



POLICY STUDY NO 147

# **Are Families Affordable?**

*Tax, Benefits and the Family*

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## SUMMARY

- That the traditional family structure is breaking up is an accepted truth; also accepted is the hardship involved in single parenthood, together with the disadvantages often experienced by the children of lone parents.
- Less well known is the fact that it is two-parent families which tend to be the most disadvantaged – they are worse-off than lone parents: of all those in the bottom 10% of the population (by income), 46% are couples with families while only 12% are lone parents. Programmes which concentrate on improving the position of lone parents therefore fail to alleviate most family hardship.
- A prominent reason for the relative financial decline of the family has been the changes in the structure of taxation, in both the long- and the short-term: since the 1950s the tax liabilities of families with children have increased at four times the rate of those of single people; since the late 1970s, the proportion of income paid in taxes (direct and indirect, including Child Benefit) has increased for a couple with children; for lone parents and those without children, it has decreased.
- A significant change in the structure of taxation has been the abolition of tax allowances for children and their replacement by Child Benefit: the value of Child Benefit is now about one half of the combined child tax/family allowance of the 1950s. A married

man with two children earning £300/week now receives £232.06/week after taxes and Child Benefit. A single person, also earning £300/week, has £212.86 – leaving a surplus of £20/week to cover the living costs of a wife and two children.

- Taxation was previously set at levels on the basis of the ‘ability to pay’. The tax reforms of the 1990s abandoned this principle in favour of a ‘neutral’ system – one which is ‘reasonably fair to everyone, whatever choice they happen to make’. As far as the taxman is concerned, there is now no difference between parenting and golf.
- As a result of the above change, the two-parent family has suffered from the budgets of the 1990s, while all other household groups have benefited.
- Lone parents receive a wide range of means-tested benefits – benefits which are denied the wife of a working man who chooses to stay at home to look after her children; lone parent benefits are substantially more generous than those available for families.
- The current tax and benefit system gives no incentive to parents to maintain the traditional two-parent family structure. Should the decision to be a responsible parent be treated as just another consumer choice?

## RECOMMENDATIONS

- All political parties should explicitly recognise that the costs involved by a family are different from all others in both economic and moral terms. These costs should be recognised by the tax system.
- The personal taxation system should be reformed to take into account the added responsibilities, burdens and expenditure involved in child-rearing. This would involve:
  - allowing spouses to divide their combined income into two in order to take advantage of personal allowances and income tax bands;
  - the re-introduction of child tax allowances.
- All payments *exclusively* created for broken families should be eliminated; the money should be redistributed among *all* families.
- The possibility of creating contributory insurance schemes to help to cover the heavy costs of child-rearing should be considered as part of the wider debate on welfare reform.



## CHAPTER 1

# FALLING FORTUNES

The facts of family dissolution and decline are well known. Marriage rates have fallen to their lowest levels since records began over 150 years ago and divorces are at their highest ever. A couple of decades ago, only 6% of births were outside marriage; now it is one third. The rise in family fragmentation and breakdown means that today one in five families is headed by a lone parent, compared with one in 12 in 1971.

Less acknowledged is the fact that families with children have also become poorer compared with all other groups in the population – and the disparity in incomes has increased over the last decade or more, so that families with children are now more likely to be in the bottom income ranges as the numbers in the middle fall.<sup>1</sup>

All measures of economic disadvantage have been rising for families and the family effect on the poverty statistics is pervasive; while people move in and out of poverty all the time, it is families with children which are most prone to spells of economic distress of a greater or lesser duration – even though more homes now have two parents in the workforce and there are fewer children. Indeed, the economic position of families would be even worse than it is if family size and the number of family earners had stayed at the level they were in the 1960s.

Marrying late, limiting and delaying the births of children, including having none at all, or putting more labour onto the market,

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1 Jo Roll, *Family Fortunes: Parents' Incomes in the 1980s*, Family Policy Studies Centre, 1988.

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are all adaptations to economic pressure. Fathers are working longer hours, and more mothers are returning to work sooner after birth and between births. Parents struggle to maintain the resources going to existing children. Many couples lament the fact that they cannot have children, or a second child, when the price may be the roof over their head, or where they cannot afford to care for them at home, or provide for them in the way that they believe responsible parenthood entails.

On the basic 'safety net' measure,<sup>2</sup> the number of couples with children not receiving Income Support, but with net resources below this level, doubled between 1979 and 1992 to 380,000. Those with net resources below 140% of the Income Support level grew from 590,000 to 740,000.

On another criteria, the proportion of children living in families with incomes below half the national average grew from 10% to 33% (or from 9% to 27% before housing costs) between 1979 and 1992/93. Even the percentage of children living in families with incomes below half of the 1979 real income level rose from 10% to 15%. The income of the bottom 20% of couples with children actually fell by 13%.<sup>3</sup>

Other indications of financial hardship and economic crisis have become concentrated among families: house repossessions, fuel and water disconnections, mortgage arrears, and serious, multiple debt.<sup>4</sup>

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2 Christopher Giles and Steven Webb, *Poverty Statistics: A Guide for the Perplexed*, Institute for Fiscal Studies, 1993; *Low income Statistics: Low Income Families 1989-1992*. House of Commons Social Security Committee, HMSO, 1995.

3 Christopher Giles and Steven Webb, op. cit.; see also, *Households below Average Income: A Statistical Analysis 1979-1990/91* and *Households below Average Income: A Statistical Analysis 1979-1992/93*, Government Statistical Service, DSS, 1993 and 1995; and *Low Income Statistics: Low Income Families 1989-1992*, Social Security Committee First Report House of Commons HMSO, 1994-95.

4 R. Berthoud and E. Kempson, *Credit and Debt in Britain*, Policy Studies Institute, 1992; see also Michael Adler, 'The Economic and Social Situation of Consumers in Debt in Great Britain', in G. Hormann, *Consumer Debt and Consumer Insolvency*, Uni-

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Many families with low income are forced to overspend. Such costs as school trips, fuel and shoes are virtually impossible for parents to cut or avoid.

Unemployment and the growth of lone parenthood pushed the number of children on Income Support to over 3.5 million by 1993, or almost one in four, compared to just 7% in 1979. Parents are more dependent generally on means-tested help. The proportion of under 5s whose parents receive either Income Support or Family Credit (which makes up the net wages of the low paid) stood at nearly 40% at the last count, and approached 30% for children aged 12-15.<sup>5</sup> This increase in the proportion of families which are claiming means-tested benefits is a symptom of the decline of the middle- and respectable working-classes, accompanied by the rise of a welfare-dependent under-class.

Recession and unemployment have obviously contributed to the impoverishment of families. But there are other major factors driving the income changes that are disadvantaging families, regardless of the business cycle. It is unlikely that economic recovery or growth alone will reverse the processes.

### **Who is badly off nowadays?**

Financial difficulties in the working-age population are often assumed to be almost entirely a lone parent problem. Allied to this is the notion that the central *family* problem today is 'lone parent poverty' and that, with this exception, the changes in the structure of the family are essentially benign. Certainly, this ignores the preponderance of two-parent families at the poorest levels:

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versity of Bremen, 1986; Andrew Hartropp, Roberta Hann and Michael Schluter et al., *Families in Debt*, The Jubilee Centre, 1987. In the last sample, we find 80% of the 1,043 (plus 1,167 children) with multiple debt problems to be under 40 (this group made up 52% of the population), and only 1.4% were over 65 (compared with 18.6% of the population).

5 *Hansard*, 5/11/93, cols. 589-90 and 8/2/94, cols. 219-20.

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### Family composition of the bottom 10% income group (1992/93)

	Proportion in bottom 10%
Couples with families	46%
Lone parents	12%
Other household structure	42%

Source: Households below Average Income: A Statistical Analysis 1979-1992/93, D.S.S., 1995.

80% of children in the bottom 10% of income distribution had two parents; for those in the bottom 20%, two-thirds had two parents.<sup>6</sup> It is therefore clear that programmes which concentrate on improving the position of lone parents would miss most family hardship.

Similarly, on the benefit measure, couples with children greatly outnumber lone parents with children:

### Net resources below the Income Support line (1992)

	No. of families	No. of persons
Couples with children	380,000	1,500,000
Lone parents	60,000	150,000

Source: *Low Income Statistics: Low Income Families 1989-1992*, Social Security Committee First Report House of Commons HMSO, 1994-95.

In addition, the numbers and proportions of couples with children at the poorest levels have increased recently – whereas there are now fewer lone parents:

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<sup>6</sup> All below average income statistics are after housing costs. Analyses are also available for before housing costs, and these do not appreciably alter the nature of the trends.

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### Net resources below the Income Support line (No. of Persons, 1989 - 1992)<sup>7</sup>

	1989	1992
Couples with children	1,240,000	1,500,000
Lone parents	200,000	150,000

Source: *ibid.*

In the 1980s, the number of lone parents receiving Income Support increased dramatically – which in large part explains why 58% of lone parent families had below half average incomes by 1992/93, compared to 19% in 1979. But it is also significant that the proportion of couples with children below half average income also trebled from 8% to 24% over the same period.

