforms introducing income support, family credit and housing benefit;
- the 2003-04 consolidation of the working families' tax credit, the children's tax credit and the child-related parts of income support/ income-based jobseeker's allowance into the new child tax credit and working tax credit, with the abolition of child additions to most National Insurance benefits.

Other, more minor, changes include:

- the means-testing of child additions to National Insurance benefits from 1984;
- the freeze in child benefit between 1987 and 1991, followed by the real increase in child benefit for the first child and rises in most means-tested benefits in 1992;
- the two-step reduction of the hours condition for in-work support in 1988 and 1992.

In this section we discuss some of the high-level trends, before turning, in Chapter 4, to the detailed differences across households.

Total spending on support for children

Our estimate of total government spending on child-contingent support (in constant January 2003 prices) is shown in Figure 3.1. These numbers come from our own estimates of trends in child-contingent support based on aggregating micro-data; we compare them with official estimates later. Spending in real terms rose from around £10 billion to £12 billion per year between 1975 and 1984 before falling back to £10 billion per year in 1990; it then rose sharply in the early 1990s and even more sharply from 1999. In 2003, the government will spend around £22 billion on child-contingent support. This is some 4.7% of all government spending, up from 3.4% in 1975.

Figure 3.1 also shows how the growth in child-contingent support compares to the growth in average earnings. Child-contingent support in 2003 is 115% higher than the 1975 value if we use a prices deflator, but the increase is only 43% when deflating by average earnings. Child-contingent support as a proportion of GDP has a very similar trend to child-contingent support deflated by average earnings: child-contingent support comprised around 1.5% of GDP between 1975 and 1999, but has risen since to a historic high of 2.0% in 2003.

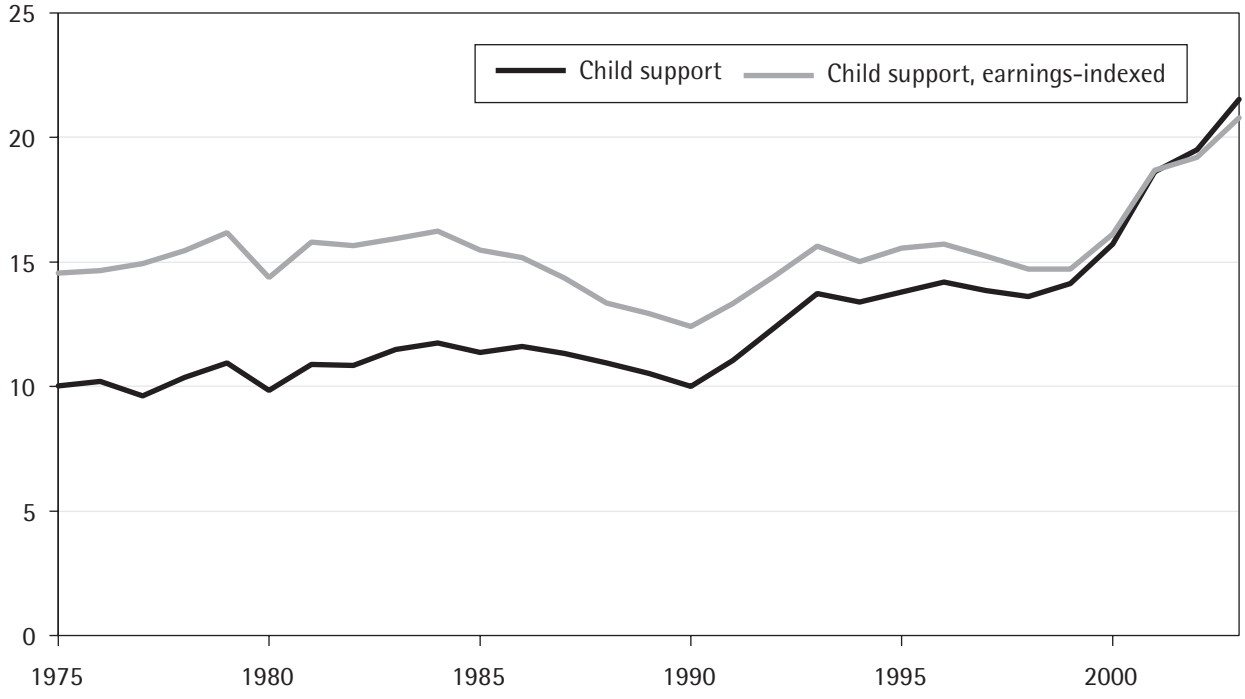
The choice of deflator makes a difference to the trends before 1999: in real terms, spending on child-contingent support increased substantially between 1975 and 1999, largely because of rises in the early 1990s. But, compared to average earnings, spending on child-contingent support barely rose at all in this period: the rises in the early 1990s merely reversed the marked decline of the late 1980s. Since the Labour government came to power, child-contingent support has risen rapidly on either measure: by 52% if indexed to prices, or 32% if indexed to earnings. To avoid repetition, we will use price indexation (calculated in the way described earlier) for the majority of the report.

[22] In Chapters 3 and 4, we use two estimates of within-group average inflation rates, created as follows. For most of the figures, we create 48 groups of households with children by first dividing households with children according to the number of adults (grouping together those with three or more adults) and number of children (grouping together those with four or more children), and then, within each of these 12 groups, dividing households into four equal-sized categories based on their income. We then create the average inflation rate in each year within each of the 48 groups. In other graphs, we create different groupings of households with children by first dividing households according to the number of adults and children to create the same 12 groups as above, and then subdividing these 12 groups according to the age of the children; this leaves us with 60 categories. We use this second grouping only when we look at variation of child-contingent support by age of child.

Spending per child

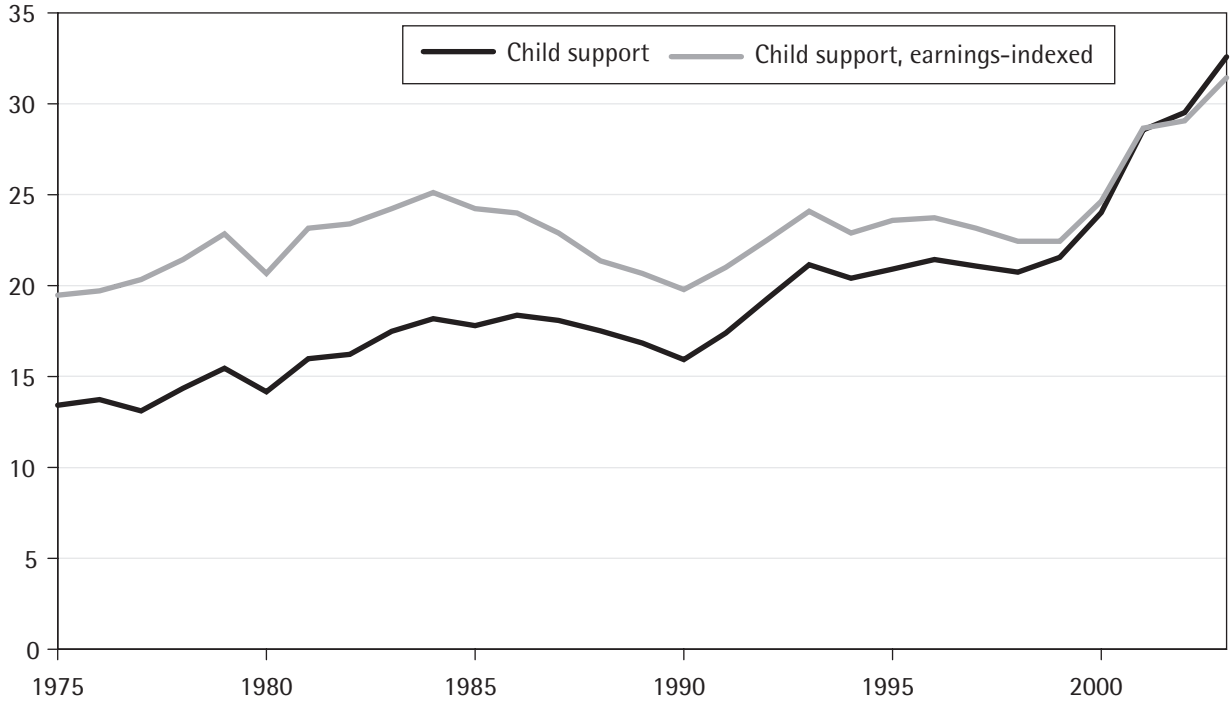
Since the number of children in Britain fell during the period under consideration (see Figure 2.1), average child-contingent support received per child will have grown at a faster rate than total spending on child-contingent support. Our estimate of spending per child is shown in Figure 3.2. In 2003, the government will pay an average of £32.57 per week for every child in the country, compared with £13.41 in 1975, a 143% increase if we index to prices, 62% if we index to

Figure 3.1: Total spending on child-contingent support (£ billion, 2003 prices)



Source: Authors' calculations using TAXBEN and the FES

Figure 3.2: Average spending per child (£ per week, 2003 prices)



Source: Authors' calculations using TAXBEN and the FES

earnings. As the number of children has changed little in recent years, the increase since 1996 is the same as the growth in total child-contingent support: 52% if indexed to prices, 32% if indexed to earnings.

As with total spending, spending per child increased dramatically and unprecedentedly from 1999, before which support per child grew overall in real terms, but fell (especially relative to growth in average earnings) between 1984 and 1990.

Isolating the effect of policy

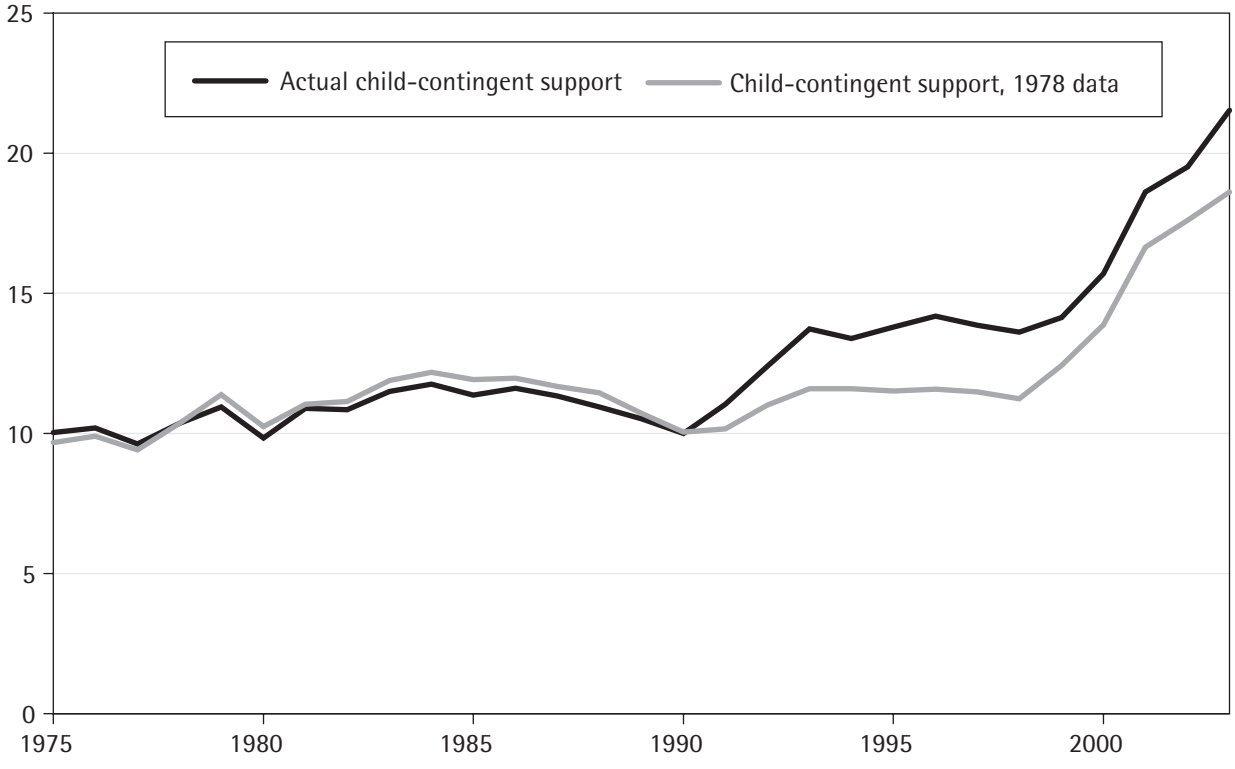
How much of the observed change is due to policy? Figure 3.3 answers this by showing our estimate of total spending on child-contingent support against a series that estimates total spending on child-contingent support if the number and characteristics of households with children had looked like that actually observed in 1978 but the tax and benefit system had changed each year. (1978 is the first year of our data. The analysis could be done equally well on any year's population: figures 4.6 and 4.7 of Adam et al (2002) use both 1978 data and 1999 data, and display similar patterns in each.)

Figure 3.3 shows that, if the population of households had remained unchanged beyond 1978, child-contingent support would have risen by 20% by 1999 (the last year in which we can perform the decomposition); this is the increase due to policy changes alone. In reality, however, total child-contingent support rose by more, some 36%. This tells us that the population changes between 1978 and 1999 acted to increase total child-contingent support, even allowing for the fall in the number of children. 45% of the observed rise in child-contingent support spending between 1978 and 1999 occurred through changes in the characteristics of households and 55% because of policy changes[23].

A similar decomposition of child-contingent support per child (which rose by 50% between 1978 and 1999) is even more striking, because the effect of a falling number of children is stripped out: policy changes explain only 40% of

[23] Holding the population of households constant as it was in 1999 instead of in 1978 suggests that (a very similar) 47% of the observed change in total child-contingent support between 1978 and 1999 was due to population changes and 53% to policy changes.

Figure 3.3: Decomposing total spending on child-contingent support (£ billion, 2003 prices)



Source: Authors' calculations using TAXBEN and the FES

the total increase (see figure 4.7 of Adam et al, 2002).

This exercise also shows how important the policy changes since 1999 are. Because we do not have any data on the characteristics of households with children beyond 1999, almost all the estimated changes in spending on child-contingent support beyond 1999 are due to policy changes, and the increase in spending between 1999 and 2003 evaluated on constant 1999 data is 52%, more than twice as large as the percentage increase in child-contingent support due to policy in the preceding 21 years.

Spending per household

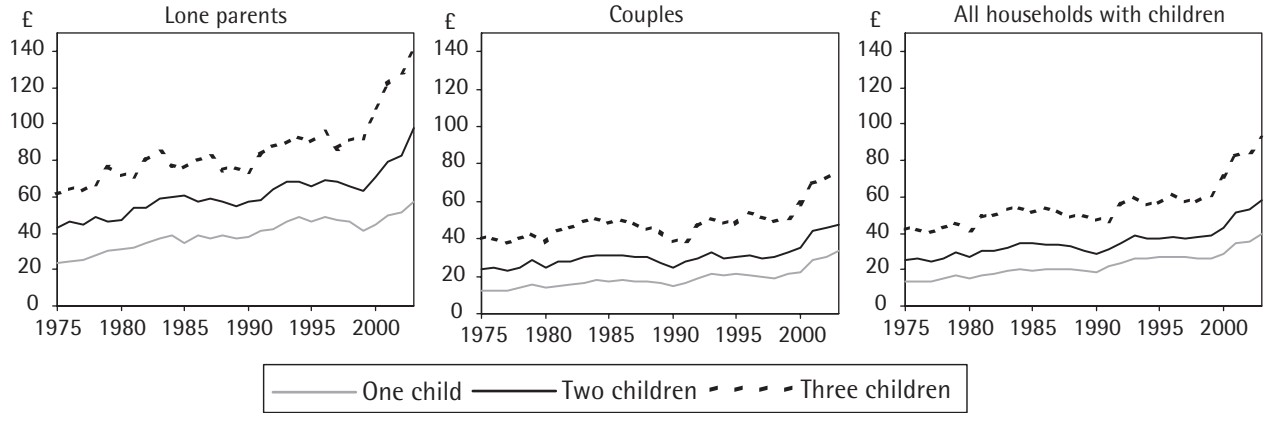
Lone-parent households have received more child-contingent support, on average, than couples with the same number of children in every year of our study (Figure 3.4). This difference, of course, reflects not just differences in the structures of the programmes providing child-contingent support (which we explore in the next chapter, in Figure 4.3) but also the very different characteristics of lone-parent and couples households, such as income and the propensity to pay for childcare when working.

The average amount of child-contingent support received is also higher for households with more children. However, the amount received per child is higher in one-child households than those with more than one child. Between 1975 and 1999, the average real difference between the amount received by the households with two children and those with one child remained constant. Since 1999, however, this difference has grown: by 2003, lone parents with two children received 70% more child-contingent support, on average, than lone parents with one child; for couples, the difference was 43%. A similar trend is evident when comparing households with three children with those with two children.

The changes in the average amount of child-contingent support shown in Figure 3.4 summarise the trends in child-contingent support, but hide the variation within household types at a given point in time. A detailed analysis of this variation (see figures 4.20 and 4.22 in Adam et al, 2002) gives a different perspective. Until the mid-1990s, the majority of households with a given number of children received a very similar amount of child-contingent support (just child benefit), with a minority receiving more. For most of the period under analysis, the increase in average support shown in Figure 3.4 has not been shared by the majority of households with children; instead, it has been driven by an increase in the amount of support received by the few who receive more than most. In recent years, however, the proportion of households receiving higher amounts has increased to the point where they now represent the majority. This means that there is now greater variability in the amount of child-contingent support received by households than there has been throughout the period.

What do these changes to child-contingent support mean for total household incomes?

Figure 3.4: Average child-contingent support by household type (£ per week, 2003 prices)



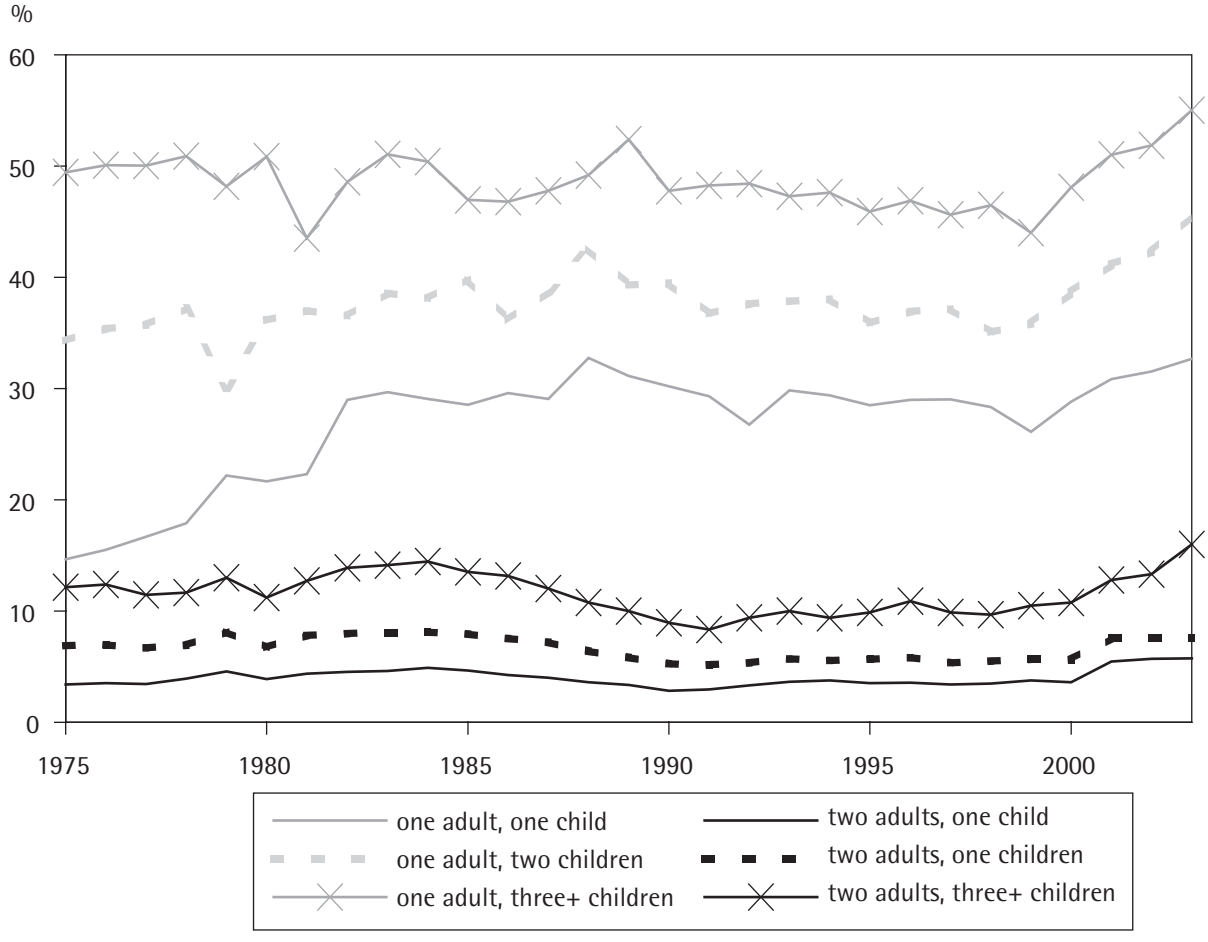
Source: Authors' calculations using TAXBEN and the FES

As a proportion of total disposable income, child-contingent support has become more important since 1975, rising, for example, from 14.7% to 32.7% for lone parents with one child, and from 3.4% to 5.7% for couples with one child between 1975 and 2003 (Figure 3.5: these figures are the median within the population in each year)[24]. Much of this rise, however, is a result of the large increases in support seen since 1999. Before that, the pattern is less clear-cut: child-contingent support did rise as a proportion of income for households with one child, but fell as a proportion of income for families with three or more children: the increases in child-contingent support for these households shown in Figure 3.4 were not large enough to keep up with their rising incomes. We thus saw in this period a narrowing of the gap between large and small households in terms of the importance of child-contingent support in total household incomes. Clearly, the importance of child-contingent support to lone-parent households as a whole largely reflects their low income relative to couples.

These trends reflect both changes in policies and changes in population characteristics; figure 4.13 in Adam et al (2002) shows that policy changes during the 1980s acted to lower the importance of child-contingent support in the family budget, but that this trend was halted in the 1990s, and has been reversed since 1997.

[24] For lone parents, this analysis is sensitive to whether disposable income includes housing benefit or not: excluding it from our definition of income exaggerates the growing importance of child-contingent support in household income over time such that, in 2003, the average lone parent with two children depended on child-contingent support for over 60% of their income on this definition (see figure 4.18 in Adam et al, 2002).

Figure 3.5: Child-contingent support as a proportion of household disposable income, by household type



Note: This figure shows the median value of child-contingent support as a proportion of disposable income in each year, calculated separately for each household type.

Source: Authors' calculations using TAXBEN and the FES

Conclusion

This chapter has set out the core features of child-contingent support in Britain, and how these have changed since 1975. We discuss a number of trends:

- Total spending on child-contingent support has risen markedly since 1975 on any sensible measure. Total spending has risen from £10 billion to £22 billion per year in today's prices, or from 1.5 to 2.0% of GDP, or from 3.4 to 4.7% of total government spending. Over this period, the number of children has fallen, and so spending per child has increased even faster, from £13.41 to £32.57 per week in today's prices.
- However, the rate of growth of spending has not been even over the past 28 years. There have been a few periods of rapid increase – the late 1970s, the early 1990s and since 1999 – punctuating periods where child-contingent support changed little or declined in real terms. The most dramatic of these increases has occurred since 1999: in the past four years, total spending on child-contingent support has increased by 52% in real terms (or by 32% if indexed to earnings).
- The trends in levels of support are due both to changes to tax and benefit programmes, and to changes in the characteristics of households with children. In practice, we find that 60% of the increase in spending since the mid-1970s has been caused by the changing characteristics of households with children, such as the increasing proportion of households with children where no adult is in paid work. This means that changes to tax and benefit policies between 1975 and 1999 were responsible for only 40% of the increase in spending over that time, and this makes the increase in spending since 1999 – almost all of which is due to policy changes – even more dramatic.
- Throughout the period, households with more children have received more child-contingent support (although they receive less per child), and lone parents receive more than couples with the same number of children. It is also a more important component of these households' incomes, since they have lower incomes as well as higher child-contingent support. However, we do nothing to establish whether the number of adults or children is the cause of the higher support or a by-product of other driving factors.

In the next chapter, we take a more detailed look at the variation in child-contingent support, and relate it to the details of the programmes in existence since 1975.

4

The changing structure of support for children since 1975

A first look at child-contingent support in Chapter 3 showed that child-contingent support per child grew slowly (but unsteadily) relative to prices between 1975 and 1999, and has risen rapidly since then. However, the declining number of children between 1975 and 1988 means that total child-contingent support has grown less quickly. There are also some noticeable and unsurprising differences between different household types.

This chapter examines more closely how child-contingent support varies across household types, and relates this to changes in the actual programmes since 1975. We look at the balance between universal, contributory and income-related programmes, whether programmes are assessed on individual or family circumstances, how (and, in a couple, to whom) they are paid and how child-contingent support varies with household characteristics – number of adults, number and age of children, and household income. Appendix C gives more detail on the individual programmes.

As in Chapter 3, we use household-specific inflation rates to compare nominal amounts over time, and we attempt to separate the impacts of policy changes and population changes on observed trends in child-contingent support.

Universal, contributory or income-related?

One of the most important design elements is whether a child-contingent support programme is income-related or not. There are several ways in which the value of programmes can vary with parents' income:

- Programmes can be means-tested against income including payable tax credits, the value of which declines with income.
- Programmes available only to taxpayers, such as the children's tax credit or child tax allowances, are worth nothing to those with incomes too low to be taxed.
- Taxing a benefit reduces its value only for recipients with incomes high enough to be taxed.
- Overlapping benefit rules matter: child benefit, for example, is worth nothing to (low-income) recipients of income support/income-based jobseeker's allowance because it is counted as income for the means tests.

