



The Price of Parenthood

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FOREWORD

BRITAIN WILL SOON BE THE LONE-PARENT CAPITAL OF THE WESTERN WORLD. This is partly because the absolute number of children living in one parent families is so large and partly because the birth rate among intact couples has fallen. As a result of these twin developments, the percentage of children who are living in a one parent household is now much higher in Britain than elsewhere in Western Europe and we are about to overtake the United States. Many of the children currently living in such households will eventually end up in step-families, or as they are described in Newspeak, “blended” or “reconstituted” families.

There has been a great deal of research in recent years on what these developments mean for children and society in general. The conclusions are clear. Although many lone parents and step families do an excellent job, children in such families are at much greater risk of abuse and neglect as well as worse social, educational and health outcomes when compared to children who live with both their natural parents. Ideologues may deny this, but the evidence is now overwhelming. The decline of the traditional family is harmful to children and also to the wider society. This was clearly documented by Jill Kirby in her previous report *Broken Hearts*.

In this new report, Jill Kirby looks at the same issue from a different angle. Her main concern here is with the impact on families of the tax and benefit system. She documents the cost to the taxpayer of lone parenthood and shows how present policies penalise intact families and subsidise lone parenthood on a scale

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that is not widely appreciated. She argues that this system is unfair to intact families which are often struggling to make ends meet. By encouraging lone parenthood, it is also corroding the social fabric. I believe she is correct on both counts.

Some of the information contained in this report is astonishing. If an intact family breaks down or if a woman has children without a husband or cohabiting partner, the annual cost to the rest of society can easily run into many thousands of pounds. In the examples given by Jill Kirby, the immediate cost to the taxpayer of such an event is between £4,000 and £12,000 a year in the form of additional benefits and foregone taxes. If a woman has two children on her own without a partner, she may receive more than £11,000 a year in the form of welfare benefits. Cumulating such figures over a number of years, the total cost to the taxpayer of someone becoming a lone parent may be well over £100,000. In much of the country this is the price of a reasonable house. With a subsidy of this magnitude, it is no surprise that lone parenthood is on the increase.

Despite the official rhetoric of putting children first, there is now a heavy tax burden on middle income families with children. If they also have a mortgage to pay off, as they often do, such families may be under constant financial pressure. The resulting stress contributes to family breakdown and adds to the number of lone-parent households. Many middle income families respond to financial pressure by overworking to raise extra money or by having fewer children. The families with the largest number of children now tend to be found at opposite ends of the social spectrum, among well-paid professionals and lone mothers. The squeeze is on the middle.

It is official policy to encourage lone mothers to work, and there is a growing list of measures designed to achieve this result. These include tax incentives and a massive expansion of professional child-care in the form of nurseries and all-day, year-round care for older children on school premises. The state is increasingly taking

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on the roles normally expected of a husband – providing a stable income for the mother and doing more and more childcare. Even the Left has abandoned the slogan “nationalise the means of production”, but step by step governments in this country have been nationalising the means of reproduction. Instead of taking over failing industries as in the distant past, they are now taking over failing families, whose number is growing by the day. All this is done in the name of social justice and for the good of children. But where is the justice in a system that penalises intact couples and subsidises lone parenthood? How can such a policy be in the general interest of children?

The present system feeds on itself – the more money is spent on subsidising lone parents, the greater incentive there is for couples to break up, and the less incentive there is for a woman to delay having children until she can find a reliable man to pair up with. There has long been an argument as to whether the government should support marriage in preference to unmarried cohabitation. But this is not the main issue here. The present system penalises married and overtly cohabiting parents alike. The beneficiaries are parents who covertly cohabit, parents who split up and women who have children without a partner.

Such a situation cannot continue indefinitely. Sooner or later governments in this country will have to get to grips with it, just as they are doing in America, where there is bipartisan support for measures to reverse the growth in lone parenthood. Inspired by the American example, Jill Kirby puts forward a list of proposals which are designed to rebuild family life and cut welfare dependency. She concludes with the following words:

The bias against two-parent families must be removed... Welfare support should be limited to short-term relief of hardship and should not be a substitute for family support. When assessing a family's needs, both parents should be involved in that assessment, regardless of whether they are living together or not.

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I agree with these remarks. I would only add that welfare reform is not the complete answer. There is also the question of jobs. Across the country, there is a strong correlation between lone parenthood and male joblessness. Despite the frequent claim that Britain now has full employment, there is a large body of younger unskilled men who are without a job or have no stable employment. Such men are most heavily concentrated in the old industrial areas of London and the North, but they exist throughout the country. From a financial point of view they are not very desirable partners, and if a woman does marry or cohabit with such a man the relationship has a high chance of breaking up. Any scheme for welfare reform should therefore be complemented by measures to increase the supply of “marriageable” men who can provide viable partners for potential mothers. This requires creating more and better jobs for men, especially in the old industrial areas where lone parenthood is so prevalent. How this can be done is a subject for another report.

Robert Rowthorn
January 2005

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SUMMARY AND CONCLUSIONS

- The cost of ‘child-contingent support’ has risen by 52% since the Labour Government came to power, and now exceeds £20 billion a year. Lone-parent households are five times more likely than couples to be receiving welfare payments and more than twice as likely to be receiving tax credits. Lone parents receive average tax credit and benefit payments five times larger than couple households.
- A two-parent, one-earner family on average income (£24,000), with a mortgage and two young children (“Mr and Mrs Average”), is now just over a pound a week per head better off than a lone-parent household entirely dependent on the state.
- Mr and Mrs Average pay over £5,000 a year more in tax than they receive in benefits. If they break up, however, the two households can receive £7,000 more in benefits than they pay in tax.
- A lone-parent household raising two children costs the public purse more than £11,000 a year in benefits alone.
- British fertility has been declining. The biggest decline has been experienced in homes around average income and among married families. Better-off families, lone mothers and teenagers have been more likely to maintain fertility levels. The number of babies born to married families has halved in the last 30 years. British women are postponing

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motherhood and although they still aspire to have two children, many are unable to achieve their ambition.

- In 25 years the number of children living in lone-parent households has more than doubled, to 3.2 million. Half of all lone mothers have never married, and nearly half are unemployed. Lone parents receive more child-contingent support (in tax credits and benefits) than an equivalent couple household, and are more likely to be lifted out of poverty by state support than couple families on the same income.
- The penalties on marriage/cohabitation already inherent in the welfare system are increased by the tax credits system, so that a couple will often be better off living apart. Only 20% of all lone parents are receiving regular child support payments from the absent parent, so that the burden of supporting the children of lone parents falls disproportionately on the state and thus on taxpayers.
- The US experienced a similar pattern of family breakdown and spiralling welfare costs but took radical steps to reform welfare in the mid-1990s. It has now reduced welfare dependency by more than 50%. At the same time, the US birth rate has increased, family breakdown has levelled off, child support payments have increased and teenage pregnancies have fallen by around 30%.
- In order to rebuild family life and cut welfare dependency, Britain must learn some of the lessons of US welfare reform. The bias against two-parent families must be removed and a transparent system of genuine tax allowances introduced to replace the complex, expensive and unfair tax credit system. Welfare support should be limited to short-term relief of hardship. When assessing a family's needs, both parents should be involved in that assessment, regardless of whether they are living together or not.

CHAPTER ONE

THE RISING COST OF WELFARE

THE LABOUR GOVERNMENT came to power in 1997 promising to tackle some of Britain's most acute social challenges. British living standards had risen steadily during the period of Conservative Government during the 1980s and 1990s, but the gap between rich and poor households had also grown, especially households with children. Fiscal support for the family had been allowed to wither away, while the number of children living in single-parent and welfare dependent households had grown steadily, entailing a steep increase in welfare costs.

In response to this challenge, the incoming Labour administration set itself a number of targets to shrink the gap between rich and poor and to raise households with children above the 'poverty line' (defining poverty as 60% of median income). The Government's declared aim was to 'halve child poverty' by 2010 and to abolish it altogether by 2020.¹

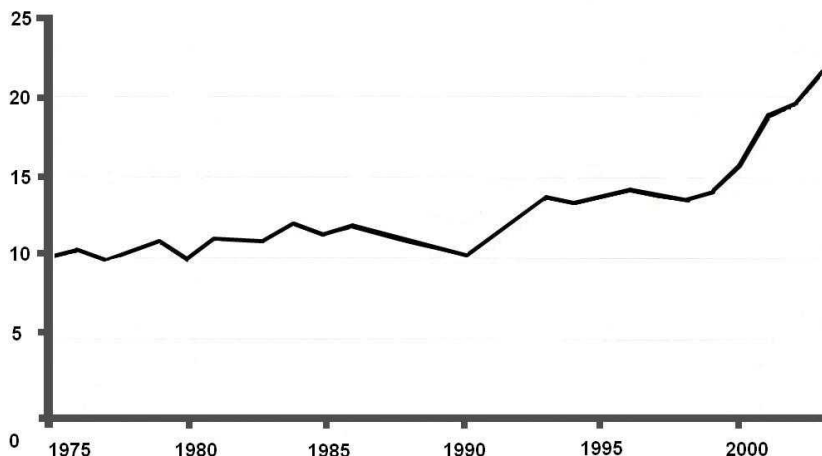
In pursuit of these objectives, the Chancellor has massively increased financial support for households with children. The Institute of Fiscal Studies (IFS) calculates that government spending on 'child-contingent support' amounted to £22 billion in 2003, a rise of 52% at constant prices since 1997.²

¹ HM Treasury, *Opportunity for All*, 1999; also see HM Treasury, *Spending Review*, 2000, and *Public Service Agreements 2001-2004*, 2002.

² S Adam and M Brewer, *Supporting Families – the financial cost and benefits of children since 1975*, The Policy Press, January 2004.

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**Total Spending on child-contingent support
(£ billions, 2003 prices)**



Source: S Adam and M Brewer, *Supporting Families – The financial cost and benefits of children since 1975*, The Policy Press, January 2004.

Of this £22 billion, £12 billion is paid out through the tax credit system. The introduction of tax credits, described as “a single seamless system of support for families”, has enabled the Government to blur the distinction between tax allowances and welfare support. Tax credits may create the impression of a dynamic approach to family support, appearing to encourage work and move families towards independence. Yet the family elements of the tax credits system, while masquerading as tax allowances and rebates, remain welfare payments in all but name.