Lone parents are entitled to long-term Income Support without a work test and with housing costs paid. Indeed, had lone parents stayed in, or formed, families, many would have been just as poor – or even poorer. Lone parents have been relatively well protected from the tribulations suffered by the working (and married) population in the labour and housing market.<sup>8</sup> Moreover, young single mothers outnumber older divorcées.<sup>9</sup>

Another false assumption is that pensioners, as much as lone parents, are most in need. Yet, from the 1950s onwards, their overall income has grown far faster than for those below retirement age – and had tripled by the early 1980s, compared to an

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7 The picture remains broadly the same whether or not the real value of the basic benefit is held at its 1989 level; similarly, if the income level is judged at 140% of the Income Support level, the trends remain consistent.

8 P. Bingley, E. Symons and I. Walker, 'Child Support, Income Support and Lone Mothers' in *Fiscal Studies*, Vol 15, No 1, pp. 81-98, 1994.

9 Single mothers now constitute the largest and fastest group of lone parents, their numbers having increased threefold over the last decade compared to an increase of only 50% in divorced or separated mothers.

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overall growth of two-thirds for working age people.<sup>10</sup> The income of pensioner couples rose by 53% between 1979 and 1992/93 and by 44% for single pensioners. They are no longer over-represented in the bottom income group:

### Proportion of Pensioners in the bottom 10% Income Group 1979 - 1992/93

	1979	1992/93
Single pensioners	31%	8%
Pensioner couples	20%	4%

Source: Households below Average Income: A Statistical Analysis 1979-1992/93, D.S.S., 1995.

Pensioner income growth has been greatest at the lowest levels – in contrast to that of families. Pensioners’ level of debt is tiny, while their savings tend to be considerable. Overwhelmingly, non-pension wealth is concentrated in the hands of the over 55s; is highest in the 60-64 age group, and stays far higher than for any pre-retirement group thereafter.<sup>11</sup> Those aged 70 or more have three times the wealth of those aged 40 to 45 and five times that of those in their 30s. Outgoings are smaller at older ages, and pensioners spend far less than non-pensioners at equivalent income levels.<sup>12</sup>

### A failure to invest in the future

Children can be considered as ‘capital intensive goods’. They benefit from substantial investment of parental time and money in their up-

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10 *The Reform of Social Security*, Vol 1 & 2, Cmnd. 917/8, HMSO, 1984.

11 James Banks, Andrew Dilnot and Hamish Low, *The Distribution of Wealth in the UK*, Institute of Fiscal Studies 1994.

12 While pensioners made up only 8% of the bottom tenth of the income distribution in 1992, they made up about 40% of the bottom expenditure group. See Alissa Goodman and Steven Webb, ‘The Distribution of UK Household Expenditure, 1979-92’, in *Fiscal Studies*, Vol 16, No 3, pp. 55-80, 1995.

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bringing. And such investment will yield long-term dividends not just for those immediately concerned but for the future prosperity of all.

However, investment in children is likely to shrink as parents' means and time are squeezed. It is particularly worrying that resources for child-rearing are falling as children need to be equipped for an ever-more competitive world.

Unfortunately, when resources become scarce and unpredictable, when social support is withdrawn, or when there is 'task overload', parental care can deteriorate to the detriment of the child. If the family structure is destabilised, the result is lone parent households where – irrespective of income levels – children are more vulnerable; are more likely to be institutionalised; and are more likely to enter and to perpetuate cycles of disadvantage.

Child-rearing imposes considerable costs. It makes substantial and simultaneous demands in terms of money and time – time and money foregone by the family just at the period when outlay is rising. Variations in living standards probably owe more to differences in family responsibilities than to differences in the level of initial income: poverty will be concentrated among those with dependants. The gap between those with, and those without, dependent children is more marked than that of class.<sup>13</sup>

When the average income of household types is adjusted for family size, there is little overlap between single people and childless couples on the one hand and families on the other. The top income band is occupied by two adult and no child households, followed by single adults.<sup>14</sup> It is glib to say that a family with a gross income of £25,000, for example, is 'richer' than a single person earning £10,000: a single person achieves much the same standard of living at under a third of that required for two adults and two adolescents. Budget analysis shows that a couple with two young children needs

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13 This does not appear to have been grasped by political parties of either the right or the left.

14 Jo Roll, *op. cit.*

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to spend 50% more than a childless couple to obtain the same living standard.<sup>15</sup> Housing is a particular problem, since those who need the most space and facilities can afford the least. Moreover, a child has to be supported for 16 years or more: families which expected to have adequate income may see it fall as a result of circumstances beyond their control. *Their* costs cannot be reduced by simply shedding liabilities.

To provide a modest but adequate living standard (above subsistence but well below the level of affluence) a single man (with a new mortgage in York) needed £240.35 per week in 1993; a family with two children (and a small, mature mortgage) needed £336.83 – or £342.31 with older children. A bachelor tenant needed just £151.41.

It looks as if the expenditure involved in the production of new and competent people is in direct conflict with the penalties which make child-rearing economically foolish. Parents reap hardly any *material* rewards beyond those enjoyed by those who did not make any personal sacrifice or effort to rear children:

The costs are private, the benefits are increasingly public. If you are a ‘good’ parent and put together the resources and energy to ensure that your child succeeds at school and goes on to complete an expensive college education, you will undoubtedly contribute to ‘human capital formation’, enhance GNP and help your country compete in world markets; but

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15 Jonathan Bradshaw, *Household Budgets and Living Standards*, Joseph Rowntree Foundation, 1993. These budgets are calculated by nutritionists, home economists, and social scientists specialising in domestic economy.

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in so doing, you will deplete, rather than enhance, your own economic resources.<sup>16</sup>

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<sup>16</sup> Sylvia Ann Hewlett, *Child Neglect in Rich Nations*, UNICEF, 1993.

## CHAPTER 2

# PROTECTING THE FAMILY

### **It used to be different**

The financial burden of bringing up a family used to be much eased by a range of measures which protected its economic security, and which helped to maintain some parity in living standards between those with and those without dependent children. These took into account the cost of supporting dependants through concessions such as tax exemptions and other allowances, or help in kind. There were also more informal mechanisms: in the private housing market, for example, mortgage advances were made only on limited multiples of one income. This had the effect of holding down prices and making it more likely that borrowers could meet the other costs of running a home.

### **Who can pay the taxes?**

Most systems of direct taxation in the world have earned-income relief, or tax allowances, for the earner, dependent children and for a dependent spouse, or in recognition of the responsibilities of marriage. In Britain, before 1939, the child tax allowance amounted to 60% of a single person's tax allowance. By the 1950s, it had reached 71.4%; and, by becoming age-related, it gave the parent of a dependent teenager 107.1% of a single person's tax allowance.<sup>17</sup>

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<sup>17</sup> Child tax allowance was phased out in the late 1970s: see Chapter 3.

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The old principle of the *taxable surplus*, or ability to pay, demanded that taxation take account not only of the level of income, but also of the numbers dependent upon it. The various allowances were a means of apportioning the burden among tax-payers according to their taxable capacity. If all citizens should bear taxation in proportion to their ability to pay, then those without dependent children had a greater capacity than those with children. Also there was a limit, necessary for a minimum of comfort, below which none should be taxed.

Allowances against income for self and dependants has the effect of reducing the poverty of families, as well as reducing their income inequality compared to other groups. If allowances are low or absent, and if the person is taxed below the ‘ability to pay’, this undermines the self-sufficiency of those who might otherwise be able to support themselves and their dependants. If people then have to resort to means-tested benefits to meet subsistence costs, taxation will have exacerbated the impact of the poverty trap. Not only does the person entering work or increasing his earnings face withdrawal of benefits, but disincentives are also increased if taxes are levied at the same time.

### **Helping parents is good for the economy**

Partly because it helped take the cost of children out of the wage bargaining process, family allowances were common in the private sector in both Europe and America by the early twentieth century – whether provided on a firm, industry or regional basis. Similarly, governments were attracted to them as an anti-inflationary device.<sup>18</sup> Contributory schemes run on an insurance basis by professional and trade associations also aimed to distribute the burden of child-rearing costs across their membership. Extra allowances were a way of recognising the responsibilities of family providers in professions which had equal wage policies.

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18 It was thought that, by giving help to the minority with children, pressures to increase the *general* wage level would be alleviated.

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Child allowances also had a role, parallel to exemptions for tax payers, in alleviating financial stress while maintaining work incentives. In contrast, the notorious Speenhamland project in the late eighteenth century (and its Family Credit successor) involved making up the wages of those below the subsistence line. This was accused of subsidising employers' costs from taxation – encouraging them to pay low wages while discouraging anyone from trying to better themselves. Expenditure rose and the tax base contracted. Similar dilemmas occurred in the 1920s and 1930s. As assistance for the unemployed had to take account of dependants, it was bound in many cases to overlap wages, often making it more profitable to be unemployed. Because of the anxiety over the problem of incentives, every organisation dealing with the unemployed, all political parties – except the far left – and all concerned with economic performance, concluded that universal family allowances were the only solution. This was one of the main reasons why, in 1943, a unified family allowance system for second and subsequent children was added to tax allowances.