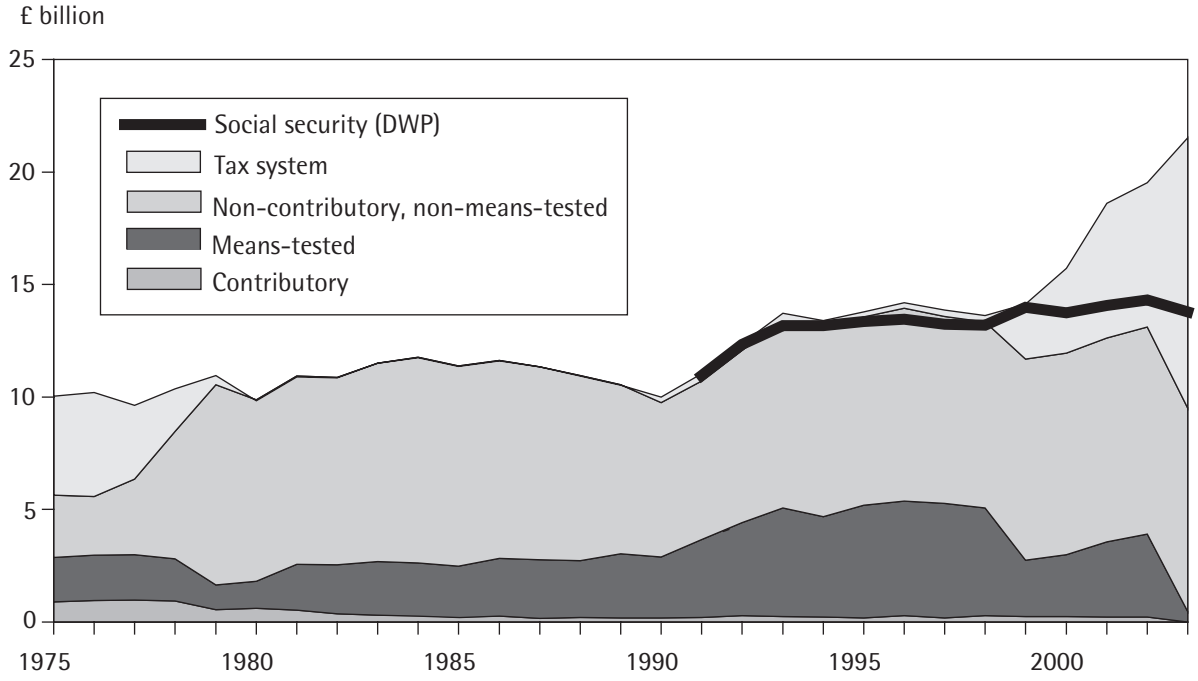
Figure 4.1 divides our estimates of child-contingent support into four categories: means-tested benefits, contributory benefits[25], non-contributory and non-means-tested benefits, and support provided through the tax system (Box 4.1 compares our estimates with official sources).

There are four main trends since 1975:

- A fall, and then resurgence, in the role of the tax system. Substantial support is provided through the income tax system only until 1979 (child tax allowances) and from 1999 (working families' tax credit, children's tax credit and child tax credit).
- A steady rise in means-testing. Much of the rise in means-testing in the 1980s and 1990s comes from a greater number of claimants and increased generosity in existing programmes rather than the introduction of new programmes. The support recently provided

[25] By this, we mean benefits for which eligibility depends on past National Insurance contributions or credits.

Figure 4.1: Total spending on child-contingent support by type of programme (£ billion, 2003 prices)



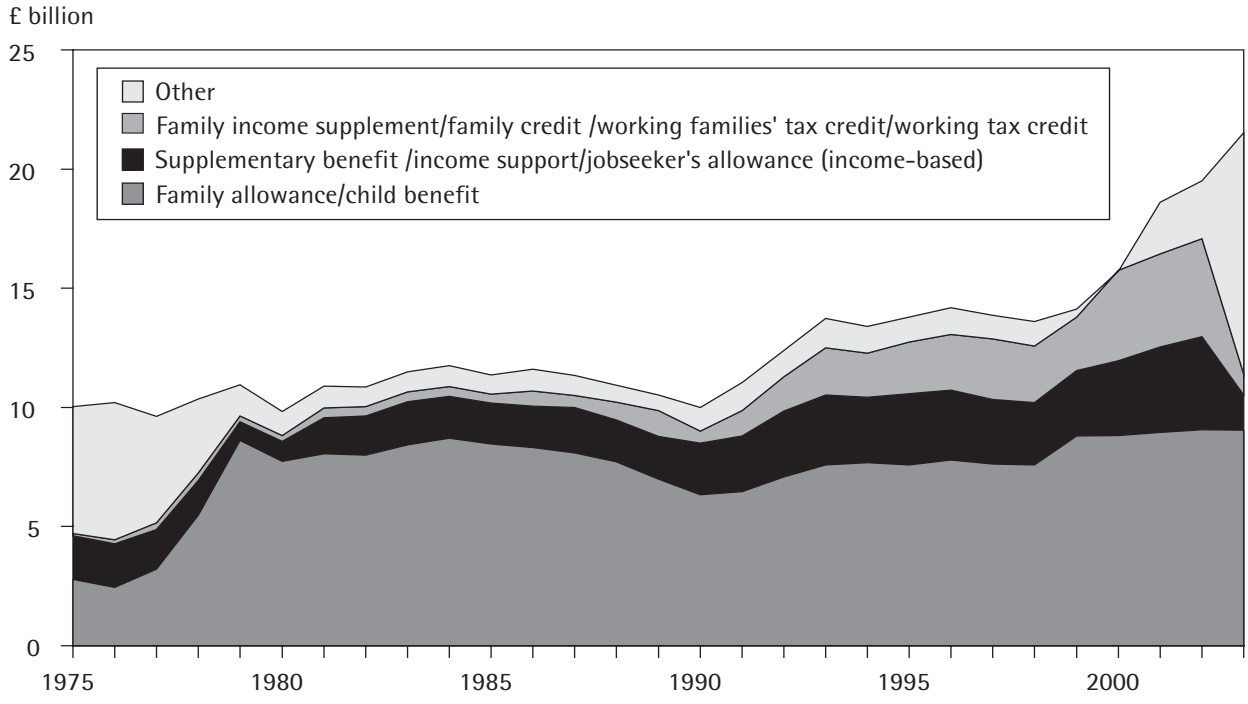
Source: Authors' calculations using TAXBEN and the FES, except 'social security', which is from DWP (2002a)

through the tax system is largely income-related. Some 'non-means-tested' benefits have also become partially means-tested. For example, a means test on a partner's income was introduced for child additions to most non-means-tested benefits in 1984; the maternity grant became part of the means-tested Social Fund in 1987; and a means test on private pension income was introduced for incapacity benefit in 2001.

- A steady decline in the role of contributory benefits. Contributory benefits amount to a tiny and shrinking proportion of child-contingent support. Examples of changes include the maternity grant, which stopped being contributory in 1982, the abolition of child additions to unemployment and sickness benefits for claimants under pension age (1984), and the abolition of the child additions to most non-means-tested benefits (2003) as well as the increasing use of means tests within contributory benefits, as described earlier.
- A continuing important role over the whole period for non-contributory, non-means-tested benefits, the category dominated by child benefit, which provided the majority of all support from its introduction until very recently.

We can also look at the importance of individual programmes (Figure 4.2). Child benefit accounts for a large and roughly constant amount of support, although declining as a proportion of the total from a high of 79% in 1979 to 42% in 2003; the main (means-tested) in-work and out-of-work benefits grew substantially over the period; and 'other' (which largely comprises tax-based support) is important mainly in the earliest and latest years. If the population is held constant from 1978, a repeat analysis reveals a similar rise in spending on in-work benefits (family income supplement/family credit/working families' tax credit/working tax credit) but a much smaller rise in spending on out-of-work benefits (supplementary benefit/income support/jobseeker's allowance [income-based]). This suggests that the increase in spending on supplementary benefit/income support/jobseeker's allowance (income-based) is largely due to population changes over the period, but the changes in spending on (family income supplement/family credit/working families' tax credit/working tax credit) are largely driven by policy changes (see figure 4.9 in Adam et al, 2002).

Figure 4.2: Total spending on child-contingent support by programme (£ billion, 2003 prices)



Source: Authors' calculations using TAXBEN and the FES

Box 4.1. Comparisons with official estimates

The Department for Work and Pensions (DWP) publishes social security benefit expenditure broken down by benefit and type of recipient (children, working-age adults, and pensioners: see DWP, 2002a) and we have compared its 'children' figure to our estimate of total spending on child-contingent support since 1991 in Figure 4.1. Our totals differ from those of the DWP for three reasons:

- The DWP does not define spending on children in the same way that we define child-contingent support. For example, the DWP numbers split family credit spending between children and working-age adults whereas we classify it all as child-contingent support (other differences act in the opposite direction).
- Official figures only cover support for children that is/was the responsibility of the DWP/Department of Social Security (DSS) since 1991; they do not include the support in the additional personal allowance or the working families' tax credit or the new tax credits, nor does the Inland Revenue yet publish anything equivalent. For this reason, Figure 4.1 breaks down our estimate of total support for children into four categories, three of which sum to give the programmes administered by the DWP/DSS.
- The official figures are based on actual administrative data and will be more accurate than our estimates of entitlement based on a household survey. For example, we do not model spending on child-contingent support through the disability living allowance and we assume that no lone parents receive the higher rates of child benefit after 1998 and this is the main reason why our estimates of non-tax-related child-contingent support are lower than those of the DWP after 1999. In fact, our estimates are close to official estimates during the period where they are the most compatible (1991-99), although this partly reflects errors of equal magnitude but opposite signs. After that date, the increasing amount of money spent on children through the tax system makes the DWP figures alone a poor guide to the level of total child-contingent support.

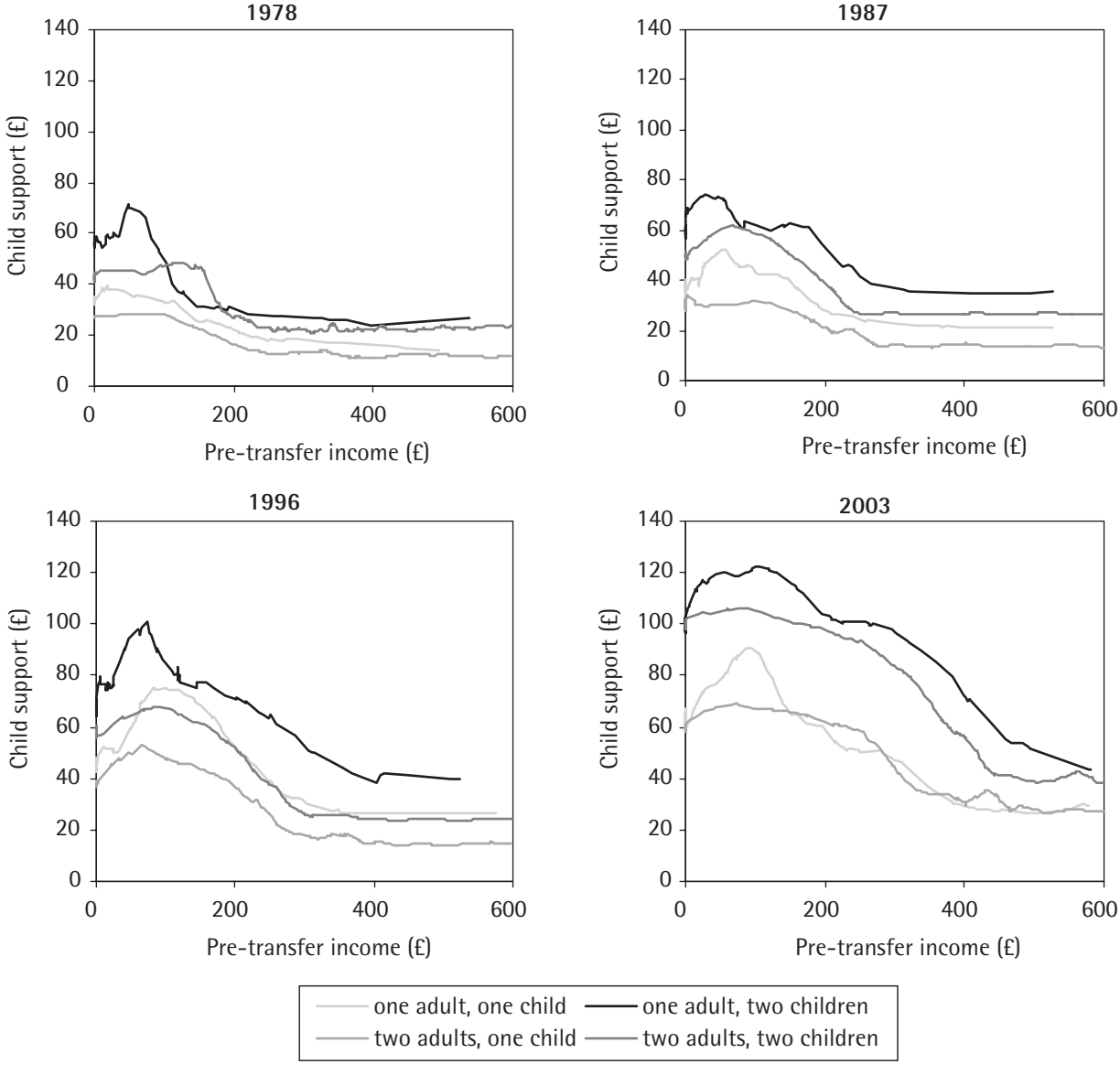
The link between child support and pre-transfer income

The importance of programmes that are inversely related to incomes is confirmed in Figure 4.3, which shows how child-contingent support varies with pre-transfer income for a number of different household types in a number of different years. It is important to note that we are not modelling how support in a *particular* programme varies with income *holding every other factor constant* (as in, for example, Battle and Mendelson, 2001). Instead, we have calculated how entitlement to *all* child-contingent support varies with income *on average* for different household types in different years.

One striking conclusion from Figure 4.3 is that the level of child-contingent support is higher for lone parents than for couples with the same number of children and similar levels of income. There are several reasons for this:

- For most of the period, explicit policies existed which gave lone parents more child-contingent support than couples, such as one-parent benefit and a higher earnings disregard in income support/jobseeker's allowance.

Figure 4.3: Child-contingent support by income and household type in different years (£ per week, 2003 prices)



Note: Non-parametric regression (Lowess) estimates.
Source: Authors' calculations using TAXBEN and the FES

- Some programmes that give lone parents and couples the same total amount of money, conditional on the number of children and their income, nevertheless give lone parents higher child-contingent support. An important example is the new working tax credit. This is because, following our methodology of classifying child-contingent support – comparing entitlements of households with children to otherwise-equivalent households without children – more of the total transfer received by lone parents is conditional on having children (rather than on having a low income, say) than is the case for couples. Single people and couples get the same amount if they have children, but single people get less than couples if they don't have children; the extra amount received *because of the presence of children* is thus greater for single people. This fact, then, says little about the relative well-being of different sorts of households with children on similar incomes (itself a very interesting point); instead, it reminds us that transfer programmes use both the presence of children and the incidence of low income as triggers for higher government support, and that different weight is placed on the triggers for single-adult households than for two-adult households. Similarly, the combination of married couple's allowance and additional personal allowance means that all parents receive the same amount, conditional on their income; but, because those without children are eligible only if married, *child-contingent* support is lower for married couples than for unmarried people with the same income.
- Even though the comparison is made at a given income level with a given number of children, lone parents and couples may differ in other characteristics (age of children, use of registered childcare) that affect child-contingent support. These differences may explain differences in average child-contingent support between two apparently similar groups.

Another peculiar feature of the structure of child-contingent support is revealed by Figure 4.3: particularly for lone parents, child-contingent support initially rises as incomes rise before declining. This 'hump shape' arises between 1975 and 2002 because all of family income supplement/family credit/working families' tax credit (the in-work benefits) are child-contingent on our classification: nothing equivalent exists for those in work without children. The total value of in-work benefits exceeds the child-contingent parts of out-of-work benefits (mainly child allowances and the family premium in income support/jobseeker's allowance, and the equivalent before 1988 in supplementary benefit), but parents receiving in-work benefits usually have higher private incomes than those receiving out-of-work benefits. A similar thing happens in 2003: although some individuals without children are entitled to the working tax credit, most parents would not be entitled to it if they worked the same hours but did not have children because the eligibility rules are more strict for those without children. So, some of the working tax credit received by parents is child-contingent on our definition, again meaning that total child-contingent support is higher for some low-income working parents than non-working parents.

It is definitely not the case, of course, that total transfers increase as lone parents increase their weekly earnings from, say, £0 to £100. But it is true that the amount of support that is contingent on having children does increase. This reveals a particular feature of the UK transfer system. The system is designed to help those on very low levels of private income, both with and without children; at slightly higher (but still low) incomes, however, support is conditioned on having children.

Comparing the four different years shown in Figure 4.3, the most obvious trend is that support has become more generous overall, as we have already seen. But we can be more specific. Child-contingent support for households at the top of the income distribution has risen by little: this accords with our earlier finding that child benefit (all that these households are receiving, in general) has remained roughly constant in real terms. The biggest increases are seen lower down the income distribution (at incomes of around £200 per week, say), although not at the very bottom: the hump discussed earlier has moved upwards and to the right. The cause of this is the expansion of means-tested in-work benefits (family income supplement/family credit/working families' tax credit/working tax credit) shown in Figure 4.2: over time they have become much more generous and extended further up the income distribution. Whether all this means that child-contingent support has

become 'more progressive' or 'less progressive' is debatable and largely a matter of definitional hair-splitting.

Joint or individual assessment

Programmes that assess support against income need to decide whether to use individual or family income. Whether financial transfers are assessed against individual or joint income will have implications for individuals' right to financial autonomy. Programmes that are assessed against family income will benefit different households from those assessed against individual income, and may give rise to asymmetric financial incentives across the two adults in a family. A further constraint is that it is not possible to assess transfers against joint income under a progressive transfer system – one that has a higher average rate of tax on the rich than the poor – without introducing disincentives to cohabit.

The main argument in favour of joint assessment was explained by Alistair Darling, when Secretary of State for Social Security, as follows:

> "Going away from joint assessment is to raise the obvious point of the duke and the duchess. The duchess has no money but the duke has millions. Do you say that you should pay the duchess income support or do you say that the duke has an obligation to his family that the state does not always have to have?" (cited in HC 56-I, 1999-2000, para 90)

There has been little change, however, in the use of joint assessment in child-contingent support since 1975. Eligibility tests in National Insurance benefits are on the individual's contributions (except bereavement benefits), and income elsewhere has tended to be jointly assessed. However, although this suggests no change in the degree of joint assessment, the relative decline of contributory benefits and the increased importance of income-related child-contingent support described earlier have extended the scope of joint-income assessment in determining child-contingent support.

How and to whom support is paid

How support is paid to parents – by altering parents' PAYE coding, via a refundable tax credit paid through the pay packet, or as a cash benefit – may affect how cheap a programme is to administer, the transparency of the programme and the level of stigma attached to it.

Between 1975 and 2003, some use has been made of the income tax system, in the form of child tax allowances, the additional personal allowance, the children's tax credit and arguably the child tax credit. The two main changes in this time were the abolition of child tax allowances in the late 1970s, and the use of the Inland Revenue to pay in-work benefits since 1999. But the use of the tax system since 1999 has not meant using the PAYE system; instead, for the child tax credit and the childcare element of the working tax credit, the Inland Revenue will be making payments directly into recipients' bank accounts in the same way that cash benefits will be paid by the DWP.

A more interesting question is which member of a couple receives the money intended to support their children. Evidence suggests – and public opinion agrees – that mothers are more likely to spend child-contingent support on children than fathers[26]. Who receives the money is sometimes determined by how support is paid: non-refundable tax credits can only be paid to taxpayers, for example. In general, there has been a trend over the period towards paying support to the main carer. This began in the late 1970s when family allowance (paid to the mother) and child tax allowances (paid to the father) were replaced by child benefit (paid to the mother). It continued in 1988 with the move from family income supplement (which allowed

[26] See Lundberg et al (1997) for quantitative evidence that mothers are more likely than fathers to spend money in ways that benefit children. This view seems to be held by the public too (see HM Treasury, 2003).

couples to choose who received it) to family credit (usually paid to the mother)[27].

The present government began by reversing the trend, replacing family credit with working families' tax credit (which allowed couples to choose). The latest reforms, however, are in the 'wallet-to-purse' direction: the child tax credit and the childcare element of the working tax credit will be paid to whoever couples designate as the main carer, whereas some of the programmes they replace were more likely to pay support to the father (income support and working families' tax credit allowed the couple to choose, income-based jobseeker's allowance was paid to the jobseeker, and children's tax credit had to be paid to a taxpayer, and to the higher earner if he/she was a higher-rate taxpayer).

Child-contingent support for different types of household

Distinguishing between lone-parent and couple households

It is a widely held view that lone parents need more support for their children than couples with the same income, perhaps because couples are regarded as having an extra implicit income in the form of the second partner's time. This is not the stated view of the present government. When one-parent benefit and its corollaries in income-related benefits were abolished for new claimants in 1998, Gordon Brown told the House of Commons that:

> "Support should be on the basis of the identifiable needs of children, not on whether there happens to be one parent rather than two. There is no case for a one-parent benefit and we shall not return to that. Additional support should be provided on the basis not of family structure but of family need." (HC Deb, 1997-98)

Although lone parents and couples now get the same total payments given their income and other circumstances, child-contingent support on our definition does still vary with family structure: as discussed earlier, and evident in Figure 4.3, the working tax credit has an implicit premium for lone parents if we compare the amounts available to those with and without children. Lone parents receive the same total amount of working tax credit as couples with children, but single people without children receive a lower rate of working tax credit than couples without children: single people who have a child, therefore, receive a rise in their working tax credit entitlement that couples do not get. Following our classification of child-contingent support, a higher proportion of the support for lone parents is conditional on them having children (as opposed to conditional on being poor) than for couples.

As we saw in the last chapter, lone-parent households tend to receive more child-contingent support than couples. This partly reflects differences in incomes: with a progressive system of child-contingent support, the lower income of lone parents implies that the proportion of child-contingent support going to lone-parent households will be higher than the proportion of households with children headed by a lone parent. We also know that there has been a huge rise in the proportion of children living in lone-parent households (see Chapter 2), which inevitably means an associated rise in the proportion of support received by lone-parent households. But how have policy changes affected all this since 1975? Figure 4.4 abstracts from the rising number of lone parents by holding the population constant as it was in 1978, as described earlier. There have been two major trends. Changes in the late 1970s and the

[27] It is easy to overlook nuances in the system when discussing to whom benefits are paid. For some benefits, there is no choice on who must claim or receive the benefit (for example, incapacity benefit is paid to the incapacitated person). For most benefits, however, there is a degree of choice; what matters then is what happens if individuals in a couple cannot agree. Child benefit, for example, is often said to be paid to the mother; in fact, potential claimants choose who claims, but if there is a dispute, then priority goes first to the adult with whom the child lives, then to a wife (where husband and wife are living together), then to a parent (including step-parent or adoptive parent), then to the mother (where the parents are unmarried and living together). The person receiving child benefit for a child usually had the right to decide who received family credit payments, also suggesting that this was a benefit for mothers. On the other hand, the children's tax credit was split equally between the two individuals in a couple if they could not agree how to split it and they were both entitled to receive it.

early 1990s increased the proportion of support received by lone-parent households. Since that time, however, policy changes have reduced the proportion of support received by lone-parent households, abstracting from population changes. Of course, these changes are not just due to policies that directly distinguish between lone parents and couples, but may also be due, for example, to child-contingent support becoming more or less focused on low-income households with children, who tend to be lone parents. However, comparing the start and end of the period, there is no evidence to suggest that policy changes have particularly favoured lone-parent households.

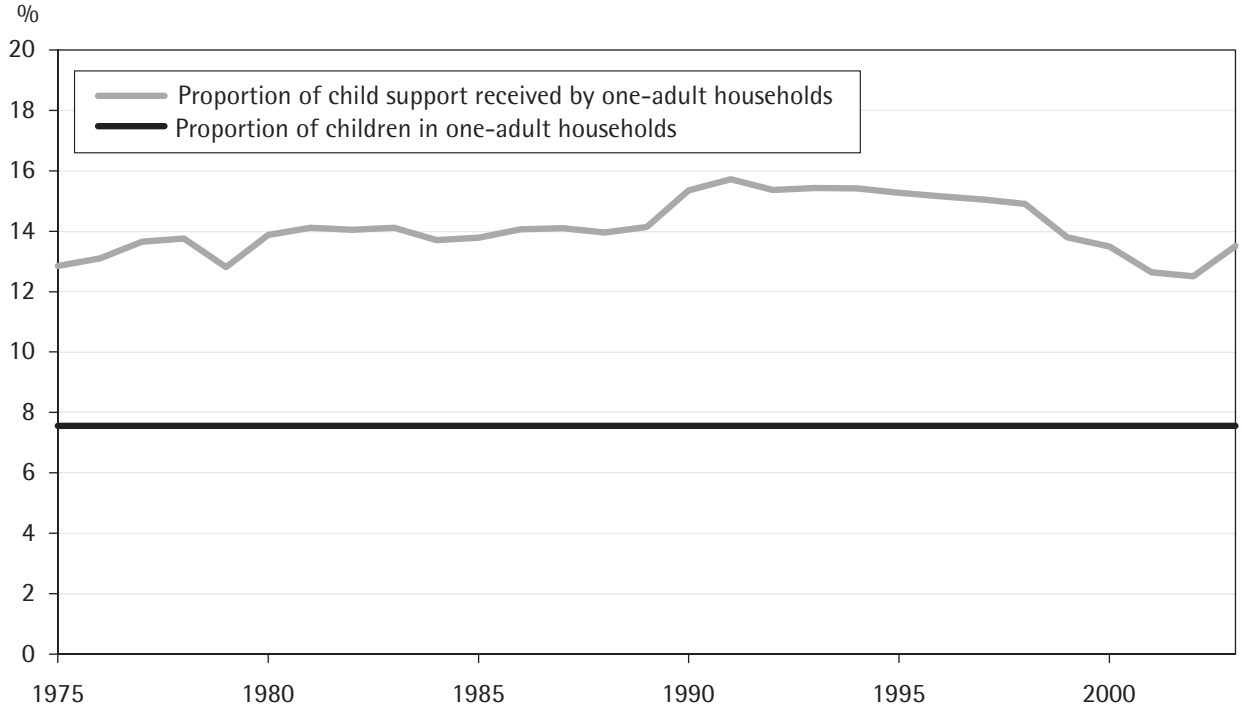
Variation by number of children

Family needs will depend on the cost of children as well as the earning power and childcare capabilities of the parents, and the cost of children may therefore be relevant to the level of support provided; this is an issue we return to in Chapters 5 and 6. One factor affecting the cost of children is the presence of other children: a second child may be less costly than a first, for instance, if there is a fixed cost of staying off work to take care of them, or if clothes and other items can be handed down.

