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## REWARDS OF PARENTHOOD?

towards more equitable tax treatment

LORD JOSEPH

The author

Lord Joseph has a background in business. He was Conservative MP for Leeds North East from 1966 to 1970. He was Minister for Housing and Local Government and Minister for Welsh Affairs from 1970 to 1974. He was Secretary of State for Industry from 1974 to 1979. He was Secretary of State for Education and Science from 1979 to 1983.

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## Contents

	page
Preface	5
1a Tax recognition of the costs of dependent children	6
b The squeeze on parents with dependent children	7
c Our reaction to the squeeze -- more people on benefit	8
d What I am not arguing and what I am arguing	10
e What might be done	11
2 Mothers of small children: paid jobs outside the home?	12
3 Voluntary help with parents, on request	14
Appendices on Child Support	15

### CORRIGENDUM

Page 7, para 4, lines 4 and 7.  
For 'cash' read 'tax'.

Contents

page

2

Introduction

6

1. The recognition of the needs of dependent children

7

2. The response of parents with dependent children

8

3. Our own role in the response - some points to be noted

10

4. What I can not say - and what I am saying

11

5. What might be done

13

6. Matters of small children or their jobs outside the home?

14

7. Jointly held property with parents, an aspect

15

Appendices on Child Support

## Preface

The opinions expressed in this paper relating to families with dependent children, are entirely my own. Such families come under pressures, most of which are not within the power of government to reverse. Religious and cultural expectations and sanctions cannot be re-established -- at any rate not by government -- nor would it be sensible to pretend that our world was perfect in some past age. Certainly it is not perfect today: and as prosperity here in general increases, behavioural problems multiply. This is the background against which I make a few suggestions.

Tax recognition of the costs of dependent children.

Some Conservatives say that since, under God, people procreate voluntarily, then children are matters of consumer choice: and that the costs of rearing them should be the responsibility of their parents. Government should therefore, in their view, scale down the recognition whether in tax or other systems of the cost of child rearing. Free schools and free health care, they say, subsidy enough.

I do not agree -- nor, I suspect, would most people.

Even if parents do procreate voluntarily children do not choose to be born. They come into existence involuntarily.

Moreover those who declare no interest in how the population renews itself assume that enough children will be born, and be brought up well enough in values and skills and behaviour to maintain the accustomed framework of life, the defence of the country and the support in old age of all, including those who are indifferent.

A nation must renew itself not just in physical but in social and cultural terms. Though there are many exceptions, children are reared best when two parents collaborate, the mother choosing to provide personal care for their children at home. To remember this is most important now that the two-parent family is threatened by so many destructive tendencies.

Parental care and education of the young is one of our vital national interests. The health of the family is a touchstone of the well-being of the people, both material and cultural.

How has a squeeze on parents with dependent children risen?

For generations a balance has been acknowledged as desirable between taxpayers with and without dependent children.

In a competitive wage-earning economy children represent a cost to parents. People with and without children earn the same wage so that countries have arranged their affairs to avoid penalising families. Child tax allowances and family allowances were parts of such arrangements here. West European countries have systems to secure 'horizontal equity' -- to ensure a degree of parity between living standards of families and those of their childless peers.

But in Britain the notion of the 'taxable surplus' -- that a person's income should be taxed in relation to the numbers dependent upon it -- has been eroded: a family's standard of living drops sharply from the arrival of the first baby; for it loses, on average, about £100 per week gross as the wife leaves work just when living costs rise. (Calculated from Family Expenditure Survey 1986; the net fall is now likely to be greater.)

Child tax allowances have been withdrawn: tax thresholds in real terms have fallen sharply: families now pay tax at below Income Support levels: national insurance contributions have risen: parents who both work are taxed less than when one stays at home while the children are young: and personal cash allowances climb while the only tax recognition of the costs of dependent children -- tax-free Child Benefit -- is frozen, so that the effective discrimination against the family with dependent children becomes worse each time personal cash allowances are raised (see appendices).

All this has caused a sideways shift of net income from households with dependent children to the single, to the childless, to families whose children have become independent. The plain fact is that families with dependent children have gained less from our policies than the childless.