Beveridge emphasised that a coherent family policy was essential to the growth of prosperity and abolition of want, as a means of 'maintaining individual freedom and responsibilities and the family as the unit of the State', without undermining the liberal, capitalist order. Family policy was not a late creation of collectivism or interventionists. Nor is it a form of poor relief. It had developed to protect the integrity and viability of the family. Moreover, measures to protect the family (such as those incorporated in the structure of the Guild system) existed before the industrial revolution. If they were destroyed in its upheavals, others arose and formed the economic counterpart of the family's legal and moral foundations. In the past, sacrifices in hard times were more equally shared; if any group was particularly protected, it was families with children: for example, during the depression years of the 1920s and 1930s, child tax allowances were continually up-rated, while much else was cut or frozen.

## CHAPTER 3

# FAMILIES AND THE CHANGING BURDEN OF TAXATION

### **Redistribution: long-term**

Recent years have seen great changes in the labour market, housing and the tax/benefit system, the triangle vital to the prosperity of families. The industrial shake-out has meant a significant loss of 'living wage' jobs in heavy and manufacturing industry; furthermore, the move towards intermittent and casual work is also sweeping through middle class occupations.

The increased entry of women into the workforce, plus equal wage and opportunity legislation, has led to price and wage adjustments which have meant household living standards gravitating towards a two-income norm. More women find that, as their income is needed to meet basic household costs, they cannot afford children. Couples cannot co-operate effectively to distribute family tasks between them, and mothers have to use prime child-rearing time to keep the family's head above water. As the equal wage economy has made it difficult for fathers to compensate, so this increases the 'opportunity cost' of children – making them appear an expensive use of the mother's time in terms of lost earnings.

The financial penalties of child-rearing can be seen as an adverse judgement – rather than as something to be mitigated. Indeed, while so many changes in the last two decades have increased the difficulties of establishing and maintaining families, they have not been countered through help or adjustments at

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other places in the system. Instead, families have been on the receiving end of increasingly discriminatory taxation.

Over the long term, the tax liabilities of families with children have increased at about four times the rate of those of single people:

### **Income Tax Threshold % of Average Earnings at which Income Tax is payable**

	<b>1949/50</b>	<b>1995/96</b>
Married man with 2 young children	74.1%	23.8%
Single person, no children	29.2%	17.5%

Source: Hermione Parker, *Taxes, Benefits and Family Life*, I.E.A. Research Monograph No.50, 1995.

For manual workers (as opposed to the average for all occupations in the table above), the position is equally bleak for the married man with children:

### **Income Tax Threshold: % of Average Manual Worker's Earnings at which Income Tax is payable**

	<b>1949/50</b>	<b>1995/96</b>
Married man with 2 young children <sup>19</sup>	101.2%	30.7%
Single person, no children	39.9%	22.5%

Source: *ibid.*

To be back at the 1950 position, the one wage family would have started paying tax at over £170 a week, instead of £73.72, in 1995/96, and Child Benefit (as an amalgam of the old Child Tax and Family Allowance) would be around £20 a week per child.<sup>20</sup>

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19 For families with older children the tax threshold would have been even higher in 1950.

20 Hermione Parker, *Taxes, Benefits and Family Life*, Institute of Economic Affairs, 1995.

## FAMILIES & THE CHANGING BURDEN OF EXPENDITURE

### Redistribution: short-term

In 1978, the Royal Commission on the Distribution of Wealth and Income investigated state transfers and taxes and found that it was fathers who had become the greatest losers. Since then, while most groups have seen a reduction in their direct tax burden (or in the combination of income tax and national insurance, without counting mortgage tax relief or other non-standard reliefs), the burden of taxation on *families* has continued to grow.<sup>21</sup>

Low- and middle-income couples with children have been treated the worst. Astonishingly, at half the average income, the family's contribution has increased most of all. They paid 10% of their income in direct taxes (even with child benefit counted as if it were tax relief) in 1995/96, compared to 2.4% in 1978/79 – a fourfold increase. A single person, also on half the average income, paid 22.3%, compared to 23.5% in 1978/79:

#### % of income paid in Direct Taxes

	½ Average wages	¾ Average wages	Average wage	2 x aver- age wage
<b>Single person</b>				
1964/65	14.7%	19.8%	23.1%	26.6%
1978/79	23.5%	28.9%	31.5%	33.7%
1995/96	22.3%	26.5%	28.6%	32.2%

#### Couple with 2 children, both under 11

1964/65	2.2%	4.0%	9.0%	19.3%
1978/79	2.4%	14.6%	20.9%	27.9%
1995/96	10.0%	18.4%	22.5%	29.1%

Source: The Burden of Taxation Research Paper, 94/66 House of Commons Library 1994, and Frank Field MP.

Add in indirect and local taxes, and we find that families' tax burdens have risen at all levels, as singles taxation has fallen. The gap is now negligible. A family of four is taxed at only 5% less than a single person with no children:

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21 *The Burden of Taxation*, Research Paper 94/66, House of Commons, March 1994

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### % of income paid in direct taxes, VAT and Rates/Council Tax

	Average earnings	1½ x Average earnings
<b>Single person</b>		
1978/79	45.6%	46.5%
1995/96	43.6%	43.4%
<b>Couple with 2 children, both under 11</b>		
1978/79	35.2%	38.8%
1995/96	38.5%	41.4%

Source: *ibid.* plus provisional estimates for council tax figures 1994/95.

### How it happened

All net income calculations are affected by 'fiscal drag' or 'bracket creep'.<sup>22</sup> However, one important reason why families are paying so much more than other groups is that, at the point where the value of child tax allowances had declined to its lowest rate (being only 42.5% of the single person's allowance for a teenager and 33.7% for a young child) they were amalgamated with a similarly eroded family allowance in the late 1970s and replaced with a cash benefit paid for each dependent child (i.e. Child Benefit). Child Benefit is now the only way of equalising tax liabilities between those with, and those without, children. However, it has been under continued threat<sup>23</sup>. It represents roughly a half the value of the combined child tax/family allowance in the late 1950s.<sup>24</sup>

When Child Benefit was unfrozen in 1991/92, the Married Couple's Tax Allowance was frozen at its 1990/91 level of £1,720

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22 Where allowances are indexed to prices instead of average incomes, the 'tax take' increases despite nominal up-rating. See *The Burden of Taxation*, *op. cit.*; also Anatole Kaletsky and Janet Bush, 'Only the very rich pay less income tax under the Tories', *The Times*, 13 January 1994.

23 For example it was frozen between 1987 and 1990.

24 *Hansard*, 6/11/89, cols. 459-60.

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until 1996/97. This tax allowance helps every working family (and also goes to employed lone parents, as the Additional Personal Allowance). If this had not been frozen, it would have been worth £2,190 by 1996/97, instead of the current £1,790. In addition, by restricting relief to the 20% tax rate in 1994-95 (rather than at the main 25% or 40% levels), families lost £86 (if they were basic rate taxpayers) or £344 (if in the 40% tax bracket), plus at least £10 from continued freezing, on top of the £75 or £120 already lost from the freezing in 1991/92.

In 1995/96 the Married Couple's Tax Allowance was further reduced to a 15% rate of tax, with an all round loss of £86 (plus a further £8 due to freezing). The actual cash value of the allowance was £258 by 1995/96 – from being worth £688 to higher rate taxpayers and £430 to those at the basic rate in 1993/94 alone. The family man was therefore left with £4.97 a week more than a bachelor by the direct tax system. This will rise by just 20p for the tax year 1996/97.

Another factor is that tax liabilities are mitigated by mortgage interest relief (MIRAS) to a decreasing degree. Frozen at £30,000 since the 1970s, relief was restricted to 20% in 1994/95 and to 15% in 1995/96. This explains why families with incomes up to £78,000 are paying more in direct taxes in the 1990s than in the 1970s.<sup>25</sup>

These factors account in part for the paradox of increased taxation during a period of reduced tax rates. In the 1970s, the standard tax rate was 33%, while the highest rate was 83% – compared with 20% or 25%, and a high rate of 40% by the 1990s. But lower tax bands, or reductions in the general rate at

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25 Assuming a mortgage of twice gross earnings is added to the sum for direct tax liabilities (income tax, national insurance, minus child benefit), the figures are:

### **% of tax paid at average earnings, after mortgage relief**

	<b>1978/79</b>	<b>1994/95</b>
Couple, 1 main earner, 2 children	12%	20%
Single man	23%	26%

Source: Inland Revenue.

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which tax is levied in each £ of earnings, do not prevent families losing when their exemptions are frozen or withdrawn. This merely pulls down their tax thresholds and increases the income on which they must pay tax (or pay tax at the higher rate). In the process, the income tax base widens, so that more pay tax for the first time.<sup>26</sup> Increasing the lowest 20% tax threshold by £500 in 1994/95, for example, might have given all taxpayers an extra £25 a year; but for married couples this would have been more than eliminated by the cuts in Married Couples Tax Allowance of either £86 or £344 (see above).

