

C(67) 132COPY NO. 6411th July, 1967CABINETFAMILY ENDOWMENTMemorandum by the Minister of Social Security

In his paper (C(67) 131) the Chancellor of the Exchequer makes a strong plea that we should adopt a housing allowance scheme as the means of dealing with poverty among children. This proposal brings us back again to the fundamental question whether we are prepared to contemplate an extension of direct means-testing for the fathers of families in work, a measure which the Cabinet have hitherto been unwilling to adopt.

2. The fundamental argument in the Chancellor's paper seems to be that "there is growing public opinion that help should be concentrated where it is most wanted". I would not dispute that this is so; but I believe that in deciding the right course to adopt on this important issue we ought to look behind facile and only partially informed views propounded in the Press. There will always be plenty of people in favour of this means-testing - for others. The Chancellor goes on to suggest that there is little evidence that people would object to another direct means test and plenty that they do not. This seems to me to ignore a good deal of evidence of which I am only too conscious. We know for a fact that the Trades Union Congress, and many of our supporters, and of course the Child Poverty Action Group, would object strenuously to a means-tested solution. My own Family Survey has shown that either there is a great deal of resistance to means-testing among those liable to undergo it, or that means-tested answers can be relatively ineffective. Of the families eligible for free school meals with the father in full-time work, only about one-quarter are receiving them. For welfare milk, the proportion is even smaller. Only about 60 per cent of the families in the Survey with fathers sick or unemployed and apparently eligible for national assistance were in fact receiving it. Even where the elderly are concerned, we must be careful to draw the right lessons from the success of the supplementary pension scheme. While it is true that the scheme has produced 500,000 successful new claimants, an analysis of the figures shows that they were for the greater part people becoming eligible for the first time as a result of the more generous disregards of the new scheme, and we are probably still a long way short of attracting all the old people whom the survey of retirement pensioners showed to be in the greatest need.

3. Equally, I think that the Chancellor's view of the effect of his proposed scheme on incentive is both unsupported by evidence and optimistic. The Family Survey showed that only about one-seventh of the fathers of deficient families suffered from disabilities limiting their earning capacity. As to the rest, I would concede that a proportion probably have little chance of adding to their earnings by greater effort. Nevertheless, I can see no reason for doubting that the readiness of the remainder to work overtime or accept promotion or even to maintain their present earnings, is likely to be blunted by a scheme which would mean that they were no better, or only a little better, off if they strove harder.

4. The Chancellor refers in his paragraph 16 to the difficulties of relating family allowances to child tax allowances. I would not deny that they exist and are not completely soluble. It is, however, easy to exaggerate their extent. They would make a relatively few people whom we wanted to help worse off and in most cases only for relatively short periods. On the other hand, the Chancellor is silent about the difficulties of the rent allowance scheme. This would, by definition, be designed as an income maintenance scheme for the least well off, and related, however indirectly, to supplementary benefit. This last is on a weekly basis, but on grounds of administrative expense alone, the housing allowance would have to operate six months in arrears and must, therefore, in some cases, e. g. where earnings fluctuate seasonally, generate payments out of phase with the actual incidence of hardship.

5. Nor does the Chancellor's paper recognise a number of problems which seem to me to be associated with his scheme. Firstly, to put it no higher, it must surely reduce the enthusiasm of local authorities to introduce, at any rate for families, rent rebate schemes on the model recommended in the recent circular. It could hardly fail to lead eventually to local authorities adapting their rent rebate schemes to exclude families with children, thus substantially increasing the cost of the housing allowance scheme. Nor should we forget that there might be some effect on private rents. Secondly, there is the possibility that the scheme might have to be extended to childless married couples and single persons, to whom it could perfectly well, and logically ought to, be extended. Thirdly, some people and organisations would, I think, argue that, if we are willing to adopt means-testing at all, we should at least do so in a way which lifts 100 per cent, and not 86 per cent, of the deficient families up to or above the supplementary benefit level, i. e. that if means-testing must be the chosen method, it should take the form of straightforward supplementation of earnings.

6. In comparing the effects of alternative schemes, the Chancellor has understated the effects of the scheme which I favour. The proportion of children in families which would be brought up to or above the supplementary benefit level by a 10s. give-and-take scheme would be 65 per cent. On the other hand, the corresponding proportion for the housing allowance scheme would be appreciably less than 86 per cent. The total cost of the Chancellor's proposals is between £43 million and £48 million a year as compared with a net annual cost of £32 million for a 10s. give-and-take scheme. As was shown in Annex B to my paper (C(67) 7), for an annual net cost of £45 million one could have a give-and-take scheme with an increase of 15s. in the family allowance for the second and subsequent children which would lift 68 per cent of families and 80 per cent of children out of the "deficient" area.

7. It would be wrong of me to join issue with the Chancellor over the way in which revenue should be raised in order to finance whatever is the chosen scheme. I would only make the following comments on paragraphs 14 and 15 of his memorandum. He envisages that if the Cabinet adhere to their previous decision, there should be some reduction in child tax allowances, notwithstanding the difficulty of reconciling this with an increase in family allowances. The cost of his proposed housing allowance scheme is of the same order as the net cost, in an ordinary year, of the give-and-take scheme with a 10s. increase of family allowances which I favour. That scheme would help more families only a little way above the supplementary benefit level, and on the grounds which I set out in my earlier memorandum (C(66) 183) I would regard this as a positive advantage. This advantage would seem to me all the greater if we are, in fact, going to make all families with children above the chosen level of special support worse off by increasing charges for school meals and perhaps other charges also.

8. Linked with the proposed housing allowances, the Chancellor proposes to increase family allowances across the board for the fourth and subsequent children at the cost of a further £13 million a year. I am sure it is right to do something as soon as we can for the worst off families, but the particular combination of measures advocated by the Chancellor has the curious result that the improvement for the largest families must at best be indiscriminate or at worst could be "subsumed", when the housing allowance scheme came along, only for the least well off. A give-and-take scheme would avoid this anomalous result.

M. H. .

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