Crucially, like welfare payments, tax credits are means-tested, thus tending to discourage earning and saving. In addition, since the last wave of reform in 2003, they have been paid to the ‘main carer’ in the family rather than the main earner. Unlike genuine

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tax allowances, tax credit payments are costly to administer, and highly susceptible to mistake, overpayment and fraud.³

This increase in expenditure has had little impact on welfare dependency. In the last five years, despite a healthy economy with apparently low unemployment,⁴ the proportion of children living in workless households has fallen by less than 2%, and currently stands at 16% of all children in the UK.⁵

In the meantime, the proportion of children living in lone-parent households continues to grow, thus increasing the demands on the public purse. 27% of all British children are currently living in lone-parent households.⁶ This figure has risen from 21% in 1996; ten years earlier it was just 15%. Since the 1970s, lone-parents have, per household, received more state support for their children than couples with the same number of children. This trend has been exacerbated under the tax credit system. Today, lone parents, especially those with more than one child, can be much more generously compensated by the State for the costs involved in raising children than the equivalent couple household.⁷

³ Out of a total of £16 billion paid in WTC and CTC in 2003 (£12 billion of which was 'child-contingent'), the House of Commons Public Accounts Committee has estimated that between £500 million and £700 million has been overpaid. See House of Commons, Committee of Public Accounts, *Inland Revenue: Tax Credits*, 2004.

⁴ However, note that the headline employment figures do not tell the whole story. International Labour Organisation data for December 2004 show there were 1,388,000 unemployed in the UK compared with 833,200 on the claimant count. This indicates that there were 554,800 people not working who did not register for benefits.

⁵ ONS, *Labour Force Survey*, July 2004.

⁶ ONS, *Living in Britain: the 2002 General Household Survey*, 2004.

⁷ S Adam and M Brewer, *op. cit.*, Figure 3.4.

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Fluctuating families

Any modern government seeking to close the gap between rich and poor households must contend with the changing shape of the family and the increasing instability of household formation. The present Government has acknowledged that family stability is important for child outcomes. In December 2001, in a progress report on tackling child poverty, the Treasury noted that:

...the level of parental interest in the child's education, and absence of family disruption, is an important factor in the subsequent development of the child... a stable and supportive family can protect young people growing up in disadvantaged areas...⁸

But these sentiments are simply not followed through in Government strategy. Certainly there is no evidence of any attempts by the Treasury to encourage family stability through the tax or welfare regime.

Today, an increasing proportion of children are being subjected to "family disruption." On present divorce and separation statistics, it is estimated that at least one in three children nowadays will experience the break-up of their parents' relationship before the child reaches the age of 16. The longer-term social consequences of this disruption and unhappiness are widely acknowledged and are documented elsewhere.⁹ Setting aside for now the emotional and social costs of family instability, there is an immediate and substantial financial cost to be considered.

⁸ HM Treasury, *Tackling child poverty: giving every child the best possible start in life: a Pre-Budget Report document*, December 2001.

⁹ See for example the author's *Broken Hearts – family decline and the consequences for society*, CPS, 2002.

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The cost of lone parenthood

Raising more than a quarter of the nation's children in single-parent homes has a clear economic impact. Lone-parent support is very expensive. Around half of all lone-parent households are workless, compared to just 7% of couple households. Nine out of ten lone-parent households are headed by mothers.¹⁰ While maternal employment has increased steadily in the last 20 years, working mothers are mostly to be found in couple households, especially among married couples. A 2001 survey found that 60% of married mothers were in full- or part-time work, compared to 46% of lone mothers.¹¹ Lone fathers are more likely to be in work, and to be working full-time (76%),¹² but fathers account for just 10% of all single parent households.

Accordingly, lone-parent households are far more likely than couple families to be wholly or partly dependent on welfare. In 2004, more than 900,000 lone parents were receiving Income Support compared to 170,000 couple families.¹³ Among lone mothers who are employed, more than half are in part-time employment, many of them working around the tax credit minimum of 16 hours per week, their wages topped up by tax credits and/or childcare payments.¹⁴ The 2001 census found that just 21.4% of lone mothers work full-time.¹⁵

¹⁰ ONS, *Census 2001: families of England and Wales*, 2003.

¹¹ A Marsh and J Perry, *Families and Children Survey 2001 (FACS 2001) Family change 1999 to 2001*, DWP Research Report No 180, Section 2.1.

¹² M Barnes et al, *Families and Children in Britain – Findings from the 2002 Families and Children Study (FACS 2002)*, DWP Research Report 206.

¹³ DWP Income Support Quarterly Statistical Enquiry, May 2004.

¹⁴ FACS 2002.

¹⁵ Census 2001.

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In 2002, an estimated 34% of all lone-parent households received Working Families' Tax Credit (WFTC, the predecessor to the Working Tax Credit), compared with 15% of couple families.¹⁶ Lone parents working 16 or more hours per week were more likely to have claimed this tax credit than couple families, and to have received higher payments than couple families.¹⁷ Households with a single female earner are also much more likely to be in receipt of housing and other benefits than those with one male earner. In 2002, lone parents' median payments from means-tested benefits and tax credits combined amounted to nearly £140 per week, compared to £26 received by couples.¹⁸

Difficult questions

Of course it is no surprise that workless and low-work households are more likely to be in need of welfare support than full-time working households. But the difference in work rates between married and single households, and the cost of supporting the latter, poses a number of difficult questions. Can this redistribution be described as 'fair' to families? If parents in a married household feel they must both work in order to meet the costs of raising their children, to what extent should they also be required (as taxpayers) to meet the cost of raising other children in workless, or low-work, households?

If they are expected to do so, should this be a matter of short-term support on compassionate grounds? Or should it be a long-term commitment? Where lone-parent households represent an increasing proportion of all families, can this level of subsidy be

¹⁶ FACS 2002.

¹⁷ FACS 2002 showed that the median amount received by lone parents was £85 compared to couples £77.

¹⁸ FACS 2002. 44% of lone parents were receiving Housing Benefit compared to 5% of couples; 55% of lone parents received Council Tax Benefit compared to 7% of couples.

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sustained indefinitely? And does such subsidy in itself contribute to, and entrench, the causes of poverty, by permitting and encouraging dependency? There is also the further, morally loaded question of whether any distinctions should be drawn between the (diminishing) number of widowed parents of young children, and women who have positively chosen to raise their children alone.

Public perceptions

It seems that (unlike most politicians) the British public is now expecting answers to some of these questions, and is increasingly unhappy about the re-allocation of finances from one household to another. The 2003 British Social Attitudes Survey (BSA) found that, since this Government came to power, voters have become much less willing to see their taxes spent on welfare benefits for poorer households.¹⁹ The BSA also shows much less tolerance of unemployment, the popular view being that “if people really want a job, they can find one.” Strikingly, younger people are now less supportive of the welfare state than their elders. Twenty years ago 18 to 34 year olds were five percentage points more likely than those aged over 55 to support higher taxes and increased public spending. Now they are nine points less likely to do so.

These findings were corroborated by a YouGov survey in September 2004, in which 71% of respondents agreed that “the welfare state has become too inefficient – with many undeserving people getting too much while genuinely needy people struggle to get by.” Only 15% thought “the welfare state is under-funded and poor families need higher benefits in order to help them make ends meet.”²⁰

¹⁹ See for example, N Timmins, “Voters harden view on taxes to aid poor”, *Financial Times*, 9 November 2003.

²⁰ YouGov survey for the Centre for Social Justice, September 2004.

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These findings may point to more than just a change in attitude. British families are becoming demoralised by the welfare state. As the cost of compensating for family instability has risen over the last 30 years, Britain has at the same time experienced a steady decline in family size, particularly among families at average income levels, whose interests have too often been neglected at the expense of more obvious and immediate social problems. The next chapter considers the extent to which that neglect has contributed to Britain's declining birth rate.

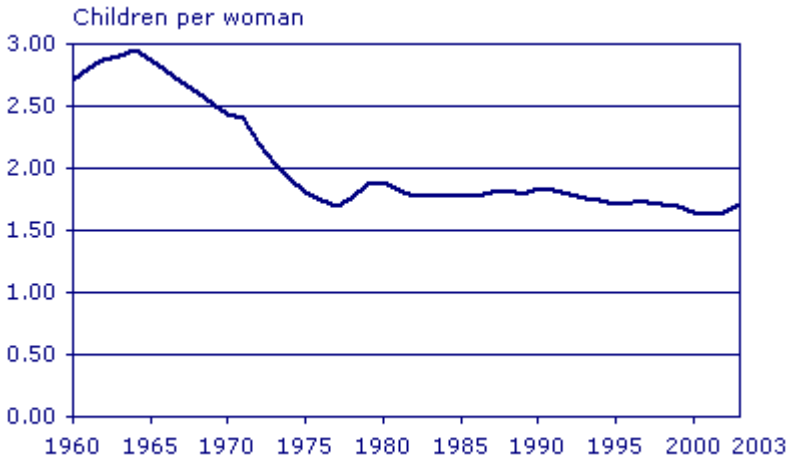
CHAPTER TWO

TRENDS IN MODERN FAMILY LIFE

Baby boom to baby bust

THE BRITISH FAMILY IS SHRINKING. Year by year, households are getting smaller. In 1981 46% of all households contained three people or more; just over 20 years later, in 2002, this had fallen to 34%.²¹ Women nowadays are, on average, having fewer children, having them later, or not having children at all. Plotting a graph of the fluctuations in the UK fertility rate since the Second World War is rather like charting the vigour of British family life:

Total Fertility Rate



Source: ONS, *Population Trends 118*, Winter 2004.

²¹ ONS, *Living in Britain: the 2002 General Household Survey*, 2004.

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The brief surge in the birth rate that represented the post war “baby boom” was followed in the 1950s and 1960s by a much bigger and longer lasting boom, a real wave of enthusiasm for child-bearing and family life. During those years the fabled 2.4 children per family became the norm, comfortably above replacement level of 2.1. Janet and John were in their heyday and were as likely as not to have a baby brother or sister to play with; families ‘had never had it so good.’ A couple with two young children on average earnings paid just 9% of their income in tax and National Insurance.²²

But in the 1970s the tide turned. The liberalisation of divorce and abortion laws, rising maternal employment and higher consumer expectations all had an impact on family life. Earnings rose, but so did the demands upon those earnings, with steeply rising housing costs and an increased burden of taxation taking a much higher proportion of family incomes.²³ The response was a sharp decline in births. Households got smaller and a third child was no longer fashionable or, for some, affordable.