Our reaction to the squeeze -- more people on benefit

It is true that to mitigate the harm to families on low income with dependent children we have extended Income Support and Family Credit. And certainly these measures help -- but at the cost of increasing the numbers who are subject to the poverty and unemployment traps and increasing dependency. This is reflected in the astonishingly high rate of long-term unemployment among fathers of three or more children.

**What is the squeeze?**

The squeeze comes for families with dependent children who have gained less from this Government's policies than the childless.

Taxing incomes without regard to the number dependent on them tends to move spending power away from families with dependent children.

The Department of Social Security provides relief for those worst hit via Family Credit and Income Support, Housing Benefit and Community Charge to make up for the deprivations of the Inland Revenue, National Insurance and Community Charge.

It is suggested that, with Community Charge relief, nearly half the families in the country will be entitled to means-tested benefits of one sort or another -- with all the dependency, the disincentive and the administration involved. The extra Family Credit for poor families with dependent children (and the extra for single parents) is being provided not by the population at large but by other parents through savings on Child Benefit.

And many families with dependent children suffer the squeeze without qualifying for the help given only to the poorest among them. Means-tested relief is not available, for example, for 'mortgage poverty'.

We cannot argue that real incomes have risen so much that families can look after themselves when we are supporting so many incomes precisely because we recognise how hard-pressed many families are. Nor can we fail to acknowledge that parents of dependent children account for large numbers of those who are hard-pressed.

The 1988 Family Expenditure Survey (Table 12) shows that expenditure per person in families with dependent children was £73.74 per week when the mother was working and £54.31 per week when she was not: but in households without dependent children with a working wife the expenditure per person was much more -- £117.31 per week! Between 1979 and 1985 the average real income after tax and cash benefits of the two-adult household grew more than twice as fast as that of households of two adults plus two dependent children: and of retired couples four times as fast, by a massive 25% (Family Fortunes: Parents' Incomes in the 1980s, Occasional Paper No 7 1988, Family Policies Study Centre).

It is not simply that in each income group families with dependent children do less well than the childless because of the cost of their dependents; it also has to be remembered that most families with dependent children are in the lower income ranges -- not least, because they tend to be younger.

Unfortunately the increasing financial difficulties of parents with dependent children are burdening families at a time when our child-rearing structure is at risk of falling apart under many social and cultural pressures: separation: divorce: casual procreation: rising illegitimacy: adolescent mothers: almost universal contraception which has however neither made 'every child a wanted child' nor cut the huge abortion rate: child abuse: cycles of deprivation: violence, vandalism, school failures, and the horrors of drugs and crime. The home in many cases may have ceased to be the humanising, civilising framework which it can be.

To act as responsible parents is increasingly difficult and increasingly penalised. It is asking much of families to thrive in a materially, culturally and spiritually hostile framework. Time and money, as well as motivation and understanding, are involved if children are to be given a home that will be a basis for a decent life.

What I am not arguing and what I am arguing

I am not arguing that relaxing the squeeze on families with dependent children will ipso facto lead to their better bringing-up: but I am arguing that at least there will be less discouragement of it. After all, our policies are the proof that we believe that the tax/benefit framework influences attitudes and behaviour.

I am not arguing that we ought to raise tax recognition of the costs of children so high as to encourage more childbirth; though it should be acknowledged that there is a growing worry about the implications of population trends.

I am arguing that we should foster conditions under which parents stay together: public attitudes which provide approval, security, time and opportunity for bringing up children. Since the quality of a child's environment is to a considerable extent determined by family income, this has implications for tax policy. Economics do affect the question whether or not families are formed, and whether or not they maintain their cohesion.

What might be done

Our large and welcome tax reforms have done much good: but relatively less good to the family with dependent children.

The case against raising tax-free Child Benefit is that 20% goes to households with good incomes earning well and that another 20% goes to families whose means-tested benefits would be cut by any increase in Child Benefit.

It is the group in between these two ends of the spectrum whose child-raising costs need to be recognised.