Cutting tax rates, while reducing or removing allowances, in practice means a redistribution of the tax burden – from those with family responsibilities to those without. This can be pinpointed by looking at the effects of all direct and indirect tax changes (national and local taxes, excise duties, VAT, etc.) in the ‘tax-cutting decade’ between 1985 and 1995. The Institute of Fiscal Studies, using a sample of 7,000 *actual* households and methods which removed tax rises due to ‘fiscal drag’ from the calculations, found that:

- 62% of one-earner couples with children were losers over this period, and only 28% gained anything;
- two-earner couples with children had their losses and gains evenly distributed – with 46% losing and 47% gaining;
- only 28% of two-earner couples without children lost, and 65% gained;
- 76% of the single employed gained and 16% lost;

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<sup>26</sup> For example, it is estimated that in 1994/95 over 400,000 more low-paid people started paying tax.

## FAMILIES & THE CHANGING BURDEN OF EXPENDITURE

- 48% of single pensioners and 51% of pensioner couples were gainers, and only 16% and 29% were losers.<sup>27</sup>

In addition to the increases in income tax through the reduction and removal of allowances, and the failure to preserve the value of the Family Allowance/Child Benefit, are the steep rises in national insurance contributions. Beginning as a small, flat rate charge (ostensibly for benefits like sickness and unemployment pay) these have increasingly been relied upon to raise revenue. They fall particularly heavily on parents, since they incorporate no allowance for dependants.

Neither, of course, were dependants' allowances set against local authority rates, as these rose fast from the late 1970s. However, the old household rates had a rough relationship to the household's wealth; also it did not increase in proportion to the number of people living there. However, in 1990, the community charge effectively and sharply decreased taxation of under-occupied premises and left couples, even with one earner, paying two times the charge of single people. When this was replaced by the council tax in 1992, couples still pay 25% more.

None of this takes into account the help in kind which has gone – including subsidised milk for schoolchildren, subsidies and nutritional standards for school meals, or travel passes for school. Nor does it take into account the loss of other family benefits, like maternity grants, which were allowed to wither before abolition in 1987.

In total, there is a net benefit of *under* £20 a week for a family of four people compared to a single person:

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27 Christopher Giles and Paul Johnson, *Taxes Up, Taxes Down: The Effects of a Decade of Tax Changes*, Institute of Fiscal Studies, 1994.

## ARE FAMILIES AFFORDABLE?

### Comparison of Net Incomes between a Family of Four and a Single Person 1995/96

	Married couple, 2 children	Single person
Gross earnings per week	£300.00	£300.00
Income Tax paid	-£50.01	-£54.98
National Insurance paid	-£25.36	-£25.36
Council Tax paid	-£11.40	-£6.80
Child Benefit received	+£18.85	
<b>Net Income</b>	<b>£232.08</b>	<b>£212.86</b>

Source: *Tax/Benefit Model Tables*, Department of Social Security.

#### **If in doubt – tax the family**

The family has been increasingly penalised in recent budgets and the evidence suggests that, even if the general economy had been in a healthier state, the family would still have been taxed at higher rates. For example, freezing the Married Couple's Tax Allowance helped to fund the introduction of the 20% tax band. Again, the £6 billion tax cuts made in 1988 could have been partly employed to set up the enlarged, but transferable, personal allowance. Instead, with 47% going to the richest 10% of the population, only 17% went to the bottom 50% of taxpayers who, if they had children, saw a tax rise – since Child Benefit was frozen that year. Age-related allowances not only increased in numbers and size but, in 1989, the pension earnings rule was abolished (where the state pension was reduced as earnings rose over £75 per week). The cost to public expenditure was dismissed as absorbable from reserves (as the public sector borrowing requirement turned out to be a quarter of that expected). However, the cost was equivalent to that necessary to up-rate Child Benefit which, it was maintained, the nation could not afford.

If families were not taxed so highly, far fewer would qualify as needy. Money 'saved' by freezing Child Benefit has only been

## **FAMILIES & THE CHANGING BURDEN OF EXPENDITURE**

transferred to pay for other benefits such as: protecting Income Support claimants from the contributions they paid towards the Community Charge; compensating low-income families for losses in Child Benefit (the freeze in Child Benefit brought thousands more families onto means-tested Family Credit); up-rating non-means-tested One-parent benefit; and paying higher premiums to Income Support pensioners.

This dispossession of families is not inevitable. It is a matter of priorities. Previously resources would have been found from elsewhere to support the family; other groups might have had to wait, make do with less or be content with what they had. Now, whether times are good or bad, it appears that the family is the last thing which we wish to support.

## CHAPTER 4

### THE FIVE-FOLD MOVEMENT

The movement of money away from families has taken a five-fold form:

- from families with children to individuals without dependants;
- from families with one main earner to couples with two full earners;
- from younger, child-rearing generations to the elderly;
- from two-parent families to lone parents;
- and, from child-rearing at home to substitute care.

The budgets of the 1990s have been a culmination of this five-fold redistribution: in terms of personal tax allowances, one-wage couples with children are the only group to have made a net loss:

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### Changes in Personal Tax Allowances 1990/91 to 1995/96<sup>28</sup>

	1990/91	1995/96	Increase 1990/91 – 95/96
<b>Single person</b>			
- Personal Allowance	£3,005	£3,525	
- Cash Value	£751	£881	+ £130
<b>One-earner couple</b>			
- Personal & Married Couples Allowance	£4,725	£3,525	
- Cash Value	£1,181	£1,139	– £42
<b>2 income married couple</b>			
- 1 <sup>st</sup> Personal & Married Couples Allowance	£4,725	£3,525	
- 2 <sup>nd</sup> Personal Allowance	£3,005	£3,525	
- Cash Value	£1,932	£2,020	+£88
<b>2 income unmarried couple</b>			
- 1 <sup>st</sup> Personal Allowance	£3,005	£3,525	
- 2 <sup>nd</sup> Personal Allowance	£3,005	£3,525	
- Cash Value	£1,502	£1,726	+£260

Source: Leonard Beighton and Don Draper, Draft Discussion Paper, CARE, 1986.

### **Families lose out to those with no dependants**

Dramatically, in the peak tax rise year of 1994-95, the one-earner family on average wages lost £257.14 more of their income to income tax and national insurance alone. In contrast, 55% of single persons without children were estimated to be broadly unaffected and only 7% lost more than £3 a week – even when VAT, excise duties, national insurance and mortgage relief are taken into account. In com-

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<sup>28</sup> The 1995 budget has aggravated these trends. A single person is £152 better off and a 2-income unmarried couple is £304 better off, while the one-earner couple is £9 worse off.

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parison, married couples lost over £15 per week from *all* tax changes.

While the November 1995 budget for 1996/97 has raised the personal allowance by more than the increase under statutory indexation and cut the basic rate of tax to 24%, then again, this disproportionately benefits those without dependants, where two-earner couples are set to make double the gains of a sole family earner.<sup>29</sup>

### **One-earner families lose out to the double-earners**

For some time, the one-earner family pays more income tax than the two-earner couple at any level of combined income – and this discrepancy has increased in recent years. In 1995/96, even a sole earner with children paid more in tax than a two-earner, childless couple:

#### **Comparison of Tax Paid: Single Earner with Children vs. 2 Childless Earners**

	<b>Income Tax paid</b>
One-earner with gross wage of £30,000	£6,527.00
Two-earners with gross wages of £15,000 each	£5,159.50
One-earner tax penalty:	<b><u>£1,367.50</u></b>
Subtract Child Benefit for 2 children (@ £490 per child)	£980.00
Extra tax on the Family:	<b><u>£387.50</u></b>

Source: Inland Revenue

The higher tax bill of the one-earner family meant that a couple with two young children needed a gross wage of £21,283 in 1993 for a modest northern budget, compared with £19,529 where the same family had two earners.<sup>30</sup>

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<sup>29</sup> *Distributional Effects of November 1995 Budget*, Institute of Fiscal Studies, 1995.

<sup>30</sup> Jonathan Bradshaw, *op. cit.*

## THE FIVE-FOLD MOVEMENT

The lower tax threshold of the one-earner family is exacerbated by the way that the level of income at which higher rate tax (at 40% of earnings) becomes payable, has dropped to a low level in relation to prices and wages. It meant that two earners can receive £48,600 (or twice £24,300) in 1995/96, before being liable to pay higher rate tax.

Even before the budgets of the 1990s, the system was already hardest on one-earner couples: indeed, the 1986 Green Paper on the reform of personal taxation criticised the discriminatory way that couples with one principal earner got only 1½ tax allowances (one personal allowance plus the married couple's tax allowance), compared with the 2½ tax allowances for couples with two main earners.

One single, but transferable, tax allowance was proposed for everybody in 1986 – giving couples the double tax band they already enjoy in many countries. It would increase work incentives by helping to avert the one-wage couple's dependency on means-tested relief and the hardship which they increasingly suffered.

However, events have moved in the opposite direction. The virtual removal of the married couple's allowance means that the one-earner family is now at an even greater disadvantage compared to couples with two full incomes, since the allowance ratio has moved from 1½:2½, towards 1:2. Even without the marriage allowance, two-earner couples still have twice the opportunity to gain from direct tax cuts, with two sets of personal allowances, two 20% tax bands and two 25% tax bands. Childless, double-earner couples have benefited financially from recent changes: but how many of these are waiting for the tax breaks which would allow them to have children without undue privation?