By 1979, the impact of these social changes seemed to have run its course, for the birth rate rose for a few years. But through the 1980s and 1990s fertility slid down again, levelling out at around 1.8 babies per woman – below replacement level although not yet a serious cause for concern. As the 1990s progressed, however, the rate drifted down, reaching a low of 1.63 in 2001 before rising slightly, to 1.73, in 2003. (Scotland has the lowest fertility rate in the UK at just 1.54.) Whether through choice or circumstance, about 20% of British women are now remaining childless.

²² D Utting, *Rhetoric and reality in Family and Parenthood*, Joseph Rowntree Foundation 1995: Table 7 shows that in 1964-65 a married couple on average male earnings with two children under 11 paid 9% of their income in tax and National Insurance.

²³ By 1978-79 the tax burden had more than doubled: a married couple on average male earnings with two children under 11 paid 20.9% of their income in tax and National Insurance.

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The problem is felt elsewhere in Europe, although some European countries are bucking the trend, most notably France (1.9 and rising) and Norway (1.8). By contrast, the US experienced strong growth in fertility during the 1980s and 1990s and continues to maintain a fertility rate around replacement level (see Chapter 5).

More pensioners than children

As Professor David Coleman of the Oxford Centre for Population Research warns: “With a birth rate below replacement level, Europe now faces a period of natural decline.”²⁴ Coleman points out that current age structures in the UK provide a ‘potential support ratio’ for the elderly of just over four working-age people for every retired person (4.2:1). But to maintain this level over the next 50 years, we would need a fertility rate of 3.5 – clearly an unrealistic scenario. Coleman estimates that a fertility rate of 2.1 (i.e. replacement level) would provide a support ratio of 2.5:1 in 2050, which would remain reasonably stable thereafter. This would be an acceptable level, bearing in mind that the elderly now enjoy much better health than in the past; and are likely to continue to work longer. But a birth rate substantially below replacement, as at present, is cause for concern.

What are the causes of our reluctance to reproduce? Increased levels of female education and career opportunities clearly play a part, together with easy access to contraception and abortion, and rising consumer aspirations. The decline in marriage, marrying later in life, family breakdown and fear of divorce have also all been cited as potential reasons for limiting family size.²⁵

²⁴ D Coleman and M Smith, *Europe at the cross-roads: can demographic, social and economic futures depend on immigration?*, University of Oxford, 2003.

²⁵ S Smallwood, “Fertility Assumptions for the 2002-based population projections”, *Population Trends*, ONS, Winter 2003.

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While explicit government intervention in many of these areas would be controversial, government policies plainly have an impact on any decision as to whether or not to have a child. Most obviously, government can influence whether or not families can *afford* children. To what extent will a mother's loss of income, combined with the financial outlay required to rear the child, be offset by tax allowances and/or benefits? How much have these proportions changed during the era of declining fertility? And which types of families gain or lose most from changes in fiscal and social policy?

In this context, it is worth considering whether certain types of women, and certain categories of families, are having noticeably fewer children nowadays.

Patterns of motherhood

Within the overall decline in fertility over the last 40 years, there are certainly significant variations in fertility patterns associated with age, income and marital status. For example, since the 1960s births to teenage mothers in the UK have declined by just 25%,²⁶ as have births to older mothers (40 plus). But births to women aged 20-29 have halved. Thus, instead of seeing a surge in women's fertility during their twenties, as in the 1960s and 1970s, the age profile of mothers has now flattened out. Women are now more likely to postpone childbearing to their thirties, a trend which has been especially evident in the last 10 years.

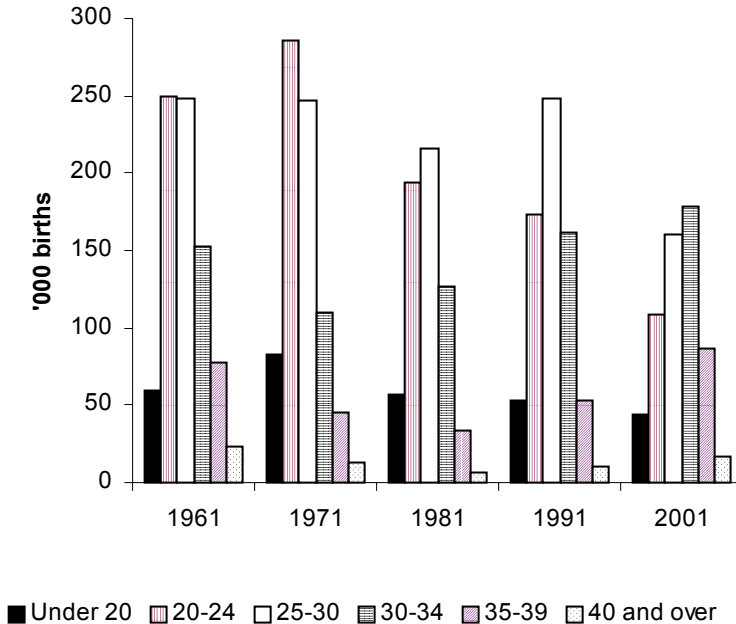
Such postponement is linked to falling fertility. Even with the benefit of advances in IVF and other forms of assisted conception, fertility declines with age. Women who wait until their thirties to become mothers take longer to conceive and are likely to have fewer children. A recent analysis of fertility intentions found that among women who postponed childbearing into their thirties, yet

²⁶ ONS, *Population Trends*, Winter 2003 Table 3.1. Note also that in the 1960s most teen births were to married mothers, whereas now 90% take place outside marriage.

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who still intended to start a family, only half managed to do so in the subsequent six years.²⁷

Postponing the age of childbearing



Source: Live births by age of mother, *Population Trends*, ONS, 2003.

Women in their twenties are rejecting both marriage and motherhood. In just 10 years (1991-2001), the rate of first marriage for women age 20–24 fell dramatically, from 73 per thousand to 32 per thousand. The average age of a woman at first marriage is now 28.²⁸ In 2003, 181,600 abortions were carried out in England and

²⁷ A Berrington, “Perpetual postponers? Women’s, men’s and couple’s fertility intentions and subsequent fertility behaviour”, *Population Trends*, ONS, Autumn 2004.

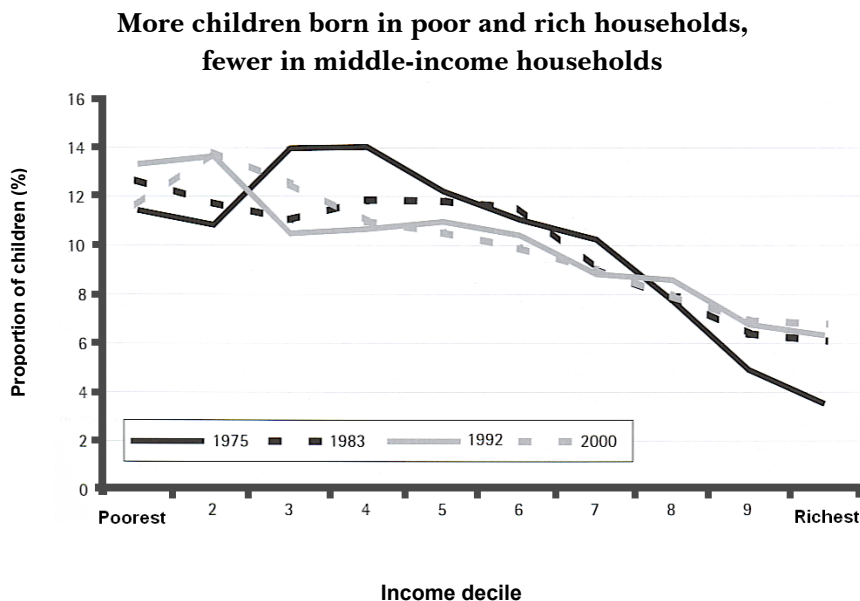
²⁸ ONS, *Population Trends*, Autumn 2003.

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Wales compared to 621,469 live births, and the abortion rate was highest not among teenagers but among women aged 20-24.²⁹

The U-curve

At the same time as births among twenty-something mothers have dropped, so too has the number of children in middle-income households fallen. The IFS reports that in 1975 households in the third and fourth income deciles contained the largest number of children.³⁰ Now, the bottom two deciles contain the most children, while there has also been a rise in the number of children in the richest decile.



Source: S Adam and M Brewer, *Supporting Families – The financial cost and benefits of children since 1975*, The Policy Press, January 2004.

²⁹ *Summary of Abortion Statistics, England and Wales 2003*, Department of Health Statistical Bulletin, 2004.

³⁰ S Adam and M Brewer, *op. cit.*, Figure 2.2.

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This trend appears to be confirmed by data showing the link between birth rates and social class. It is clear from birth records over the last 30 years that the professional and managerial classes have bucked the trend towards smaller families. While the number of married families with four or more children fell by two-thirds between 1970 and 2000, among the upper occupational groups the number of such families remained fairly constant over that period. By far the biggest fall has been in middle-income families: in 1970 46,000 babies were born into families in mid-range occupational groups who already had three or more children; in 2000 this figure had fallen to just 12,000.³¹

No records are kept in the UK specifically linking fertility and income, and it is difficult to establish conclusively whether this increasing polarisation between rich and poor households is an example of cause or effect. Data showing the link between births and social class do show that during the last 30 years the decline in the birth rate has been steepest in the middle-range of occupational groups. From 1970 to 2000 the number of babies born to families in the middle groups (broadly: skilled or technical intermediate occupations and own-account workers) fell by 45%. Among parents in the top groups (higher professional and managerial occupations), the number of births has increased by about a third. At the lower end (unskilled or routine occupations and long-term unemployed), there has been a small reduction.

These figures can only give an approximate guide, for several reasons. Records linking birth and social class are limited to a sample of the population, and have been predominantly compiled according to the father's occupation. The increase in sole registered births, and the difficulty in categorising the occupational status of lone mothers, has inevitably skewed the picture. Some of the steep drop in births among the middle groups in society can be explained away by the reclassification of occupations over the relevant

³¹ ONS, Social Class Series FMI no 13.

