

# Making child benefits more universal is a good idea, badly timed

*Because of the current threshold of the Child Benefit, only 50 per cent of families would receive financial support for their children by the year 2040. The Conservatives have proposed a move towards a more universal approach, and while there are very good reasons to support universalism in the child benefit system, it's the wrong response to today's priorities in tackling child poverty, argues **Kitty Stewart**.*

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**ELECTION**  
NIGHT 2024



After more than a decade of cuts to financial support for families with children, the Conservatives have [announced](#) a change in direction: a substantial increase in the threshold at which Child Benefit starts to be withdrawn from higher earning families. Currently, Child Benefit is taxed back under the Higher Income Child Benefit Charge (HICBC) when one person in the household earns £60,000, and removed entirely at £80,000. It has long been pointed out that this policy design is unfair on single parents, given that households in which two parents each earn £59,000 continue to receive it in full. The proposed change would double the threshold but make the income test a household one: the new charge would only affect households earning £120,000 or more in total.

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For most of its existence the Child Benefit was a universal payment made for all children, a successor to universal Family Allowances which were introduced in 1948 as a cornerstone of the post-war welfare state. It was only in 2013 that Chancellor George Osborne removed the universal principle with the introduction of the HICBC – just one of a series of austerity cuts that fell on families with children.

Across Europe, the vast [majority](#) of countries offer some support to all children, even though in many cases benefit levels are higher for families with additional needs (e.g. larger families or those on lower incomes). In many of the countries with the [lowest](#) child poverty rates in the EU, including Denmark, the Netherlands, Finland, Estonia and Belgium, the main child benefit is universal.

So is the proposed widening of access to Child Benefit up the income distribution a positive move? Or is it the wrong priority for the UK today?

### **The benefits of universal social security**

As a general principle, more universalism in our social security system is to be welcomed. For one thing, universal benefits can play a key role in poverty reduction and prevention. They have low information and access costs and they are non-stigmatising, and for these reasons usually have higher take-up than means-tested benefits. People's lives are also complex – earnings can rise and fall, and having one source of consistent income can be hugely helpful and reassuring.

There is also evidence that in general we are happier as taxpayers to fund benefits and services that we have a stake in.

In addition to these pragmatic advantages of universal benefits, there is a normative argument about our relationship with the social security system: as we all pay in through our taxes, it is right that even high earners should be able to draw out at times of relatively higher need, such as parenthood. As John Hills [showed](#), most of what the welfare state does in practice is help us redistribute our incomes across our own lifetimes, from times of plenty to times of need. I believe we should be clearer about and embrace this principle in relation to social security – just as we embrace an NHS which is

free to all of us, regardless of income, at time of need.

There is also [evidence](#) that in general we are happier as taxpayers to fund benefits and services that we have a stake in. As the size of the budget for social transfers is a strong [predictor](#) of better poverty outcomes, the two distinct arguments above are in fact closely linked: if we all feel part of a system, we are more likely to fund it, meaning more resources overall and therefore more effective poverty reduction.

Until [earlier](#) this year, the thresholds for the HICBC had remained unchanged from 2012, and so increasing numbers of families were affected: only half were [predicted](#) to be eligible by 2040, increasing the chances of it being ultimately rolled into the more tightly means-tested Universal Credit. The proposed threshold change protects the policy for the longer term by ensuring it stays relevant to more families, with only an estimated 12 per cent [excluded](#). It is also positive that families with children are finally getting some attention, after years in which their benefits and services have been substantially [squeezed](#). And while the proposed change would not reinstate the principle of universality, it would lower the cost of restoring a fully universal child benefit system in the future.

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### **Budget constraints and policy priorities**

However, there are two big concerns about this specific announcement. The first is about where it should sit on a list of government priorities, given budget constraints. It is not the HICBC but wider cuts to the benefit system, including the two-child limit, the benefit cap, and the erosion of the value of working-age benefits, that have [led](#) to sharp increases in child poverty. Growing numbers of families are unable to meet their children's basic needs: [one million](#) children are estimated to live in conditions of destitution. [Millions more](#) do not have the resources to participate fully in school activities and social life. The changes to the HICBC will have no impact on these children. To meet their needs, the expected [cost](#) of £1.3 billion by 2029-30 would be much better deployed if put towards the cost of abolishing the two-child limit ([calculated](#) at £1.3 billion today) and benefit cap (£0.25 billion). This would make a huge difference to millions of children overnight.

The second concern is more complex but also important. The proposed change is *not* in fact a return to universalism. While it expands coverage in that direction, in doing so (but not going all the way) it moves us away from the principle of individual taxation towards household income assessment – and that is problematic.

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### **The problem with household taxation: gender inequality**

Effective benefit targeting is based on household not individual income – which is why the change in the HICBC threshold calculation looks immediately like an improvement from a fairness perspective. As families living together usually pool (at least some of) their income, means-tested systems can be much more efficient (or deliver better targeting for the same budget) if they take account of the income of the whole household.

However, taking account of the income of the household can have negative effects from the perspective of gender equity. It is [well-known](#), for example, that while Universal Credit is very efficient at targeting households on the basis of need, it does so at the cost of imposing work disincentives on second earners; the withdrawal of UC means they face high marginal effective tax rates as they move into work. For similar reasons, there are strong gender equity reasons for having a tax system which is individual and not household-based – as the UK does (e.g. we each have our own personal tax allowance, rather than a household one).

The proposed change to the design of the HICBC means that families with children in the relevant part of the earnings distribution would face joint household rather than individual-level tax assessment. Beyond the extra administration (HMRC will need to link the tax records of couples, which they don't currently do), this moves us away the principal of individual taxation. As such, it is potentially a negative move for gender equality.

When finances allow, the Government should go the whole way and fully restore the universalism of Child Benefit, rather than introduce complex new household means-tests. First though, there are other policies that must take priority, ones with a better

chance of alleviating child poverty, like lifting the two-child limit and the benefit cap must take priority.

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