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. This has been most obvious in replacing family allowance, which was not paid for the first child, with child benefit, which is available to one-child families and has paid more for the first child since 1991. The 1988 Fowler reforms replaced supplementary benefit (which paid no more for the first child) with income support (which did), and altered the housing benefit system to give couples more for their first child (lone parents already received more for their first child in the pre-1988 programmes that gave help with housing costs).

The proportion of total child-contingent support received by households of a given size will also be determined by the relative numerical importance of such households. These demographic trends have increased the proportion of one-child households and reduced that of those with four or more children (our dataset suggests the proportion of one-child households has increased from 20.6% to 23.2%, and the proportion of four-or-more-child households has declined from 13.3% to 10.9%, with little change for other household types).

Figure 4.4: Proportion of children, and of total support for children, in one-adult households: 1978 data



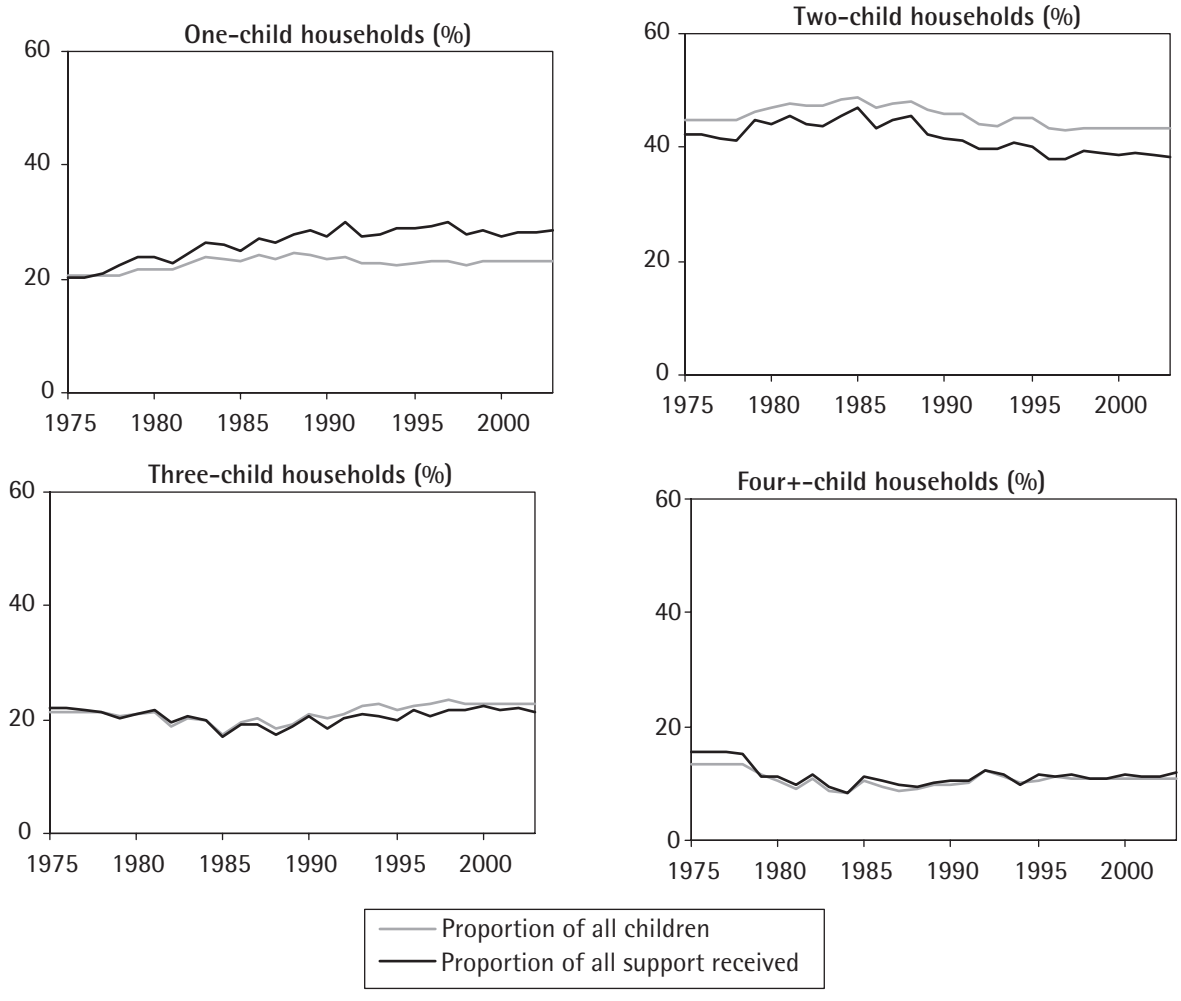
Source: Authors' calculations using TAXBEN and the FES

Over the same period, the proportion of child-contingent support going to one-child households has increased from 20.3% to 28.4% (see Figure 4.5), and households with two or more children have seen their proportion of total child-contingent support decline relative to the number of children in these types of households: for example, the proportion of child-contingent support received by four-or-more-child households fell from 15.4% to 11.8%. This shows an increasing emphasis on households with one child at the expense of larger households. Of course, household circumstances other than the number of children will also determine child-contingent support, and households with one child have different characteristics from households with two or three children: households with one child, for example, are more likely to be lone-parent households, and the child in a one-child household is more likely to be under 5 years old or a teenager than aged 5-12.

The record since 1997 is mixed: per-child additions in income-related benefits and tax credits have increased substantially in real terms, but the increased first-child addition in child benefit, the children's tax credit, and the family element of the child tax credit which replaced it, all emphasise the first child. This helps explains why Figure 4.5 shows little discernible change since 1997.

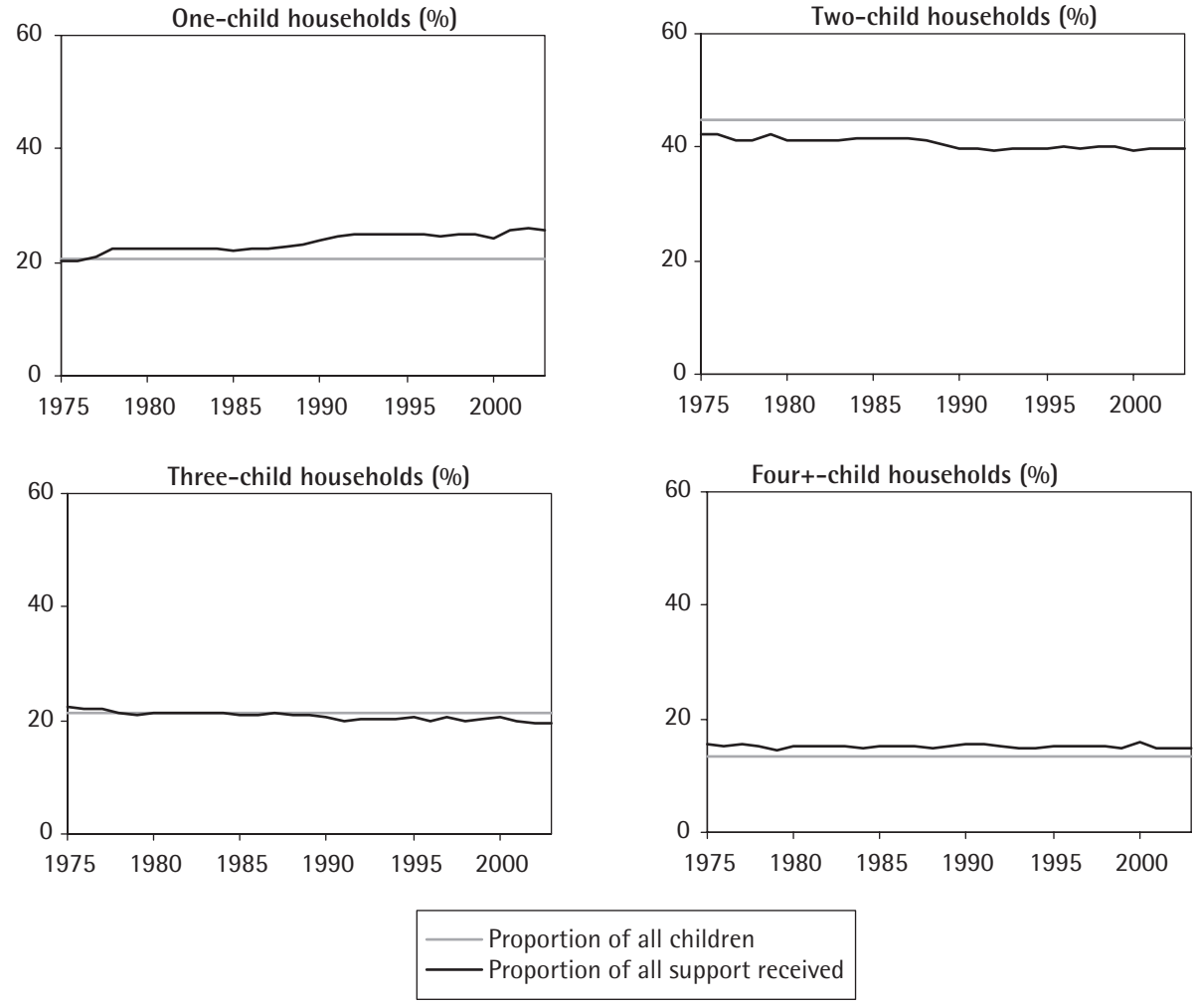
Removing the impact of population changes makes the policy changes easier to see: these have increased the proportion of support received by one-child households at the expense of households with two or more children, and this trend has slowed down (but not stopped) under the current Labour government (Figure 4.6).

Figure 4.5: Proportion of children, and of total support for children, by number of children in the household



Source: Authors' calculations using TAXBEN and the FES

Figure 4.6: Proportion of children, and of total support for children, by number of children in the household: 1978 population



Source: Authors' calculations using TAXBEN and the FES

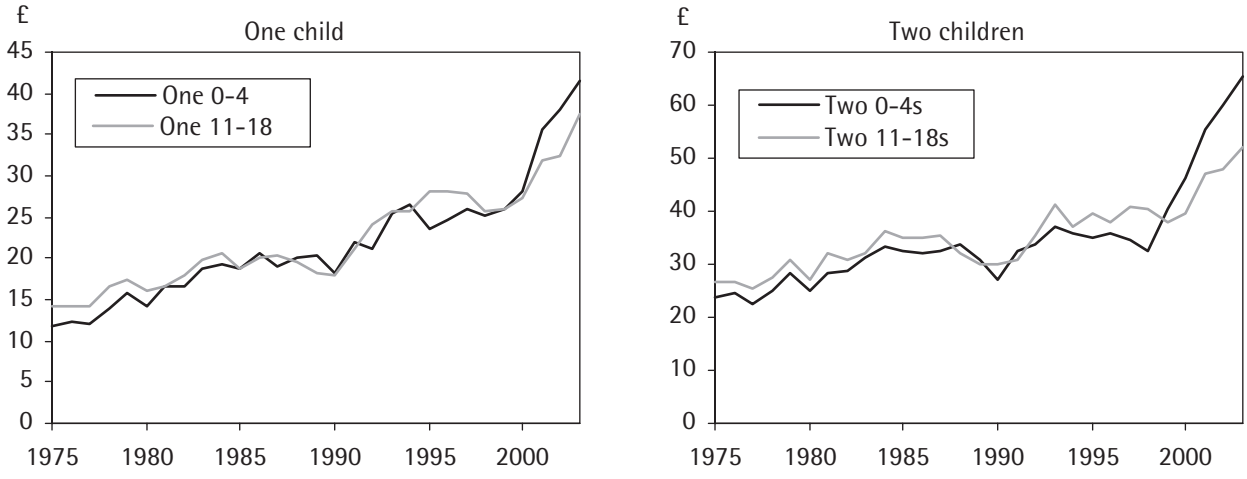
Variation by age of children

The cost of children also depends on their age. Historically, programmes have provided more money for older children: child tax allowances, supplementary benefit, family income supplement (from 1985) and family credit all had lower rates for younger children. This tendency was largely phased out under the Labour government in the late 1990s, however, and from 2003 the child tax credit, housing benefit and council tax benefit each have a single rate for all dependent children under 19. In fact, the trend has swung the other way in very recent years to favour very young children: the children's tax credit (in the financial year 2002/03) and the child tax credit (from 2003) pay extra for families who have children under 12 months old, and the Sure Start maternity grant (for low-income mothers with a child under 3 months) has become much more generous.

However, trends in the amount of child-contingent support that households with children of different ages are entitled to are not as clear-cut as the changing programme rules might suggest (see Figure 4.7). This is because the age and number of children is highly correlated with income, a major determinant of the level of child-contingent support. But Figure 4.7 does show that, particularly in recent years, households with young children have seen their child-contingent support rise by more, on average, than households with teenagers (the year-on-year variations reflect small sample sizes).

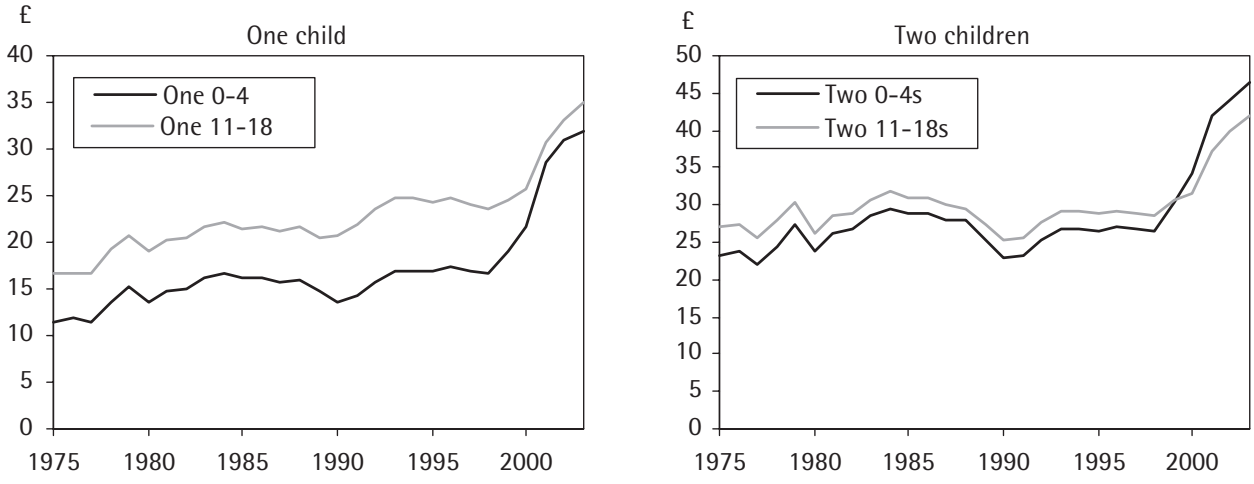
As before, removing the impact of population changes makes it easier to see the effect of policy changes: Figure 4.8 clearly illustrates the policy shift in favour of younger children.

Figure 4.7: Mean child-contingent support by number and age of children (£ per week, 2003 prices)



Source: Authors' calculations using TAXBEN and the FES

Figure 4.8: Mean child-contingent support by number and age of children: 1978 population (£ per week, 2003 prices)



Source: Authors' calculations using TAXBEN and the FES

Conclusion

This chapter has illustrated some core features of child-contingent support in Britain, and how these have changed since 1975. We can see that a number of trends have emerged:

- Child-contingent support programmes have been increasingly means-tested and decreasingly based on past contributions, with the tax system phased out of use in the late 1970s only to re-emerge since 1997 and eventually become the main delivery vehicle with the child tax credit. The expansion of means-tested support means that support has become gradually less reliant on universal child benefit, the dominant channel of support for most of the period: while remaining roughly constant in real terms, child benefit has declined as a proportion of total support from 79% in 1979 to 42% in 2003. The growth in spending on income support and its predecessors largely reflects changes in the characteristics of households with children, while the increased spending on in-work benefits largely reflects policy changes to make these programmes more generous.
- Child-contingent support has increasingly been paid to the main carer in couples, emphasised the first child in a household, and favoured younger children.

- Throughout the period, lone parents have received more child-contingent support than couples. This partly reflects their lower incomes, partly explicitly higher support for lone parents than for couples with children, and partly lower support for single people than couples in the absence of children. The proportion of total child-contingent support going to lone-parent households increased faster than the proportion of children in lone-parent households over most of the period, but has declined since 1997.

5

The costs of children

So far, this report has shown estimates of the level of child-contingent support for different households since 1975. The results do not enable us to say, however, whether the amount that households receive is enough for their needs – one possible interpretation of the "correct level of support" mentioned by the government when talking about the new child tax credit[28]. In this chapter, we do not provide our own estimates of the costs of children and how they have changed since 1975 – an enormous undertaking. Instead, we review some of the studies that have estimated the costs or needs of children, before going on in the next chapter to compare the costs to our own estimates of what households have received in child-contingent support.

Our focus is on the direct costs of children: a household's extra expenditure on goods and services necessitated by having children. We do not look at the indirect costs of children that arise when parents reduce both time in paid employment and leisure time in order to care for their children and maintain the household[29]. We make use of three types of estimates of the costs of children (these methodologies are further explained later in this chapter):

- the 'minimum needs' approach, which provides estimates of either the costs of children themselves, or the total costs of a household with children;
- the costs of children implied by equivalence scales (expressed as a constant fraction of household income);
- the costs of children implied by equivalence scales for a household on a poverty line.

There are many equivalence scales in use. We focus on three: the McClements scale, which is used to adjust household incomes when constructing the income distribution in the UK; a scale used in a recent survey of Poverty and Social Exclusion (PSE) in Britain; and a simple mathematical scale recommended by a panel of experts in the US.

All the approaches to measuring the cost of children that we consider ultimately provide unsatisfactory answers:

- Minimum-needs estimates are only estimates, and are only available for specific household types: they do not tell us whether minimum needs would be different for other household types.
- Equivalence scales, which measure the extra money needed by a household with children to achieve the living standard of an otherwise-equivalent household without children, are more widely applicable, but are perhaps a less relevant concept for policy analysis: the cost of children in this sense is greater for rich parents than for poor parents, but few would advocate providing more support for rich parents.
- Given that we do not have minimum-needs or equivalence-scale estimates throughout the period since 1975, we have to update both sets of estimates to account for prices changes. For the minimum-needs estimates, we use the RPI sub-indices, and this is equivalent to assuming that there has been no real change in the absolute needs of children. To adjust equivalence scales, we make use of the household-specific inflation rates that were used in Chapters 3 and 4 (the precise method is described later; this is equivalent to assuming that the needs of children have not

[28] HM Treasury (1999, para 3.30).

[29] See, for example, Davies and Joshi (2000).

changed relative to those of adults). One finding from this is that the McClements equivalence scale has not kept pace with changes in the costs of children relative to the costs of adults: this means that even if the McClements scale provided an accurate estimate of the relative costs or needs of different sorts of households when it was first estimated in the 1970s, it is not accurate now.

The drawbacks of these two approaches are partially addressed by our third set of estimates: calculating the cost of children implied by equivalence scales for a household on the poverty line produces a single number for all households in a given year (unlike equivalence scales expressed as a fraction of income), and produces an estimate that rises over time in line with median household income (unlike minimum-needs estimates). However, our choice of 60% of median income as a poverty line is arbitrary: we have no way of knowing whether 60% provides an adequate income for children/parents, or whether needs really rise in line with median income.

The outline of this chapter is as follows: the next two sections discuss the minimum-needs approach and the equivalence-scale approach respectively and introduce the estimates we use. We then discuss the advantages and disadvantages of these two approaches, and consider how they can prompt the use of our third approach, using equivalence scales applied to a particular income level. We finally show how to adjust the cost estimates to account for prices changes over the last 28 years. The next chapter then compares these cost series to the child-contingent support received by households since 1975.

The minimum-needs approach

Some studies of the costs of children estimate how much money a household with children needs using a 'budget-standard' approach. The methodology requires specifying and costing the entire household budget that would be needed to reach some specified minimum standard of living[30].

[30] See Parker (1999), for example, for more details of the approach.

Pinpointing what constitutes the minimum needs of a child or a household with children has to be subjective to a degree, and will certainly depend on the time of the study, the particular household type under investigation and the specified standard of living that a household is assumed to reach. This makes it very difficult to interpret differences in the results of different studies. As examples, however, we use the results of three studies:

- Oldfield and Yu's (1993) 'low cost budget' estimates of the minimum cost of a child;
- Middleton et al's (1994) estimates of the 'minimum essential' cost of a child;
- Parker's (1999) estimates of the 'low cost but acceptable' budget for a household with children.

In all three studies, judgements were made about what items were essential and at what quantity, quality, price and durability. In the case of Middleton et al's study, these judgements were made by focus groups: consensus was reached among a total of 193 mothers from varying backgrounds. The results in the Oldfield and Yu and Parker studies were put together by the Family Budget Unit at the University of York, using a combination of officially recommended standards, expert advice, what individuals consider essential (through surveys and focus groups) and actual expenditure patterns. Table 5.1 gives the main results from the studies.

Note that the Middleton et al estimates do not include housing costs, so the £9.50 rent component must be deducted from the Oldfield and Yu estimate to make the two comparable.

Equivalence scales

There is a large literature that addresses the question of how much extra money a household with a child would need to enable it to reach the same material living standard it would have without that child, holding everything else constant. The answers to such questions can be expressed as equivalence scales.

The main challenge in constructing equivalence scales lies in comparing living standards across different households. There are almost as many methods for doing this as there are equivalence scales; the different methods are discussed, with

Table 5.1: Estimates of cost of the minimum weekly needs of children

	Cost of children	Cost of family
Oldfield and Yu (1993)		
Couple with girl aged 4, boy aged 10	£60.74 *of which £9.50 was rent* (1993 prices)	n/a
Middleton et al (1994)		
Couple with two children:		
Child aged 0-1	£26.41 each	n/a
Child aged 2-5	£31.49 each	
Child aged 6-10	£27.90 each	
Child aged 11-16	£31.07 each (1994 prices)	
Parker (1999)		
Couple with girl aged 4, boy aged 10	n/a	£218.17 *of which £56.55 was rent* (1998 prices)
Lone parent with girl aged 4, boy aged 10	n/a	£181.32 *of which £54.30 was rent* (1998 prices)

Notes: Authors' calculations from tables 17 and 18 of Oldfield and Yu (1993), table 1 of Middleton et al (1994) and tables 53 and 54 of Parker (1999). The Parker estimates shown here do not include work-related costs. The Middleton et al estimates do not include housing costs. Numbers used here and elsewhere from Middleton et al are averaged over girls and boys.

a particular focus on the costs of children, in chapter 2 of Banks and Johnson (1993). In this report, we do not attempt to assess the methods used to calculate equivalence scales, nor do we estimate our own scales. Instead, we will use the following equivalence scales:

- the McClements scale, which is used widely because the government uses it to adjust household incomes in official publications (Table 5.2);
- the scale used in a recent large-scale survey of poverty and social exclusion in Britain (called in this report 'the PSE scale': Table 5.3)[31];
- a mathematical measure in which each household has a weight of $(A+0.7K)^{0.7}$, where A is the number of adults and K is the number of children (called in this report 'the NRC scale', after the National Research Council report which recommended its use in the US for measuring poverty: see Citro and Michael, 1995).

Equivalence scales are usually expressed as ratios with a reference household having a value of 1. For example, if an equivalence scale took a couple without children as its reference household, then the value for a couple with one child might be 1.2, meaning that such a household needs 20% more expenditure or income than the reference household to be as well off in material terms. Not all equivalence scales use the same reference household, and so Tables 5.2 and 5.3 have given the scales both with reference to a childless couple and with reference to a childless single person to aid comparisons.

The scales are compared directly in Table 5.4, which shows that:

- McClements is the only one that allows the weight given to children to vary by their age: the values imply that older teenagers are four times as expensive as children under 2 years old.
- The scales differ in what they assume about economies of scale within households. McClements allows for some economies of scale among adults, but not children, so that the second child is as expensive as the first. The PSE scale and (to a lesser extent) the NRC scale, however, allow for economies of scale in children and adults. In the PSE scale, this is achieved by there being a fixed cost to having children; this fixed cost is also higher for lone parents than couples.
- Comparing the scales within family types, the PSE scale gives the highest weights for the first adult and the highest weights for families with children; the NRC estimates lie towards the middle of the McClements range. The differences between the scales are substantial: the estimate of the cost of a child in a lone-

[31] See Gordon et al (2001, pp 86-7).

parent household in the McClements and NRC scales is only half that implied by the PSE scale. And among couple households, the PSE estimate of the cost of a child is 50% higher than that in the McClements and NRC scales.

Table 5.2: McClements equivalence scale

	Relative to childless couple	Relative to single person
First adult	0.610	1.000
Partner	0.390	0.640
Other adult	0.360	0.590
Child aged 0-1	0.090	0.148
Child aged 2-4	0.180	0.295
Child aged 5-7	0.210	0.344
Child aged 8-10	0.230	0.377
Child aged 11-12	0.250	0.410
Child aged 13-15	0.270	0.443
Child aged 16+	0.360	0.590

Source: Authors' calculations from the Before Housing Costs scale in DWP (2003, appendix 2)

Table 5.3: PSE equivalence scale

	Relative to childless couple	Relative to single person
First adult	0.700	1.000
Partner	0.300	0.429
Other adult	0.450	0.643
First child:		
if partner	0.350	0.500
if no partner	0.450	0.643
Other child	0.300	0.429

Source: Authors' calculations from Gordon et al (2000, appendix 4)

Advantages and disadvantages

Both minimum-needs estimates and equivalence-scale estimates have their advantages and drawbacks.