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period.³² Overall, however, the drop in the birth rate among “Mr and Mrs Average” shows an increasing polarisation in family circumstances: the well-off and the poorest households have been more likely to maintain their fertility but middle-income families have been declining.

Estimated live births (in thousands) by social class as defined by occupation (England and Wales)³³

Year	1970	1980	1990	2000	% change 1970-2000
Class I & II	151.6	170.4	203.5	209.5	+ 38.2%
Class III (N&M)	392.1	296.4	303.6	220.2	- 43.8%
Classes IV, V & others ³⁴	204.3	156.3	199.4	174.7	- 14.5%
All births	748.0	623.1	706.5	604.4	- 19.2%

Sources: Table 11.1 and 11.5 Social Class Series FMI Nos. 13, 19, 29 and 30
ONS and House of Commons Hansard Written Answers for 14
January 2004.

The decline of the married family

The data on births taking place outside marriage over the period of declining fertility are also striking. In 1971, when the UK fertility rate last stood at replacement level, more than 90% of babies (or

³² In 1971, about 22% of fathers were classified in the upper occupational groups, with 42% in the middle layer and 35% in the lower groups. By 2001 the proportions were roughly 35%:30%:35%. The lower, unskilled and long-term unemployed group has remained constant over the period – yet birth rates in this group have fallen by just 14.5% against an overall fall of 19.2%. See ONS, *Social Trends 1974 and 2002*.

³³ Social class defined by occupation of father for births within marriage and jointly registered, and by social class of mother where sole registered.

³⁴ Includes long-term unemployed, students and groups not capable of classification elsewhere. Note that the figures for births registered by mother alone according to occupational group are available for 1990 and 2000 only.

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717,000) were to married mothers. By 2002, with the fertility rate at 1.6 (the lowest ever) fewer than 60% of births took place inside marriage – 354,000. So the actual number of babies born to married families has halved in 30 years. Around two-thirds of births outside marriage are jointly registered to couples living at the same address,³⁵ but this is no guarantee that both parents will remain involved in the support and rearing of the child; cohabiting parents of young children break up at more than five times the rate of married parents.³⁶

One fifth of non-marital births are to couples living apart already; and another 20% are registered by the mother alone, with no details of the father given. As Kathleen Kiernan noted last year in a study of Millennium babies, one in five children is now born into a home with no father.³⁷

John Haskey of the Office of National Statistics has also noted that over the last 20 years the family size of couple families and lone-parent families has steadily converged. While the average family size of couple families has declined, that of the lone-parent family has increased. Families of four or more children are now just as likely to be found in lone-parent households as in couple households.³⁸

³⁵ An estimated 63% in 2003. See ONS, “Live births outside marriage: age of mother and type of registration”, *Population Trends*, Autumn 2003.

³⁶ K Kiernan, *Childbearing outside Marriage in Western Europe*, Population Trends, ONS, Summer 1999.

³⁷ K Kiernan, “Unmarried parenthood: new insights from the Millennium Cohort Study”, *Population Trends*, ONS, Winter 2003.

³⁸ J Haskey, “One-Parent Families – and the Dependent Children Living in Them – in Great Britain”, *Population Trends*, ONS, 2002.

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TEENAGE MOTHERHOOD

Does the answer to a falling birth rate lie with increasing fertility among teenage girls? The Government seems ambivalent about this. Its aim is to halve the number of teenage pregnancies by 2010, and with this in mind the Teenage Pregnancy Unit seeks to promote wider use of contraceptives and the morning-after pill. On the other hand, the Unit also supports teenage motherhood through housing, childcare and benefit provision.³⁹ The number of teenage pregnancies (already the highest in Europe) rose in 2002.

Nevertheless, the Government would probably be alarmed if the teenage birth rate began to outstrip births among older age groups. Apart from concerns about social consequences for the teenagers and their babies, a large increase in teenage births would present problems for another of the Government's targets – that of increasing the proportion of lone mothers in employment.

This illustrates one of the difficulties of the Government's welfare programme: where women feel they have nothing to lose by having children, fertility rates are more likely to be maintained. The Joseph Rowntree Foundation found in 2004 that pregnant teenagers in poor areas were less likely to opt for abortion, and more likely to give birth, than their more affluent counterparts.⁴⁰ For a teenager with no income, having a baby on benefits is a decision she can 'afford' to take, especially if she has no strong desire to be in work.

It is now accepted that financial considerations influence a workless teenager's decision to have children. Presumably it is also understandable that where a baby presents a young working woman and her family with serious financial penalties, the urge to reproduce will be tempered by material considerations.

³⁹ *Implementation of the Teenage Pregnancy Strategy Progress Report*, DfES, February 2004.

⁴⁰ S Lister, "Pregnant teenagers live in different worlds: the affluent have an abortion. The poor have a baby", *The Times*, 30 June 2004.

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Recent research into childlessness, by Dr Catherine Hakim of the London School of Economics, indicates that a woman's decision to have children is strongly susceptible to the social, economic and political environment.⁴¹ Steve Smallwood, of the Population and Demography Division of the ONS, reports that women on average nowadays *intend* to have two children, but they end up having fewer. Again, this suggests that harsh realities, including financial penalties, get in the way of their aspirations.⁴²

Mortgage or motherhood?

Housing costs have undoubtedly played a significant part in limiting family size over the last 20 years, and the impact has been most significant among middle-income couples. As mortgage costs rose through the 1980s and 1990s, with mortgage lending based on two incomes, women became increasingly locked into paid employment and reluctant to take a break from work in order to have a baby.

As Hakim has noted, women living in local authority housing have traditionally been likely to have more children than owner-occupiers. This difference in fertility increased during the 1980s, so that by 1986 about a third of owner-occupier couples were remaining childless into their thirties compared to just 4% of those in public sector accommodation.⁴³

Can Mr and Mrs Average afford to be parents?

While there is some scope for debate about cause and effect, it remains the case that in the 1960s and 1970s households around

⁴¹ C Hakim, *Childlessness in Europe* Economic and Social Research Council, 2004.

⁴² S Smallwood and J Jeffries, "Family building intentions in England and Wales: trends, outcomes and interpretations", *Population Trends*, ONS, 2003.

⁴³ C Hakim, *Models of the Family in Modern Societies*, Ashgate 2004.

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average income, with married mothers in their twenties, had the most children and were preponderantly responsible for the baby boom. Nowadays the picture is different. It seems having children is relatively easy if you are rich enough not to be affected by tax and benefit considerations. It is also less daunting if you are poor enough to be fully compensated by the state for the cost of those children.⁴⁴ But for the families in the middle, the sums don't look good. The impact on their living standards of having and rearing children appears to be leading to postponement of marriage and parenthood and reduction in family size – or perhaps missing out on family life altogether.

These are trends which should worry any government seeking to close the poverty gap. If it is left to the rich and poor to reproduce, while middle-income families are dwindling, an important source of social cohesion is lost. Both Left and Right have for too long taken the view that such families could look after themselves. But the consequences suggest that no sector of the population can be taken for granted.

⁴⁴ Among lone mothers, for example, those who are either unemployed or who work less than 16 hours a week are twice as likely to have three or more children (21%) as those who are working 16 hours or more(10%). See FACS, 2002 Table 2.2.

CHAPTER THREE

DISINCENTIVES TO PARENTAL RESPONSIBILITY

WHAT ARE THE SPECIFIC FISCAL DETERRENTS and disincentives to couples raising families? And what are the obstacles that government has put in the way of couples considering marriage (either as a preliminary or an accompaniment to parenthood)?

The lone-parent poverty trap

The growth of lone parenthood is a significant risk of downward mobility in a society where downward mobility, at least since the war, has been rare. Among families with children, downward mobility prior to 1970 was associated mainly with chronic poor health, social dysfunction or widowhood. For the parents of young children, it is a new and large snake on a board that used to have mostly ladders.⁴⁵

Government advisers acknowledge that the big increase in the number of lone-parent households over the last 20 years has been a major reason for the increase in child poverty.⁴⁶ Between 1979 and 2003 the number of children in lone-parent households more than doubled, from 1.4 million to 3.2 million.⁴⁷ Longitudinal

⁴⁵ FACS, 2001, p.167.

⁴⁶ See for example E Balls, J Grice and G O'Donnell, *Microeconomic Reform in Britain*, Palgrave Macmillan, 2004.

⁴⁷ Ibid; and DWP, *Households Below Average Income 2002/03*, 2004, Table 4.4.

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surveys indicate that the duration of lone motherhood has also increased over this period.⁴⁸ A recent study of low-income families showed that while there has been some movement into work among lone mothers in the last few years, a persistent quarter of lone parents on Income Support have been in receipt of this benefit for eight or more years.⁴⁹

This is partly because single, never-married women have come to represent a growing proportion of all lone mothers – rising from just 14% in 1971 to 35% in 1996, and continuing a steep trajectory so that in 2002 this category represents half of all lone mothers.⁵⁰ Never-married mothers are the most likely to be out of work: 72% are unemployed compared with 41% of ex-married lone mothers.⁵¹

The growing proportion of lone parents

	1971	1981	1991	1995	2001	2002
Married/cohabiting couple	92	87	81	78	75	73
Lone mother, of which	7	11	18	20	22	24
- single	1	2	6	8	10	12
- widowed	2	2	1	1	1	0
- divorced	2	4	6	7	7	7
- separated	2	2	4	5	4	5
Lone father	1	2	1	2	3	2
All lone parents	8	13	19	22	25	27

Source: ONS, *Living in Britain: the 2002 General Household Survey*, 2004, Table 3.6. Data show the proportion of families in Great Britain with dependent children (defined as persons under 16, or aged 16-18 and in full-time education, in the family unit, and living in the household).

⁴⁸ FACS 2001, p. 76.

⁴⁹ FACS 2002, p. 4.

⁵⁰ ONS, *Living in Britain: the 2002 General Household Survey*, 2004.

⁵¹ FACS 2001, p. 72.

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In addition, 15 years ago many never-married mothers were spending relatively short periods on their own before moving in with, or marrying, the father of their child. But now it seems they are becoming less likely to marry and also less likely to move in with a partner, or to remain with a partner.⁵² Least likely of all to “re-partner” is the never-married mother who has also never had a job.