### **The young family loses out to the older generation**

While economic insecurity and hardship have grown so much for families, they have fallen sharply for the elderly, not least because the entitlements of the retired have recently been greatly increased. Again, there is the marked contrast with the past when the welfare of families and their children was one of the primary

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aim of the taxation system. Now, ‘resources invested at the beginning of life are dwarfed by those consumed at the end’<sup>31</sup> – despite unemployment, job insecurity and child poverty.

The only allowances being left in the tax system – apart from the single personal allowance – seem to be those for seniority. The 1987 budget increased Age Allowances more than others and also created a yet greater one for the over 80s – extended in 1989 to the over 75s. In addition, the married couple’s tax allowance was not frozen for the over-65s in the budgets of the 1990s. Instead, it was raised considerably in both 1994/95 to compensate for its restriction to the 20% rate, and further in 1995/96 to compensate for the restriction to a 15% tax rate:

### Comparison of Tax Allowances: Under and Over 65s, 1995/96

	Single Person’s Allowance	Married Couple’s Allowance*
Over 65s	£4,630	£3,115
Over 75s	£4,800	£3,155
Under 65s	£3,525	£1,790

\* Restricted to 15%.

Source: Inland Revenue

This situation – where the retired have far lower taxes than families, while having no work expenses (including no national insurance payments), and low living and housing costs – has already been described as unjustified in the 1986 Green Paper on personal taxation (and by the Select Committee on Social Services in 1982).

Moreover, while spending on families is increasingly means-tested or focused on lone parents, benefits for the elderly are mostly universal. The compensation of *all* pensioners for VAT on fuel through an increase in the basic state pension, for example,

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31. Sylvia Ann Hewlett, op. cit., and, by the same author, *When the Bough Breaks*, Basic Books, 1991.

## THE FIVE-FOLD MOVEMENT

has come at the expenses of allowances for working families who must meet their bills unaided.

Priorities have changed over the last three decades. As recently as the 1960s, the concept of retirement as a pleasant time in which to indulge personal interests hardly existed as we now know it. Nearly a half of men over 65 were still in the workforce.

Today, the cost of subsidy which has become available to fund retirement is staggering. By 1994/95, tax relief on occupational and personal pension schemes had cost an estimated £10 billion. By this time, an estimated £13.6 billion had been spent on rebates of national insurance contributions to entice people out of the State Earnings Related Pension Scheme. A further 1% rebate for the over 30s has been set up at an extra cost of £165m per year. This has been unnecessary.<sup>32</sup>

### **The married couple loses out to the lone parents**

The child-care costs of lone parents who are drawing Family Credit, housing benefit or council tax benefit are now not included in their earnings calculations: heralded as the beginning of a great expansion of publicly funded day care, the £40 requested by the National Association for One-Parent Families to assist lone parents was agreed in 1995/96 and has now been raised to £60 for 1996/97.

Whether on means-tested benefits or not, lone parents get better treatment than married parents. When employed, lone parents are entitled to all the provisions available for two parents (which has included the married couple's allowance), *plus* One-parent benefit (£6.30 per week in 1995/96) *plus* the local tax exemption for single people. Lone parents now retain a higher proportion of their income than one-earner, two-parent families, and a far higher per capita, income:

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<sup>32</sup> Noting how SERPS would treble or quadruple the pensions bill by 2030, the 1985 Report on the Reform of Social Security had proposed to phase it out quickly, with no losers, in favour of employer and employee contributions to individual investment funds.

## ARE FAMILIES AFFORDABLE?

### Comparison of Net Incomes 1995/96\* – those not drawing Income Support

<b>Gross weekly earnings</b>	<b>Married couple, 2 children</b>	<b>Lone parent, 2 children</b>	<b>Single person, no children</b>
£250	£199.58	£208.78	£180.36
£300	£232.08	£241.28	£212.86
£350	£264.58	£273.78	£245.36

\* Net income is calculated as money left after income tax, national insurance and council tax is deducted and child benefit added, but before housing costs.

Source: *Tax/Benefit Model Tables*, Department of Social Security.

Income Support is payable to unemployed lone parents without their having to 'seek work', and at a premium rate until children are 16 – precisely in order to provide an alternative to employment. Since the Fowler review of benefits in the mid-1980s, a reduced rate applies for those between 18 to 24, but lone parents get the full adult rate. In 1995/96, allowances for a couple with two young children amount to £122.41 per week, compared to £101.41 for a lone parent with two young children. If the lone parent had an unemployed boyfriend, their total was £147.66. For a couple on Income Support, the first £5 of earnings per person is ignored for benefit purposes – after which their allocation is reduced £ for £. For a lone parent the first £15 of earnings is disregarded.

Family Credit, or the means-tested benefit for the working poor family, is related to the number and age of children but not to the number of adults. Lone parents get as much as a two-parent family, plus their One-parent benefit. Lone parents may also keep the first £15 of maintenance from an absent father. While the Family Credit system makes no allowance for mortgage costs (only rent), nothing is subtracted from entitlements if someone else, such as an ex-husband, pays. Contributions in kind are also ignored.

In response to the complaint that lone parents did not find it worthwhile to work, due to the way that earnings beyond £15 were deducted from Income Support, while claimants had to work 24 hours to qualify for Family Credit, the number of working

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hours needed to claim dropped to 16 in 1992/93. Afterwards, the complaint was, and still is, that there is no point in doing more hours, because time and benefits are lost and extra work costs incurred. Of course, the dilemma of the poverty trap (where it is not worthwhile to increase earnings since relief is withdrawn as income rises) applies to everyone on means-tested benefits. It is actually worse for two-parent families, because they support more people, pay more local tax and lack extra allowances, such as One-parent benefit, which are not lost as earnings rise.

It now appears that poverty traps are no longer discussed in relation to two-parent families, only lone parents. The move of 'giving more benefit, to get off benefit' to help the lone parent means that a Family Credit recipient with two young children can receive more in net income working part-time than the provider for a two-parent family would receive for a full-time working week. While the lone parent may have to pay her childminder out of this sum, the working parent has to support the second parent:

### Comparison of Net Incomes 1995/96\* – earners drawing Family Credit or other means-tested benefits

<b>Gross wage per week</b>	<b>Married couple</b>	<b>Lone parent, not claiming child-care</b>	<b>Lone parent, claiming £40 for child-care</b>
£75	£130.21	£131.15	£159.15
£100	£131.25	£133.08	£168.31
£125	£132.04	£134.92	£170.94
<b>Full time workers (over 30 Hours/week)</b>			
£150	£142.77	£146.65	£172.45
£175	£143.51	£149.41	£184.25
£200	£145.09	£154.29	£186.86
£230	£150.94	£160.14	£188.14

\* Net income is calculated as money left after rent, income tax, national insurance and council tax is deducted and all benefits added, assuming two young children (aged 4 and 6).

Source: *Tax/Benefit Model Tables*, Department of Social Security.

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As lone parents already received as much Family Credit as a couple before the child-care disregard was introduced, *plus* One-parent benefit, *plus* the right to keep some maintenance when on income-related benefits, were not ‘child-care costs’ recognised anyway? Why the need for another tier of payment?

Alternatively, why is there no allowance for the second parent providing child-care in the two-parent family – even in the needs-related benefit system? Supposedly, two parents can qualify for the child-care allowance (although one would have to be disabled, or they would both have to be in very low-paid work with a peculiar distribution of hours). If a couple both worked full-time, the likelihood is that their combined income would put them over the earnings limit for Family Credit, where they would then be set back by having to meet all child-care costs unaided. Clearly, couples bringing up children are worse off whichever way they turn.

### **Families with a parent at home lose out to those using substitute care**

On top of the child-care money for Family Credit clients, provisions for substitute care are being expanded in numerous directions – including tax incentives for workplace nurseries, tax relief for the nannies of self-employed professionals and £45 million for after-school care. It appears that we have abandoned neutrality *vis-à-vis* the internal arrangements of families and now provide clear incentives to alternatives to the traditional two-parent family.

## CHAPTER 5

### INVISIBLE FAMILIES

#### **Just another consumer choice?**

The discrepancy in outgoings between the single childless person and the man who is the main earner for four or more people is so large that any attempt to recognise the costs of families through across-the-board tax cuts, or the left wing solution of a minimum wage, would be extraordinarily wasteful. Most of this money would go to the majority with no children to support, while being inadequate for many who have responsibilities for dependants. Moreover, it simply increases the discrepancy in living standards between those with and those without children. The most economical way to help families without wrecking economies is through allowances related to the number of dependants.

However, the 'ability to pay' has now been abandoned as the basis of the tax system, in favour of a 'neutral' tax system: this is considered as 'reasonably fair to everyone, whatever choice they choose to make'. The neutral tax structure thus relegates child-rearing to the status of one among a multitude of possible expenditure choices, and essentially one without any particular communal basis, worth or utility. On these terms, any allowance for dependants, or marriage, would be 'unfair' to the person who prefers to spend his money on holidays or sports. The choice is yours, you can either have a decent living standard or you can have children.

