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C.(57) 20

30th January, 1957

CABINET

FAMILY ALLOWANCES

Memorandum by the Minister of Pensions
and National Insurance

This paper relates solely to the possibility referred to in paragraph 9 of the Chancellor of the Exchequer's paper, C.(57) 16, of dismantling a large part of the system of family allowances.

POLICY CONSIDERATIONS

2. Such a proposal would involve a complete reversal of the policy and philosophy followed by the Government since 1951. Our approach to the problem has been to cut and eliminate general subsidies while at the same time using the family allowance system, and certain other social service payments, to provide compensating protection for the economically vulnerable, including, in particular, families with children.
3. In 1952 the then Chancellor of the Exchequer announced in his Budget Speech an increase in the rate of family allowances from 5s. to 8s. a week to counter-balance the reduction in food subsidies. He said in describing this proposal "Thus we fulfil the undertaking given in our policy statement that in redistributing public money to those in need we would use the method of family allowances."
4. In our Election Manifesto for the 1955 General Election we said "We accept the case that family allowances should be paid as long as a child is at school." This pledge was implemented by the Family Allowances and National Insurance Act, 1956. The effect of the Chancellor's proposal could, of course, be to withdraw the allowance from some of the families who started to receive it under that Act.
5. A further increase in family allowances of 2s. in respect of the third and subsequent children was announced by the present Prime Minister, as Chancellor of the Exchequer, in his Budget Speech on 17th April, 1956. He said "Before I sit down I have one further proposal to make. I am conscious of the burden which is borne in these expensive days by parents of the large family, and I have looked round for some small concession to help them. It must be something the benefit of which is widely spread, even more widely than the income tax field. I have, in fact, found it in the field of family allowances."

6. This change was implemented in the Bill referred to in paragraph 4 and both improvements came into effect last autumn.

7. In supporting the legislation required to enact these various improvements many speeches were made by members of the Government advocating the system of family allowances. In particular, reference has frequently been made to the Annual Reports of the National Food Survey Committee published by the Ministry of Agriculture. The latest Report, published last year (paragraph 103), in commenting that as the size of the family increases, the standard of diet of the whole family declines, draws attention to the fact that "the difference between the standards of the diets of households with and without children has widened. Table 42 shows that the greater disparity between the diets of large and small families in 1954, compared with the two previous years, arose largely through changes in the distribution of expenditure on the commodities decontrolled in 1953/54." It is, in fact, clear that families with children are the main section of our population not even now obtaining a wholly adequate diet.

LEGISLATION INVOLVED

8. The Cabinet will also wish to be aware of the practical problems involved in carrying out a proposal of this kind. The elimination and cutting down of family allowances would require legislation which clearly would be of a bitterly controversial character.

9. But the need for legislation would not stop there. Children's allowances under National Insurance, in respect in particular of the children of widows and of sick and unemployed men, are at present based on the assumption that the second child receives family allowance. For example, the first child of an unemployed man attracts a dependency increase of National Insurance benefit of 11s. 6d. a week, while the second child attracts only 3s. 6d. a week, i. e. account is taken of the receipt of family allowance. It is clear that if family allowance were to be withdrawn or reduced it would be necessary to provide for increases in these National Insurance payments. Similar adjustments would be needed in respect of children of Industrial Injury beneficiaries, while amendments of the Royal Warrant would be required to deal with the care of children of war pensioners. The necessity for these changes appears to be recognised in the financial calculations in the Chancellor's paper.

10. In view of the present strong and mounting pressure on existing National Insurance benefit rates, particularly of the retirement pension, the serious political embarrassment and risks of legislation - in a hostile atmosphere - on some National Insurance rates of benefit (viz. those for children) before we are ready to increase the main rates require no emphasis. And as the financial resolution procedure is not needed to cover amendments proposing a charge on the National Insurance Fund, the possibility of amendments increasing other rates of benefit, in particular retirement pensions, would have to be faced.

11. It seems, therefore, clear that the adoption of the Chancellor of the Exchequer's proposal would involve prolonged and contentious legislation, with real Parliamentary risks.

GENERAL CONSIDERATIONS

12. It is for consideration whether a saving obtained, if at all, at the cost of bitter political controversy and attacking substantially the provision at present made for the rising generation would have a reassuring effect on foreign opinion.

13. The proposal involved removing family allowance completely from 2,098,000 out of approximately $3\frac{1}{4}$ million families in receipt of family allowance. It involves a reduction of 4s. for a further 765,000. In all, 87 per cent of the families concerned would either lose or suffer a substantial reduction in their family allowance. The claim that this is a redistribution in favour of the larger family is clearly therefore not sustainable.

14. The full force of this cut would fall on families below the income tax level since those above it receive only the allowance less tax. Those most affected are, therefore, those whom it is impossible to help by adjustments of direct taxation.

15. So far as the time factor is concerned, we have had no experience of reducing rates of family allowance. I understand, however, that the operation would take six months from the time at which a firm decision to make a particular change had been taken and announced - and this would depend on sticking to the changes.

16. One of the advantages of the system of family allowances, as contrasted with the payment of higher dependency allowances in respect of children under National Insurance, has for some time been considered to be the fact that it enables benefit paid to unemployed or sick heads of large families to be kept lower in most cases than the wage levels of the lower paid industries. This could have an important effect on incentive to return to work.

17. It is, of course, for the Minister of Labour to say what effect these proposals would have on wage claims.

18. At present prices the 8s. rate approximates to the original value of the allowance in terms of purchasing power as enacted at 5s. in the Caretaker Government's Family Allowances Act, 1945, incidentally the only one of the post-war improvements in Social Services which a Conservative Government can claim to have enacted.

J.A.B.-C.

Ministry of Pensions and
National Insurance, W.C.2.

30th January, 1957