It is therefore not surprising that, as government-sponsored research admits, lone parents are “a large and enduring customer base for income supplementation by the State.”⁵³ There are numerous reasons *why* this “customer base” endures. Important among them is the lack of incentive for lone mothers to move from dependency to self-sufficiency.

No end to dependency

The Government is keen to see lone mothers move into work and to become gradually less reliant on the State, hence its target for 70% of all lone-parents to be in employment. But progress towards this target has been slow. In 1999, the New Deal for Lone Parents was brought in with the object of introducing lone parents to job opportunities and thus, it was hoped, persuading them to opt for work rather than benefits. However, a 2004 Department for Work and Pensions (DWP) survey found that in areas where the programme operated lone parents were slightly *less* likely to have moved into work than in comparison areas. For those already claiming benefit there was only a 1% increase in the number going into work within the next nine to twelve months. The survey found little evidence of mothers losing benefit through failure to attend interviews, and concluded that the cost of providing the New Deal programme was greater than the economic gain from getting the parent into work.⁵⁴

⁵² FACS 2001, p. 76.

⁵³ FACS 2001, p. 166.

⁵⁴ J Hales et al, *Evaluation of the New Deal for Lone Parents: early lessons from the Phase One Prototype*, DWP Research Report 108, 2004.

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The Chancellor introduced the tax credit system on the basis that it would encourage work and move households towards independence, especially lone parents. But again, there is no element of compulsion. Indeed, changes made to the tax credit regime in 2003 have reduced the incentive for non-working lone parents to take paid employment. Before 2003 it was a requirement that the claimant had to work 16 hours a week to obtain tax credits. This condition still applies to the Working Tax Credit, but has been dropped for the Child Tax Credit.⁵⁵

In addition, a substantial proportion of working lone mothers appear, not surprisingly, to be limiting their hours to the minimum required to take best advantage of the available tax credits.⁵⁶ Getting mothers into low-paid, part-time work, subsidised through tax credits (including childcare credits) does not, of itself, end dependency upon the state. Not only is the mother's income subsidised; the childcare facilities she uses will also often be partly, or wholly, taxpayer-funded. The Government can claim that more lone mothers are in employment; but the notion of independence from the State is largely illusory. At the same time, as has been seen, the number of lone-parent households continues to grow.

Fathers not required

The Government does not appear to consider the possibility that state dependency might be replaced by *interdependency* within families. Certainly the system is not structured to improve the chances of that happening. If an unemployed lone mother marries (or openly cohabits with) the father of her children, she will be penalised through the loss of welfare benefits.

⁵⁵ For non-working parents, the "child element" of child Tax Credit is £1,625 per year per child; this is in addition to the "family element" of £545 per year (or £1,090 if there is a child in the family under one).

⁵⁶ A third of lone mothers in employment work between 16 and 23 hours per week. FACS 2001.

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The Independent Advisory Group on Teenage Pregnancy has noted “the detrimental effect that this can have on relationships between the child, its mother and father, and the negative effect on initiatives aiming to increase young fathers’ participation in the lives of their child”.⁵⁷

The lone-parent trap does not just affect the unemployed. It also pervades the tax credit system. As already noted, working lone parents are much more likely than couples to be supported by tax credits. This is not just a matter of perceived need; the Institute of Fiscal Studies (IFS) has observed that the level of “child-contingent support” is higher for a lone parent than for a couple with the same number of children and similar level of income.⁵⁸

As Leonard Beighton and Don Draper of the lobby group CARE have argued since the introduction of tax credits, it is a feature of the tax credit system that it is much more likely to lift a lone parent out of poverty than a couple family. This is chiefly because tax credits do not acknowledge the needs of the second adult in the couple family.⁵⁹

This is not just a disincentive to marry (or indeed to openly cohabit). It is also a disincentive to work, because a lone mother needs to work considerably fewer hours each week than a couple in order to reach the same level of income. Beighton and Draper’s figures show, that a single earner married couple with two young children on gross earnings of £200 a week ends up with an

⁵⁷ Independent Advisory Group on Teenage Pregnancy *First Annual Report*, Department of Health, 2001.

⁵⁸ S Adam and M Brewer, op. cit.

⁵⁹ For welfare benefits the income of both parents was aggregated for means testing but benefits were higher if there were two adults in the family. For tax credits the same aggregation rule applies but there is no allowance for the additional adult.

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“equivalised”⁶⁰ income of £170 (£15 below the poverty line), whereas a lone parent on the same wage and in the same circumstances ends up with £260 (i.e. £75 above the poverty line).⁶¹

The failure of the tax credit system to help poor couple households will only make it more difficult for the Government to meet its child poverty targets: large numbers of poor children will still be living in working two-parent families. Tax credits discriminate against such families, leaving them poorer than lone-parent households with the same income and same number of children. Furthermore, a situation where an unmarried couple can be considerably better off claiming to be living apart when they are in fact living together entices couples to make dishonest claims. As the IFS recently pointed out:

The expansion of benefits and tax credits that are assessed against family income with no allowances for the number of adults will reduce the incentive for individuals to cohabit, or to declare cohabitation to the authorities.⁶²

When unmarried parents consider the potential impact on their tax credits and benefits of moving in together, they will soon see that it is in their financial interests to keep the relationship ‘off the books.’

⁶⁰ “Equivalisation” – the process of adjusting household disposable income to take account of the size and composition of the household, in recognition of the fact that a larger household requires a higher income to achieve the same standard of living. See DWP, *Households Below Average Income 2002/3*, 2004, Appendix 1.

⁶¹ D Draper and L Beighton, *Supplementary Evidence to the Select Committee Inquiry into Child Poverty*, February 2004 (figures based on Department of Work and Pensions Benefit Model Tables June 2003) HC 85-III.

⁶² M Brewer and A Shephard, *Has Labour made work pay?* Joseph Rowntree Foundation/Institute of Fiscal Studies 2004.

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In focusing so much attention and resources on lone parents, at the expense of two-parent families, the Government is not only discouraging the formation of those families in the first place; it is also failing those children whose parents are struggling to maintain an intact home on a low income. This is a further example of the long-term damage which results from neglecting the couple family.

Childcare credits further disadvantage single-earner couples

As we have seen, the bias against couples in the tax credit system affects dual-earner couples as well as couples with only one breadwinner. But it is the one-breadwinner couple who is the most disadvantaged by the present system, and this disadvantage is compounded by the operation of childcare subsidies. The Childcare Tax Credit is available to lone parents, who work at least 16 hours a week, and dual-earner couples where both work at least 16 hours. The credit will pay 70% of their childcare costs⁶³ and can be used to offset the cost of a childminder, day nursery or other registered carer (provided the carer is not a relative). But it cannot be claimed by one-earner couples.

It is assumed that one-earner couples will not incur childcare costs since the non-earning spouse or partner will be providing that care. While this may well be so, there are still objections to the principle of funding childcare in this way. The first is it signals to families that the care of young children is not valued where it is undertaken by the child's parent. The second is that it does not recognise the loss of the caring spouse's income. And thirdly, it allocates substantial resources from the public purse towards certain households (with incomes of up to £59,000 a year) at the expense of other families who may be poorer but who have only one breadwinner.

⁶³ Up to a maximum of 70% of £135 per week for one child and £200 for two or more children, rising to 80% of £175 and £300 in 2006 (HM Treasury, *Pre-Budget Report*, November 2004).

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Child support

The Child Support Agency (CSA) was set up in 1993 in response to the concern that the increasing cost of raising children in one-parent households was too heavy a burden on the tax-payer. Since every child has two parents, it was argued, why should the State be obliged to direct more resources towards the parents who ceased to live together, than to those who continued under one roof?

The history of the CSA has been troubled, and its administration beset by criticisms. There were allegations that it tackled easy cases (such as divorced parents with existing maintenance orders) rather than never-married fathers who had made no maintenance payments at all. When in 2003 the Government introduced a new computer system to process CSA payments, problems starting up the new system and transferring data from the old system meant that thousands of awards went unpaid.

By autumn 2004 a House of Commons Select Committee was told that the CSA was “on the brink of collapse.”⁶⁴ In its defence, a spokesman stated that the Agency “remains committed to ensuring that children are financially supported by both parents whether they live with them or not.”⁶⁵ In reality, this commitment is far from being fulfilled: recent research showed that among families where at least one child had a non-resident parent, only half had an order or agreement for child support in place. Strikingly, only about four in ten of those had actually *received* payments. In other words, only about 20% of lone parents receive regular child support payments. Furthermore, workless lone parents are the least likely to have child support arrangements in place and to be in receipt of payments.⁶⁶

⁶⁴ Michelle Counley, director of National Association for Child Support Action, giving evidence to Work and Pensions Select Committee, October 2004.

⁶⁵ “CSA ‘on point of collapse’ owing £720m to parents”, *The Independent*, 14 October 2004.

⁶⁶ FACS, 2002.

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Disregard = disincentive

Where a non-resident parent *does* contribute to the cost of raising children through child support or payments, those payments are wholly disregarded for the purposes of assessing the recipient parent's tax credit.⁶⁷ In effect, separated couples are allowed a measure of income pooling without this affecting the tax credit assessment. In contrast, the income of both parents is taken into account if the couple is married or is cohabiting.

The principle of disregarding maintenance was first introduced in relation to welfare assessments (where the first £10 per week of maintenance is disregarded⁶⁸) with the intention of encouraging separated parents to share responsibility for the costs of raising their children, a kind of reward for good behaviour. The tax credits disregard is potentially much more generous, enabling a separated mother to receive a slice of income from an absent father towards the cost of raising their child, yet not reducing the amount she is able to claim from the state.

This disregard is a further disincentive to marriage or open cohabitation. Where parents live together as a couple (whether married or cohabiting), the couple will generally either be operating with a "common purse"; or one of those parents will be making payments to the other in order to meet the costs of bringing up their children. Such transfers are most likely where the second parent is caring for children and thus has little or no earned income. But such payments are not 'disregarded' for the purpose of assessing tax credits. Once again, couple households are penalised for sticking together.

⁶⁷ *Guide to Child Tax credit and Working Tax Credit*, Inland Revenue, 2004.

⁶⁸ DWP guidelines state that: "When child maintenance is calculated under the new arrangements, persons with care on Income Support or income related Jobseeker's Allowance keep up to £10 a week of any child maintenance paid for their children without it affecting their benefit. This is called the child maintenance premium."

