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(Top filed on Soc Sec: uprating pt 6)

PRIME MINISTER

CHILD BENEFIT AND PES

You and the Chancellor discussed the proposed £1 per week uprating of child benefit for the first child only on Wednesday. Subsequently you considered with Andrew Turnbull and me whether the proposal made sense in terms of the Government's wider strategy on family policy; and whether it could be successfully got through the House.

The Chief Secretary and Social Security Secretary have given further thought to their proposal. In the attached minutes both have still come down in support of this addition to child benefit only for the first child.

Mr. Newton presents his proposals on child benefit as part of a wider package to provide:

- improved support for families with children;
- additional help for poorer pensioners; and
- higher income support limits for residential care and nursing homes.

Paying a higher rate of child benefit for the first child is presented as a measure, not only to help with the start-up costs of a family, but also to help cushion (albeit marginally) the loss of income for women who give up work to have children.

The heart of the case is in paragraphs 8 and 9. The proposal is presented as a "family premium" paid to mothers, that opens up a new range of options for future reviews of family policy.

Finally, Mr. Newton judges that the measure will be popular and can be successfully got through the House.

The Chief Secretary also commends the approach. He argues it would look odd to uprate child benefit in full in this more difficult year on the Public Expenditure front. Moreover the only alternative if the overall PES deal on the programme is to be maintained would involve dropping the extra benefits to poorer

pensioners and lower increases in income support for residential care. Both are policy initiatives to which Mr. Newton attaches importance.

Assessment

The case for the family premium is set out in the two minutes. The main arguments against are as follows.

- i) If the Government can afford to go this far, for a small extra sum (c. £100m) it can uprate child benefit in full. The policy looks mean.
- ii) Moreover, if it is argued that this limitation on child benefit was to make room for extra for poorer pensioners and those in residential care, that too could be counter-productive. All three measures will be criticised as mean-minded.
- iii) Any departure from full or zero uprating of child benefit opens up arguments about the future of family support policy.
 - a) Why a payment to the first child rather than to those families with say two or more children (the Chancellor reminded you of the possible reaction from the Catholic Church)?
 - b) Also, the proposed presentation about help with start-up costs and a cushion for women who leave work would in fact argue for payment of extra child benefit to children under five. Under Mr. Newton's proposal, much of the money would go to parents of single teenagers - where the mother has been back to work for some years.
- iv) Understandably, Mr. Newton sees attractions in his concept of a "family premium". But you may feel that you and colleagues should consider the new policy departure more thoroughly. If there is to be a "family premium" it is not obvious it should be paid through child benefit rather than

through the tax system. There are other ideas too, for example, raising NICs, to pay for greater support for children. Rather than extending the policy choice as Mr. Newton contends, this could be seen as a measure which restricts it.

- v) Mr. Newton's paragraph (11) on his discussion with the Chief Whip says relatively little. My understanding is that the Chief Whip was cautious in his response. He had been assuming a further freeze. Whatever the likelihood of a successful passage through the House, the danger lies in attacks from the Government's own side about the nature of this new family premium.

Conclusion

You will wish to weigh the advantages set out by Mr. Newton and the Chief Secretary against the possible drawbacks identified above. A further advantage of the package is of course that it has been negotiated between the Chief Secretary and Mr. Newton; that the only practical alternative - a further uprating of child benefit - will lead to some criticism of failure to give more to pensioners and those in residential care; and that, although this point can be over-played, it may make the overall Public Expenditure settlement look less tough than it is.

Mr. Newton had intended to lay the uprating order on Monday but this will now be postponed.

- i) Content to approve Mr. Newton/Chief Secretary's package; or
- ii) Content for me to write out in favour of full uprating of child benefit with offsets achieved elsewhere in the Social Security programme; or
- iii) Wish to talk further with the Chief Secretary, Mr. Newton, the Chancellor and the Chief Whip?

BARRY H. POTTER

19 OCTOBER 1990

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