

A JUSTIFICATION FOR PAYING CHILD BENEFITS TO MIDDLE CLASS FAMILIES

Why pay child benefits to middle class families? Writing in the latest issue of the *Economic Journal*, Professors **Zhiqi Chen** and **Frances Woolley** of Canada's Carleton University suggest an important justification: that it gives 'at-home parents' an independent source of income. This can make a genuine difference to family expenditure patterns, allowing more money to be spent on what the at-home parent thinks is important. And very often, that is things for children.

The authors address a number of key questions about decision-making within families: Does it matter who receives child benefits? Is there any justification for paying child benefits to middle class families? Do dual income families spend their income differently from families dependent on a single earner? And when would we expect spouses to share their incomes or one partner to transfer part of his income to the other to spend? Chen and Woolley pinpoint a number of factors that are crucial in determining the outcome of household bargaining:

- each spouse's income, including any government transfers;
- the amount each spouse cares for the other;
- and each spouse's bargaining power - his or her ability to shape household spending patterns.

When would a £100 tax cut directed at the household's highest earner, usually the father, be spent differently from a £100 child benefit cheque going to mothers? Chen and Woolley predict that targeting of benefits makes most difference when the lower earning spouse is partially independent. That is, when she earns enough not to be reliant on transfers from her partner for her own personal expenditures, but not so much that she is a substantial contributor to household goods, like paying the mortgage or buying the family's groceries. Why is this?

A spouse with no income of her own relies on financial support from her partner. If he gets a £100 tax cut, he can give it to her or use it for something else. If she gets a £100 child benefit cheque, he can let her keep it or - if he has other priorities for spending his money - he can reduce the financial support he was giving her before. In either case, it makes no difference who receives the £100.

If both spouses are contributing to a household good, like paying the mortgage, it again makes no difference who receives the £100. If it goes to the higher earner in a tax cut, he can afford to pay more towards the family groceries, and the lower earner will have to contribute a little less. If it goes to the lower earner in child benefit, she can afford to pay more for the groceries, and the higher earner will have a bit more pocket money.

But when one spouse is partially independent - she earns enough not to be totally reliant on financial support, but not enough to contribute substantially to household goods - it does make a difference who receives the benefits. A child benefit cheque makes a real difference to the recipient spouse's ability to spend money on the things she believes are important - whether they are her own immediate needs or children's music lessons.

And this is part of the justification for paying child benefits to middle class families. Chen and Woolley show that families cannot be thought of as a single unit: they are made up of individuals. Sometimes they pool all of their resources, and sometimes they do not. Sometimes families don't share. When that happens, there is a risk - particularly if one person has little income of his or her own, little bargaining power and there is little caring between spouses - of 'dependants' falling into what Rowntree called 'secondary poverty' - living in poverty within a non-poor household.

Paying child benefits to middle class families gives at-home parents an independent source of income, which can make a genuine difference to family expenditure patterns, allowing more money to be spent on what the at-home parent thinks is important. And, very often, that is things for children.

Do dual income families spend their income differently from families with a single earner? The authors' analysis model predicts that, yes, they do, even after taking account of differences in things like spending on restaurant meals, those substitutes for home-produced goods. Think about the earner in a single income family. He wants to spend income in a way that benefits his family. He has two choices. He can give his family cash, to spend as they wish. Or he can spend money on something like a better home, which benefits his family but also improves his standard of living. Which would he be expected to do?

Chen and Woolley's analysis predicts - as common sense in this example suggests - that single earner families will spend relatively more of their income on household goods, things like homes and furniture. In a dual income family, both spouses will have money for personal expenditures, and more money will be spent on goods for personal enjoyment, whether it be CDs or designer children's wear.

Notes for Editors: 'A Cournot-Nash model of Family Decision Making' by Zhiqi Chen and Frances Woolley is published in the October 2001 issue of the *Economic Journal*. The authors are at Carleton University in Canada.

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