Minimum-needs estimates require a definitive list of what items are 'essential' or 'acceptable'. This can be problematic because it is sensitive to researcher input. For example, should the estimates be based on parents' opinions, or on some other benchmark (officially recommended standards, observed expenditure patterns and so on)? For studies that use social attitudes to define essentials, what proportion of parents must deem something essential for it to be included? Furthermore, the researcher, the reader and the people whose opinions are being used to define an essential bundle of goods may all have different ideas of what essential means, so the results might mean something different to all of them.

In a sense, equivalence scales are less subjective in that the question they address can in principle be answered unambiguously: if we knew how happy people were, we could measure the amount of money it takes to make one household as happy as another. Equivalence scales replace the subjective concept of what is essential or acceptable with the more concrete target of measuring a household's well-being. However, the technical problem associated with estimating an equivalence scale is unsolvable: we simply cannot measure happiness[32]. All of the methodologies for estimating equivalence scales must therefore make explicit or implicit assumptions in order to arrive at an answer:

[32] This is essentially the argument made by Pollak and Wales (1979) to show that equivalence scales are not identified.

Table 5.4: Comparing equivalence scales

	McClements	PSE	NRC
Childless couple	1	1	1
Single adult	0.61	0.70	0.62
Lone parent, one child	0.70-0.97	1.15	0.89
Couple, one child	1.09-1.36	1.35	1.23
Lone parent, three children	0.88-1.69	1.75	1.36
Couple, three children	1.27-2.08	1.95	1.65

Notes: All given relative to a childless couple. The McClements scale depends on the ages of children, so the table shows the range of possible values.

typically, they assume that the presence of children does not directly affect a household's happiness. But given the unrealistic nature of this assumption and the lack of plausible alternatives, it is questionable whether equivalence scales are any less arbitrary than judgements on what is acceptable, even if they are more objective.

A practical disadvantage of the minimum-needs approach is that it does not easily allow for variations in household composition or need. In practice, it is impossible to specify a single number that can be sensibly regarded as the minimum cost of a child. For example, recent UK studies of minimum costs of children have been calculated for specific family types (for example, a couple with a girl aged 10 and a boy aged 4), and are not applicable to families with children of other ages. In addition, there is obviously still considerable variation in circumstances even within couples with a girl aged 10 and a boy aged 4, and it is easier to specify minimum costs for certain categories of expenditure than others[33]. Equivalence scales also ignore much of the heterogeneity among households with children, but the number given in an equivalence scale is always meant to be thought of as an average, and so, unlike minimum-needs estimates, they usually have complete coverage: that is, they provide some estimate of the costs or needs for children in all types of households.

The fact that minimum needs are assessed at a single point in time is also problematic. All three estimates we use make use of parents' opinions of what is essential, giving a socially defined minimum acceptable level. The basket of goods thought to be essential in 1998 may not, however, be the same as one deemed essential in other periods. In particular, as society gets richer, living conditions and lifestyles that used to be considered adequate are no longer. But unfortunately, each of the three studies used in this report only produced a single set of estimates applicable to the year in which they were estimated. We are able to make adjustments for the changing price of the bundle of goods involved (as discussed in the next section), but we cannot make adjustments to reflect changes in what is considered essential.

Ultimately, minimum-needs estimates and equivalence scales are addressing fundamentally different questions: the minimum acceptable living standard and the living standard one would have in the absence of children are very different things. Both are valid interpretations of what one might mean by the cost of children, but which concept is more relevant for our comparison with child-contingent support depends on one's view of the appropriate goal for such support (indeed, whether compensating households for the cost of their children is an appropriate policy goal at all is debatable, but even if we start from the premise that governments should cover the cost of children, it is not clear whether this would involve covering certain minimum needs of the children or maintaining the household's overall living standard). Because most equivalence scales are expressed as ratios, they imply that the cost of a child is a constant proportion of a household's income or expenditure, and, therefore, that a child will cost a rich household more than it will cost a poor household.

This may be true (because the rich household needs more to maintain its higher living standard), but it is not plausible to think that governments will engage in reverse means-testing child-contingent support as a result. The policy debate, then, seems to be framed much more in terms of the 'minimum needs' concept than the 'maintenance of living standards' concept embodied in equivalence scales. We might, therefore, question whether equivalence scales are really capturing the cost of children in the sense in which we are interested. However, it is possible to use information from equivalence scales to construct estimates of the costs of children that are fixed in cash terms, by multiplying an equivalence scale by a particular level of household income. As an arbitrary, but hopefully informative, example, we have chosen 60% of median (equivalised) household income, a commonly used poverty line. By multiplying

[33] For example, Parker (1999) distinguishes between expenditures on food, clothing, personal care, household goods and services, and leisure goods and services, for which it proved relatively easy to estimate minimum costs, and two other categories of spending for which it was much more difficult: core expenditures which vary with household circumstances, such as housing, fuel, transport and childcare, and certain lifestyle expenditures, such as alcohol and tobacco. In this report, we have used the illustrative figures for these expenditures given in Parker (1999), assuming that the parents do not work.

this amount by an equivalence scale, one can derive a cash figure for the cost of a child for a household on the poverty line implied by the scale.

Table 5.5 shows what the three equivalence scales we use imply for the cost of children for a household on the poverty line in 2001/02. As we would expect from the discussion in the previous section, there are large differences between the three scales, with the PSE scale implying the highest cost and McClements the lowest. The largest difference is for lone parents with one child, for whom the PSE scale implies almost twice the cost that McClements does.

The cost of children implied by the McClements scale at 60% of median income could be thought of as another minimum-needs estimate because it corresponds to the cost of children at a widely used poverty line. Indeed, since these are the equivalence scale and the poverty line used by the government in official statistics, it could perhaps be argued that this is implicitly the government's own minimum-needs estimate (although it should be stressed that the government makes no such claim for this interpretation). Importantly, however, this kind of minimum-needs measure is not vulnerable to one critique of our use of the budget-standard estimates – that items deemed essential will change as incomes and social norms are changing. Instead, this measure of minimum needs is tied to median income. This seems to be a reasonable benchmark, although of course we have no way of knowing whether needs really rise in line with median income, or change (if at all) in some other way.

Allowing for price changes when thinking about minimum costs of children

The discussion in Chapter 2 suggested that changes in the costs of things bought by households with children over time will mean that £1 of child-contingent support now is worth a lot less than £1 in 1975, and we showed that different households face different inflation rates if they buy different bundles of goods and services. Estimates of the cost of a child, whether through budget standards or equivalence scales, made at a particular point in time must, therefore, be adjusted to take account of relative inflation rates before they are applicable to a different time period. This is a particular challenge when seeking to analyse changes over the past 28 years!

We can use our estimates of household-specific inflation rates to adjust the estimates of the costs of children in a similar way to that employed in Chapters 3 and 4 to adjust the nominal amounts of child-contingent support. This will then tell us something about what the costs of children might have been in years other than those covered by the particular studies in question. We adopt slightly different methods for adjusting the minimum-needs estimates than for adjusting equivalence scales.

We adjust the minimum-needs estimates of the cost of children and of households (expressed in £ per week) as follows: we multiply each sub-category of expenditure identified in the budget (for example, housing, food, fuel, transport,

Table 5.5: The cost of children for a household on the poverty line implied by different equivalence scales (£ per week, 2001/02 prices)

	McClements	PSE	NRC
Lone parent, one child	£41.60	£77.62	£52.94
Lone parent, two children	£84.33	£129.37	£99.52
Lone parent, three children	£121.92	£181.12	£142.14
Couple, one child	£39.34	£60.37	£44.69
Couple, two children	£81.55	£112.12	£86.00
Couple, three children	£123.51	£163.87	£124.81

Notes: The cost implied by McClements varies by age; the figures shown are averages across the population. The 'poverty line' is 60% of median household income in 2001/02, where income is measured after taxes and benefits but before housing costs and adjusted for household size. For our three equivalence scales (McClements, PSE and NRC), this gives poverty lines of £187.00, £172.50 and £191.19 for a couple with no children.
Source: Authors' calculations

personal care, leisure goods and services) by the change in the relevant sub-index of the RPI since the year of the original study. This is potentially more accurate than adjusting the values using the usual all-items RPI index because the bundle of goods identified as children's minimum needs is substantially different from the 'average' bundle of goods inherent in the all-items RPI index.

This calculation tells us the cost, in each year's prices, of buying a similar bundle of goods and services to the ones identified in the original studies. Figure 5.1 illustrates the results of this calculation for Parker's estimates of the minimum cost of a household, and results for the Oldfield and Yu and Middleton estimates are shown in Figure 6.1 (page 41). However, it is very important to remember that this adjustment allows only for changes in prices, not for changes in what is deemed 'essential'. If real needs have grown along with average incomes, say, then our estimates will be over-estimating minimum costs towards the start of the period, and under-estimating them towards the end of the period[34].

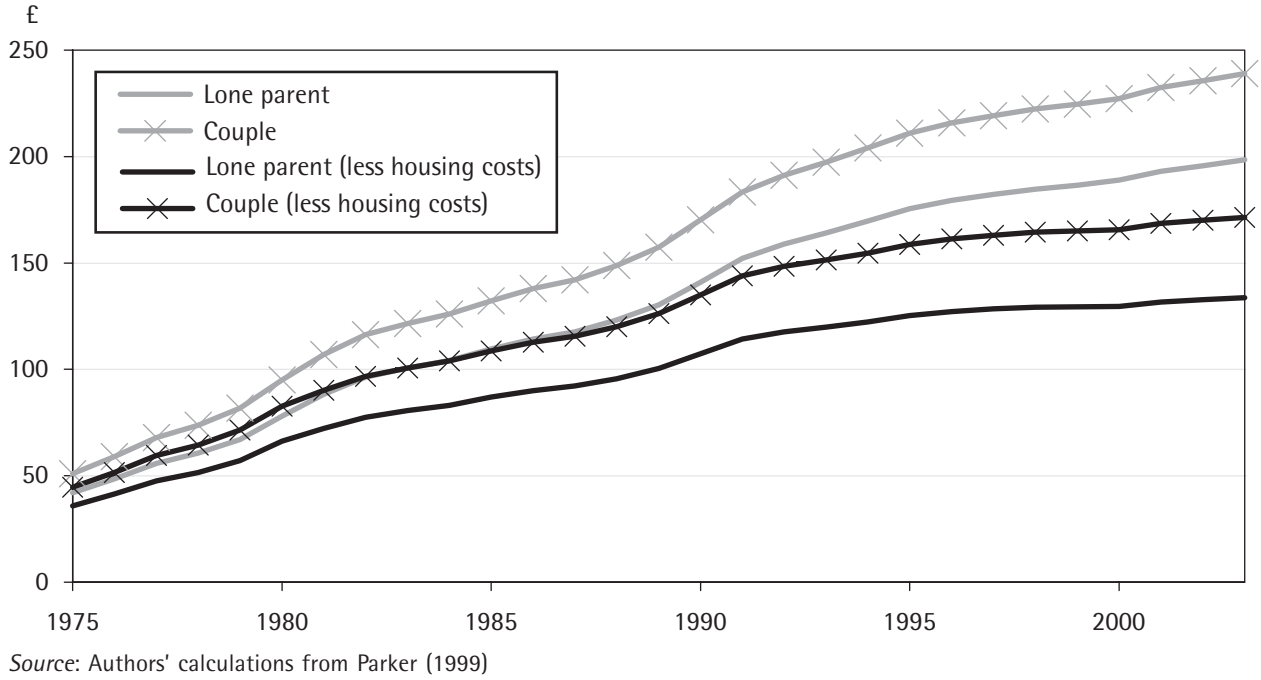
We adjust equivalence scales following a methodology set out in Blundell and Lewbel (1991), and used in Banks and Johnson (1993). In brief, we adjust an equivalence scale for, say, a couple with one child compared to a couple with no children by multiplying it by the change in the cost of living for couples with one child relative to the change in the cost of living for couples without children over the relevant time period. For example, if the cost of living for couples with one child increased by 10% more than the cost of living for couples without children over some period, and the equivalence scale for a couple with one child was 1.2 at the start of that period, then the equivalence scale at the end of that period would be 1.2 x 1.1 = 1.32.

Figures 5.2 and 5.3 show the results of applying this methodology to the McClements equivalence scale, assuming that the scale was correct in 1978. The series are not horizontal lines, and this means that, by continuing to use the McClements scale that was produced in the 1970s, successive governments have not reflected changes in the relative costs of children compared with adults[35].

[34] Figure 5.1 also shows that it makes a difference whether we include housing in the minimum-needs estimate: Parker assumed a local authority rent in York, and as rents have increased relatively quickly in recent years, the minimum needs of renters have risen faster than the minimum needs of a family which had no housing costs.

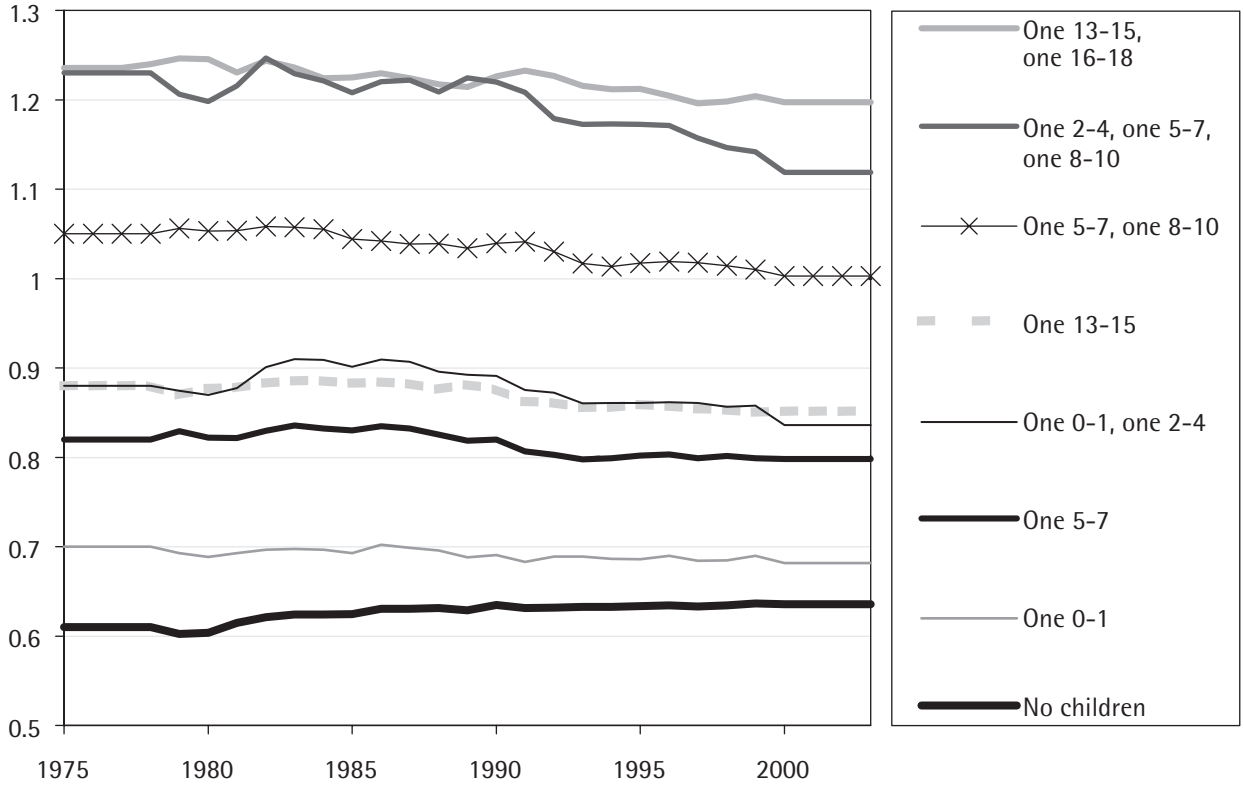
[35] See also Banks and Johnson (1993, figure 5.2).

Figure 5.1: Adjusted values of Parker's minimum needs of households with one 4-year-old and one 10-year-old child, including and excluding housing costs (£ per week, nominal prices)



Source: Authors' calculations from Parker (1999)

Figure 5.2: Adjusting the McClements equivalence scale for lone parents



Notes: Assumes the McClements scale was right in 1978. A couple with no children has a weight of 1 in each year by definition.

Source: Authors' calculations from the FES

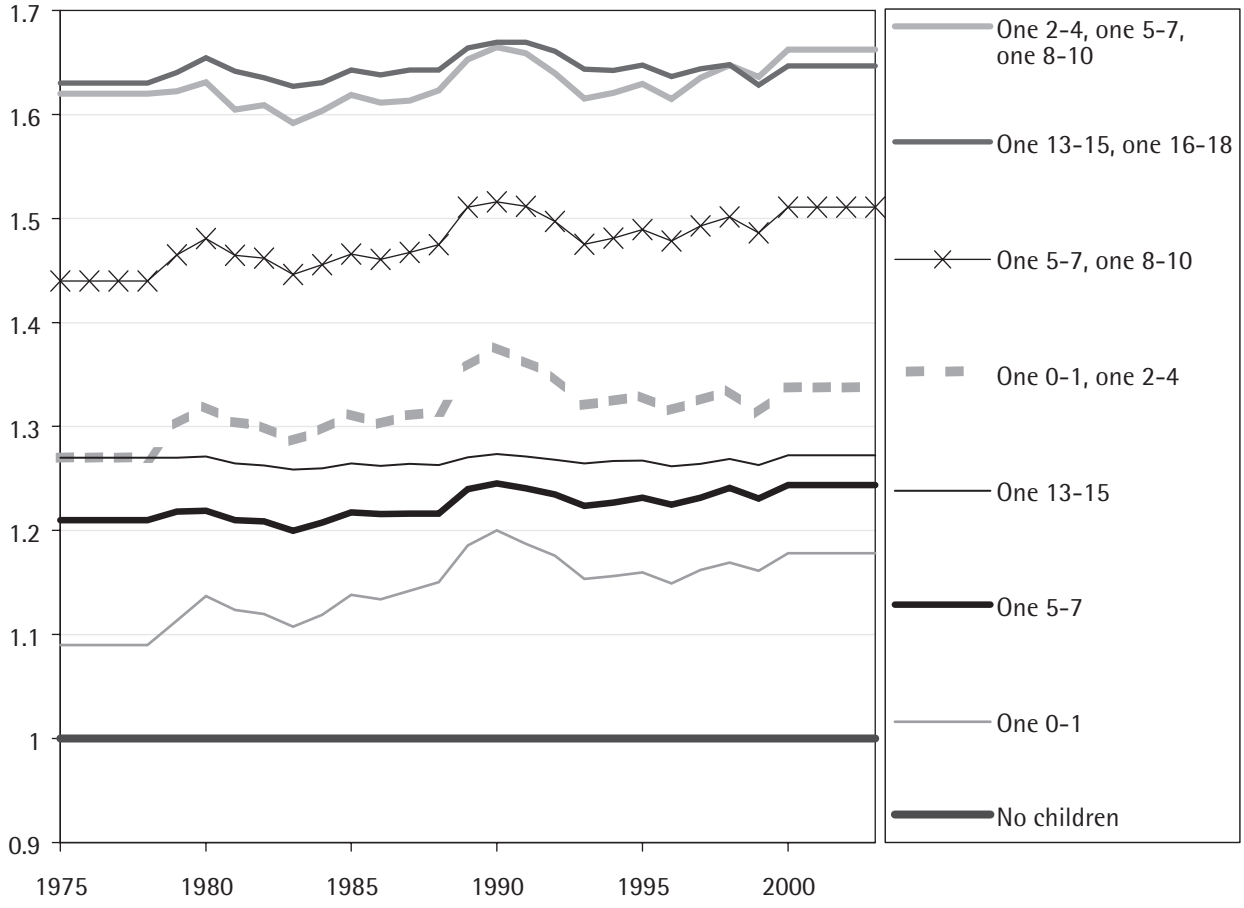
Figure 5.2 shows that the McClements scale would have fallen over time for all lone parents because they have experienced lower inflation rates than childless couples (see Chapter 2). The scale for a lone parent with one 5- to 7-year-old and one 8- to 10-year-old child, for example, should now be 1.00 instead of 1.05 – they would now need the same income, not 5% more, to be considered as well off as a childless couple. On the other hand, single people without children should have seen their equivalence scale rise compared to a couple with no children, suggesting that it is the presence of children that is the important factor.

The trends in Figure 5.2 are different from the changes for couples with children (especially young children) shown in Figure 5.3: their equivalence scales should have risen over time. For example, the McClements scale assumes that a couple with a child under 2 years old needs 9% more income than a childless couple to reach the same standard of living. Our estimates suggest that, if this was true in 1978, the figure is now 18%. The magnitude of these changes is not negligible, which is an interesting finding in itself: it suggests that, if McClements was the right equivalence scale for the government to use in 1978, it is unlikely to be the right equivalence scale to use now, although the implications of these changes for measuring the distribution of income are left to subsequent research.

Because the way that we adjust equivalence scales for price changes over time is the same for all equivalence scales, looking at changes to the PSE and NRC scales gives the same qualitative conclusions: the scales have fallen for lone parents, and risen for couples with children. Compared with the McClements scale, the changes to the PSE and NRC scales bring out more clearly that the scales have fallen more (or risen less) the more children there are in a family.

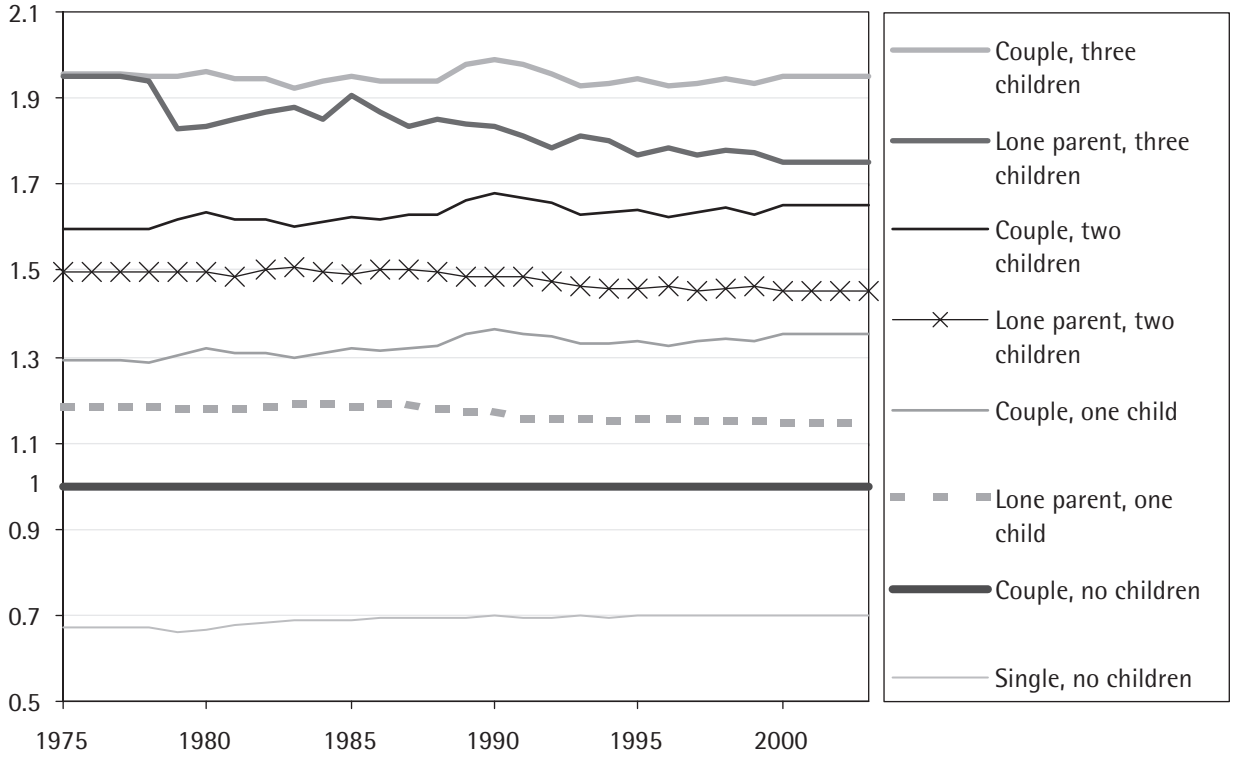
We do not make adjustments for price changes to calculate the cost of children implied by equivalence scales for a household on the poverty line; instead, we calculate the implied costs in each year using the actual equivalence scales and a time series of (nominal) 60% of median income.

