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PRIME MINISTER

22 March 1985

CHILD SUPPORT

We spend £4.3 billion on paying Child Benefit at £6.85 a week to 7 million families with 12 million children. Had we kept child tax allowances and uprated them in fixed proportion to the married man's allowance since 1976/7, they would now cost about £3½ billion. Family Allowances would cost about another £1 billion on top.

So historically, we have met the costs of children, either through tax or through benefits. Obviously, reducing a person's tax bill is better than handing out girocheques. But the fatal flaw in Peter Rees' ingenious schemes for saving money on Child Benefit is that he fails to offer tax gains for families with children to set against cuts in benefit. It was decided at your seminar last October that it was neither right nor politically sensible to shift resources heavily away from families with children. Yet that would be the effect of the Treasury's proposals.

But there are two things you can do.

Capping Child Benefit: the case for Family Credit

You can save money by holding Child Benefit at its current level. There is big money here. Every 10p of Child Benefit costs almost £60 million. Missing a 6% uprating would save £210 million in a full year.

The politics of this will not be easy if it just looks like a mean-minded cut. The critics would argue that those in work lose relative to those out of work, and so it undoes the Budget's help with the unemployment trap.

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This is where the Family Credit comes in. Take two-thirds of the savings from holding Child Benefit for the Treasury. But for the remaining £70 million you could introduce a new support (replacing FIS) for the deserving, working poor. And once that safety valve is in place, it will be much easier to hold Child Benefit in future: the Family Credit opens up the scope for bigger expenditure savings in future. After three years you could get cumulative savings of £600 million offset by say an extra £200 million of Family Credit.

It also fits in very well with the jobs/supply side theme of your Central Council Speech. It only goes to people in work. It is paid through the pay packet (very much like the Statutory Sick Pay Scheme) rather than by girocheque. It is not an expensive, universal, socialistic tax credit. Workers see it as in effect an increase in the tax allowances.

#### Restructuring the tax system

The second way forward is to launch a root and branch attack on Child Benefit but combine this with changes in the tax system so that it once again takes account of the cost of children. The computerisation of the tax and benefit systems opens up great possibilities. For example, instead of having to put a question into everyone's tax return asking how many children they have, the Revenue could simply use the existing Child Benefit computerised records. This would reduce the high administrative costs of bringing back Child tax allowances. A family tax allowance is another option. MISC 111 cannot decide on this now. But these options are worth ventilating in either Norman Fowler's or Nigel Lawson's Green Paper.

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I recommend that you should:

- reject Peter Rees' schemes for cutting or means-testing  
Child Benefit;
- hold Child Benefit at £6.85, using some of the savings  
to finance a Family Credit;
- ask Nigel Lawson and Norman Fowler to look into options  
for recognising the costs of children in the tax  
system.

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