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CHAPTER FOUR

SOME ILLUSTRATIONS

THE TABLES IN THIS CHAPTER, TOGETHER WITH DETAILS SUPPLIED IN THE APPENDIX, illustrate the impact of the current tax and benefit system on three different families:

1. Ms Welfare, who has no paid employment, two young children and who lives in local authority housing;
2. Mr & Mrs Average,⁶⁹ a one-earner family on average earnings (about £24,000 a year), with two young children and a below average mortgage;
3. Mr & Mrs Low Pay, a one-earner family on half median earnings (about £12,000 a year), with two young children, living in local authority housing.

In the case of the last two examples, the tables also illustrate the impact on the family's net income (after tax and housing costs) of family break-up. In the event of break-up much will depend on whether or not the husband (or partner, in the case of cohabiting couples) pays Child Support: only about 20% of lone parents do receive such payments. The tables therefore illustrate four possible scenarios:

4. Mr Average moves out and lives in rented accommodation, pays CSA maintenance: the children continue living with the mother in the family home;

⁶⁹ The couples are described as Mr & Mrs. If they are cohabiting rather than married, the figures do not change.

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5. Mr Average moves out and lives in rented accommodation, but pays no CSA maintenance; the children continue living with the mother in the family home.
6. Mr Low Pay moves out and lives in rented accommodation, pays CSA maintenance; the children continue living with the non-earning mother in the family home;
7. Mr Low Pay moves out and lives in rented accommodation, but pays no CSA maintenance; the children continue living with the non-earning mother in the family home.

These illustrations are necessarily only indicative and are based on a number of assumptions that obviously will, in practice, vary from family to family. These assumptions are detailed in the Appendix. However, the conclusions drawn from these tables are startling.

Perverse incentives

The following table shows that Mr and Mrs Average are only just over £1 a week better off per head than Ms Welfare (who does not work at all). Strikingly, Mr and Mrs Low Pay are better off after housing costs and tax than Mr and Mrs Average.

Family net income, after tax and housing costs

Weekly income (£)

	Pre tax income, including all benefits	Net Income (i.e. after tax and housing costs)	Per capita Net Income
Ms Welfare	229.93	162.20	54.06
Mr & Mrs Average	500.05	222.84	55.71
Mr & Mrs Low Pay	360.10	245.99	61.49

See Appendix for details of calculations and assumptions.

Is it in Mr and Mrs Average's financial interest to stay together?
The following table shows what would happen if they split up:

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Mr & Mrs Average break up

Weekly income (£)

	Pre tax income, including all benefits		Net income after tax, maintenance and housing costs		Per capita Net Income	
	His	Hers	His	Hers	His	Hers
	▪ he pays CSA	462	280	176	125	176
▪ does not pay CSA	462	279	245	124	245	41

See Appendix for details of calculations and assumptions. Figures rounded to nearest £.

Before the break-up, Mr & Mrs Average had a total weekly net income of £223; after the break-up, this increases by 35% to £301 (if Child Maintenance is paid); or by 65% to £369 (if Child Maintenance is evaded). In both cases, it is the single earner who reaps the greatest benefit from the break-up, with the child carer substantially penalised.

If Mr & Mrs Low Pay break up, the story is different:

Mr & Mrs Low Pay break up

Weekly income (£)

	Pre tax income, including all benefits		Net Income (i.e. after tax, maintenance and housing costs)		Per capita Net Income	
	His	Hers	His	Hers	His	Hers
	▪ he pays CSA	243	240	62	172	62
▪ does not pay CSA	243	230	102	162	102	54

See Appendix for details of calculations and assumptions. Figures rounded to nearest £.

Before the break-up, Mrs and Mrs Low Pay had a total weekly net income of £246; after the break-up, this falls by 4% to £234 (if Child Maintenance is paid); or increases by 7% to £264 (if Child Maintenance is evaded).

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The impact on the Exchequer

As the levels of tax paid and benefits received alter according to family circumstance, the cost of family break-up has a direct impact on the Exchequer.

The net cost (benefits paid minus direct tax collected) to the Exchequer

	Weekly	Annual
Ms Welfare	£215	£11,197
Mr & Mrs Average	– £99	– £5,156
Mr & Mrs Average break up & pay CSA	£67	£3,471
Mr & Mrs Average break up & evade CSA	£135	£6,999

Mr & Mrs Low Pay	£68	£3,542
Mr & Mrs Low Pay break up & pay CSA	£143	£7,451
Mr & Mrs Low Pay break up & evade CSA	£173	£9,021

See Appendix for details of calculations and assumptions. Figures rounded to nearest £.

Of the seven families, only Mr & Mrs Average pay more in tax than they receive in benefits, All other families impose significant costs, with the greatest being imposed by Ms Welfare. Significantly, the Exchequer is in total more than £12,000 a year worse off if Mr & Mrs Average break up (and he evades Child Maintenance): instead of paying net taxes of over £5,000 a year while living together, the two households will receive net benefits of £7,000 a year if living apart.

In spite of the burdens imposed on the Exchequer, governments of both parties have been reluctant to recognise, let alone address, their implicit role in the underlying causes of family collapse. An understandable desire to palliate the short-term financial consequences for children has led to a complex system of disincentive and disadvantage for the low- to average-income ‘couple family.’ Is there any way out?

CHAPTER FIVE

LESSONS FROM AMERICA

Over the last ten years, every state has undertaken at least one activity or made at least one policy change designed to strengthen marriage and/or two-parent families.⁷⁰

BRITAIN IS NOT ALONE in experiencing a huge increase in family breakdown over the last 30 years. Until the mid-1990s, the US trod a similar path. By 1996, 27% of US children lived in single-parent families, up from 12% 30 years earlier.⁷¹ 32% of babies were born outside marriage, up from 8% in 1965.⁷² As in Britain, these changes had led to heavy welfare expenditure as well as wider concerns about child poverty and the disadvantages experienced by children growing up without fathers. But the American response, beginning with welfare reform in 1996, during the Clinton Presidency, and updated and extended under President Bush, has been more radical than any British initiatives – and has had much more noticeable results.

In the US, welfare rolls have fallen dramatically since 1996, as lone mothers have moved off benefits and into work or into co-dependency with a partner.⁷³ So far, this has been accompanied

⁷⁰ T Ooms et al, *Beyond Marriage Licenses: Efforts to Strengthen Marriage and Two-Parent Families. A State-by-State Snapshot*, Center for Law and Social Policy, 2004.

⁷¹ US Bureau of the Census, *Living Arrangements of Children Under 18 Years Old: 1960 to Present*, 2004. Full data are available at <http://www.census.gov/population/socdemo/hh-fam/tabCH-1.pdf>

⁷² Childstats.gov, *America's children*, 2004.

⁷³ Mothers leaving welfare but not entering work may be reliant on family or on a cohabiting partner whose support has not previously

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by a levelling-off in the rate of non-marital births and in the number of children living in one-parent households, and a steady decline in teenage pregnancies. Interestingly for Britain, these trends have not been accompanied by a general decline in fertility. Over the period from 1980 to 2000, US birth rates rose by 17%, in sharp contrast to a rapidly declining European birth rate. Contrary to popular assumption, the US increase was not confined to the immigrant population.⁷⁴ So perhaps it is worth considering in more detail the American approach, to see if there are lessons for British policy makers.

Responsibility begins at home

Widespread public concern about high welfare bills and a growing unease about family breakdown, particularly in poor communities, came to a head in America in the 1990s, and provided the impetus for a new approach to welfare. The political response was to change the basis for welfare assistance, trying to place a new emphasis on personal responsibility, especially family responsibility, and re-casting welfare as temporary support in times of hardship rather than a source of long-term income. The promoters of this reform believed that this would not only reduce welfare dependency but would also stem the tide of family breakdown, in particular by preventing the state from replacing fathers as family providers.

been needed/acknowledged. See D Besharov and P Germainis, *Welfare Reform: Four Years Later in Ending Dependency – Lessons from Welfare Reform in the USA*, Civitas, 2001.

⁷⁴ The US recorded an increase in its total fertility rate from 1.81 children per woman in 1980 to 2.1 children (replacement level) in 2000. This is not just an immigrant-related phenomenon. Fertility among Americans of European descent rose by 19%, to 2.065 children per woman. M Gallagher, *Can Government Strengthen Marriage? Evidence from the Social Sciences*, Institute for American Values, 2003.

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The Personal Responsibility and Work Opportunities Act (PRWORA), initiated by a Republican congress in 1994 but passed with Democrat support in 1996, had two main objectives:

- “to end the dependency of needy parents on government benefits by promoting job preparation, work and marriage;”⁷⁵ (‘the work goals’)
- “to prevent and reduce the incidence of out-of-wedlock pregnancies” and to “encourage the formation and maintenance of two-parent families.”⁷⁶ (‘the family goals’)

The ‘work goals’ were to be achieved through a combination of work incentives and benefit withdrawal. ‘Earned Income Tax Credits’ (on which Gordon Brown’s tax credit system was later loosely based) provided the work incentives, through topping-up wages and reducing the high marginal tax rates that would otherwise occur as benefits were withdrawn. But at the same time, it was made clear to recipients that welfare would be temporary: families were limited to a total of five years of cash welfare over their lifetime (or less if states chose). Individual states were given more discretion than ever before in the methods used to implement reform, and some states have demonstrated a more radical approach than others. Across the board, however, as the legislation took effect state-by-state welfare rolls fell by an estimated 54%.

As welfare payments decreased, lone parent work rates increased by around 25% over five years, to 73% of all lone mothers by 2000. Even among never-married mothers, who (as in the UK) were the least qualified and least job-experienced and who had been on welfare the longest, employment rose to 66% (a 40% increase)⁷⁷. Thus progress towards the ‘work goals’ has been rapid.