One possibility is to re-introduce age-related Child Tax Allowances for dependent children -- if necessary over several years. Agreed, this would reduce tax revenue. But many would be taken off means-tested benefits, and even where not, the costs of means-tested benefits would be reduced. I do not suggest curtailing Child Benefit. Other countries combine the equivalents of Child Benefit and Child Tax Allowances.

True, a wealthy minority with dependent children would receive a bonus. Possibly it might be practicable to cut CTAs off at a certain level of income. But, even if not, a policy which would help millions should not be prevented by the possibility of a windfall to a minority.

No government can guarantee that parents will bring up their children well. But we can at least ease the present fiscal discouragement of doing so. If we did, fewer young might commit crime; more young might learn well in both their homes and their schools; and the cycles of disadvantage might wane.

Mothers of small children: paid jobs outside the home?

The decision should surely be for the parents to make, without the financial factor predominating -- as it must do in many cases because of current tax arrangements. Here the Government has a clear part to play.

It seems that a child for its first years does need secure and deep attachment to someone who is responsible for his or her care; that is, if the child is to grow up with concern for approval, a conscience, a capacity to form relationships.

For this and other reasons, many mothers will want to be in the company of their children in their early years as much as possible.

All the same, the family will face a sharp drop in income if the mother ceases to earn when the baby is born. And for some women not only the earnings but also the companionship and interest of the work place is at stake. For it is true that often part-time work may help a young mother to be more cheerful and lively than if she had no paid work.

If the mother decides to earn then she receives a tax allowance: if the mother decides to stay at home she receives nothing. The choice is loaded against the mother doing what she and her husband may think is best for their child.

It seems to me that the transferable tax allowance so enthusiastically praised in the White Paper The Reform of Personal Taxation in 1986 still points the way. The system would increase the tax allowance for one-earner couples to the level of that for two-earner couples. It was rejected on what I think were inadequate grounds. It is part of the purpose of this paper to persuade the Government to return to it.

It is surely wrong that the 1990 Budget should have ignored mothers who stay at home when the children are young, while giving tax concessions -- by way of help to employers for day-care -- for the benefit of mothers who go out to paid work, and who receive a tax allowance to set against their earnings.

The two-earner couple already pays less tax than the one-earner couple -- an active discouragement to the mother who stays at home.

This is not a balanced treatment of the family.

Of course some mothers will decide to earn -- part or full-time. There is much talk of how the baby can then be looked after: tax relief for the cost of care provided by the employer has now been conceded. But crèches and nurseries are not ideal: they tend to be impersonal with changing staff. Would it not be better if playgroups run by the mothers themselves -- either paid or on a rota or both -- were encouraged by government?

The feminist lobby and the Equal Opportunities Commission tend to diminish the respect given to women as mothers and rearers of children. I suggest that their pressure will be offset if government:

(a) pays respect to the service which mothers perform with their husbands in bringing up children;

(b) does not provide taxpayers' money to subsidise crèches.

(c) treats one-earner couples with dependent children better -- at least as well as lone parents.

### Voluntary help with parents, on request

If parents are good at bringing up their children, giving them a steady combination of love and discipline, the child is likely to mature into a considerate and decent person. If they are not at least quite good it is probable -- though not, mercifully, certain -- that the child will mature poorly.

Clearly government can do little directly to foster the art of parenthood. But much can and should be done by voluntary bodies providing friendly help to parents who want to do better. There is evidence that such help, when welcomed by the parents and when offered voluntarily in a reliable, friendly and non-patronising way, can transform the bringing up of children in their homes.

What the government can, then, do is to encourage voluntary bodies in this work; and to provide modest and continuing contributions from the taxpayer toward some of the overheads of such voluntary bodies. The local statutory services -- the health visitors, the Social Services Departments and others -- will be quick to recognise whether the work is effective. Their professional staff have specialist jobs; they have powers which can daunt parents who mean well but need to be helped to do better.

As an indication of what can be done, consider Home-Start, set up by Margaret Harrison 17 years ago; this voluntary society now provides help through thousands of volunteers in over 100 areas.

