

The government should abolish Child Benefit and increase the Child Tax Credit for poorer families, saving billions.

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*The government's proposals to means-test for Child Benefit has been met with fierce criticism across the political spectrum. **Thomas Cawston** of Reform argues that by doing the right thing in the wrong way the government is damaging the credibility of means-testing, and suggests that abolishing Child Benefit entirely and increasing existing child tax credits would achieve fairer results and greater savings.*



The coalition government has proposed breaking with decades of tradition by introducing means-testing the Child Benefit. This universal benefit is expensive, costing around £12 billion a year, and in an age of austerity is described by some, as Martin Narey, former Chief Executive of Barnardos, put it, "an unaffordable luxury." The Government has proposed to means-test by withdrawing the benefit from any family with a 40p rate taxpayer.

Yet in recent weeks, the government's plans to means-test the Child Benefit were thrown into doubt. **The Prime Minister** hinted that "We always said we would look at the way it's implemented and that remains the case" and **Jeremy Hunt** has said "We are looking at ways to make it fairer." Shortly thereafter the **Chancellor** insisted that the cut would go ahead but added "We haven't set out how we're going to implement that and we're going to do that in the next few months." The key concern is that while a family with one parent earning £42,475 will lose the benefit, a family where both parents had incomes of £21,237 each would not. By doing the right thing in the wrong way the Government risk bringing the whole idea of mean-testing universal benefits into disrepute.

The government was right to propose reforms to universal benefits. It is not possible to deal with the deficit without having a go at the big budgets, and welfare is the biggest. The Government spends almost twice as much on welfare as on the National Health Service. **Reform's** analysis of benefit expenditure, based on Office for National Statistics data the effects of taxes and benefits of household income has shown that around £31.8 billion was spent in 2009 on providing benefits to the UK's middle classes. Using this date we calculated the benefit expenditure for households above a conservative threshold, which varied according to household size and composition.

As well as the Child Benefit, other universal benefits are poorly targeted and offer poor value:

	Percentage of spending to households above income threshold (1998-99)	Percentage of spending to households above income threshold (2008-09)
Maternity pay	68	78
Child Benefit	32	43

Disability Living Allowance	22	33
Retirement Pension	16	24
Housing Benefit	4	11
Student Support	40	22

There is now a growing chorus of support for means-testing these benefits. At the end of last year [Nick Clegg](#) said, “We should be asking millionaire pensioners to perhaps make a little sacrifice on their free TV licence or their free bus passes.” [Saga](#) has enlisted the support of Sir Bruce Forsyth and Sir David Jason in its campaign to encourage wealthy pensioners to donate their winter fuel allowance to those more in need. [Martin Narey](#) has argued that the case for means testing child benefits is “economically and morally overwhelming.”

Despite the support for the principle of means-testing these benefits, the government’s approach to cutting the Child Benefit is flawed. Instead of removing the benefit for families with higher-rate taxpayers, a much better approach would be to abolish child benefit entirely and increase the value of the existing child tax credit for poorer families. This would remove the anomalies in the current proposals without establishing a new means-testing system. Scrapping the Child Benefit would save £12 billion, £5 billion of which could be reissued through the Child Tax Credit for families on lower incomes. This would save [£7 billion](#) a year as opposed to the £1 billion a year that the Government’s policy would save.

The government is right to address the flaws in its original policy. However, its failure to set out a fair and practical approach to reforming the benefit in October 2010 means they have now had to reopen the wider debate on means-testing. This is not the first hint that the policy would be revised. The failure to be decisive has encouraged the opponents of welfare reform. Both the [Child Poverty Action Group](#) and [The Daily Telegraph](#) have gone as far as to argue for the whole plan to be scrapped.

Some may defend universal benefits as a means of securing support from self-interested voters. However as Sir Roger Douglas, former New Zealand minister of finance, has argued, politicians need to decide what policies are in the interest of the nation before asking how these policies should be sold to the electorate. Otherwise the reform process will begin in a position of compromise.

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