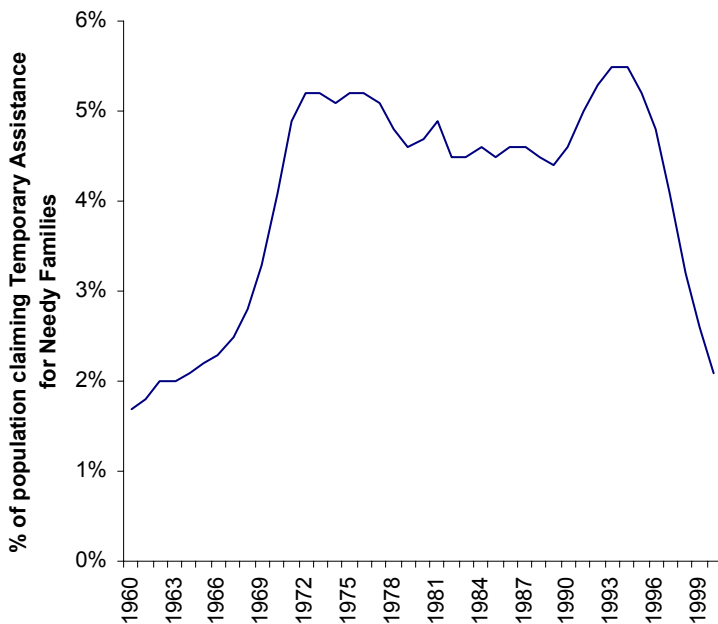
⁷⁵ PRWORA, section 601(2).

⁷⁶ PRWORA, section 601(3) and (4).

⁷⁷ See Working Toward Independence. www.whitehouse.gov

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The rapid fall in claimants following US welfare reform



Source: US Department of Health and Human Services, Administration for Children and Families (<http://www.acf.hhs.gov/news/stats/6097rf.htm>)

Building families

Measures to achieve the PRWORA ‘family goals’ were more diverse, targeting different welfare groups. The child support payment system was tightened up, providing more assistance in tracing absent parents, penalties for non-payment and arrangements for income deduction at source. States were given “the authority to provide marriage support services as an acknowledgement that two-parent households are the most effective environment for raising children.”⁷⁸ Such services could

⁷⁸ Administration for Children and Families, US Department of Health and Human Services, *Temporary Assistance for Needy Families Information Memorandum*, 30 September 2004.

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include reforms to reduce disincentives to marriage, as well as programmes of marriage and pre-marital education, to improve relationship and family skills and to help couples to nurture their marriage while raising children.

To combat teenage pregnancies, states were authorised to initiate abstinence education programmes in schools and to reform welfare so as to require teenage mothers to attend school and live at home in order to qualify for benefits.

Achievement of the 'family goals,' has been less tangible than the 'work goals,' but so far the trends seem promising. The proportion of extra-marital births has stabilised at around 33%⁷⁹ (significantly lower than Britain's 41.4%⁸⁰); the proportion of children living in single-parent homes has also levelled off, at around 27%,⁸¹ and child support payments have risen by 50% in five years.⁸² Teenage pregnancies have fallen by 30%, with under-age pregnancies down by as much as 50%.⁸³

State-by-state comparisons also indicate that marriage education and support programmes are having an impact on divorce statistics. By January 2004, 183 cities and towns in 40 states had adopted a Community Marriage Policy (CMP).⁸⁴ Recent

⁷⁹ Statistical Abstracts of the US, cited by Barbara Dafoe Whitehead and David Popenoe in *The State of Our Unions – The Social Health of Marriage in America 2004*, the National Marriage Project, 2004.

⁸⁰ 41.4% of babies born in England and Wales in 2003 were born outside marriage, up from 40.6% in 2002. ONS, May 2004.

⁸¹ See Bureau of the Census, "Families, by Presence of Own Children Under 18: 1950 to Present," Internet Table FM-1, 2001. In particular, the proportion of African American children living in two-parent, married-couple homes rose from 34.8% to 38.9% from 1995 to 2000.

⁸² The White House, *Working Toward Independence*, 2002.

⁸³ US Centers for Disease Control and Prevention report, November 2004.

⁸⁴ Community Marriage Policies generally involve local clergy and voluntary organisations providing marriage preparation and establishing mentoring

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research has shown divorce rates declining in counties with a CMP nearly twice as fast as in comparison counties.⁸⁵

These statistics all indicate that the American style of welfare reform is having an impact on family structure. They have encouraged politicians to press for bigger programmes of marriage support and abstinence education, to improve and reinforce trends towards marriage and away from non-marital births. Early in 2004, President Bush announced a £1.5 billion initiative to fund such programmes; at the same time, his administration presented Congress with a Bill to re-authorise and extend the provisions of PRWORA. Bush's re-election, combined with Republican control of the Senate and Congress, will ensure that this Bill is passed and that his pro-family measures will be given fresh impetus in the months and years ahead.

Can it work here?

Britain can learn from the American example. Indeed, the 1996 American welfare reforms were influential in determining the original style and direction of Gordon Brown's tax credits and "new deal" initiatives. As British governments have long been aware, the problems of family instability and workless households have had similar consequences in both countries – namely, high rates of child deprivation, youth crime, teenage pregnancy and spiralling welfare costs. In Britain, as in America, the current Government perceives that family breakdown has had expensive consequences, and recognises that worklessness in lone-parent households is a problem which it must try to solve.

and support programmes for troubled marriages, those who are separated, and step families.

⁸⁵ Temporary Assistance for Needy Families (TANF) and Healthy Marriage Fact Sheet, Administration for Children and Families, US Department of Health and Human Services, October 2004.

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But the current British Government fails to grasp two important lessons from the American experience. The first is that welfare assistance must return to its historical roots and become once again a measure of temporary support for those in need, rather than a way of life. As the US experience has proved, invitations to the job centre combined with income top-ups are components of a back-to-work strategy but will not of themselves suffice to break the cycle of dependency. In plain terms, if long-term state dependency remains a viable option, then there will always be long-term state dependents.

Secondly, taking mothers out of dependency does not involve only getting them into work, but getting them into families. That means removing welfare penalties for couples, tackling teenage pregnancy, and supporting and encouraging marriage. The philosophy behind America's marriage initiatives is based not on sentimental hankering for tradition but on hard-headed evidence which proves that marriage is the most effective route out of poverty, as well as being the best environment for children.

These are two lessons which Britain cannot afford *not* to learn.

CHAPTER SIX

POLICY PROPOSALS

HOW SHOULD BRITISH POLICY MAKERS respond to the problems outlined in this report?

What fiscal measures are available to rebuild and strengthen families and encourage marriage, in order to provide long-term solutions to the problems of poverty and dependency? Should the priority be to ease the tax burden on working families or to reform welfare to reduce state dependency? And what are the practical challenges to overcome?

A tax allowance or a benefit payment?

Politicians and commentators seeking to promote family stability have for many years talked about imbalances in the “tax and benefit system,” which tend to discourage family formation. Until recently, the impact of taxation on the family could be considered separately from that of welfare payments. Since the introduction of the tax credit system, it is no longer a simple matter to distinguish the two, and thus the picture has become more complex.

Where it was once possible to speak of tax allowances as portions of tax-free income, it is now necessary to distinguish the concept of a tax allowance from a tax credit. At first glance, a tax credit might be expected to offset or reduce a tax liability, in much the same way as a tax allowance. But in the current system, this is not the case. Payments labelled tax credits are in fact income top-ups and, as such, behave very like welfare payments. They are, however, administered by the Inland Revenue, the home of tax allowances.

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Adding to the confusion, Child Benefit (the status of which has remained unchanged) is also administered by the Revenue (rather than the DWP), even though it does not pretend to be anything other than a benefit. Income Support and Jobseeker's Allowance, both of which are still officially (and accurately) described as benefits, are (at the time of writing) still within the remit of the DWP – although they are administered by the Jobcentre network.

Disentangling the current system, badly administered and expensive as it is, will require great political courage. However, any British government wishing to tackle the causes (rather than merely the symptoms) of child poverty and family breakdown, and to encourage work and independence, will need to contemplate such reform. Otherwise, the likelihood is that the number of lone- parent households and fragile or transitory parenting arrangements will continue to grow. With that growth will be an ever-expanding bill for welfare dependency.

Family structure

The overarching objective of reform must be to restore a better balance between relieving hardship payments and underpinning family structure. If possible, this should be accompanied by a radical simplification of the current system. Such simplification would not only reduce administrative cost and scope for error and fraud, it would also provide greater transparency and accountability. In the words of the recently retired chairman of the Social Security Advisory Committee:

There is an urgent need to accept the costs – and the occasional hard cases – that a radical simplification programme would require. The benefit would be a system comprehensible to its customers and manageable by its staff.⁸⁶

⁸⁶ Sir Thomas Boyd-Carpenter writing in the Foreword of *Social Security Advisory Committee Seventeenth Report*, 2004.

POLICY PROPOSALS

The following set of proposals is intended to restore the proper functions of tax allowances (to enable working families to keep a fairer share of their own earnings) and of welfare payments (to be a safety net in times of hardship). They are not intended to be exhaustive. They do, however, address the most serious drawbacks of the current system and provide a clear framework for action.

Objectives of reform:

- To ensure that the financial responsibility for children is shared between both parents, regardless of whether those parents live together or separately.
- To remove (or minimise) the ‘lone-parent trap’ by closing the gap between lone-parent and couple entitlements, so that couples would not be worse off by living together than living separately.
- To remove the ‘welfare trap’, so that parents reliant on state support should not have a comparable or better income than a working family.
- To reduce the financial pressures on two-parent households with low or average income, rebalancing family support towards ‘per child’ payments rather than ‘per family’ payments, in order to make it easier for such families to afford more than one child.

Methods:

- **Joint registration** should be extended to all births, as the first step in recognising that the responsibilities of parenthood attach to both parents, regardless of whether the parents live together or separately or are married.

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- Parents applying for welfare payments should be **interviewed together** in order to accurately assess their income and determine the appropriate level of support. If parents are, or become, separate households their income must continue to be shared: details obtained on interview should enable the absent partner's income and support payments to continue as before.
- To qualify for **Jobseeker's Allowance**, one or both parents must be available for work and actively seeking work. Any income top-up payments should be conditional upon either parent, or a combination of the two, working, say, 30 or 35 hours per week (akin to US equalisation of work requirements between couple and lone-parent households).
- **Time limits** should be imposed for Income Support payments, for example two years or five years over a lifetime (with special provision for widows with children).
- Tax allowances should replace tax credits. The **income tax threshold** should be raised (to say, £7,500) and should be **transferable** between parents. **Child tax allowances** should be introduced on a **per child** basis. This would not only help low- and average-income families but also reduce the scope of welfare and the 'churn' factor; families should not be both paying tax and receiving payments back again. It would also enable equality of treatment between intact and separated families: maintenance disregard could be withdrawn and replaced with child tax allowance/income disregard.
- For families with earnings too low to have any significant gain from the lowering of tax thresholds and tax allowances, **child benefit** should be uprated. This would avoid the problem of a poverty trap as benefits are withdrawn.