# APPENDICES

Value of child support<sup>1</sup> for each child in standard rate tax-paying families expressed at April 1989<sup>2</sup> prices (£)

Date <sup>3</sup>	Children under age 11			Children aged 11-15			Children aged 16 and over		
	1st child	2nd child	3rd child <sup>4</sup>	1st child	2nd child	3rd child <sup>4</sup>	1st child	2nd child	3rd child <sup>4</sup>
April 1958	7.60	10.01	10.76	9.46	11.96	12.52	11.40	13.82	14.46
April 1959	6.96	9.47	10.12	8.63	11.23	11.88	10.39	12.90	13.64
April 1960	6.91	9.40	10.13	8.57	11.15	11.79	10.32	12.81	13.54
April 1961	6.73	9.15	9.87	8.34	10.85	11.48	10.05	12.47	13.19
April 1962	6.37	8.66	9.34	7.89	10.27	10.86	9.51	11.80	12.48
April 1963	7.15	9.40	10.06	8.65	11.06	11.56	10.23	12.56	13.14
April 1964	7.01	9.21	9.86	8.48	10.84	11.33	10.03	12.31	12.88
April 1965	7.03	9.19	9.65	8.57	10.66	11.20	10.12	12.20	12.74
April 1966	6.78	8.87	9.32	8.28	10.29	10.81	9.77	11.78	12.30
April 1967	6.59	8.61	9.05	8.03	9.99	10.49	9.48	11.44	11.94
April 1968	6.31	7.90	8.38	7.69	9.29	9.70	9.08	10.60	11.09
April 1969	5.98	7.81	8.27	7.29	9.13	9.59	8.60	10.44	10.83
April 1970	5.66	7.40	7.83	6.90	8.64	9.08	8.15	9.89	10.26
April 1971	6.59	8.35	8.75	7.61	9.43	9.83	8.69	10.46	10.85
April 1972	6.20	7.86	8.23	7.16	8.87	9.25	8.18	9.84	10.21
April 1973	5.63	7.05	7.39	6.66	8.03	8.37	7.49	8.86	9.20
April 1974	6.46	7.65	7.95	7.44	8.54	8.88	8.24	9.35	9.69
April 1975	5.66	7.82	7.82	6.46	8.63	8.63	7.16	9.36	9.36
April 1976	5.93	7.78	7.78	6.61	8.46	8.46	7.23	9.05	9.05
April 1977	5.70	6.53	6.53	6.28	7.10	7.10	6.78	7.58	7.58
April 1978	6.79	6.79	6.79	7.32	7.32	7.32	7.76	7.76	7.76
April 1979	8.42	8.42	8.42	8.42	8.42	8.42	8.42	8.42	8.42
November 1980	7.81	7.81	7.81	7.81	7.81	7.81	7.81	7.81	7.81
November 1981	7.71	7.71	7.71	7.71	7.71	7.71	7.71	7.71	7.71
November 1982	8.09	8.09	8.09	8.09	8.09	8.09	8.09	8.09	8.09
November 1983	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57
November 1984	8.61	8.61	8.61	8.61	8.61	8.61	8.61	8.61	8.61
November 1985	8.34	8.34	8.34	8.34	8.34	8.34	8.34	8.34	8.34
July 1986	8.32	8.32	8.32	8.32	8.32	8.32	8.32	8.32	8.32
April 1987	8.14	8.14	8.14	8.14	8.14	8.14	8.14	8.14	8.14
April 1988	7.83	7.83	7.83	7.83	7.83	7.83	7.83	7.83	7.83
April 1989	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25

<sup>1</sup> The combined value of child tax-allowances after clawback and family allowance/child benefit.

<sup>2</sup> Based on the movement in the General Index of Retail Prices at April 1989.

<sup>3</sup> Child tax allowance ceased after the 1978-79 tax year end and up-rating dates are shown from 1979 onwards.

<sup>4</sup> And subsequent children.