Figure 5.3: Adjusting the McClements equivalence scale for couples with children (childless couple = 1)



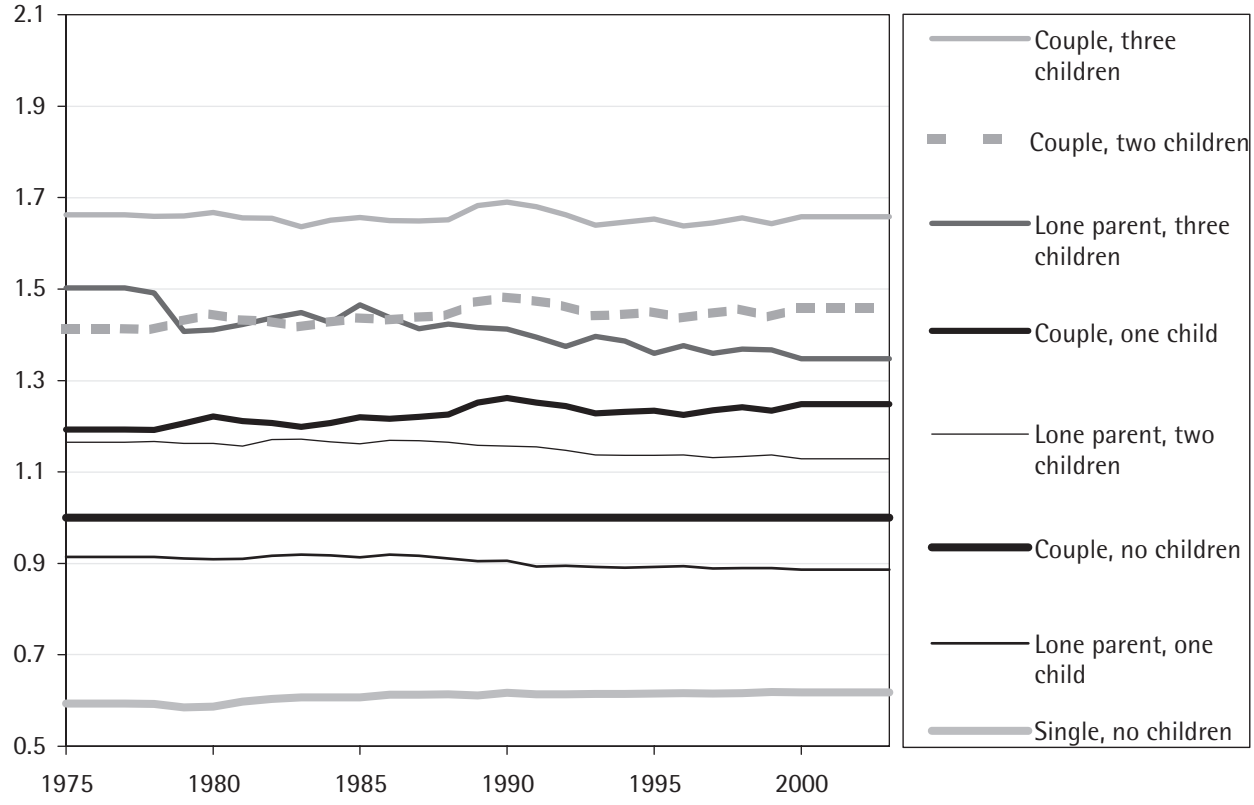
Notes: Assumes the McClements scale was right in 1978. A couple with no children has a weight of 1 in each year by definition.
Source: Authors' calculations from the FES

Figure 5.4: Adjusting the PSE equivalence scale (childless couple = 1)



Notes: Assumes the PSE scale was right in 2000. A couple with no children has a weight of 1 in each year by definition.
Source: Authors' calculations from the FES

Figure 5.5: Adjusting the NRC equivalence scale (childless couple = 1)



Notes: Assumes the NRC scale was right in 1995. A couple with no children has a weight of 1 in each year by definition.
Source: Authors' calculations from the FES

Conclusion

We have shown results from three types of estimates of the costs of children: the minimum-needs approach; the costs of children implied by equivalence scales, expressed as a constant proportion of household income; and the costs of children implied by equivalence scales for a household on the poverty line.

None of these estimates provides satisfactory answers to the main question we have posed – how have the costs of children changed since 1975? The minimum-needs estimates are only available for specific household types at specific points in time. To make use of the existing results in time periods other than when they were estimated requires us to guess how children's minimum needs have changed over time. In theory, these limitations could be addressed by conducting more studies of the kind that we used, providing regular updates of the estimates and examining a wider range of family types; the only limitation is research funding.

Our second set of cost estimates, based on equivalence scales, is not ideal for policy analysis, embodying a notion of cost that means children cost rich parents more than they cost poor parents. However, we are able to estimate how these costs have changed over time: we find that price changes over the past 28 years have favoured lone-parent households, particularly those with large numbers of children, because the things bought by these households have risen in price by less than things bought by other types of households. In the absence of other changes, this means that the equivalence scales that have not been altered over time, like the semi-official McClements scale, may now have too high a weight on some lone-parent households with children, and too small a weight on some two-adult households with children, if they were correct at the start of the period.

Our third set of estimates calculates the cost of children implied by equivalence scales for a household on the poverty line. This produces a single number for all households of a certain type in a given year, and produces estimates that

change over time in line with median household income. Our choice of 60% median income as a benchmark is arbitrary, however, and, although it seems reasonably plausible, we have no way of knowing whether these costs are adequate in any sense, or whether the costs of children change over time in line with median income.

Our main use of these estimates, however, given that we are not enormously confident that any of them are actually correct, is to provide more insight into the changes in child-contingent support since 1975, and that is the task of our final chapter.

6

Comparing the costs and benefits of children

In this chapter, we compare the range of estimates of the costs of children described in Chapter 5 to our own estimates of what households have actually received in child-contingent support over time, described in Chapters 3 and 4. This allows us to judge how far child-contingent support has compensated households with children for their extra needs. This is not to say that we think that governments should be compensating all households for the full costs of their children, but it is a useful starting point. Of course, if governments are not covering the costs of children, then they are placing at least some responsibility for that on the child's parents and other relatives.

The outline of this chapter is straightforward: we compare in turn each of our three sets of estimates of the costs of children with the child-contingent support actually received. As explained in Chapter 5, we use three types of estimates of the costs of children:

- the 'minimum-needs' approach, which provides either estimates of the costs of children themselves, or the total costs of a household with children;
- the costs of children implied by equivalence scales (expressed as a constant proportion of household income);
- the costs of children implied by equivalence scales for a household on the poverty line.

When thinking about these comparisons over time, it is important to remember how we have constructed the cost estimates. Our extrapolation over time of the estimates of minimum needs assumes that there have been no material changes in childcare needs before or after they were estimated during the 1990s. Our adjustments to equivalence scales assume that children's needs have not changed relative to adults' needs. And our calculation of what equivalence scales imply about the cost of children for a household on 60% median income produces estimates, by definition, that rise over time in line with median income.

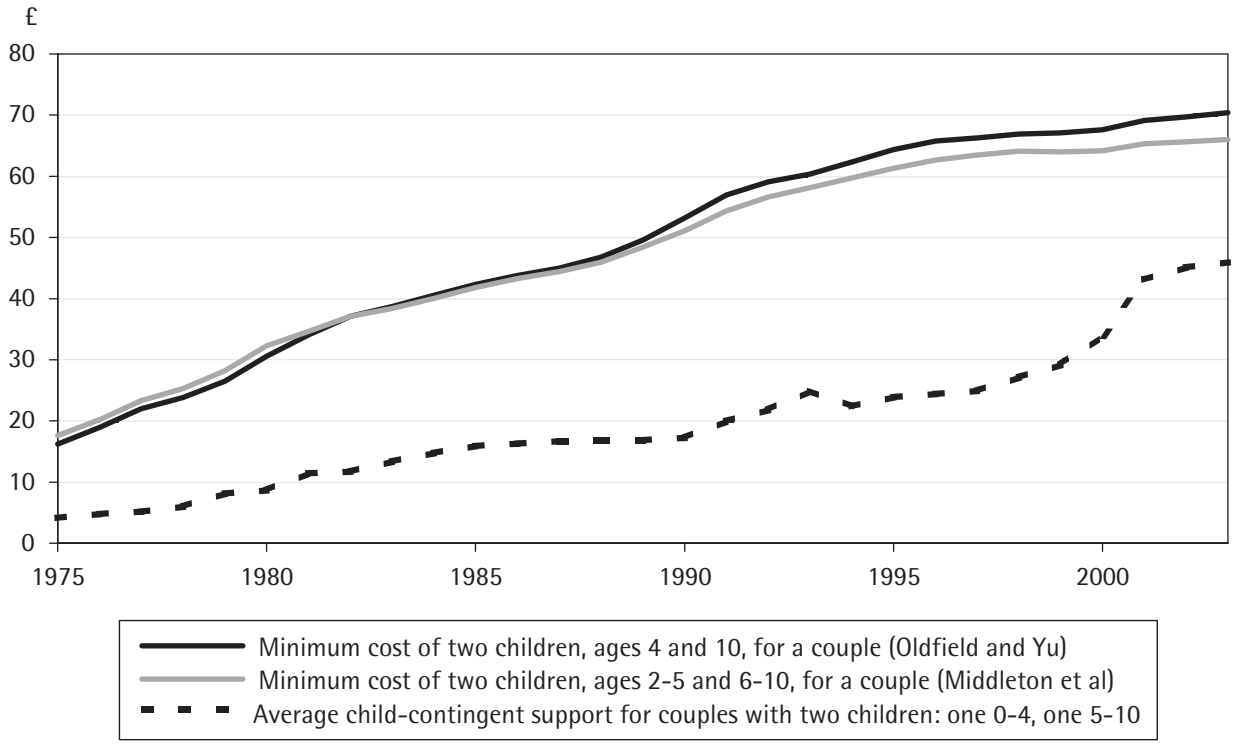
Comparing child-contingent support with estimates of minimum needs

Figure 6.1 compares the mean (nominal) level of child-contingent support received by couples with two young children with the Oldfield and Yu (1993) and Middleton et al (1994) estimates of the minimum cost of these children, adjusted by us to take account of price changes over time. It is clear that, on average, government child-contingent support has never been enough to cover these estimated minimum costs of two young children for couples. Because average child-contingent support has increased since 1997, so has the average shortfall[36].

Averages, of course, do not tell the whole story. Looking across the population, Figure 6.2 shows that the proportion of couples with two young children for whom child-contingent support exceeds the Oldfield and Yu estimate of the minimum cost is less than 5% for most of the period, and is expected to reach 13.9% in 2003-

[36] Note again that the Oldfield and Yu estimates include housing costs while the Middleton et al estimates do not, so the two are not directly comparable. The child-contingent support line shown includes housing benefit, but is virtually indistinguishable from one that does not, since housing benefit makes no net contribution to child-contingent support on average (see figure 4.4 of Adam et al, 2002).

Figure 6.1: Average child-contingent support and estimates of the minimum costs for two young children of a couple (£ per week, nominal prices)



Note: The original estimates were applicable to 1993 for Oldfield and Yu, and 1994 for Middleton et al.
Source: Authors' calculations using TAXBEN and the FES

04. Unsurprisingly, further analysis (not shown) reveals that those couples whose support exceeds cost are all in the poorest quarter of couples with two children. Clearly, if this is a sensible estimate of the minimum costs of children, then successive governments have been taking the view that the majority of couples should bear at least some of the direct costs of having children.

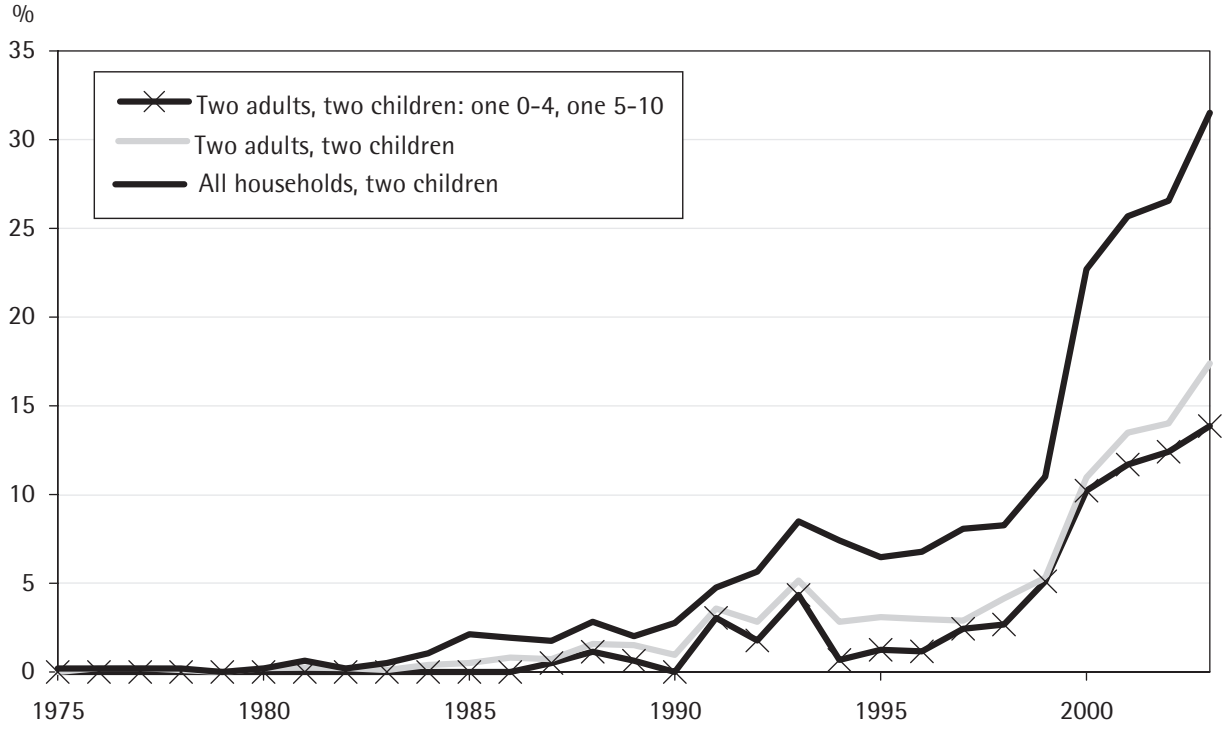
We also compare the Oldfield and Yu estimates of the minimum costs of two young children in a couple to the amount of child-contingent support received by other households with two children, even though the estimates are not necessarily relevant for this group. The story hardly changes when we extend the comparison to other two-child couple households, but does alter when we include lone parents as well, because they tend to have lower incomes and more child-contingent support; virtually no households with two children received more child-contingent support than the inflation-adjusted Oldfield and Yu estimate of the minimum cost of their children in the 1970s, but this rose to 5-10% of households during the mid-1990s, and rose dramatically in 2000 to just over a quarter.

Of course, when doing this comparison, we have no way of knowing whether the amounts estimated as being the minimum costs of two young children in a couple in 1993 are applicable to couples with children of other ages, or to lone parents with two young children. And, as before, if material needs (rather than just prices) have changed over time, then our comparison is valid only in 1993, and is likely to be an over-estimate of the minimum cost before 1993 and an under-estimate since.

A similar comparison using the estimates in Middleton et al's study of the minimum cost of children yields similar results (Figure 6.3): the proportion of couples with two children whose minimum costs are covered by child-contingent support will rise to 17.9% in 2003-04, having been under 5% for most of the period. A much higher proportion of all households with two children has been covered, insofar as such a comparison is valid.

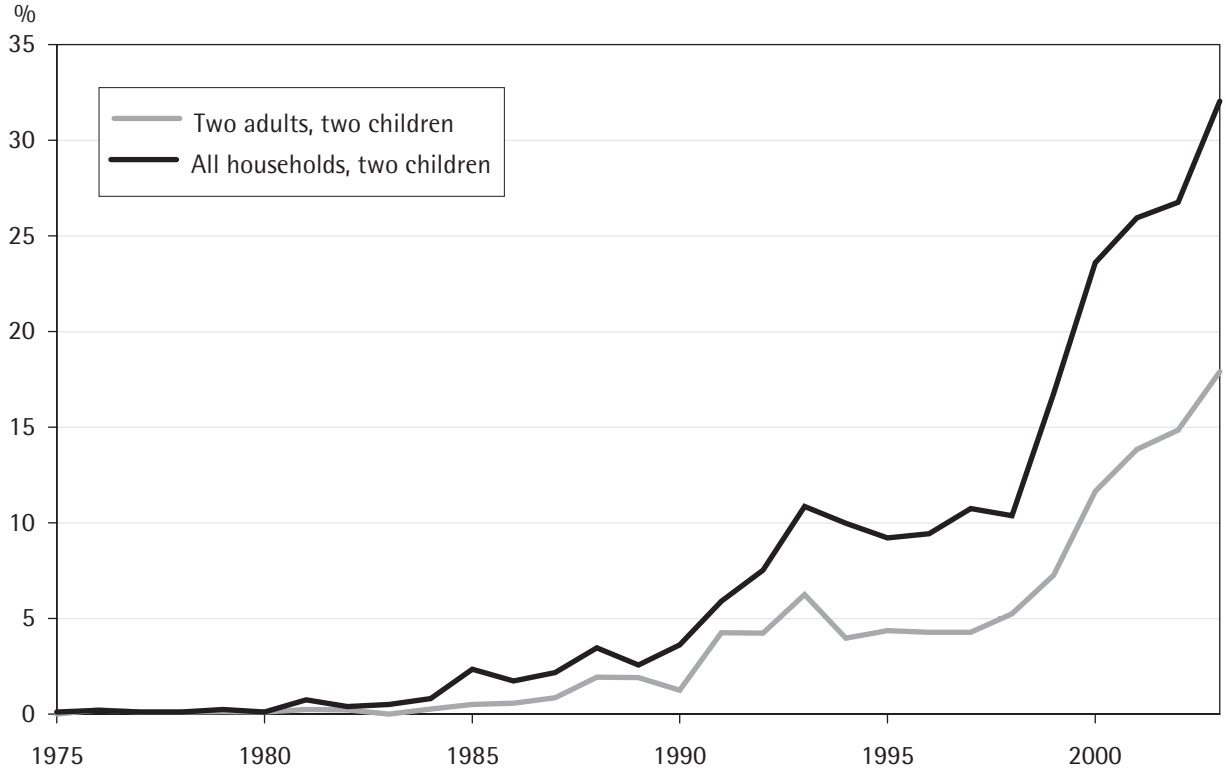
Some may be less interested in whether child-contingent support has covered the minimum needs of children than in whether households with children have sufficient income to cover

Figure 6.2: Proportion of households with two children whose child-contingent support exceeds the Oldfield and Yu estimate of the minimum costs of their children



Note: 'All households' excludes those with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

Figure 6.3: Proportion of households with two children whose child-contingent support exceeds the Middleton et al estimate of the minimum costs of their children



Notes: 'All households' excludes those with more than two adults. Child-contingent support excludes housing benefit because Middleton et al estimates exclude housing costs.
Source: Authors' calculations using TAXBEN and the FES

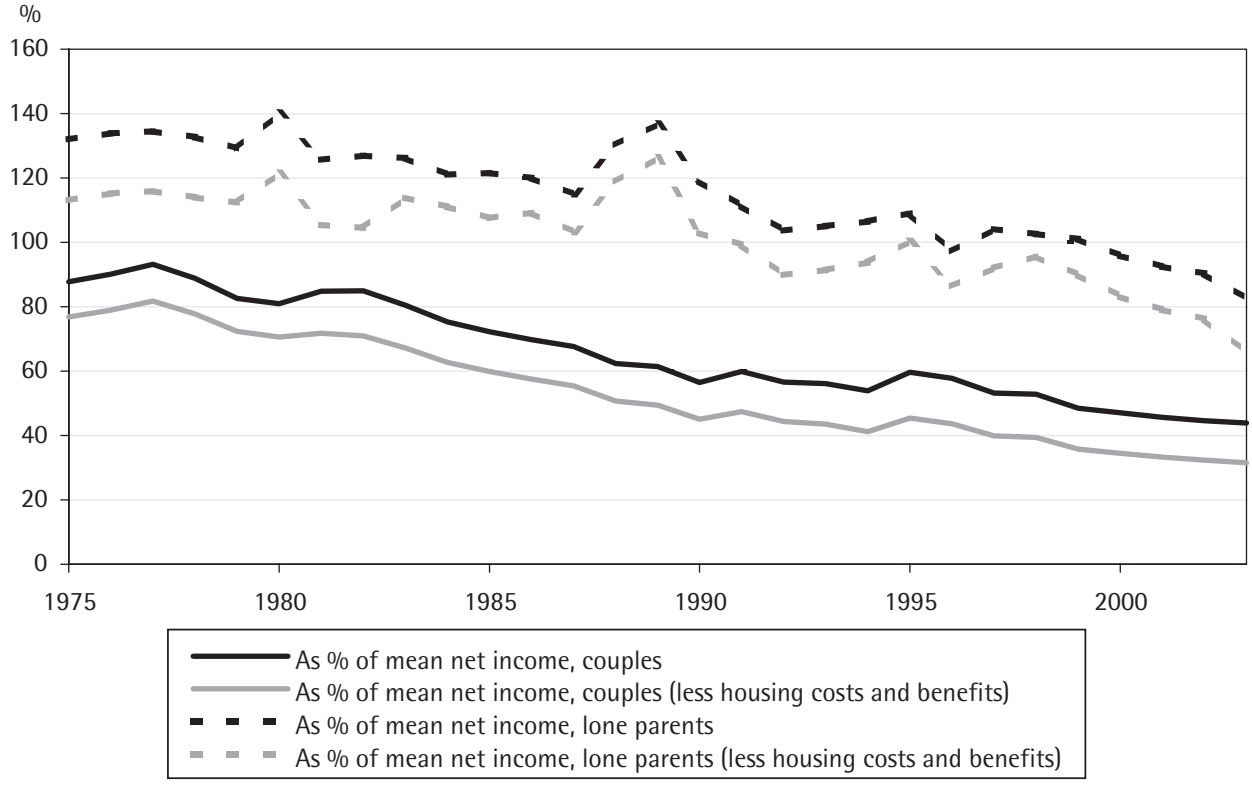
their total needs. To examine this, we have used estimates in Parker (1999) of the income needed for households with children for a low-cost but acceptable living standard. By comparing these estimates with what we think households have received since 1975, we can attempt to say whether total government transfers to families with children have been enough, together with families' private incomes, to cover the Parker estimates of their needs. This is conceptually similar to treating Parker's estimates of households' minimum needs in Figure 5.1 as a poverty line.

Figure 6.4 compares this estimate of minimum needs to average incomes in each year. Parker's estimates of minimum needs are very high in relation to average incomes at the start of our period, and there is a downward trend as incomes rise and the basket of goods becomes more affordable over time. Once again, this immediately raises the question of whether the basket of goods thought to be essential in 1998 is the same as one deemed essential in other periods: we have merely estimated the cost of the same basket in other periods, and this is likely to be an overestimate of the minimum cost before 1998 and an underestimate since. The ratio is also higher for lone parents because they tend to have lower incomes[37].

Figure 6.5 shows that the proportion of households whose disposable income exceeds the cost of Parker's minimum-needs estimates has increased over time. The proportion rose in the late 1970s and early/mid 1980s, remained roughly constant from the late 1980s to the late 1990s, and has risen again since then. If the minimum-cost estimates are treated like a poverty line, then it would suggest that the poverty rate among households with two children has fallen from 46% in 1975 to 28% in 1999 and 8% in 2003 (from 31% to 16% to 3% if housing costs and benefits are excluded). Of course, this is a reflection of what has happened to private incomes as well as what has happened to child-contingent support, and has taken as a poverty line an amount that changes only in line with price changes, not income growth.

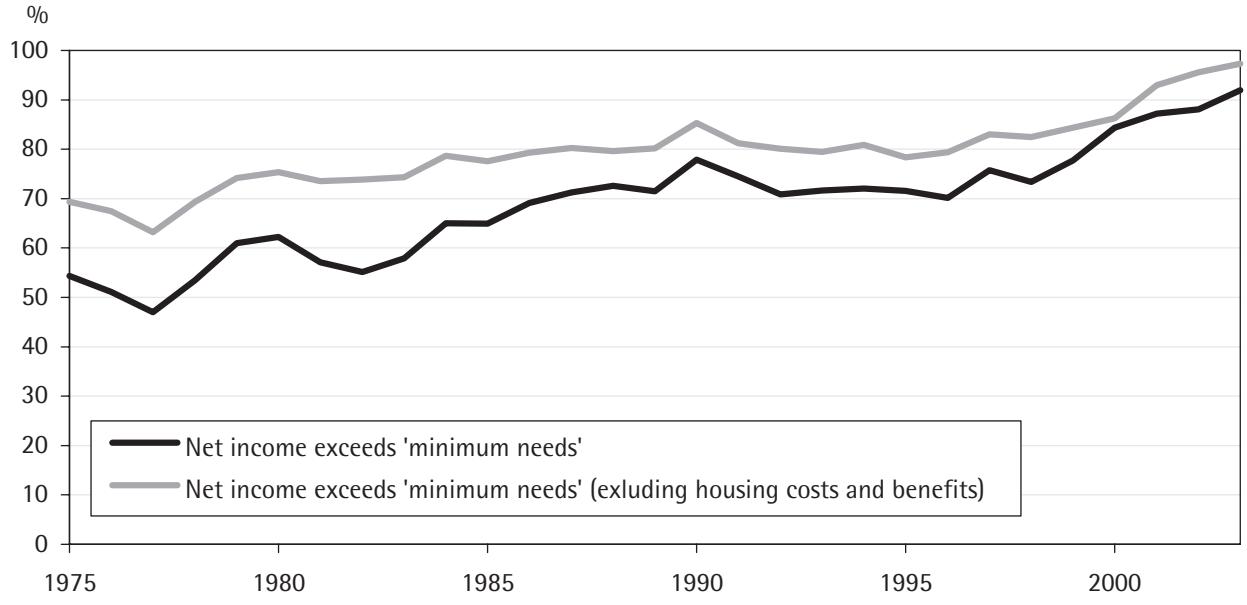
[37] We have used the values in tables 53 and 54 of Parker (1999).

Figure 6.4: Parker's estimates of minimum needs as a proportion of average income for households with two children under 11



Source: Authors' calculations using TAXBEN and the FES

Figure 6.5: Proportion of households with two children under 11 whose net income exceeds Parker's estimates of minimum needs



Note: Excludes households with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

What do these analyses tell us? There are several conclusions:

- Our desire to compare the level of child-contingent support to children's needs is seriously hampered by the paucity of studies of need: they are generally restricted to particular family types and particular times. Our approach – estimating the cost in all years of the particular bundle of goods and services that was estimated to be the minimum needs in the 1990s – leads to estimates of needs that appear extremely high in the late 1970s; similarly, absolute poverty lines that might seem sensible today look unrealistic as measures of poverty several decades ago, and probably too low in the most recent years, and so we do not attach too much importance to our comparisons with child-contingent support.
- In the period when the estimates of needs were made, the majority of parents were contributing from their own private incomes towards the minimum cost of their children, as estimated by Oldfield and Yu and Middleton et al; only for a minority did government child-contingent support exceed the Oldfield and Yu or Middleton et al estimated costs. Although we have not shown this explicitly, this minority was the poorer parents, because child-contingent support has consistently been inversely related to incomes.
- The dramatic increase in child-contingent support since the mid/late 1990s documented in Chapters 3 and 4 translates into an increasing proportion of households who do not need to use their private incomes to cover the Oldfield and Yu or Middleton estimates of the cost of children. What we do not know, however, is how the minimum needs of a child or a family with children has changed over the past decade.
- The proportion of households whose incomes exceed the Parker (1999) estimates of total household needs is much higher, and has also increased since the late 1990s, albeit less dramatically.