APPENDIX

SEVEN FAMILIES⁸⁷

1. Ms Welfare

Assumptions:

- no paid employment;
- two children aged two and four;
- living in local authority housing, rent £53.13 a week.⁸⁸

Income	£ per week
Income Support	55.65
Child benefit	27.55
Tax credits ⁸⁹	73.00
Welfare foods ⁹⁰	6.00
Housing Benefit	53.13
Council Tax Benefit	14.60
Total Pre-tax Income	229.93
<i>Less</i>	
Council Tax ⁹¹	14.60
Rent	53.13
Income remaining after tax & housing costs	162.20
Per capita income after tax & housing costs	54.06
Impact on the Exchequer	
Benefits <i>minus</i> Taxes	215.33
Net Annual Receipts from Exchequer	£11,197

⁸⁷ Unless otherwise specified, data for all examples taken from DWP Tax Benefit Model Tables, 2004.

⁸⁸ As suggested in DWP Tax Benefit Model Tables, 2004.

⁸⁹ Family element £10.50 plus child element £31.25 x 2.

⁹⁰ Free school meals. Other benefits, not quantified here, include free prescriptions, dental treatment, eye tests and travel to hospital.

⁹¹ Average 2004 Council Tax is £19.50. Single Adult Discount of 25% = £14.60. Covered in full by Council Tax Benefit.

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2. Mr and Mrs Average

Assumptions:

- one-earner family on £462 pw gross;⁹²
- two children aged two and four;
- living in own house, with repayment mortgage of £90,000 (average UK mortgage: £113,000; average 2004 house price: £160,000. £90,000 mortgage assumes a multiple borrowing of 3.75 salary).⁹³

Income	£ per week
Pre-tax earnings	462.00
Child benefit	27.55
Tax credits	10.50
Total Pre-tax Income	500.05

Less

Income Tax (including National Insurance)	117.71
Council Tax ⁹⁴	19.50
Mortgage payments ⁹⁵	140.00

Income remaining after tax & housing costs 222.84

Per capita income after tax & housing costs 55.71

Impact on the Exchequer

Taxes⁹⁶ *minus* benefits 99.16

Net Annual Payment to Exchequer £5,156

⁹² Median (gross) earnings of full-time male employee 2004.

⁹³ Average UK mortgage data: British Bankers Association. According to *Social Trends 2004*, 81% of all new mortgages are repayment mortgages.
⁹⁴ Average 2004 Council Tax.

⁹⁵ Current weekly cost of a 25 year repayment mortgage of £90,000, with an interest rate of 6.5%.

⁹⁶ Including Council Tax.

APPENDIX: SEVEN FAMILIES

3. Mr and Mrs Low Pay

Assumptions:

- one-earner family on £231 pw gross;⁹⁷
- two children aged two and four;
- living in local authority housing, rent £53.13 pw.

Income	£ per week
Pre-tax earnings	231.00
Child benefit	27.55
Tax credits ⁹⁸	95.55
Housing Benefit	0
Council Tax Benefit	0
Welfare foods	6.00
Total Pre-tax income	360.10

Less

Income Tax (including National Insurance)	41.48
Council Tax ⁹⁹	19.50
Rent	53.13

Income remaining after tax & housing costs 245.99

Per capita income after tax & housing costs 61.49

Impact on the Exchequer

Benefits *minus* taxes¹⁰⁰ 68.13

Net Annual Receipts from Exchequer £3,542

⁹⁷ Half Median (gross) earnings of full-time male employee 2004.

⁹⁸ Child Tax Credit £73 plus Working Tax Credit £22.55.

⁹⁹ Average 2004 Council Tax.

¹⁰⁰ Including Council Tax.

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4. Mr Average moves out but pays maintenance

Assumptions as for Mr & Mrs Average except:

- children live with non-earning mother in house with mortgage (previously paid by father);
- father lives in private rented accommodation, rent £87.30 pw;
- father pays maintenance at CSA rate of 20% of net income (i.e. £68.85 pw).

	£ per week	
Income	Father	Mother
Pre-tax earnings	462.00	
Child benefit		27.55
Tax credits		73.00
Maintenance		68.85
Income Support Mortgage Interest (ISMI) ¹⁰¹		89.80
Welfare foods		6.00
Housing benefit		0
Council tax benefit		14.60
Total Pre-tax Income	462.00	279.80
<i>Less</i>		
Income Tax (including National Insurance)	117.71	
Council Tax ¹⁰²	11.90	14.60
Rent	87.30	
Maintenance	68.85	
Mortgage payments		140.00
Income remaining after tax & housing costs	176.24	125.20
Per capita income after tax & housing costs	176.24	41.73
 Impact on the Exchequer (combined households)		
Benefits <i>minus</i> taxes	66.74	
 Net Annual Receipts from Exchequer	 £3,471	

¹⁰¹ ISMI paid for those on Income Support, interest only, at rate specified by DWP, currently 5.88%. Figure here is interest minus amount of maintenance paid in excess of Income Support.

¹⁰² Father's Council Tax is average payment for single-person private rental accommodation. Mother's is average Council Tax after Single Adult Discount of 25%.

APPENDIX: SEVEN FAMILIES

5. Mr Average moves out but pays no maintenance

Assumptions as for Mr & Mrs Average except:

- children remain with non-earning mother in house with mortgage (previously paid by father);
- father lives in private rented accommodation, rent £87.30 pw.

Income	£ per week	
	Father	Mother
Pre-tax earnings	462.00	
Income Support		55.65
Child benefit		27.55
Tax credits		73.00
Income Support Mortgage Interest ¹⁰³		102.00
Welfare foods		6.00
Housing benefit		0
Council tax benefit		14.60
Total Pre-tax Income	462.00	278.80
<i>Less</i>		
Income Tax (including National Insurance)	117.71	0
Council Tax ¹⁰⁴	11.90	14.60
Rent	87.30	
Mortgage payments		140.00
Income remaining after tax & housing costs	245.09	124.20
Per capita income after tax & housing costs	245.09	41.40
Impact on the Exchequer (combined households)		
Benefits <i>minus</i> taxes	134.59	
Net Annual Receipts from Exchequer	£6,999	

¹⁰³ ISMI paid for those on Income Support, interest only, at rate specified by DWP, currently 5.88%.

¹⁰⁴ Father's Council Tax is average payment for single-person private rental accommodation. Mother's is average Council Tax after Single Adult Discount of 25%.

THE PRICE OF PARENTHOOD

6. Mr Low Pay moves out but pays maintenance

Assumptions as for Mr & Mrs Low Pay, except:

- children live with non-earning mother in local authority housing;
- father lives in private rented accommodation, rent £87.30 pw;
- father pays maintenance at CSA rate of 20% of net income (i.e. £40.21 a week).

Income	£ per week	
	Father	Mother
Pre-tax earnings	231.00	
Income Support ¹⁰⁵		25.44
Child benefit		27.55
Tax credits		73.00
Housing Benefit	11.54	53.13
Council Tax Benefit		14.60
Welfare foods		6.00
Maintenance		40.21
Total Pre-tax Income	242.54	239.93
<i>Less</i>		
Income Tax (including NI)	41.48	
Council Tax ¹⁰⁶	11.90	14.60
Rent	87.30	53.13
Maintenance	40.21	
Income remaining after tax & housing costs	61.65	172.20
Per capita income after tax & housing costs	61.65	57.40
Impact on the Exchequer (combined households)		
Benefits <i>minus</i> taxes ¹⁰⁷	143.28	
Net Annual Receipts from Exchequer	£7,451	

¹⁰⁵ Income Support reduced by maintenance less £10 disregard.

¹⁰⁶ Father's Council Tax is average payment for single-person private rental accommodation. Mother's is average Council Tax after Single Adult Discount of 25%.

¹⁰⁷ Including Council Tax.

APPENDIX: SEVEN FAMILIES

7 **Mr Low Pay moves out but pays no maintenance**

Assumptions as for Mr & Mrs Low Pay, except:

- children live with non-earning mother in local authority housing;
- father lives in private rented accommodation, rent £87.30 pw.¹⁰⁸

Income	£ per week	
	Father	Mother
Pre-tax earnings	231.00	
Income support		55.65
Child benefit		27.55
Tax credits		73.00
Housing Benefit	11.54	53.13
Council Tax Benefit		14.60
Welfare foods		6.00
Total Pre-tax income	242.54	229.93
<i>Less</i>		
Income Tax (including NI)	41.48	
Council Tax ¹⁰⁹	11.90	14.60
Rent	87.30	53.13
Income remaining after tax & housing costs	101.86	162.20
Per capita income after tax & housing costs	101.86	54.06
Impact on the Exchequer (combined households)		
Benefits <i>minus</i> taxes	173.49	
Annual Net Receipts from Exchequer	£9,021	

¹⁰⁸ Note that the overall gain or loss from separation will vary substantially according to Mr Low Pay's housing arrangements. The rental figure assumed here (suggested by DWP Tables) will be much reduced if Mr Low Pay moves into cheaper housing and/or with a new girlfriend.

¹⁰⁹ Father's Council Tax is average payment for single-person private rental accommodation. Mother's is average Council Tax after Single Adult Discount of 25%.

THE PRICE OF PARENTHOOD

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*“A powerful indictment of family decline which could do much to alert society to the dangers of the fragmentation of family life in this country” –
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This Government says it wants us to achieve a better ‘work-life balance.’ But do its social policies respond to the real needs of modern women and their families? Or are they based on a set of false assumptions? New research challenges the consensus that men and women are interchangeable in their aspirations for work and family and shows that women today have no difficulty in regarding themselves as equal with men. Yet many have different ambitions. Yet Government policy is aimed at getting mothers into full-time employment. Policies for employment, childcare and family taxation entail public spending and wide-ranging legislation. All have far-reaching consequences. Kirby concludes that such policies should be based on the real-life preferences of today’s women, not on outdated gender equality stereotypes.

*“Research from the Centre for Policy Studies shows that less than a fifth of mothers still consider a career their priority. For most, bringing up children is the most influential and fulfilling job there is –
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