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Abolishing the two-child benefit limit would be a great investment

*Thirty per cent of children in the UK live in poverty. **Nicholas Barr** argues that abolishing the Two-Child Benefit limit and overall Benefit Cap is good policy not just for ethical reasons but – less widely realised – because investment in children has a very high payoff and should therefore be a part of the Government's growth agenda.*

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Under the UK two-child benefit limit a family can claim income-tested benefits only for the first two children in a family. The limit applies for children born after 6 April 2017 with only a few exceptions (multiple births, adoptions, rape).

As a result, each low-income family loses annual benefits of £3,455 per child for any child after the second. The limit impacts nearly 450,000 families – whether or not in work – affecting 1.6 million children. In addition, there is a ceiling (the Benefit Cap) on the total income-tested benefits a family can receive.

A [blog](#) by my LSE colleague, Kitty Stewart sets out the Conservative government's reasoning when introducing the two caps and sets out the counterarguments and likely effects of the policy. Here I want to approach the topic on a wider canvas, looking both at cash benefits and benefits in kind and considering some of the evidence from international experience.

The respected Joseph Rowntree Foundation [reports](#) that in 2022/23 4.3 million children, i.e. **around 30 per cent of all children in the UK, were in poverty** of whom, according to their [Destitution Report](#), about one million were in deep poverty, i.e. living in families who did not always have enough food (let alone healthy food) or adequate heating. The Resolution Foundation [estimates](#) that if nothing is done, 50 per cent of children will be in poverty by the end of the current parliament.

The same report estimates that ending the two-child limit and benefit cap would remove about 500,000 children from that total, and that extending free school meals to include all families receiving Universal Benefit, the main income-tested benefit, would reduce child poverty by an additional 100,000.

An important missing argument

Most of the advocacy for abolishing the two caps focusses on moral arguments. Many are outraged that in one of the richest countries in the world widespread poverty persists, exemplified by the need for food banks and by the existence of charities such as [FareShare](#) and [National Energy Action](#). A more subtle argument is that the purpose of benefits is not only to protect people from poverty but also to provide insurance against an unexpected change in circumstances, for example a family with a comfortable income who chose to have a third child and later faced the death of the main earner.



The core of the argument is that investment in children has a huge payoff, both in economic terms such as higher growth, and in social terms, such as less crime.



Those arguments are, of course, important, but they miss a fundamental second set of reasons for abolishing the two-child limit and benefit cap – the overwhelmingly powerful evidence that *early child development is a fantastically good investment*.

As illustrated in Figure 1, Nobel Laureate James Heckman [shows](#) that “the highest economic and social benefits come from early skill development. This investment leads to lifelong success, increased productivity, and reduced societal costs.” [Elsewhere](#) he estimates that “high quality birth-to-five programs for disadvantaged children can deliver a 13 per cent per year return on investment”.

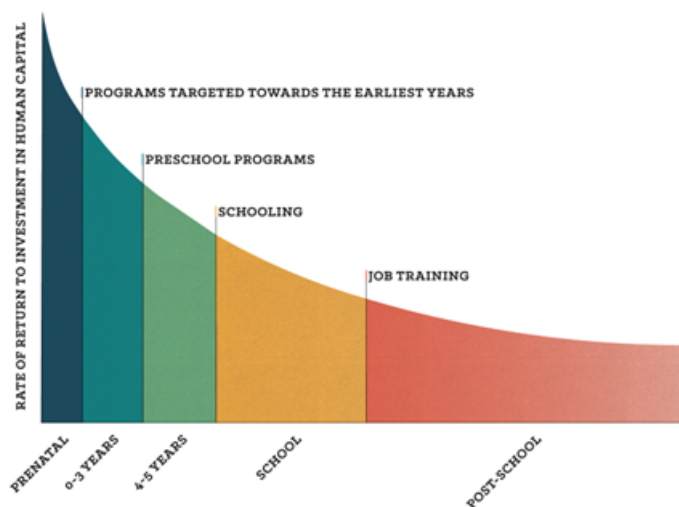
In a more formal [academic paper](#) he argues that,

“Life cycle skill formation is dynamic in nature. Skill begets skill; motivation begets motivation. Motivation cross-fosters skill and skill cross-fosters motivation. If a child is not motivated to learn

and engage early on in life, the more likely it is that when the child becomes an adult, he or she will fail in social and economic life. The longer society waits to intervene in the life cycle of a disadvantaged child, the more costly it is to remediate disadvantage.”

Figure 1: The Heckman Equation

Return on Investment
Economic Impact of investing in early childhood learning



The core of the argument is that investment in children has a huge payoff, both in economic terms such as higher growth, and in social terms, such as less crime. Or – put crudely – even if one does not care about poverty, early child development is a high-return investment.

The international evidence is plentiful. A [report by the OECD](#) published in 2017 (the year the two-child benefit cap was introduced) argues that,

“The number of years spent in early childhood education and care ... is also a strong predictor of the level of performance reached at later stages, both in and out of school.”

Outside the OECD, studies of early child interventions in early years in [Brazil](#), [Colombia](#) and [Jamaica](#) find beneficial effects that persist into adulthood.



A hungry child does not learn well, an underfed child will not grow well. Benefits like school breakfast clubs and free school meals also fit in here.



These studies consider interventions mainly in kind. Suitably-targeted cash has complementary effects. Esther Duflo (another Nobel Laureate) **shows** that where the grandmother lives with children and grandchildren, the non-contributory pension in South Africa has gains for the wider family, including health gains for the grandchildren, and a significant gain in gender balance.

Past success of child support in the UK

In the UK, during its heyday between 1999 and 2010, SureStart, a programme to support families with children under four, had 3,600 centres but was **sharply scaled back** by funding cuts between 2015 and 2024 – a big mistake. As **documented** by Naomi Eisenstadt, the Director of the SureStart Unit for its first six years, the programme was a success. A **recent study** by the influential Institute for Fiscal Studies, finds that

“Taking both government and individual benefits into account, we estimate that **every £1 of up-front spending on Sure Start generated £2.05 in total benefits** over the long run. This analysis does not include many non-financial benefits– for example, the value of better health as an end in and of itself” [emphasis in original].

Cash benefits to reduce child poverty are an essential complement to programmes like SureStart. Abolishing the two benefit caps is part of the story. A hungry child does not learn well, an underfed child will not grow well. Benefits like school breakfast clubs and free school meals also fit in here. Along similar lines, Mary Reader **makes the case** for starting child benefit during pregnancy.

A cold child will not learn well and is **more likely to have health problems**. Thus **Winter Fuel Payments** are also part of the story. Fuel poverty can be addressed by raising the level of benefits or through a specific benefit like winter fuel payments that (a) does not go to better-off people, but (b) should go to anyone who meets the relevant income test, not (as with present arrangements) only to pensioners.

The bottom line

There is a double case for abolishing the two benefit caps.

- Reduced poverty is a desirable end in itself for ethical reasons.
- Britain cannot afford to waste talent: investment in child development should be a core element in the growth strategy of a government pledged to take a long-term view.

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