In turn, the mother's decision whether or not to stay at home, or to go out to work, is presented in terms of a personal choice

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made by the family according to their circumstances. Like running a yacht or car, nobody is prevented from exercising this option by anything but their means; as far as the tax system is concerned, there is no difference between parenting and golf. Indeed, a man supporting a wife bringing up children, is seen as simply providing himself with personal services.

### **Everybody independent?**

Welfare provision grows as household size declines. One adult households are more costly in terms of resources than shared dwellings, and make heavier calls, not just on land use, but on all utilities, professional help and institutions. Over 80% of future housing demands will come from single people.

In particular, measures to ease the taxation of couples with one principal earner have been bitterly opposed by those who feared a disincentive for mothers to work. Indeed, there has been a persistent feminist lobby to *tighten* the economic squeeze on families, with governments urged to eliminate the traditional fiscal recognition of marriage.

Although women of all age groups are spending more time at work, there are many who deplore the way that most mothers are employed for under 30 hours a week, and a majority of those with infants not at all. The feminist lobby has been particularly guilty in this respect. Its concern used to be equality of opportunity in the labour market; now its aim is two-fold – the full representation of women at every occupational level to the same or greater degree as men, and for all women and children to be fully independent of male economic provision at each stage of their lives. It has tried to ensure that – even if the motivation of men to provide and of mothers to care for their own children cannot be entirely eliminated – these are hopeless endeavours.<sup>33</sup>

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33 For examples of the genre, see Heather Joshi, Hugh Davies and Hilary Land *The Tale of Mrs. Typical*, Family Policy Studies Centre, 1996 or Ruth Lister, *Women's Economic Dependency and Social Security*, Equal Opportunities Commission, 1992.

## INVISIBLE FAMILIES

It is hardly surprising that a particular target of this lobby has been men in middle-income bands. They may once have found it just possible to sustain a family, given that the marriage allowance provided some relief from the imposition of higher rate tax on solo family incomes in this range. But they have been the biggest losers of the 1990s budgets in terms of the percentage of income lost. While feminist orthodoxy has long deemed 'family income' not to exist – except for purposes of oppression – when it comes from men, it is perhaps more surprising that recent Chancellors appear to have accepted the idea that fathers can be taxed with impunity.

It should be remembered that, in average households, husbands not only provide the great bulk of the income where they are the sole family earner, but an average of two-thirds even when the mother is employed. Indeed, four out of five women working part-time contribute less than 30% of household income.

The reform that brought in 'independent' taxation in 1989 means that each spouse is considered, for tax purposes, as self-supporting, irrespective of their expectations and understanding of marriage. It was never conveyed to the public that the price of the removal of an archaic convention which deemed the wife's income to be the husband's for tax purposes, was a substantial tax rise. Nor was it made explicit that this meant that marriage was now null and void as an economic status or unit. The ideal of shared production and consumption, the ideal of mutual care, provision and protection is no longer recognised (this move is directly parallel with the effective abolition of legal marriage in substance, if not title, through divorce law changes). In both cases, people who still marry clearly do so under serious misapprehensions.

If mutual support and interdependence are not to be recognised, and if couples should no longer rely on each other for help then, by rights, should not all the benefits of lone parents be extended to married mothers? Should they not be allowed to claim full Income Support and Family Credit and other benefits (such as those related to housing costs), irrespective of their relationships with any particular man or men?

## ARE FAMILIES AFFORDABLE?

Pressure groups, campaigning under the banner of equal opportunities (and financed by government here or by Brussels) are, in effect, imposing their demands on everybody, irrespective of what many believe to be right and best for themselves and their children: it should be remembered that opinion surveys consistently find that around two-thirds of dual income families would prefer to have one parent at home if money were not a problem.<sup>34</sup>

### **Taking over from parents?**

One person cannot perform all parenting functions at the same time. In theory two parents can cover both maintenance and child-care between them. However, while the two-parent family share parental responsibilities without acknowledgement of their costs, the anomaly is that state provides for *role substitution* in the case of the lone parent and makes up for the lack of a second person.

Indeed, the recent child-care disregards for lone parents are an important step in the way that the means-tested benefit system is now increasingly understood, evaluated and being developed in terms of a service for lone parents. There is considerable pressure both to expand child-care entitlements, and to let mothers keep more maintenance while fully qualifying for help. This defeats the original idea of the Child Support Agency – to recoup money paid out in means-tested benefits. This means that a father, officially or unofficially, adds to the income of a woman and children whose housing and basic living costs are met mainly by the state.

### **Cheaper without families?**

It is often argued that a large ‘package’ of provisions is necessary if lone parents are to be ‘self-sufficient’ and that the potential savings of such a package would be considerable. As mothers of young children (who tend to be low-skilled) are poorly motivated

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<sup>34</sup> Data can be found in surveys such as: *British Social Attitudes*, Gower, 1988; *International Social Attitudes: the 10<sup>th</sup> BSA Report*, SCPR Dartmouth 1993; and *Social Focus on Women*, Central Statistical Office, HMSO, 1995.

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to seek work, the incentives for minimal involvement in the labour market would have to be substantial. Moreover, how is anyone 'self-sufficient' if they have wage subsidies, housing subsidies, day care (plus, perhaps, maintenance from an absent father and One-parent benefits)?

The optimistic estimates of savings from giving extra help for lone parents to get to work do not take into account the probability that more people may rearrange their family affairs in order to qualify for the package of available benefits. Programmes enabling more and more mothers to 'go it alone' may accomplish nothing beyond shifting more births out of wedlock and more children out of marriage – particularly given the destabilisation of male earnings and the punitive taxation of fathers. To meet all such demands for the substitutes and supplements for the functions which two-parent families are more likely to supply as a matter of course, would entail a major movement of personal services into the public domain.

## CHAPTER 6

# HAVE WE PUNISHED FAMILIES ENOUGH?

### **A convenient scapegoat?**

The only measure of recognition left in the system for families is Child Benefit. This is frequently referred to as a 'hand-out' and has been blamed for the rising social security bill. Indeed it is not uncommon to find it described as 'an affront' or a 'burden' to taxpayers, (as if parents were not themselves taxpayers, and as if children were an unnecessary indulgence). We hear little or nothing about the benefits of child-rearing to society. Both self-supporting families and those on public assistance are seen in terms of users of resources, and not as creators of wealth and the guardians of the nation's future.

### **Where the money goes**

Child Benefit represents, in 1995/96, just over 6% of the Social Security budget – or just over £6 billion out of a total of £92.7 billion. By contrast, around 43% of social security expenditure goes to those of pension age: about £38 billion – a figure which has grown by a third in ten years. A further £20 billion or more goes on the sick and disabled.

Beating all the above in terms of the sheer speed of increase, are means-tested benefits of various kinds. Family Credit is up 20-fold at constant prices since 1979, while Income Support for working age people and Housing benefit are up five-fold. Means-tested benefits as a proportion of the total cash value of all benefits

## HAVE WE PUNISHED FAMILIES ENOUGH?

paid out by the DSS doubled over the 1980s, from 15.7 % in 1979/80 to 30.6 % by 1991. By 1993/94, the increased numbers of lone parents accounted for nearly £9 billion. In the 1990s alone, Housing and Council Tax Benefits rose from £7.3 billion in 1990/91 to nearly £13 billion in 1995/96; they are estimated to reach £15.3 billion by 1998/99.

When Child Benefit replaced child tax allowances/family allowances at the end of the 1970s, it became a public expenditure or an additional cost and *ceased* being treated, like other tax allowances, as money forgone. Only that part going to families whose taxed income is less than Child Benefit should have been treated as such. In 1995/96, a couple with two children started paying more in income tax and national insurance than they received in Child Benefit at earnings of only £140 per week – within the lowest 10% of the earnings distribution.

### **How to take away the rest**

It is frequently proposed that Child Benefit should be taxed, although it is itself a substitute for a tax allowance. Often, it seems to be suggested that families above the means-test, or Family Credit entitlement line, are ‘well-off’ or have some great taxable surplus: this would include families with about two-thirds of average earnings supporting four people and around 40% above the Income Support line.

There are several unanswered questions which those who want to downgrade Child Benefit ignore. As Child Benefit is paid to mothers, should a family with a high paid mother lose it, while one with a high paid father retain it? Or should a mother who has no income of her own have this benefit added to the income of her husband, so that he may be taxed instead, and take home a smaller wage packet than the single, childless man? One proposal is to tax it when a parent has earnings which fall within the higher tax rate. However, should the couple who both earn £25,000 retain it, whilst the couple with one earner on £28,000 lose it – giving an extra twist to the knife in the back of the sole provider?

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Another suggestion is that Child Benefit should be paid only for the under-fives, so that as children grow older and more expensive, there is no fiscal mitigation at all of the cost! It has further been suggested that savings on Child Benefit might go towards the education budget, or to pay for nursery education – again a move to make families pay for families and to release more funds for tax-cuts for those without dependants. The argument is now heard from all points on the political spectrum that child-care would be a ‘better investment’ than Child Benefit. These politicians are implying – whether intentionally or otherwise – that the family is outmoded – far from being pre-eminent and irreplaceable in children’s upbringing.