Comparing child-contingent support with estimates of the costs of children implicit in equivalence scales

We can also compare child-contingent support to estimates of the cost of children implicit in various equivalence scales. However, equivalence scales are usually expressed as ratios, as mentioned earlier, whereas Chapters 3 and 4 presented analysis of the value of child-contingent support in cash terms. First of all, therefore, we need to make the two comparable.

Child-contingent support importance indices: thinking about support for children in an equivalence-scale-style ratio

We can express child-contingent support as an equivalence-scale-style ratio by dividing the total net income (including housing benefit) of a household with children by its net income less the child-contingent support. Because it also measures the importance of child-contingent support in a household's total resources, we call this number the child-contingent support 'importance index'. The base value is 1, indicating that a household received no child-contingent support, and a value of 2 would indicate that half the household's net income derived from child-contingent support.

This calculation can also be thought of as dividing the net income of a household with children by the net income that an otherwise-equivalent household without children would have. Thinking about it in this way makes it clearer why this can be compared to an equivalence scale: an equivalence scale measures the proportional difference in resources needed by two hypothetical households that are identical but for the presence of children to be equally well off, and our child-contingent support importance index measures the proportional difference in net incomes received by two hypothetical households that are identical but for the presence of children. Thus, a household whose importance index equalled its equivalence scale would be receiving child-contingent support equal to their cost of children as implied by the equivalence scale.

Figure 6.6 shows how these child-contingent support importance indices vary with income for four different household types in four different years (these pictures are analogous to those in Figure 4.3). The importance indices depend on government policies towards households with children, government policies towards those without children and a household's pre-transfer income, but the general picture is that the importance of child-contingent support declines as income rises. The pattern is not clear-cut, however. For example, we see the same hump shape as in Figure 4.3, caused by the fact that, particularly in recent years, child-contingent support (although not total household income or total government support) is higher in cash terms for those in low-earning jobs than for those not working at all.

Over time, the importance indices for lone parents show some tendency to move in a north-easterly direction, consistent with the increasing generosity of child-contingent support that we saw in Figure 3.4. However, this is not true for couples: the importance of child-contingent support has remained constant or declined over time (particularly at high-income levels where the series seem to coincide). Child-contingent support is much more important for lone parents than for couples, on average, and this reflects both the differences in pre-transfer incomes and in the structure of child-contingent support, as discussed earlier.

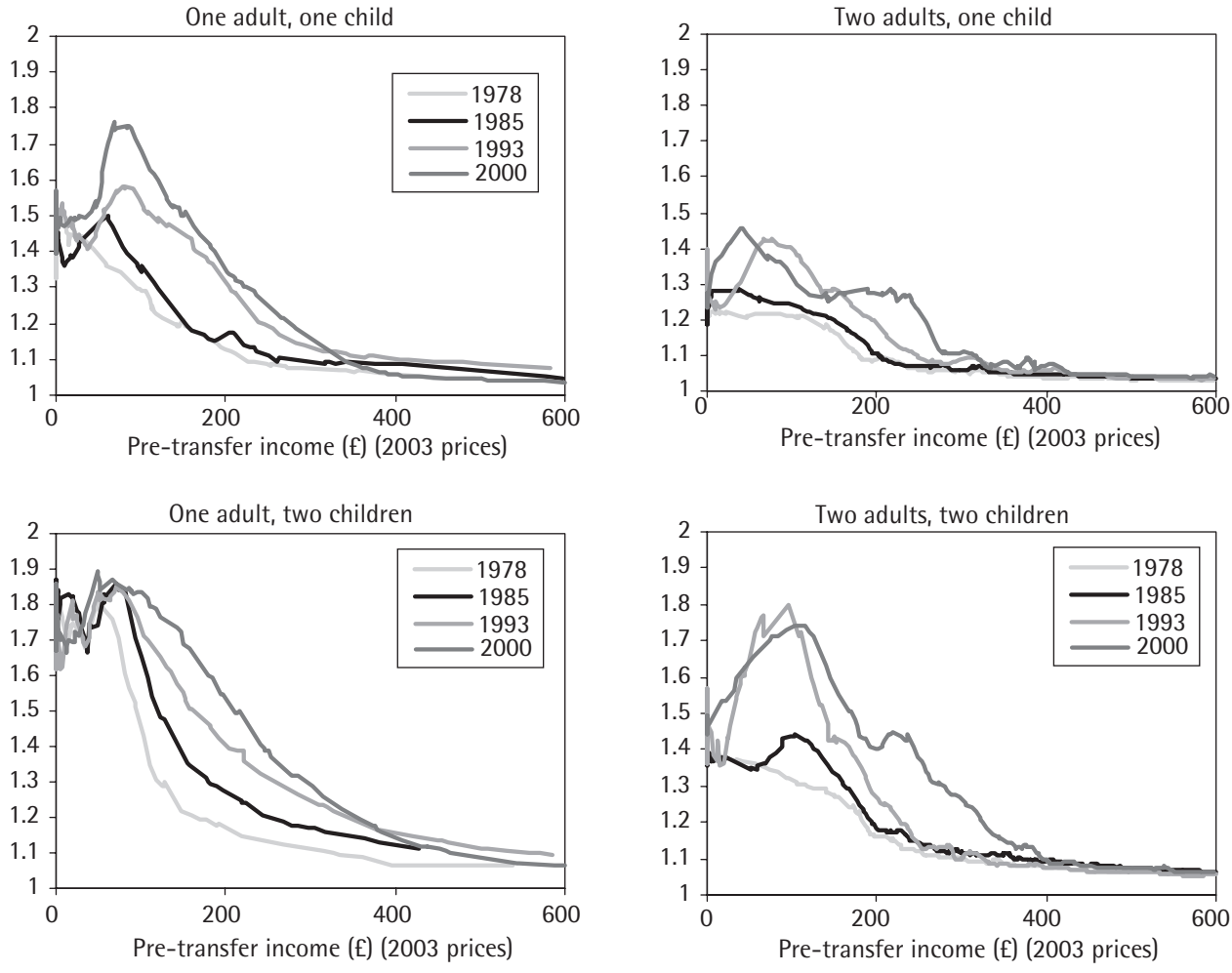
We can now compare these child-contingent support importance indices with the costs of children implicit in equivalence scales (adjusted for changes in prices over time, as shown in Figures 5.2 to 5.5). The results are shown in Figure 6.7 for various households according to their relative income.

Looking first at the equivalence scales themselves, Figure 6.7 echoes the findings in Chapter 5 that compared the equivalence scales with each other and over time:

- As shown in Table 5.4, the implied cost of children in the PSE scale is substantially higher than in the other two. The McClements and NRC scales imply very similar costs of children for couple households, while the McClements scale implies a lower cost of children than the NRC and PSE scales for lone-parent households.
- As shown in Figures 5.2 to 5.5, adjusting for relative price changes over time means that the equivalence scales should have fallen (on average) for lone parents and risen (on average) for couples with children. The three equivalence scales have very similar trends over time: this is because, by construction, they have all been affected in the same way by relative price changes[38].

[38] In fact, PSE and NRC move identically. McClements is slightly different because it varies by age of child; the lines shown are averaged over households with children of different ages.

Figure 6.6: Child-contingent support importance indices by income and household type in different years



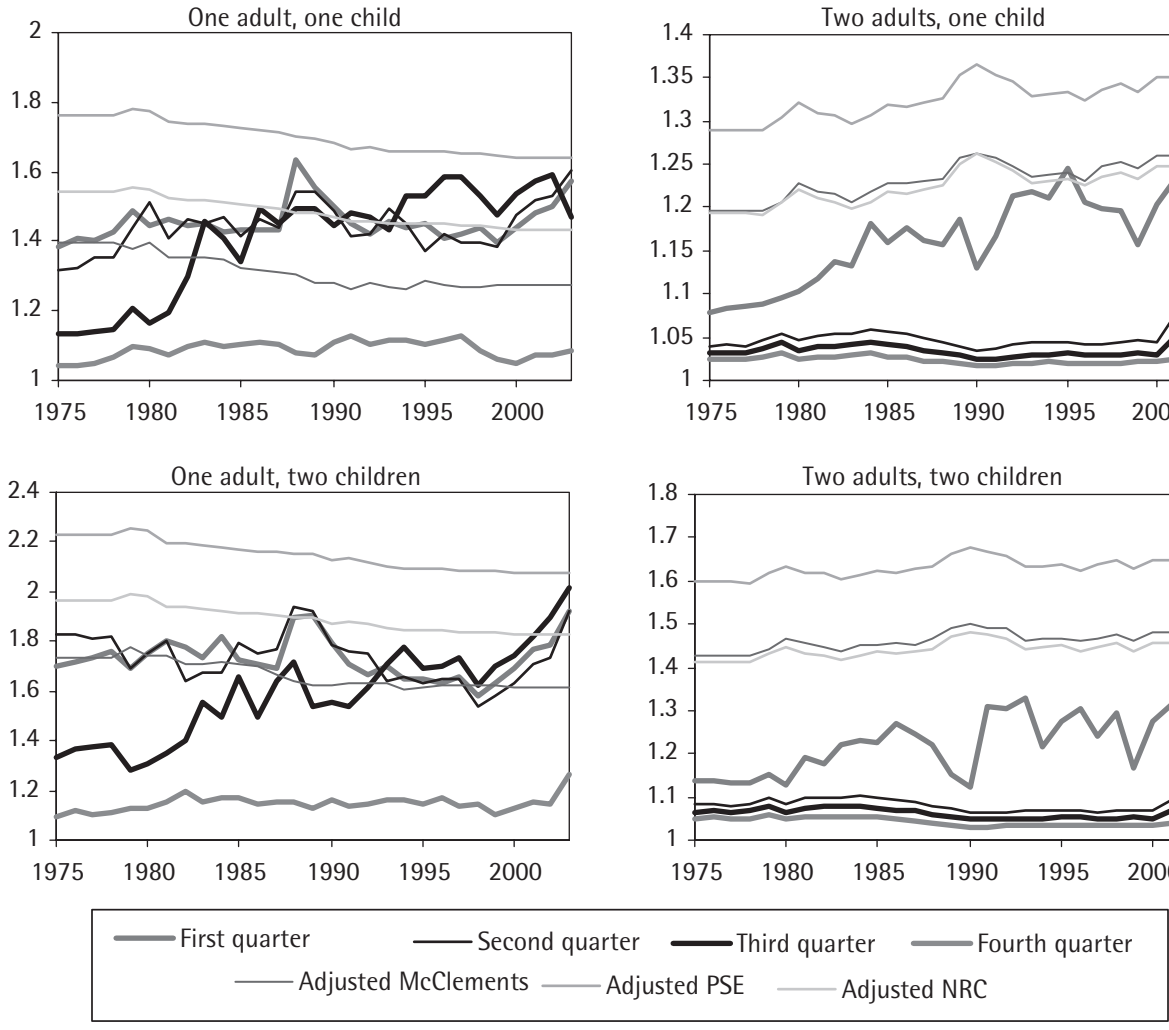
Notes: The child-contingent support importance index measures disposable income as a proportion of the disposable income a household would receive if the tax and benefit system did not recognise the presence of children. The figure shows non-parametric (Lowess) estimates.
Source: Authors' calculations using TAXBEN and the FES

We then compare these equivalence scales with what has happened to child-contingent support, as expressed in child-contingent support importance indices. Figure 6.7 shows the average importance index for each quarter of the income distribution for each household type, with the first quarter referring to the poorest quarter of households of a given type, and the fourth quarter the richest households.

As it did with the equivalence scales, Figure 6.7 summarises many of the findings from analysing the child-contingent support importance indices shown in more detail in Chapter 5. In particular, it shows that:

- In each year, child-contingent support importance indices generally fall for couples as income rises. This is not always true for lone parents, however. These results follow from the findings in Chapter 3 that, broadly speaking, child-contingent support in cash terms falls as income rises, so child-contingent support as a proportion of income will fall even faster. But the highest levels of child-contingent support are actually received by those with low, rather than no, private incomes (see Figures 4.3 and 6.6); these households are still among the poorest couples, but are far from the poorest lone parents, since a large proportion of lone parents have no private income at all.
- The importance of child-contingent support has risen over time for the poorest couples and the third quartile of lone parents. For the majority of households with children, however, although child-contingent support has risen in importance consistently since

Figure 6.7: Comparing child-contingent support importance indices and equivalence scales



Notes: 'First quarter' is the average equivalence scale among the poorest quarter of households of that type ('fourth quarter' similarly refers to the richest quarter). Equivalence scales for lone parents are relative to single adults with no children, those for couples are relative to couple households with no children.
Source: Authors' calculations using TAXBEN and the FES

1997, it either fell or fluctuated around a constant trend before then.

- The average value of the child-contingent support importance index among even the poorest households with children is always less than the costs of children implicit in the PSE scale. The average value of the importance index among the poorer half of lone parents is roughly equal to McClements (but lower than NRC) at the start of the period; by the end of the period, the average over the poorest three quarters exceeded both McClements and NRC.
- The average child-contingent support importance indices among all four income quartiles of couples with two children are always lower than McClements and NRC. Among couples with one child, the average child-contingent support importance indices among the poorest quarter matches McClements and NRC only towards the end of the period considered.
- Lone-parent households are, therefore, more likely than couples to receive child contingent support as a proportion of their income that is at least equal to the costs implied by equivalence scales. This difference, however, reflects both differences in pre-transfer incomes and in the structure of child-contingent support between couples and lone parents.

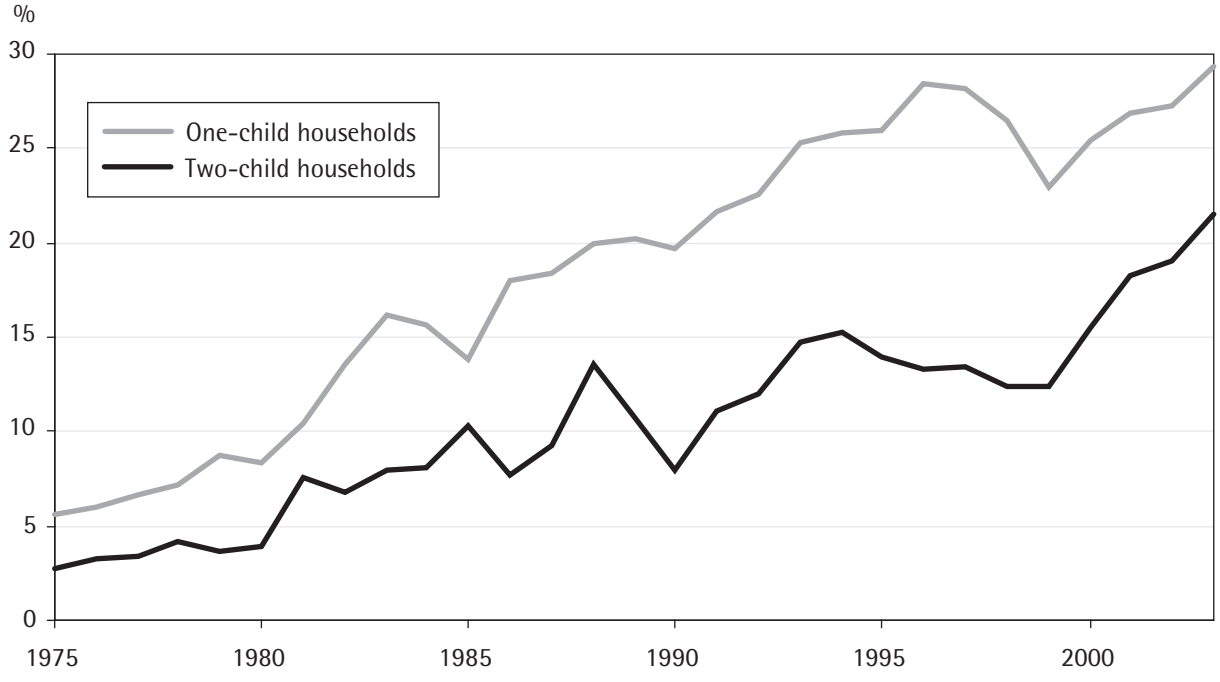
In Figures 6.8 to 6.10, we estimate how many households with children receive more child-contingent support, expressed by our importance index, than the cost of children implied by different equivalence scales. Consistent with the analysis above, this shows that:

- The proportion of households that receives more child-contingent support than the cost of children implied by different equivalence scales has risen gradually over time, and particularly quickly since 1999.
- For all three equivalence scales, the proportion of households whose child-contingent support covers the implied cost of children is low. However, the proportion whose importance index exceeds the PSE estimate of the cost of children is much lower than for the other two equivalence scales, simply because PSE implies a higher cost of children than the other scales do. This kind of head-count measure is clearly sensitive to the choice of equivalence scale.
- One-child households are more likely to receive child-contingent support in excess of the cost of children implied by different equivalence scales than two-child households – a gap that has widened over time before narrowing again recently. The gap will obviously reflect the different characteristics of households with one and two children, and is consistent with Figure 3.4, which showed that households with two children received, on average, less than twice as much child-contingent support as households with one child. Interestingly, however, the pattern persists even using the PSE and NRC scales which recognise that the first child in a household might cost more than later children.

Comparing child-contingent support with estimates of the costs of children implicit in equivalence scales for a household on the poverty line

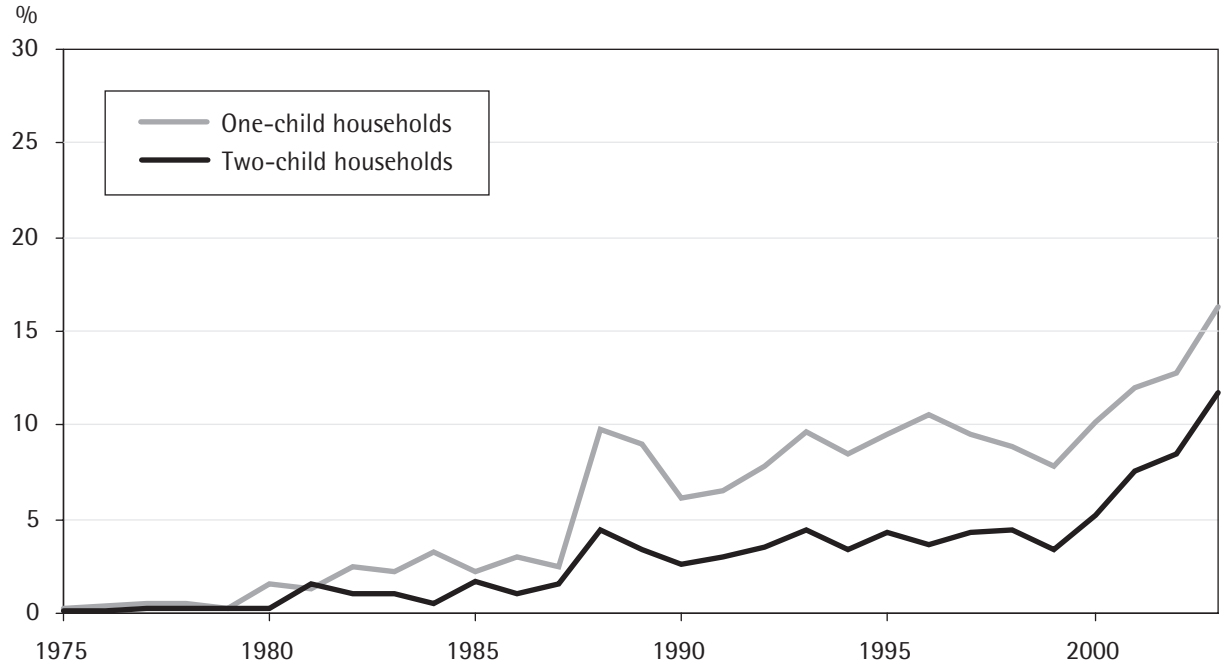
Equivalence scales are usually expressed as ratios, implying that the cost of a child is a constant proportion of household income, and so greater for richer households. This may be sensible in itself – richer households do need more money for their children to maintain the living standard they would otherwise have – but there are very strong and possibly undesirable implications to using this as a guide to policy.

Figure 6.8: Proportion of households whose child-contingent support importance index is higher than the cost of children implied by the McClements equivalence scale



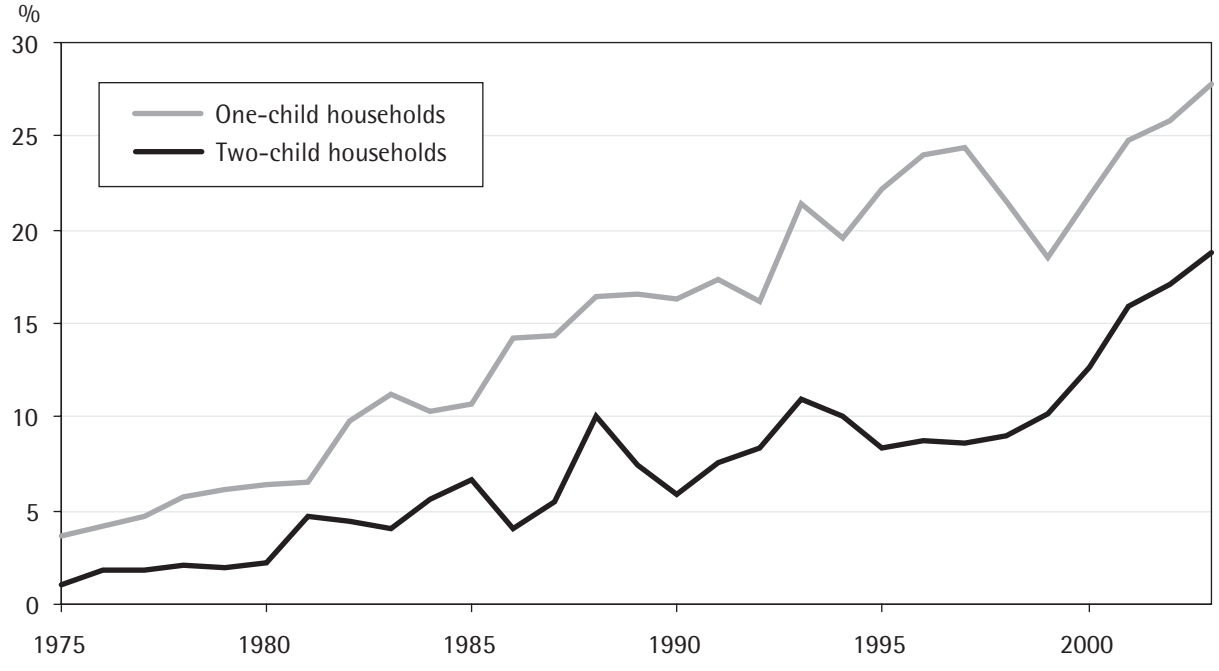
Note: Excludes households with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

Figure 6.9: Proportion of households whose child-contingent support importance index is higher than the cost of children implied by the PSE equivalence scale



Note: Excludes households with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

Figure 6.10: Proportion of households whose child-contingent support importance index is higher than the cost of children implied by the NRC equivalence scale



Note: Excludes households with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

This suggests that the 'maintenance of living standards' concept embodied in equivalence scales may not be the most relevant one for our purposes.

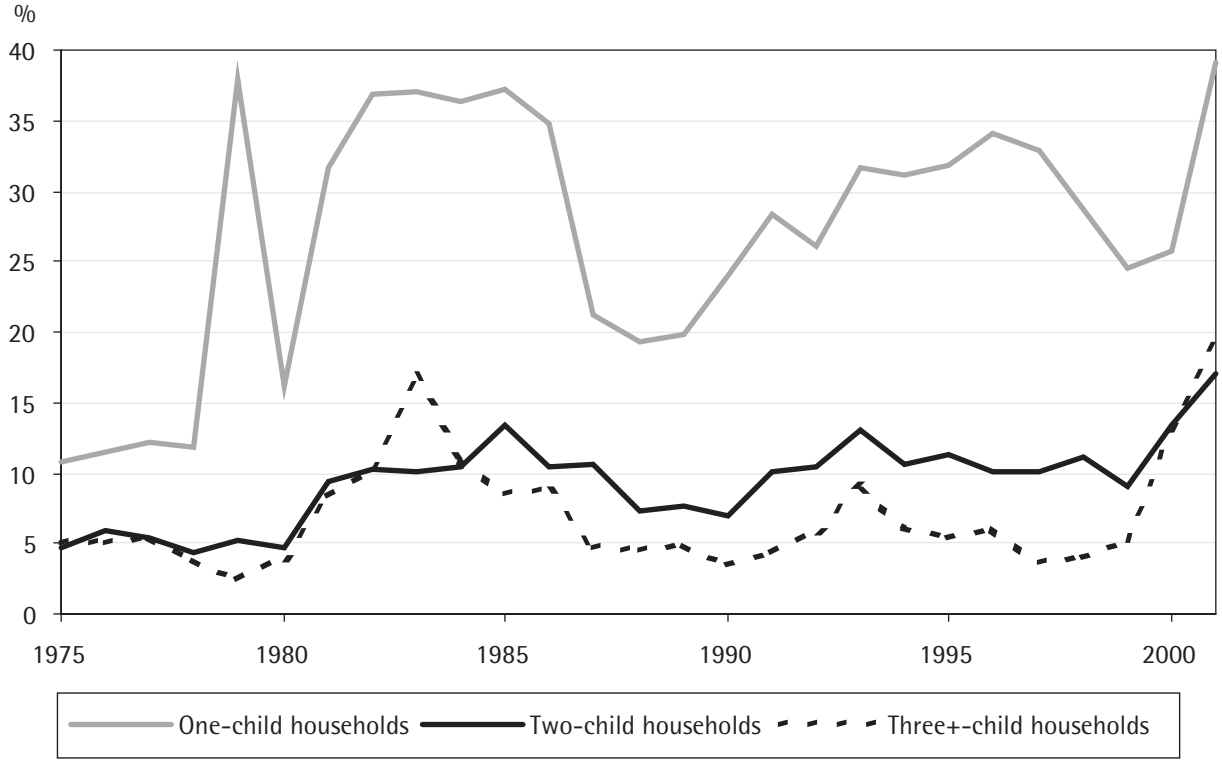
An alternative is to use equivalence scales to derive estimates of the costs of children in cash terms rather than ratios, by multiplying them by a particular level of household income. We have chosen to do this by multiplying 60% of median income in each year since 1975 by different equivalence scales, giving estimates of the cost of children implicit in equivalence scales at a widely used poverty line.

