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Prime Minister

I believe you may still have
Mr Howe's earlier paper.

Wm/1/8

27 August 1982

ms.

Dear Tim,

My Secretary of State sent over a preliminary note for the Family Policy Group on 3 August. — TPA:d

The attached addendum expands on some of the general points made in that note and should be read in conjunction with it.

I am sending copies of this letter to John Kerr (HM Treasury), Imogen Wilde (DES), David Edmonds (DOE), David Clark (DHSS), Barnaby Shaw (Department of Employment), Keith Long (Chancellor of the Duchy of Lancaster's Office). Copies also go to Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Yours Sincerely

Toby Johns

T. JOHNS
Private Secretary

ADDENDUM NOTE BY SECRETARY OF STATE FOR TRANSPORT FOR THE
FAMILY POLICY GROUP

1. In my note for the Prime Minister's Family Policy Group some general points were made about the effect of inflation and high taxation on family unity.

2. This addendum to that note specifies some of the ways in which inflation and tax levels blight family life, accelerates family dissolution and penalise in particular the family depending on the single earner who devotes maximum effort to his or her career.

3. The process of family disruption and breakdown under conditions of high inflation and high marginal taxes works as follows:

Inflation lifts income into higher tax brackets without raising purchasing power. The pressure sharply intensifies for married couples to become two-income families.

4. One familiar result is to expand dramatically the workforce and the registered unemployment figures, as has happened in the UK in the last twenty years. Gross family income will temporarily rise, for those who can secure the two jobs.

5. But within the family there are very severe penalties:

- a) Families forego leisure and domestic life in favour of work. Even before children arrive this causes tension, fatigue and stress. American data shows sharply rising divorce and separation rates after wives assume full time work responsibilities.

- b) With home-making and child bearing the need for purchasing power rises sharply, while the capacity to earn two incomes drops. Thus the demands of small children cut real income for the previously two-income based family, at the very moment real income needs rise fastest.
- c) The forces impelling women out to work thus either:
- (i) lead to vastly increased financial pressures on families, as the husband struggles to raise earnings after tax very fast (it has been estimated that a two-child family needs approximately 50% real income increase to maintain the same family living standards), or
 - (ii) drive mothers back to work early at the cost of domestic life.
- d) Wives at work involve more expenses, previously untaxed or unrecorded, emerging in everything from child-care to food preparation. It also seems to lead to more properly taxable activity going underground, with income and payments concealed or evaded. This in turn generates feelings of unfairness ("they don't seem to pay the taxes we do") or violates people's own sense of what they know to be right. Either way bitterness and demoralisation result.
- c) High social security payments combined with high income tax has a doubly devastating effect on family life. They weaken the capacity of the male bread-winner to 'deliver' sufficient earnings : and they weaken his motivation to do so since the mother and children can clearly manage in income terms, without him. The growing plague of fatherless families in Britain is the predictable result.

6. These points demonstrate why large tax cuts, and lower inflation, are desperately needed to help strengthen families, reduce illegal and concealed activity and restore incentives to enable bread-winners to work hard in high-productivity employment.

7. The other side of the coin is that employers' have found available a growing source of low-motivated, part time workers, while the numbers ready to go for entrepreneurial risk and capital build-up have shrunk.

8. Thus inflation and tax policies have worked hard to wipe out the homely family with the resourceful and motivated bread-winners, with devastating effects on family cohesion (reflected of course in rising street crime and 'problem' and single-parent families heavily dependent on social security). The combined 'taxflation' effect has been to weaken productivity growth and economic dynamism, while expanding the workforce and strengthening the voice of government critics who call for still higher taxes to finance more job-creation and more welfare and rehabilitation programmes in face of rising crime. At the centre of this scene is the problem of dissolving family life, divorce and demoralisation which rightly concerns us and which can I believe be reversed.

9. We should be discouraging pressures forcing women out to work. We should be discouraging the part time economy. We should be moving heaven and earth to cut taxes which not only compound the inflationary corrosion of good family life, they may actually cause it. Perhaps in the present economic situation, where high tax cuts appear to remain frustratingly in conflict with monetary rectitude, we should now seriously consider shifting the priority in favour of tax cuts so as to leave more income in family pockets.

It could even be argued that bold action on the personal tax front will help make the monetary aggregates more manageable as part of sound financial management. There is certainly no more direct way than this by which Government policy could lift some of the strains on family life from which so many of our social, and economic, problems flow in consequence.