### **A world of disincentives?**

The loss of basic guiding convictions about the value of family life lies behind the repudiation of family policy. In its place has emerged the notion that responsibility ends with relief for the ‘needy’ and the ‘casualties’. When people are pushed below the poverty line by the cost of dependants and the charges made for these, they may qualify for a top-up. Family Credit is now given for the working poor, plus community charge or council tax benefit, plus Housing Benefit to help pay de-controlled rents and mortgage interest for the unemployed.

The *intention* of a needs-related, or ‘targeted’ system of poor relief, in contrast to a family policy, is that it is cheap and efficient. However its *effect* is the opposite: it is no less expensive; incentives are weakened and social solidarity and integration are progressively undermined.

More and more people are now claiming Income Support, Family Credit, Housing Benefit and Council Tax Benefit: today, approximately four times more working-age claimants receive Income Support than its equivalent in 1978-79. Five times more families with someone in work receive Family Credit than used to receive Family Income Supplement.

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The social consequences of a welfare system based on need are often ignored and the record of means-testing has been consistently awful. Welfare erodes the work ethic, honesty, family structure and social norms. What incentive is there to work if you lose benefit, incur work expenses, and pay so much tax that you are no better off working. Similarly, those earning low wages are only a few pence in the £ better off when they raise their wages. They are also further punished when they try to keep their families together, since means-tested benefits are much more generous to lone parents.

There is bound to be an unemployment trap if far smaller (or *nil*) dependants' allowances are made for the employed compared to those out of work. In 1995/96 a couple with two small children have a weekly income of £122.41 from Income Support plus rent or mortgage interest relief plus their local council tax in full. On earnings of £200 per week, their disposable income is £135.09, or just over £13.68 extra before work expenses (or school meals) are considered. If they have a mortgage there is no gain in working at all, since Housing Benefit for those in work does not cover interest.

In the 1940s and 1950s the income which a family was allowed to keep (given personal tax allowances, plus tax relief for children as well as family allowances) tended to be higher than out-of-work benefits. But when the initial shift of the tax system at the expense of families and the lower paid, led to both more family poverty and growing work disincentives in the 1970s, it was answered with Family Income Supplement to top-up earnings. Renamed Family Credit, and its scope greatly extended, the magnitude of the disincentive can be easily demonstrated: a couple with two young children with gross earnings of £50 per week saw £126.89 in 1995/96. On £100, they ended up with £131.25 – or £4.36 for a 100% rise in initial earnings. On £150 there is £132.77 – or £5.88 for a trebling of earnings. About 97p in the £ goes as they extended their working hours. Only when earnings reach £220 was this loss drop to 35p in the £.

A policy of 'subsidising people not bricks', by replacing general subsidies for 'social housing' and rent controls for Housing Bene-

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fit, has allowed rents to rise, and with them the cost and scale of Housing Benefit. Housing association developments and council housing have often become attractive or affordable only to those on full Housing Benefit. The tenants face marginal tax rates of over 90% if they work or increase their earnings: as a direct result, and so welfare-dependent ghettos have now been created. Do such policies actually save the government money considering the effects on the social security bill, labour market, social services, policing and so forth? As Housing Benefit has now been capped, this threatens to shift the bill onto local authorities, who will move it onto Council Tax, which will move it onto Council Tax benefit.<sup>35</sup>

Once out of the net of means-tests, parents become ineligible for maternity grants, free school milk and vitamins for pregnant women and children under five, free prescriptions and dental treatment, free sight tests and glasses vouchers, refunds of travel costs to and from hospital, school clothing grants, school uniform grants, maintenance grants for the over-16s and university/polytechnic interview expenses. Payments for school trips, courses, and other, often substantial, 'voluntary contributions' that are now made for education are no longer waived. There is a considerable loss (unless there is a sharp rise in earnings) to compensate for the withdrawal of such 'passport benefits'.

### **Plugging the dyke?**

A perennial temptation to solve the problems of the disincentives which accompany 'targeting' is simply to be less selective. More income is 'disregarded' for benefit purposes, or there are extra 'benefit top-ups' – particularly in dealing with politically sensitive groups like lone parents. However, a measure to deal with disincentives at one point in the system only creates or exacerbates disincentives at another, so there is a further 'benefit to get off of

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35 Hermione Parker, *op. cit.*; see also Martin Evans, *Housing Benefit Problems and Dilemmas: What can we learn from France and Germany*, STICERD The Toyota Centre LSE, 1996.

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benefit'. Hence, Family Credit for part-time work to get people off of Income Support makes full-time work pointless (unless it pays a much higher wage): thus the introduction of an extra £10 benefit for working full-time. But again the problem is simply transferred, in this case to people who are working for 30 hours a week and who wish to increase their earnings: at 30 hours for £4 per hour (i.e. a gross weekly wage of £120) a married man with two small children ended up with £141.88 in 1995/96. At £5 per hour (gross wage £150), he had a net income of £142.92 and, at £6 per hour (gross wage £180), the final figure was £143.65.

There is also constant pressure in such systems to let more people in: hence the introduction of Family Credit for single, childless people from October 1996. This new Earnings Top-Up will be put into operation in eight areas, initially for a three year period, at a cost of £75 million. More and more single people will become familiar with the way to work the system. There will be a further extension of the marriage trap if, on top of the way that couples get less than lone parents, single men can also claim in their own right. Between them, two people with part time or low paid work, will be able to draw far, far more, if they operate as two singles instead of as a couple.

Another tempting answer to the disincentives question is to cut the benefits themselves, as with mortgage interest help for the unemployed on Income Support. This can defeat the object of poverty relief, illustrating how difficult it is to 'help the poor' without trapping them, if those above them are being pulled down at the same time, so that the ones in 'need' become better off than the 'well off'.

### **The mirage of targeting**

It is easy to be led astray by the mirage of targeting – the idea that one can restrict help to the 'truly needy', 'genuinely needy' or 'those who really need it', whoever they are – in the belief that this will help the poor in a cheap, efficient way.

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However, the 'needy' are not a finite group, neatly separated from the majority of 'well-off' families. The range of family incomes is not so very wide. If Child Benefit is targeted on the 'neediest families' without any other help for families generally, the poverty and employment traps will be made worse, since the range of earnings over which people would be subject to high taxation and benefit withdrawal will widen considerably.

Means-tested benefits often miss the poorest targets because they depend, for example, on returns from regular employment and are not suited to intermittent and volatile earning patterns. At the same time, those on the margins change their behaviour to qualify, or to stay eligible. Earnings (and relationships) are kept 'off the books'.

Those who wish to amalgamate all reliefs into a Negative Income Tax also fail to consider the administrative difficulties and costs of running and policing universal means-testing, with all its effects on work and family life. This would entail keeping track of the personal relationships, housing and work, of everyone in the country, and making continuous adjustments as their 'neediness' changed.

Means-tests paralyse self-help and discourage self-improvement and tax honesty while at the same time rewarding claimants for being either inactive or deceitful.<sup>36</sup> Employers find their workers drastically reducing their hours, or disappearing from their second jobs, as claiming time comes round for the next six-months Family Credit. Employers balance such inconveniences against the cheap labour which the state makes available by subsidising the wages bill. Thus help restricted to the 'poor' results in more 'poor' people, just as dependants' allowances restricted to the unemployed, and 'premiums' for lone parents, result in more unemployed and unmarried people.

Thus are the virtuous punished. Those who have always practised mutual responsibility and love now find the values that they have

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<sup>36</sup> Frank Field, *Making Welfare Work: Reconstructing Welfare for the Millennium*, Institute of Community Studies, p.1, 1995.

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believed in are penalised 'as if they were being condemned for adhering to such beliefs'.<sup>37</sup> Men feel they have to make dishonest returns to the tax and benefit offices, if they are to meet their moral obligations to be good providers rather than liabilities to their families.<sup>38</sup>

The role of income-related benefits must be reduced if welfare dependency is to be reduced: long-term unemployment, poverty and marriage traps are in large part the products of a tax system which fails to recognise the necessity of horizontal equity between those with and those without dependants to support. In its place, it must be acknowledged, from the outset, that some people have more responsibilities and greater costs than others.

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<sup>37</sup> Ibid. p.9.

<sup>38</sup> Bill Jordan et al., *Trapped in Poverty?*, Routledge, 1992; see also, Bryson and K. Rowlingson, *Hard Times?* Policy Studies Institute, 1994.

## CHAPTER 7

### A BETTER WAY?

#### **Recognising families**

Policies which are supportive of the family will not only counteract the disintegration and contraction of the family system, but lend it more status. Without such policies, the problems of increasing family stress, instability, and break-up – and hence the numbers of poorly cared for, poorly educated and poorly socialised youngsters – will be compounded.

Two policies aimed at reducing the general economic constraints on families have recently received much publicity: universal provision for child-care and the basic income. Each has serious drawbacks.

#### **Child-care**

This policy entails free or subsidised day care, whether by providing state-operated day-care centres, aiding private day-care centres, or by providing a voucher to be redeemed at an approved facility. It is put forward on the following premise: if parents cannot afford to care for their children, then there has to be somewhere ‘affordable’ where they can be looked after. However, it is expensive and difficult to provide an adequate level of safe, substitute care, especially for babies, outside the home: if quality is judged by adult/child ratios, and by the consistency, responsiveness, permanency and closeness of the adult, this is most likely to be found at home. Parents name themselves as their ideal child-

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care. Alternatives come well down the list after arrangements which allow them to look after their own children.