Figures 6.11 to 6.13 show the proportion of households whose child-contingent support is at least equal to the cost of children implied by the three equivalence scales for a household on the poverty line of 60% of median income (where median income is adjusted for household size using the relevant equivalence scale in each case).

The lines are rather erratic, most obviously the spike in 1979 for one-child households in Figure 6.11, for example. This is a common problem that arises when comparing bunched data (lots of households receive only child benefit, for example, or child benefit plus maximum income support) with a fixed point (the estimated cost of children): if the cost of children is very close to the level of support received by a large number of households, then small changes in the estimated cost of children can suddenly move many households from one side of the line to the other. It highlights the limitations of using a measure that classifies people as 'covered' or 'not covered' with no regard to how close they are to the boundary. Nevertheless, several patterns are discernible:

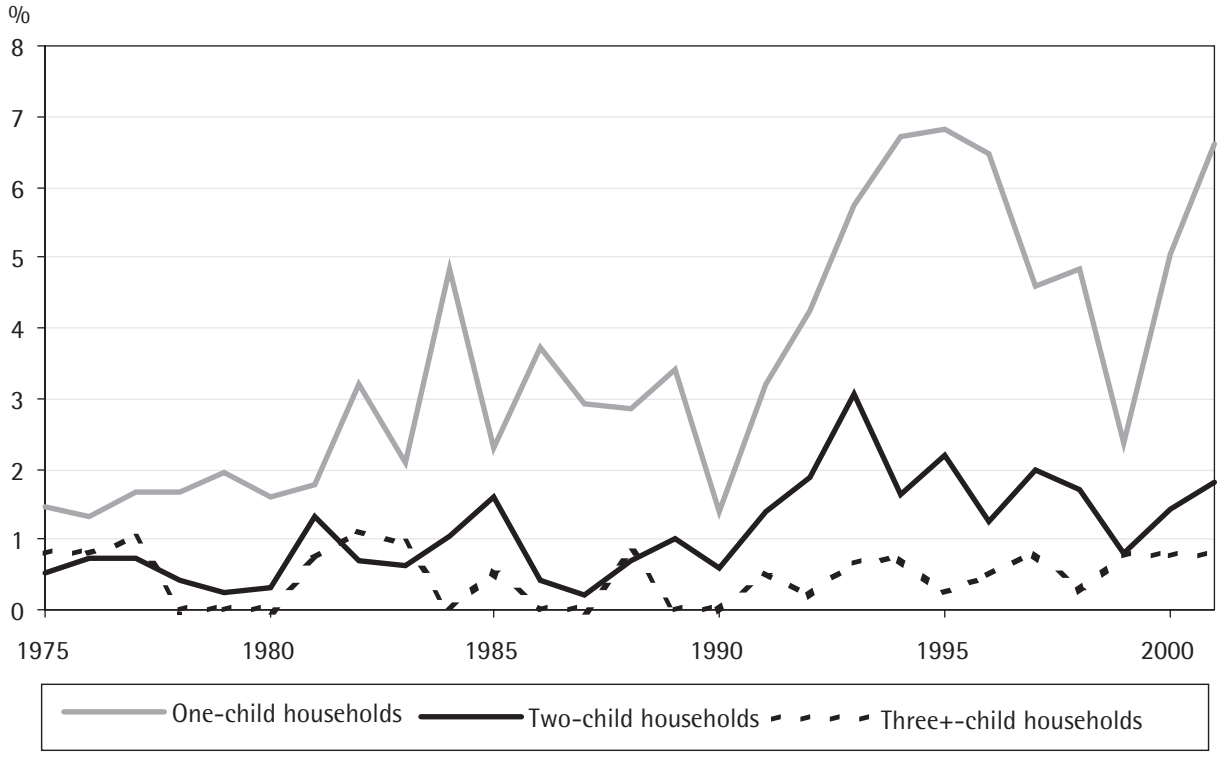
- One-child households are more likely than larger households to receive child-contingent support that exceeds the implied cost of their children. This is consistent with our earlier finding (Figure 3.4) that one-child households receive more support per child than larger households, and persists even using the PSE

Figure 6.11: Proportion of households whose child-contingent support is higher than the cost of their children implied by the McClements equivalence scale at the poverty line



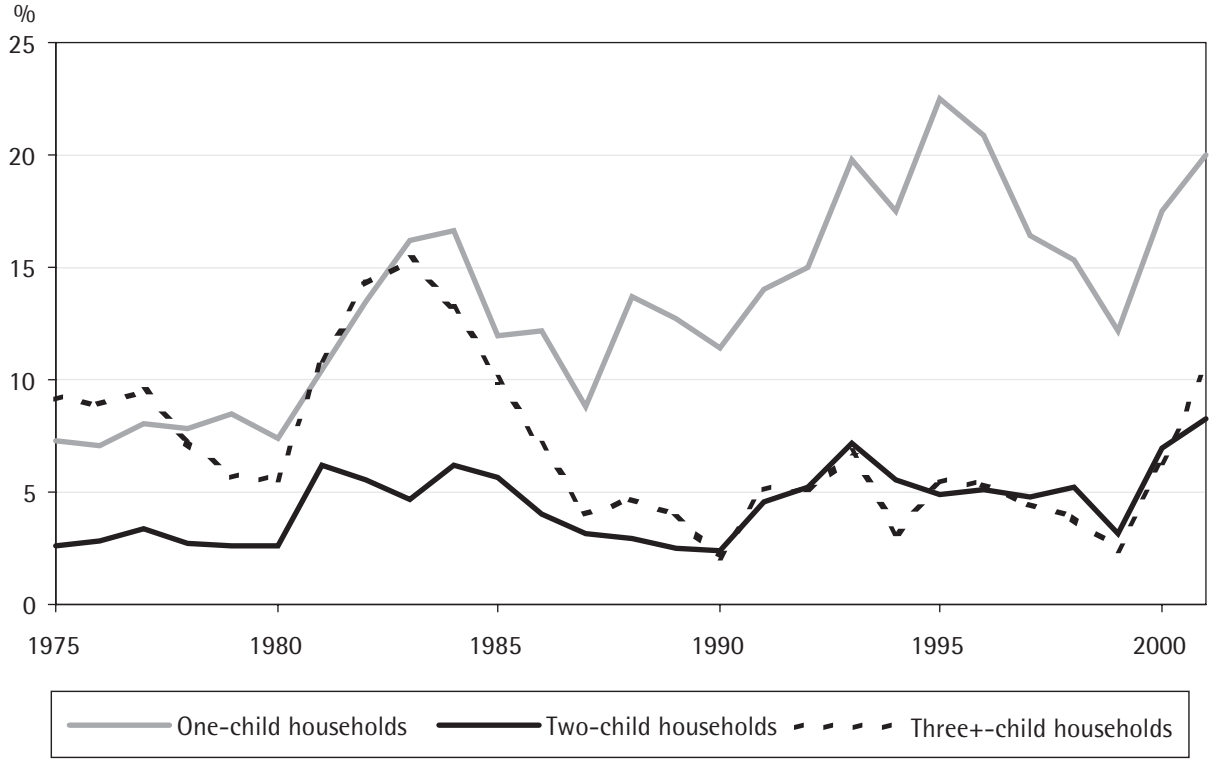
Note: Excludes households with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

Figure 6.12: Proportion of households whose child-contingent support is higher than the cost of their children implied by the PSE equivalence scale at the poverty line



Note: Excludes households with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

Figure 6.13: Proportion of households whose child-contingent support is higher than the cost of their children implied by the NRC equivalence scale at the poverty line



Note: Excludes households with more than two adults.
Source: Authors' calculations using TAXBEN and the FES

and NRC scales, which allow for some economies of scale in having children.

- Few households receive as much child-contingent support using the McClements and NRC scales as is implied by the PSE equivalence scale, reflecting the greater weight that the latter gives to children.
- For all household types, and using all equivalence scales, the proportion of households whose child-contingent support exceeds the implied cost of children for a household on the poverty line rises sharply after 1999, in keeping with our findings elsewhere[39]. Before 1999, there are different trends among different household types. The proportion of one-child and two-child households receiving more than the implied cost of children rose, but this is not true of larger households. Within these broad trends, there seem to be relative peaks of generosity of child-contingent support in the mid-1980s and mid-1990s, and relative troughs in the late 1980s and late 1990s.
- The magnitude of the rises over time are small compared with those seen in Figures 6.2 and 6.3, and this reflects the fact that the implied cost of children used in Figures 6.11 to 6.13 is linked to median income, rather than to inflation. In some ways, these figures are more comparable to the trend in earnings-indexed child-contingent support shown in Figure 3.2.

Conclusion

Chapters 3 and 4 showed how the levels of child-contingent support have varied over time and across household types, and explored how those changes have been partly driven by changes in the structure of child-contingent support, and partly by changes in the population, such as the increased proportion of children in lone-parent and low-income households. Chapter 5 presented some estimates of the costs of children using a number of different methodologies. This chapter has attempted to bring these findings together to compare the financial benefits linked to the presence of children to estimates of the financial costs or needs of children.

However, our aim has been frustrated by the paucity of studies of the costs or needs of children, as discussed in Chapter 5. In particular, there are few estimates of the direct costs of children, and those that exist are all specific to particular households (couples with children aged 4 and 11, for example) and to particular points in time. We have made use of these estimates, however, by assuming that the material needs of children have not changed over time. This assumption, which we would not necessarily defend, leads to estimates of the needs of children that appear extremely high in the late 1970s, but we have little alternative with the data available. Based on this assumption, less than 10% of households (and less than 5% of those households for whom the estimates were intended) received enough child-contingent support to cover the cost of their children on these measures for most of the period we consider. However, this proportion has increased substantially since 1999 to about 30% of two-child households, because the amount of child-contingent support has increased markedly since that time.

Estimates have also been made of the minimum income needed by households with children. Comparing these to household incomes is effectively defining a poverty line. We find that, among households with two young children, about 20% are poor on this measure when the original study was carried out (1999). If we use the same real level of income as a poverty line in the late 1970s – again, not an assumption we would necessarily seek to defend – almost half of households with two young children would be considered to have insufficient income. But, in 2003, assuming that the estimated needs of households with two children have not changed in real terms, then less than 10% of these households would have income below their minimum needs. This mirrors the falls in the numbers considered poor based on various absolute poverty measures in government low-income indicators (see DWP, 2003).

We have also examined estimates of the cost of children implicit in equivalence scales. Each of the three equivalence scales examined led to different conclusions about the proportion of households whose child-contingent support exceeds the cost of their children. For example, between a fifth and a quarter of households with one or two adults and one or two children –

[39] These series stop in 2001 because we are using actual HBAI data, the latest of which is for 2001/02, as reported in DWP (2003).

generally those with low incomes – now receive more in child-contingent support than is suggested by the McClements or the NRC scales as being the cost of their children, but this number is around 10% under the PSE scale. The changes over time, however, are similar whichever measure is used: the proportion of households whose support exceeds costs has risen gradually over time, and particularly quickly since 1999, but remains a minority. We also find that, even using equivalence scales that allow for economies of scale within households, one-child households are more likely than two-child households to have their costs covered, a gap that has grown over time but has begun to shrink again under the present government.

Lastly, we used equivalence scales to calculate a cash figure for the implied cost of children for households at a poverty line of 60% of median income, and compared this to child-contingent support. Patterns are harder to discern, and different equivalence scales give different results. One-child households are more likely to have the cost of their children covered than larger households, and this gap has grown over time.

7

Conclusion

One of the government's desires for the new tax credits was to "[help] parents to understand what they could expect to receive, and [facilitate] public debate about the correct level of support in the context of the government's aim to abolish child poverty within a generation" (HM Treasury, 1999, para 3.30). This statement suggested two intellectual challenges which provided the motivation for our project: to examine how the support that parents "could expect to receive" has changed, and to compare this with possible views of "the correct level of support".

The current Labour government is spending more on our children than ever before

It has been much easier to achieve our first aim than our second. Micro-simulation models tell us precisely how much child-contingent support households have been entitled to, and we can attempt to separate trends into those changes due to policy reforms, and those due to the changing characteristics and numbers of households with children. Total spending on child-contingent support has risen markedly since 1975 on any sensible measure, from £10 billion to £22 billion per year in today's prices, or from 1.5 to 2.0% of GDP, or from 3.4 to 4.7% of total government spending. Over this period, the number of children has fallen, and so spending per child has increased even faster, from £13.41 to £32.57 per week in today's prices. The current Labour government is spending more on our children than ever before, and the rise in spending on child-contingent support since 1999 – a 52% rise in real terms – is much greater than that due to policy changes in the previous 24 years.

More than 35 different programmes have been used at some point since 1975 to provide direct financial support to families with children. The most important trend has been the increasing importance of means-tested or income-related child-contingent support programmes, and the corresponding decline in the universal child benefit. Although remaining roughly constant in real terms, child benefit has declined as a proportion of total support from a high of 79% in 1979 to 42% in 2003 as the increases to child-contingent support have been delivered through programmes that relate child-contingent support to parents' incomes. The other change has been in the role of the tax system, which played a large role in delivering child-contingent support in the mid-1970s, was used little between 1979 and 1999, and has since re-emerged with the child tax credit to become the main delivery vehicle of child-contingent support, with the Inland Revenue now responsible for almost all child-contingent support.

The amount of child-contingent support to which a household is entitled depends on a range of household circumstances. Unsurprisingly, households with more children receive more child-contingent support on average, although they receive less per child. Lone parents, on average, receive more child-contingent support than couples with the same number of children. This mostly reflects their lower incomes. Policy changes meant that the proportion of total child-contingent support going to lone-parent households increased faster than the proportion of children in lone-parent households between 1975 and 1997, but it has declined since 1997: this means that policy changes under Labour have particularly favoured couple households, rather than lone parents. Changes to taxes and

benefits have meant that child-contingent support has increasingly emphasised the first child in a household, and favoured younger children over older children.

There are few estimates of the costs of children, but those that exist suggest that child-contingent support has grown faster than the costs

The present government hoped that the transparent structure of the new tax credits would encourage debate about what the "correct level of support" is. Our contribution to this debate is to compare what households receive in child-contingent support to estimates of the direct costs of children (a household's extra expenditure on goods and services necessitated by having children). This study made use of three types of estimates of the costs of children:

- the budget-standard or minimum-needs approach, which provides estimates of either the costs of children, or the total costs of a household with children;
- the costs of children implied by various equivalence scales expressed as a constant proportion of household income;
- the costs of children implied by various equivalence scales for a household on a poverty line.

None of these estimates of the costs of children was entirely satisfactory for our needs. All, however, suggested that the rise in child-contingent support was greater than increases in the costs of children.

A key drawback to the minimum-needs estimates is that they are only available for specific household types at specific points in time. In the report, it is assumed that the material needs of children have not changed over time. This assumption, which we would not necessarily defend, leads to estimates of needs of children that appear extremely high in the late 1970s, but we have little alternative with the data available. More frequent studies of the costs of children would reduce these limitations, however, and are perhaps even more important now that the government is directing such a high proportion of spending towards households with children.

Our main findings using these estimates are that, during the 1990s, when the three studies of the minimum costs of children were carried out, less than 10% of couples with two children received child-contingent support in excess of the estimated minimum. Around 75% of two-child families, however, had total disposable income in excess of an estimated 'low cost but acceptable' target income. *If these estimates of cost and need have not changed in material terms since then*, the proportion of households with children who receive child-contingent support in excess of the costs of their children has increased to around 30%, and fewer than 10% of households with two children now have incomes below the 'low cost but acceptable' threshold. Of course, if the costs of children have increased in material terms, then the record will not look as favourable as this.

Cost estimates based on equivalence scales, on the other hand, are not ideal for policy analysis: they embody a notion of 'cost' that implies children cost rich parents more than they cost poor parents, because equivalence scales measure what it costs to maintain a household's pre-child living standards. We found that between a fifth and a quarter of households with one or two adults and one or two children now receive more in child-contingent support than is suggested by the McClements scale as being the cost of their children. Other equivalence scales give different results, but the changes over time are the same for all scales: child-contingent support has become more important to the family budget, and the proportion of households whose child-contingent support exceeds the costs of children implied by key equivalence scales has risen gradually over time and particularly quickly since 1999, while remaining a minority. As a by-product to this work, we found that the McClements scale has not kept pace with changes in the costs of children relative to the costs of adults, so even if the McClements scale was accurate when it was first estimated, it is not accurate now.

Our third approach was to compare child-contingent support to the cost of children implied by equivalence scales for a household on a poverty line. This produces a cost estimate that rises over time in line with median household income, but at an arbitrary level (60% of median income). Trends in the proportion of households who receive more child-contingent support than

the implied cost of children for a household on the poverty line are complicated, and different equivalence scales give different results. But all the comparisons confirm that the increase in child-contingent support since 1999 is much more significant than the total increase between 1975 and 1999. Looking within households with children, one-child households are more likely than larger households, on average, to have the cost of their children covered, even using equivalence scales that allow for economies of scale within households, and this gap has grown over time. This confirms our finding earlier that changes in the tax and benefit system since 1975 have tended to favour one-child households.

Children are now a more important part of the tax and benefit system than they have been at any time since 1975. We hope this report has shown how their role has changed over the past generation, providing valuable context for the changes that will inevitably occur during the next one.

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A

Appendix A: Approach to modelling child-contingent support in TAXBEN

Our basic methodology is to use a tax and benefit model to estimate entitlement to child-contingent support for a representative sample of families with children.

Calculating entitlements on a representative sample of families

To calculate how much child-contingent support changes family income after taxes and benefits, we use the IFS tax and benefit micro-simulation model, TAXBEN[40], to create a counterfactual series of tax and benefit systems from 1975 to 2003 that do not recognise children in the tax and benefit system (in other words, a regime in which all child-contingent support is abolished).

We generally use a sample of families from the same period as the tax and benefit system that we are analysing, meaning that we model the child-contingent support received by families when they were surveyed as accurately as possible, paying attention to the timing of the tax and benefit changes. This is done by applying both the actual and counterfactual tax and benefit systems to families in the FES, an annual random cross-sectional survey of around 7,000 households a year. This tells us how much was received by each family in the FES for their children in each year since 1975.

The FES data used run from 1978 to 1999. Modelling of earlier and later years is achieved by using 1978 and 1999 data respectively, uprated appropriately (earnings indexed to average earnings, for example) and adjusted to give the correct number of children as described later. The desired tax and benefit systems can then be applied to these adjusted datasets. Inevitably, our estimates of the characteristics of families with children will not be precisely right between 1975 and 1977 and between 2000 and 2003.

All of our results are grossed up to population totals. Grossing factors are used partly to correct for non-response and non-representativeness of the sample with respect to the population as a whole, and partly so that the estimated number of people in the dataset reflects the true population size. The FES grossing factors, however, do not produce the right number of dependent children, so we adjust the usual grossing factors so that our model produces the number of dependent children in each year shown in Figure 2.1. We use administrative data on the number of children receiving child benefit as our estimate of the number of dependent children in Britain from 1981, a good estimate because take-up of child benefit is virtually complete. Before that date, we combine data on child benefit recipients with the official estimates of the number of children under 16 in the UK to estimate the number of dependent children in Britain (see Figure 2.1 for sources; full details are available from the authors). Using our grossing factors in preference to the usual FES grossing factors will not affect the estimates of average child-contingent support, but should improve the accuracy of estimates of aggregate child-contingent support.

[40] TAXBEN is described in Giles and McCrae (1995).

Using a tax and benefit model to calculate entitlements

A tax and benefit model typically tells us about entitlement to transfers rather than their receipt. Modelled entitlements differ from receipts for several reasons:

- errors in the recorded data if survey respondents confuse the names of benefits or give imprecise estimates of their income;
- differences in the time period (for example, surveys typically collect data on weekly income, and income tax requires incomes over a financial year);
- errors in the tax and benefit simulation process;
- fraud and error in the administration of programmes;
- non-take-up.

It might be misleading to describe a particular tax and benefit system as 'very generous' if it was based on entitlement to a benefit that had very low take-up, and so was not at all generous in reality. On the other hand, studying entitlements can be defended as a better representation of government intentions than the actual receipts of transfers. Another good reason for preferring entitlements in this project is that it would prove very difficult to calculate child-contingent support from data on what families receive, because it is very difficult to establish accurately, for example, where a family is receiving a tax allowance or tax credit paid through PAYE. Similarly, it would be almost impossible to separate out the part of a given benefit that was child-contingent from the part that was not without computing entitlements at some point.

It would theoretically be possible to impose a take-up function onto all child-contingent transfers. Take-up of child benefit is virtually universal. Take-up rates for means-tested benefits among families with children are below 100%. The benefits with the lowest take-up rates are the in-work benefits, particularly for couples. We have not allowed for non-take-up in our modelling results, for three reasons:

- Our tax and benefit simulation model does not significantly overpredict expenditure on the key means-tested benefits[41]. Take-up rates have not been estimated for the (large number of) other programmes that support children and are impossible to estimate for the new tax credits.
- Entitlements could be thought of as a better guide than receipts to the government's intentions when designing a tax and benefit system.

All our analysis looks at the financial position of households: we do not attempt to model any shifts in support between different members of the same household.

Limitations to the tax and benefit model

Appendix C gives details of how we simulate child-contingent support for each tax and benefit programme. There are some elements of the tax and benefit system that meet our definition of child-contingent support, but that we are not able to quantify correctly using TAXBEN because of the limitations of the underlying data (the FES). The limitations are as follows:

- We do not model entitlement to: guardian's allowance, child's special allowance, war widow's pension, war pension unemployability supplement, child maintenance bonus, widow's allowance, industrial death benefit, the discretionary Social Fund, mobility allowance/attendance allowance/disability living allowance received in respect of children, disabled child premiums in various means-tested benefits, nor mothers' (or fathers') future entitlement to the basic state pension (or widowed parent's allowance or state second pension) accrued as a result of child benefit receipt.
- We do not model rent restrictions in housing benefit: this is important as rent restrictions can vary by the number, age and gender mix of children.

[41] For example, Clark and McCrae (2001) look in detail at family credit and find that tax and benefit models have slightly lower estimates of expenditure than actual spending before non-take-up is built in. This is probably due to the fixed 6-month awards, meaning that families receiving family credit/working families' tax credit need not be eligible after they have successfully applied.

- We ignore the various phase-outs and transitional protections that are often introduced when benefits are abolished or made less generous: this constraint is mostly due to the data limitations, but it emphasises the impact of policy changes.
- Maintenance disregards and childcare subsidies/disregards are modelled only from 1988 and 1992 respectively.
- We cannot model the contributions condition for the maternity grant before 1982, so we assume all mothers with babies under one fulfil the condition, slightly overstating total child-contingent support.
- For simplicity, we treat the child tax credit as if it were fully operational from April 2003. This saves us from having to guess what the 2004 tax and benefit system would look like. As explained in HM Treasury (2002: annexe B), those families on income support who do not receive the child tax credit in 2003 will not be financially disadvantaged, so the only inaccuracy introduced by this assumption is the misclassification of spending in Figures 4.1 and 4.2, where, for 2003/04, we have wrongly classified some spending on means-tested benefits as tax credits expenditure.

All except the last two points lead us to underestimate total child-contingent support.

Housing costs and child-contingent support

An issue in comparing total child-contingent support is how to treat housing benefit. Owing to limitations in the data, we do not model rent restrictions to housing benefit, and so we over-estimate the incomes, and under-estimate the implied child-contingent support, of some housing benefit recipients. This is important as the likelihood that rent restrictions reduce housing benefit awards falls as family size rises.

In practice, we find that housing benefit itself does virtually nothing in the aggregate to support children (see figure 4.4 in Adam et al, 2002). This is because housing benefit provides some child-contingent support for some families, but reduces the aggregate level of child-contingent support for others, because of the way that benefits interact, and these two effects roughly cancel out when averaged across the whole population. The main bias introduced by including housing benefit but ignoring rent restrictions is that estimates of child-contingent support as a proportion of disposable income will be slightly too small.

On a similar theme, this report looks at income before housing costs are deducted. Choosing to measure income before deducting housing costs affects comparisons over time as social housing rents rose in real terms during the 1980s and 1990s without any real change in the quality of the housing stock as direct subsidies were reduced.

Similarly, we do not subtract childcare costs from incomes, but we do add childcare subsidies (childcare subsidies are not an important component of child-contingent support).

Decomposing the changes into those due to policy, and those due to socioeconomic changes

The estimates described here give the actual amount spent on child-contingent support as both government policy and the characteristics of families with children change over time. It is possible, however, to decompose observed changes into those due to discretionary policy changes alone, and those due to changes in the composition and characteristics of families with children.

Such a decomposition, while useful, ignores the interdependence of the two: families with children will alter their behaviour in response to policy changes, and governments have made policy changes in the light of changes in the characteristics of families with children. Nevertheless, we attempt the decomposition, by estimating child-contingent support paid under different years' tax and benefit systems with an unchanging sample of families with children. In order to do this sensibly, we have to adjust the incomes of families with children in our dataset so that they are appropriate to other years' tax and benefit systems. We do this by adjusting parents' earnings in line with average earnings growth over the relevant period, with similar adjustments for other income sources. This process enables us to decompose the overall changes in child-contingent support into those

that are a direct result of changes in policy and those that would have happened as the characteristics of families changed over time, even if the tax and benefit systems had not.