(a) Date	(b) MIC UB rate	(c) Dep increase	(d) Child Benefit/Family allowance	(e) Total child <sup>1</sup> support	(f) Column (e) as a percentage of column (b)	(g) Column (e) expressed at April 1989 prices <sup>2</sup>	(h) Column (g) as index April 1989 = 100
	£	£	£	£		£	
5th July 1948	2.10	0.375	0.25	0.625	29.8	9.02	62.2
30th August 1951	2.10	0.625	0.25	0.875	41.7	10.74	74.1
24th July 1952	2.70	0.65	0.25	0.90	33.3	10.20	70.3
19th May 1955	3.25	0.75	0.40	1.15	35.4	12.24	84.4
6th February 1958	4.00	1.10	0.40	1.50	37.5	14.17	97.7
6th April 1961	4.625	1.35	0.40	1.75	37.8	15.70	108.3
7th March 1963	5.45	1.60	0.40	2.00	36.7	16.68	115.0
28th January 1965	6.50	1.85	0.40	2.25	34.6	17.77	122.6
28th October 1967	7.30	2.10	0.40	2.50	34.2	18.06	124.6
11th April 1968	7.30	2.05	0.75	2.80	38.4	19.40	133.8
10th October 1968	7.30	1.90	0.90	2.80	38.4	19.16	132.1
6th November 1969	8.10	2.20	0.90	3.10	38.3	20.08	138.5
23rd September 1971	9.70	2.80	0.90	3.70	38.1	20.58	141.9
5th October 1972	10.90	3.30	0.90	4.20	38.5	21.53	148.5
4th October 1973	11.90	3.70	0.90	4.60	38.7	21.46	148.0
25th July 1974	13.90	4.50	0.90	5.40	38.8	22.20	153.1
7th April 1975	15.90	4.70	1.50	6.20	39.0	21.66	149.4
20th November 1975	18.00	5.50	1.50	7.00	38.9	21.89	151.0
18th November 1976	20.90	6.60	1.50	8.10	38.8	22.03	151.9
4th April 1977	20.90	5.60	2.50	8.10	38.8	20.26	139.7
17th November 1977	23.80	6.50	2.50	9.00	37.8	21.66	149.4



(a)	(b) M/C UB rate	(c) Dep increase	(d) Child Benefit/ Family allowance	(e) Total child <sup>1</sup> support	(f) Column (e) as a percentage of column (b)	(g) Column (e) ex- pressed at April 1989 prices <sup>2</sup>	(h) Column (g) as index April 1989 = 100
Date	£	£	£	£		£	
4th April 1978	23.80	4.40	4.60	9.00	37.8	20.85	143.8
16th November 1978	25.50	3.70	6.00	9.70	38.0	21.60	149.0
2nd April 1979	25.50	1.70	8.00	9.70	38.0	20.42	140.8
15th November 1979	29.95	3.40	8.00	11.40	38.1	21.63	149.2
24th November 1980	33.40	2.50	9.50	12.00	35.9	19.74	136.1
23rd November 1981	36.40	1.60	10.50	12.10	33.2	17.78	122.6
25th November 1982	40.45	0.60	11.70	12.30	30.4	17.01	117.3
24th November 1983	43.75	0.30	13.00	13.30	30.4	17.54	121.0
26th November 1984	46.00	— <sup>3</sup>	13.70	13.70	29.8	17.22	118.8
28th November 1985	49.25	—	14.00	14.00	28.4	16.68	115.0
28th July 1986	49.80	—	14.20	14.20	28.5	16.64	114.8
6th April 1987	50.85	—	14.50	14.50	28.5	16.28	112.3
11th April 1988	52.95	—	14.50	14.50	27.4	15.66	108.0
10th April 1989	56.10	—	14.50	14.50	25.8	14.50	100.0

<sup>1</sup> Does not show the effect of child tax allowance to the standard rate taxpayer. In years prior to April 1979 some recipients of Unemployment Benefit would also have derived advantage from child tax allowance because of their receipt of earnings in the course of the tax year.

<sup>2</sup> Based on the movement in the general Index of Retail Prices between the dates shown and April 1989.

<sup>3</sup> Child dependency addition abolished from 26 November 1984.

Source: Hansard, 6 November 1989, cols: 457-460.