The costs of such day care will have to be met through further taxation – taxation which would have to be paid by those parents who want to care for their own children. Should the government force those parents who want to give their children the highest quality day care (at a considerable personal economic penalty in terms of lost second income) to subsidise those who put their children into the care of a third party? Moreover, the great majority of households which would receive such benefits have the highest incomes and lowest poverty rates.

### **Is basic income the way forward?**

The Basic Income Guarantee involves the payment of a flat-rate sum to all individuals, regardless of family structure, employment status or means. This would partially or wholly replace all other benefits and tax allowances.

There are plenty of problems with the concept of a basic income (including its cost; its inherent disincentives; the continuing need for means-tested supplements if the income level was set at a low level).<sup>39</sup> In terms of family policy, the system expressly promotes atomisation. Where the mother has her ‘basic income’, the child has its ‘basic income’, and the man has his ‘basic income’ then, with or without any extra personal remuneration, there is no onus on anybody to share or provide for anybody else. This policy therefore undermines mutual support and interdependence – effects which run counter to a successful family policy.

### **The recommendations of the 1986 Green Paper**

The 1986 Green Paper proposed that everyone should receive the same basic personal allowance, with a significantly raised tax threshold which would be transferable between husband and wife

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<sup>39</sup> H. Parker, *Citizen's Income and Women*, BIRG Discussion Paper No 2, 1993; see also, by the same author, *Basic Income and the Labour Market*, BIRG Discussion Paper No 1, 1991.

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(i.e. when either does not earn enough to use up this tax allowance, the balance can be transferred to the other). The personal allowances of non-earning children could also be transferable to parents – age-related so that younger children received half the adult allowances, teenagers the full ones.

Under this system, however, the one-earner family still loses out at higher levels of income. This is because, unlike two-earner couples, such families can only take advantage of the lower rate tax bands once. Thus, under a system of transferable allowances, the family earning two salaries of £25,000, as opposed to one of £50,000, still avoids paying income tax at the higher rate.

### **A return to well tried methods?**

All those concerned for the well-being of the traditional family agree that the priority must be the reform of the personal taxation system. A rational tax policy should ensure that the income necessary for the subsistence of an individual and any dependants should be free of tax. People should never be in the position of paying tax on one hand, and claiming means-tested benefits on the other.

**The most appropriate and beneficial reform would be to allow spouses to divide their combined income into two in order to take advantage of personal allowances and income tax bands. True parity in tax matters is at last achieved under this policy (except for one-earner couples who are not married). A one-earner couple with £50,000 would then pay the same tax as two earners with £25,000 each. In addition, the tax system should recognise the financial outgoings involved in parenthood.**

This system has worked well in Europe. Under the French *quotient familial*, tax is levied on total family income which is then divided, for tax purposes into a number of tax-allowable portions; each parent receives one portion and each child a half portion, with a whole portion for the third and subsequent child. In Germany, a similar system adds two incomes together, halves the amount, and then taxes each piece separately. It is based on the idea that married couples form a partnership in which each part-

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ner should share equally in the income and expenses of the other. It also expresses the equal status of the work of husband and wife. In these and other countries, tax allowances for children, like their family allowance systems cover children aged 16 to 20 who are either unemployed, or at school, or in vocational training and those in tertiary education up to the age of 27. **The result of such tax systems is that the comparative tax burdens of families and single, childless people more accurately reflect the differences in their outgoings.**

Claims that such measures would 'entice mothers to stay at home' are misleading. For a non-earning spouse to take advantage of such reforms should be entirely voluntary. At 1996/97 levels of taxation, a transferable allowance would be worth £903 to the basic level taxpayer,<sup>40</sup> which is no great compensation for the loss of a job. This is unlikely to keep any woman at home who has no wish to be there, but it would ease the financial strain on young families.

A variant on this argument is that fathers would benefit. This betrays a reluctance or refusal to acknowledge how the bulk of husbands' income is spent on the home, and betrays a largely hostile attitude towards the presence of men in families. An impressive amount of research<sup>41</sup> now points to the importance of men's income as much as employment stability to the economic, social and psychological well-being of their families. In practice, it is up to couples to decide how they allocate the family's tax allowances as best suits them – as with their pattern of employment.

A further objection made against family tax allowances is that the 'rich' would benefit'; however, all they would receive is a basic level of income, free of tax, for the upkeep of themselves and their dependants. How the balance of the residual income, or the level of wealth, is taxed, is another matter and might be high or low. If a

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40 Given a personal allowance of £3,765 at 24% tax.

41 Details of this research can be found in *Farewell to the Family*, Institute of Economic Affairs, 1995 by the current author.

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government does not want the ‘rich’ to benefit, then it should impose higher rates of tax on those with large incomes: it should not penalise those with children at all income levels. Significantly, this argument is only used against tax allowances for families.

Because so many children are in households with low income, tax exemptions or child allowances available to all families actually have a progressive distributional impact. Increasing the progressivity of income tax rates, with more bands at higher levels, is one way to produce the revenues needed to help families. For parents, any enhanced progressivity would be offset by marital status and family size. What such measures *would* do is: increase work incentives; reduce the dependency of one-wage couples on means-tested benefits; and mitigate tax-induced hardship and poverty.

It is possible to object to *any* tax allowance on the grounds that some people do not have the income to offset against it. However, almost all who earn, now pay tax, and families pay tax when they are earning well below the level at which they are entitled to Income Support. Even where someone may not initially earn enough to take full advantage of a tax allowance, there is still the incentive to increase income without immediately incurring or increasing the tax liability.

### **What about lone parents?**

If a transferable allowance or income-splitting system were in operation, lone working mothers would receive their children’s tax allowances, plus their own personal tax allowance, and any allowance as existed for housing – but not tax relief beyond this. **All payments exclusively created for broken families should be eliminated**, including such provisions as extra One-parent benefit, premiums on Income Support, high rates of Family Credit per head, rights to have maintenance ‘disregards’ when on means-tested relief, and payments for third party child-care. One-parent benefit should be absorbed into ordinary Child Benefit – as originally intended.

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### **Family allowances reconsidered**

In contrast to policies of redistribution between rich and poor, those which help to equalise the living standards of people whose incomes are similar but levels of responsibilities are different do not set up adverse incentives; are generally thought to be fair; and are compatible with rewards for ability and effort. Only the re-introduction of child tax allowances into the fiscal system will satisfactorily answer calls for both tax relief on third party child-care and child-care at home.

Most systems of family income support have evolved to include a child tax allowance *and* some form of family allowance. Nor is this accidental, since they serve slightly different functions as they both offset to some degree the great cost of child-rearing in modern societies. Moreover, it must be borne in mind that dependants' allowances in the tax system cannot be offset against national insurance. Where this is not amalgamated with income tax, some kind of family allowance/Child Benefit counteracts this growing tax burden on low and middle-income families.

There is now renewed interest from all parts of the political spectrum in considering properly insured or contributory benefits as the only sustainable foundation for an enduring welfare system.<sup>42</sup> Family allowances or Child Benefit could, logically, be replaced by insurance schemes which deal with interruptions of earnings, and periods of heavy lifecycle expenditure, covering sickness, unemployment and pensions, should also address child-rearing. After all, this would do no more than revive an old and sound practice. People might also prefer to re-schedule their contributions over time, so that they might concentrate on meeting the costs of a home and family at one point in life, and their old age at another.<sup>43</sup>

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42 See Frank Field, *op. cit.*

43 Alternatively, the present system of Child Benefit could be adapted in line with the continental system (where a small basic tax allowance is supplemented at lower-income levels by additional benefit payments). This takes into account the extra costs for families in these circumstances of having a parent out of the workforce.

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To reduce the problem of poverty traps, the portion to be phased out with rising income, should not be lost until we are far nearer, or over, average income earnings levels (calculated in relation to family size). In 1995/96, the sum allowed for a child aged 11 to 15 was £23.40 on Income Support, £28.00 for one aged 16 - 17 and £36.80 at 18. This compared with only £10.40 for the first child and £8.45 for others from Child Benefit. A reduction of these discrepancies by income tax reductions for working families and a re-structured family allowance system, is necessary to deal with the huge disincentive effects of 'getting more' for children by being out of work, 'poor', or unmarried.

### **A better place for families?**

No society can function without families capable of maintaining and replacing themselves. The family is the first principle, model and guarantee of a stable, consensual order: an end in itself and the means to all the rest.<sup>44</sup> By producing, caring for, and educating children, families create and contribute to the good of the wider society. In looking after dependants, the family is also the primary welfare institution, just as it is basic to social order and solidarity. Hence, the costs incurred by a family are different from all others – both in economic and moral terms.

Our future depends on our willingness and ability to help Britain's families today.

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Such a scheme could replace Family Credit and also some, or all, of the children's allowances built into Income Support. For more details, see Martin Evans, *Families on the Dole in Britain, France and Germany*, STICERD The Toyota Centre LSE, 1996.

44 Eleanor Rathbone, *The Disinherited Family*, 1924.

## **A BETTER WAY?**

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