Because our true data only extend from 1978 to 1999, we can only perform this decomposition precisely over this period. Any estimated changes to child-contingent support between 1975 and 1978 and between 1999 and 2003 are due either to changes in policy or to changes in the number of children.

B

Appendix B: Deriving household-specific inflation rates

A price index is supposed to be representative, in some way, of all the price changes observed between two periods, and an inflation rate measures the change in a price index over some period (usually a year)[42].

We can think of a household-specific inflation rate as follows: suppose a survey tells us $\mathbf{q}^h_t$ (a list of quantities purchased by household h observed in period t), and we know the corresponding list of prices in the period in which they were surveyed ($\mathbf{p}_t$) and in all other periods. The simplest measure of inflation in the period to t+1 for this household (denoted by π^h_{t+1}) is given by:

$$1+\pi^h_{t+1} = \frac{\mathbf{p}'_{t+1}\mathbf{q}^h_t}{\mathbf{p}'_t\mathbf{q}^h_t}$$

This is the Laspeyres price index formula and is the measure we use in this report. It compares the cost of buying the observed set of commodities ($\mathbf{q}^h_t$) at two different sets of prices: the contemporaneous set ($\mathbf{p}_t$) and the set prevailing in the following period ($\mathbf{p}_{t+1}$). The dataset that we use was first analysed in Crawford and Smith (2002).

The Laspeyres price index is not a true cost-of-living index, and the inflation rate derived from it is not a true change in the cost of living. Economists think of a cost-of-living index as measuring the average change in prices with reference not to a fixed list of demands, but to a fixed standard of living. Inflation measured by the Laspeyres price index is the upper bound of the change in the true cost-of-living index, taking the base-period welfare as the reference level. Using a Laspeyres index to measure inflation for each household is simple, however: it can be applied directly to our data and it can be regarded as an upper bound on the true cost-of-living index for each household (if we want to assume that such a notion is meaningful).

The price data used by Crawford and Smith are the monthly section indices of the RPI. These are the most disaggregated, comprehensive set of price data published in the UK (in order to calculate the corresponding demands from the household data, we have to aggregate up from our 300 commodities to 69 categories). The data only vary over time: no regional disaggregation, for example, is published. They also say nothing about whether the prices actually paid by rich and poor households for the same goods are different or have changed differentially over the period: we assume that all households face the same prices, and so the differences in inflation rates across different households are generated by differences in what they spend their money on.

There are two broad approaches to calculating average inflation rates across groups of households: democratic and plutocratic. Democratic indices give equal weight to households in the sample, and plutocratic indices weight households according to their share of total expenditure, which means that richer households receive more weight: if richer households experience a higher inflation rate than poorer households, the plutocratic mean will be larger than the democratic mean. We concentrate on the democratic mean (the UK RPI is a plutocratically weighted index).

[42] A complete review of price indices can be found in the papers collected in Diewert and Nakamura (1993) and the references therein.

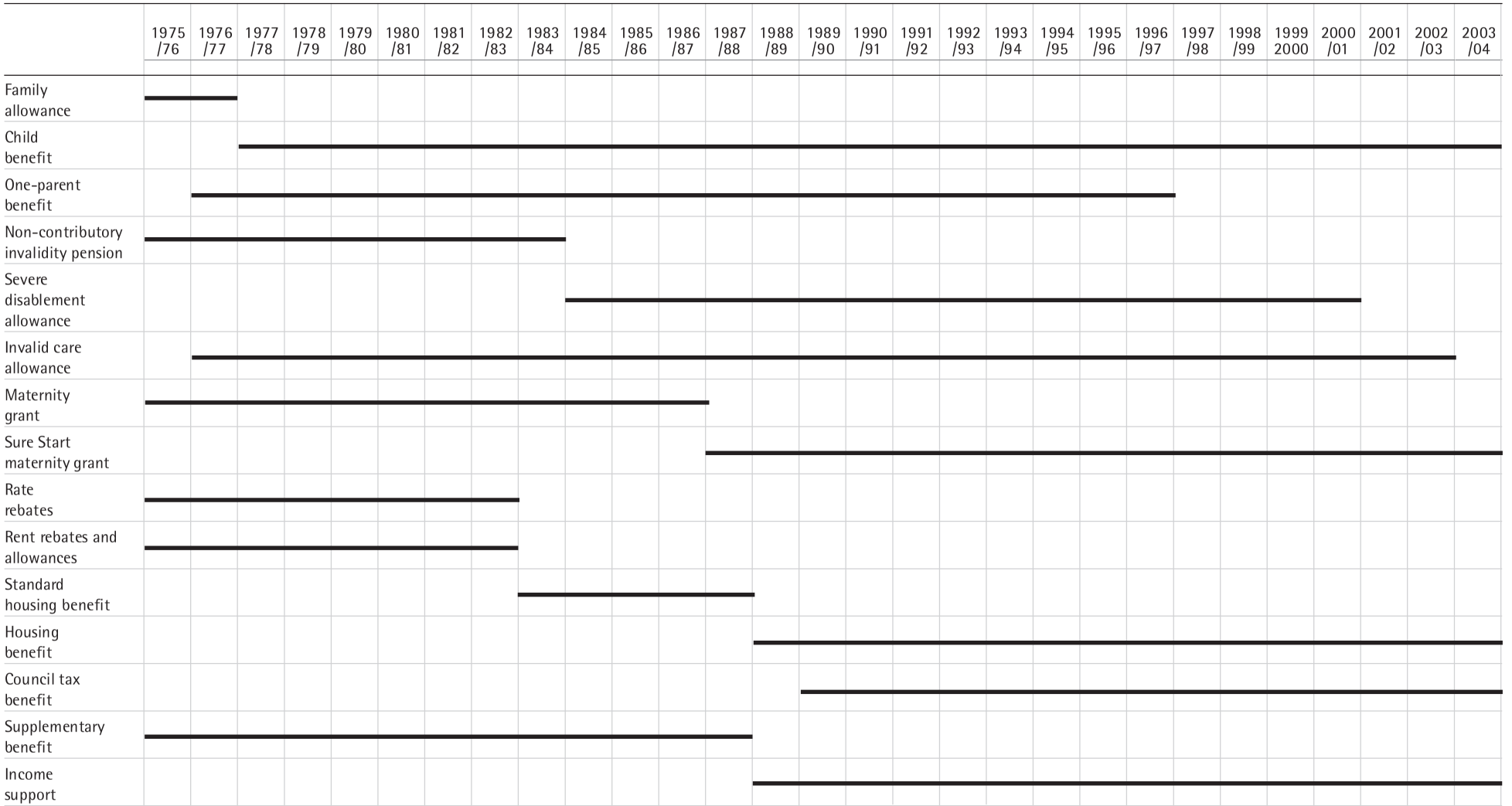
The quantity data used by Crawford and Smith are from the FES. As well as collecting information about the characteristics of each household, the FES collects detailed expenditure information. This is recorded mainly by members of each household keeping a diary record of what they spend over two weeks, but for some durable goods the information is recorded via retrospective recall and the time frame is longer[43]. In the FES, the information is aggregated to the household level and averaged across the two-week period.

More details on the data and the method used to construct the price indices can be found in Crawford and Smith (2002).

[43] Note that this means the index produced in Crawford and Smith (2002) is not *exactly* a Laspeyres index. However, the coverage of retrospective recall questions is very minor in terms of the share of total household spending, so the measure should correspond *very closely* to a Laspeyres index.

Appendix C: Support for families with children since 1975

Support for families with children: a timeline



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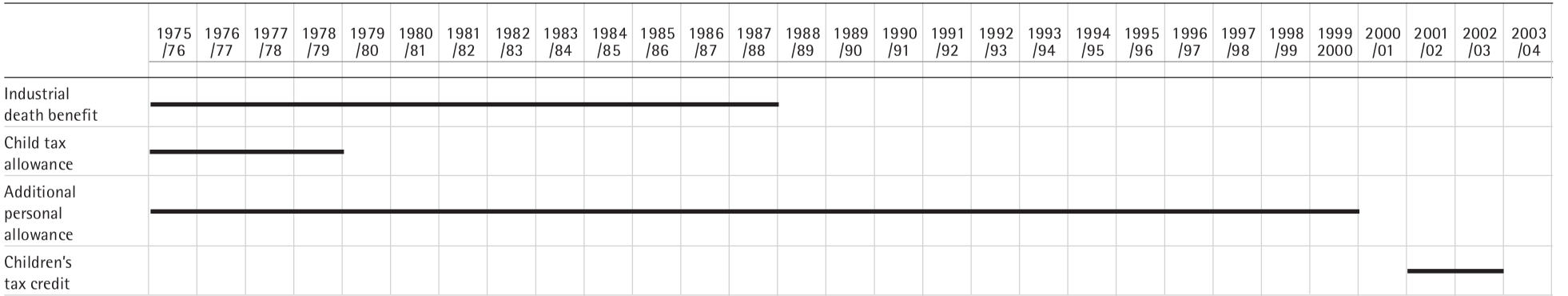
1997 /98
1998 /99
1999 2000
2000 /01
2001 /02
2002 /03
2003 /04
Income-based jobseeker's allowance
Family income supplement
Family credit
Working families' tax credit
Working tax credit
Child tax credit
Child maintenance bonus
Unemployment benefit
Sickness benefit
Invalidity benefit
Incapacity benefit
Attendance allowance
Mobility allowance
Disability living allowance
Retirement pension
Widow's allowance
Widowed parent's allowance



Note: This table shows programmes in existence and providing support for children at the end of the financial year. Some changes of name are not shown here. For details, see the notes to the table below.

Support for families with children since 1975: detail

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
CURRENT PROGRAMMES as at 2003											
Child tax credit	4/03- (replaced children's tax credit and parts of WFTC, and replaces parts of IS and income-based JSA from 4/04)	No	Yes	No	Joint	Paid direct into bank account	Main carer	No	Yes – lower rate (or nothing, depending on income) for subsequent children	Higher for children under 1 year old	Set to zero
Working tax credit	4/03- (replaced part of WFTC)	No	Yes	No	Joint	Paid through wages (employees) or paid direct (self-employed). Childcare element paid direct	Worker (couple can choose if both working). Childcare element paid to main carer	Yes – for couples, only childcare element provides child-contingent support. Lone parents receive additional WTC	Yes – childcare element has lower maximum for second child and is not payable for third child and beyond	No	Set childcare element to zero; set lone parent's rates equal to single person's; set age and working hours conditions equal to those for childless people
Child maintenance bonus	4/97-	No	Yes (must have been on IS or income-based JSA before returning to work or increasing hours/pay)	No	Joint	Paid as benefit	Main carer	No	No	No	Not modelled (so generosity under-estimated)

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Income-based jobseeker's allowance	10/96- (formerly part of IS) (family and lone-parent premiums and child allowances abolished from 4/04)	No	Yes	Yes (but not paid until start work)	Joint	Paid as benefit	Couple chooses which partner claims and must look for work	Yes – see Note 1	Yes – lower rate for subsequent children	Lower for younger children until 4/00; remains higher for 17- and 18-year-olds	See Note 2
Incapacity benefit	4/95 (replaced sickness benefit and invalidity benefit) (child additions abolished for new claimants from 4/03)	Yes	Dependent-child increase not payable if partner is a high earner	Yes (except for some parts, including child-related part)	Two individual tests	Paid as benefit	Claimant (ie, incapacitated person)	No	Lower for first child. Partner's means test more stringent for earlier children	No	Set child additions to zero
Disability living allowance	4/92- (replaced mobility allowance and part of attendance allowance)	No	No	No	N/A (no means test	Paid as benefit	Couple chooses	No	No	Mobility component only available from age 5 (age 3 for lower rate since 4/01)	DLA received on behalf of children not modelled separately and so not set to zero (so generosity under-estimated)
Council tax benefit	4/90- (4/89 in Scotland) (formerly part of housing benefit)	No	Yes	No	Joint	Tax cut	Couple chooses	Yes – see Note 1	Yes – lower rate for subsequent children	Lower for younger children until 4/00; remains higher for 17- and 18-year-olds	See Note 2

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Income support	4/88- (replaced supplementary benefit) (family and lone-parent premiums and child allowances abolished from 4/04)	No	Yes	No (except workers on strike, or unemployed until 10/96)	Joint	Paid as benefit	Couple chooses (certain disability premiums require disabled person to claim). Before 10/96, whoever claimed had to sign on, so strong incentive for partner exempt from signing on (eg, disabled person) to claim	Yes – see Note 1	Yes – lower rate for subsequent children	Lower for younger children until 4/00; remains higher for 17- and 18-year-olds	See Note 2
Housing benefit	4/88- (replaced standard HB, certificated HB and HB supplement)	No	Yes	No	Joint	Paid as benefit (private tenants) or rent reduction (social renters)	Couple chooses – but amount may depend on who claims (eg, if one partner is exempt from local reference rent rules)	Yes – see Note 1	Yes – lower rate for subsequent children	Lower for younger children until 4/00; remains higher for 17- and 18-year-olds	See Note 2
Sure Start maternity grant	4/87- (replaced maternity grant)	No	Yes (must be on qualifying benefit or tax credit to claim)	No	Joint	Paid as benefit	Couple chooses	No	No	No	Set to zero

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Child benefit	4/77- (replaced family allowance)	No	No	No	N/A (no means test)	Paid as benefit	Couple chooses (if both live with/maintain child); priority goes to parent child is living with, or mother if living with both	Higher lone-parent rate from 4/97 (but closed to new claimants from 6/98)	Yes – lower rate for subsequent children from 4/91. Weighted towards subsequent children 4/77-3/78	No	Set to zero
Invalid care allowance	7/76- (child additions abolished for new claimants from 4/03)	No	Yes (earnings cap for claimant) (from 11/84, dependent-child increase not payable if partner is a high earner)	Yes (except for child-related part)	Two individual tests	Paid as benefit	Claimant (ie, carer)	No	Yes – see Note 3	No	Set child additions to zero
Attendance allowance	12/71- (not available for children since 4/92)	No	No	No	N/A (no means test)	Paid as benefit	Mother	No	No	Not available to under-2s	Attendance allowance received on behalf of children not modelled separately (so generosity under-estimated)
Basic retirement pension	7/48- (child additions abolished for new claimants from 4/03)	Yes	Yes (from 11/84, dependent-child increase not payable if partner is a high earner)	Yes (except for child-related part)	Depends on partner's income only	Paid as benefit	Claimant (if both are pensioners, they choose)	No	Yes – see Note 3	No	Set child additions to zero

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Widowed parent's allowance	7/48- (child additions abolished for new claimants from 4/03)	Yes (assessed on late spouse's contributions)	Yes (from 11/84, dependent-child increase not payable if partner is a high earner)	Yes (except for child-related part)	Depends on partner's income only	Paid as benefit	Claimant (ie, widow(er))	No	Yes – see Note 3. Lower rate for subsequent children since 4/01 because equivalent benefit for childless became payable for only one year	No	Set child additions to zero
PROGRAMMES NO LONGER AVAILABLE											
Children's tax credit	4/01-3/03 (replaced married couple's allowance and additional personal allowance)	No	Yes (and only available to taxpayers)	No	Depends on income of higher earner	Reduction in tax liability	Higher earner if higher-rate taxpayer present, otherwise couple can choose between taxpayers	No	Yes – nothing for subsequent children	Under-16s only; doubled for first year of child's life from 4/02	Set to zero
Working families' tax credit	10/99-3/03 (replaced family credit)	No	Yes	No	Joint	Paid through wages (employees) or as benefit (self-employed, non-workers)	Couple chooses	Childcare tax credit requires partner (if any) to be working	Yes – childcare tax credit has lower maximum for second child and is not payable for third child and beyond	Higher for 17- and 18-year-olds	Set all credits to zero
Severe disablement allowance	11/84-3/01 (replaced non-contributory invalidity pension)	No	Yes (dependent-child increase not payable if partner is a high earner)	No	Depends on partner's income only	Paid as benefit	Claimant (ie, disabled person) unless unable to act for him/herself	No	Yes – see Note 3	No	Set child additions to zero

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Additional personal allowance	4/69-3/00	No	Yes (and only available to taxpayers)	No	Individual	Tax cut	Couple can choose between taxpayers	No	Yes – nothing for subsequent children	No	Set to zero
Family credit	4/88-10/99 (replaced family income supplement)	No	Yes	No	Joint	Paid as benefit	Mother	Childcare disregard required any partner to be working	Yes – lower for subsequent children	Lower for younger children	Set all credits to zero
One-parent benefit	4/76-3/97	No	No	No	N/A (no means test)	Paid as benefit	Whoever child is living with	Only available to lone parents, but overlapping benefit rules (see notes) mean those eligible for OPB and some other benefits are only paid once in respect of first child	Yes – nothing for subsequent children	No	Set to zero
Unemployment benefit	7/48-9/96 (child additions abolished in 11/84 for claimants under pensionable age)	Yes	Yes (from 11/84, dependent-child increase not payable if partner is a high earner)	Yes (except for child-related part)	Depends on partner's income only	Paid as benefit	Claimant (ie, unemployed person)	No	Yes – see Note 3	No	Set child additions to zero

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Invalidity benefit	9/71-3/95	Must have been on sickness benefit (which is normally contributory) first	Yes (from 11/84, dependent-child increase not payable if partner is a high earner)	No	Depends on partner's income only	Paid as benefit	Claimant (ie, disabled person) unless unable to act for him/herself	No	Yes – see Note 3	No	Set child additions to zero
Sickness benefit	7/48-3/95 (child additions abolished in 11/84 for claimants under pensionable age)	Yes (but also available without contributions following certain work injuries)	Yes (from 11/84, dependent-child increase not payable if partner is a high earner)	No	Depends on partner's income only	Paid as benefit	Claimant (ie, sick person) unless unable to act for him/herself	No	Yes – see Note 3	No	Set child additions to zero
Mobility allowance	1/76-3/92	No	No	Taxable until 4/82	Joint	Paid as benefit	Couple chooses	No	No	Not payable in respect of under-5s	Mobility allowance received on behalf of children not modelled separately (so generosity under-estimated)
Standard housing benefit	4/83-3/88 (replaced rent rebates/allowances and rate rebates)	No	Yes	No	Joint	Tax cut (ratepayers), rent reduction (social renters) or cash (private renters)	Couple chooses (local authority can decide if both claim)	Yes – higher rate for first child if lone parent	Yes – lower rate for subsequent children if lone parent	No	Set child's needs allowance to zero and lone parent's needs allowance equal to single person's needs allowance

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Family income supplement	8/71-3/88	No	Yes	No	Joint	Paid as benefit	Couple chooses, but must be working full-time	Different work requirements for couples	Yes – lower rate for subsequent children	Lower for younger children from 11/85	Set to zero
Supplementary benefit	11/66-3/88	No	Yes	From 7/82, taxable if paid in lieu of unemployment benefit	Joint	Paid as benefit	See Note 4	No	No	Lower for younger children. Families with children under 5 automatically entitled to heating additions	See Note 5
Industrial death benefit	7/48-3/88	No (but depends on the deceased having been an employee)	No	Main benefit taxable, including higher permanent rate for parents, but child allowance tax-free	N/A (no means test)	Paid as benefit	Claimant	No	Yes – lower rate for subsequent children. Lower for first child for lone parents because overlaps with OPB	No	Not modelled (so generosity under-estimated)
Widow's allowance	7/48-3/88	Yes (assessed on late husband's contributions)	Yes (from 11/84, dependent-child increase not payable if partner is a high earner)	Yes (except for child-related part)	Depends on partner's income only	Paid as benefit	Claimant (ie, widow)	Only available to widows	Yes – higher for first child until 4/78. Lower for lone parents because overlaps with OPB. Partner's means test (from 11/84) more stringent for earlier children	No	Not modelled (so generosity under-estimated)

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Maternity grant	7/48-3/87	Contributory until 7/82	No	No	N/A (no means test)	Paid as benefit	Mother	No	No	No	Set to zero. Contribution conditions before 7/7/82 not modelled (so generosity over-estimated)
Non-contributory invalidity pension	11/75-10/84	No	No	No	N/A (no means test)	Paid as benefit	Claimant (ie, invalid)	No	No	No	Set child additions to zero
Rent rebates and allowances	7/72-3/83	No	Yes	No	Joint	Rent reduction (social renters) or cash (private renters)	Tenant	Yes – higher rate for first child if lone parent	No	No	Set child's needs allowance to zero and lone parent's needs allowance equal to single person's needs allowance
Rate rebates	11/66-3/83	No	Yes	No	Joint	Tax cut	Householder	Yes – higher rate for first child if lone parent	No	No	Set child's needs allowance to zero and lone parent's needs allowance equal to single person's needs allowance

Support for families with children since 1975: detail (contd.../)

Programme	Dates	Contributory?	Depends on income?	Taxable?	Joint or individual assessment	Payment method	Recipient	Depends on number of adults?	Weighted towards first child?	Depends on age of child?	Modelling strategy
Child tax allowances	1909-3/79	No	Yes (flat-rate but only relevant to taxpayers)	No	Joint	Tax cut	Father	No	No – except higher for first child (4/77-3/78)	Lower for younger children	Set to zero
Family allowance	8/46-3/77	No	Yes (flat-rate, but tax and clawback make it worth less to taxpayers)	Yes (receipt of family allowance also triggered reduction in tax allowances – clawback)	Joint	Paid as benefit	Mother	No	Nothing for first child	No	Set family allowance and clawback to zero

Notes to the table

The table lists the majority of programmes that have provided child-contingent support, as defined elsewhere in this report. Some of the details recorded are applicable to the benefit as a whole and some are applicable only to the child-related part.

Notes common to table entries

1. Higher premium for lone parents, broadly replicating OPB/CB premium (closed to new claimants since 6/98). Higher earnings disregard for lone parents. Higher personal allowance for lone parents aged 18-24.
2. Set family and lone-parent premiums, child allowances and value of free school meals to zero; set lone parent's personal allowance and earnings disregard equal to single person's. Disabled child premium not modelled (so generosity under-estimated).
3. Higher for first child until 4/78 because family allowance, unlike child benefit, was weighted against first child. Lower for first child from 4/92 to claw back some of higher CB rate paid in respect of first child as of 4/91, and before 4/92 as well for lone parents because of overlapping with OPB (see overlapping benefit rule (a) below). Partner's means test (from 11/84) more stringent for earlier children.
4. If receiving FIS, the person whose job qualifies the couple for FIS is the claimant. Otherwise, there is a set of conditions for who can be a claimant; if both or neither partner satisfies these, the couple can choose, but there are incentives for a partner who would not have to sign on to be the claimant.
5. Set child additions, under-5s' heating additions and value of free school meals to zero; lone parents no longer passported to the long-term rate on the basis of their children; lone parent's earnings disregard set equal to single person's. Increases for children in need of constant supervision due to disability etc not modelled (so generosity under-estimated).

Acronyms

CB	child benefit	IS	income support
DLA	disability living allowance	JSA	jobseeker's allowance
FC	family credit	OPB	one-parent benefit
FIS	family income supplement	WFTC	working families' tax credit
HB	housing benefit	WTC	Working Tax Credit

Definitions

Working families' tax credit includes childcare tax credit and disabled person's tax credit; family credit includes disability working allowance from 1992. Non-contributory invalidity pension includes housewife's non-contributory invalidity pension. Sure Start maternity grant was maternity expenses payment until 2000; council tax benefit was community charge benefit until 1993; one-parent benefit was child benefit increase until 1981 and child interim benefit in 1976. Widowed parent's allowance was widowed mother's allowance (for which men were not eligible) until 2001. Widowed mother's allowance remains payable for existing recipients.

Clarifications and qualifications

Income support, housing benefit, council tax benefit and income-based jobseeker's allowance are weighted towards the first child because of the family premium, and more so for 18- to 24-year-old parents because for them the lone parent's personal allowance is greater than the single person's. There are no child-dependent additions to basic retirement pension for Category D claimants (those aged 80 or over and not entitled in categories A or B). Some programmes labelled as 'no longer available' may continue to pay benefits to existing claimants.

Overlapping benefit rules

(a) Until 4/99, the one-parent benefit/lone-parent rate of child benefit was not payable if the claimant was receiving a child-dependent increase in widowed mother's allowance, invalid care allowance, industrial death benefit or retirement pension; similarly, until 4/00 (first) child-dependent additions in severe disablement allowance, incapacity benefit, sickness benefit, invalidity benefit and unemployment benefit were reduced by the amount of any OPB/lone-parent rate of CB received. This is no longer the case: for all these benefits, the lone-parent rate of CB remains payable (where appropriate), but if it is received, then the amount of (first) child-dependent addition payable in the other benefit is reduced. Since this reduction is smaller than the CB lone-parent premium whereas previously the whole lone-parent premium/OPB was lost, this means that any weighting away from the first child in other benefits caused by this loss has been mitigated.

(b) If a claimant is entitled to more than one non-means-tested benefit other than child benefit (incapacity benefit, invalid care allowance, severe disablement allowance, unemployment benefit, retirement pension, widow's allowance, widowed parent's allowance, non-contributory invalidity pension, sickness benefit and invalidity benefit in the table), then only the highest rate will be received. This also applies to child-dependent increases for these benefits.

(c) Note that many of the benefits in the table count as income for the purposes of means-tested benefits, so that their value can be offset completely. It may still be worth claiming such benefits, however, since they can act as passports to certain income support premiums etc. The treatment of benefits in means tests varies both between benefits and over time; for individual cases, see Child Poverty Action Group (CPAG, various a; various b).

Exclusions

Maternity allowance and statutory maternity pay excluded. Guardian's allowance (a child benefit supplement paid to orphans' guardians) and child's special allowance (a contributory benefit paid to lone divorced mothers whose maintenance-paying ex-husbands have died) excluded. War widow's pension and (war pension) unemployability supplement (both higher for parents) excluded. Most in-kind benefits (sight tests, optical appliances, milk, vitamins and exemptions from dental and prescription charges) excluded. Widowed parent's allowance and state pension entitlement accrued as a result of receiving child benefit excluded. The discretionary Social Fund excluded. Rent restrictions in housing benefit excluded.

Sources: Authors' interpretations of CPAG (various a; various b; various c); Tolley (various a; various b); Adam and Shaw (2003); Leicester and Shaw (2003)