

## Positive Planned Parenthood

by Dr. Richard Vedder

Many federal government tax policies are anti-family. The pro-family dependency deduction was badly eroded by inflation over time until the beginning of indexation in the mid-1980s. Child-care tax-credit provisions provide Americans financial incentives to turn their children over to strangers rather than their own mothers or grandparents. For many, a “marriage tax” imposes a higher tax burden for completing their nuptial vows. On the spending side, federal welfare policy has provided financial incentives for cohabitation, promiscuity, and out-of-wedlock births. The governmentally-financed public schools often promote a moral relativism that makes perpetrators of irresponsible behavior into victims if not secular saints. No-fault divorce laws promote family dissolution. The modern American state, in short, must share in the blame for the decline in traditional family life.

What to do? On the fiscal side, major political parties recently have supported a modest child tax credit. While well intentioned, this approach fails to recognize a fundamental reality: some childbearing is morally and even economically better than others. Moreover, a modest-sized flat-rate tax is ineffective in dealing with a growing birth dearth in younger families. From 1970 to 1993, the number of babies born to married mothers under the age of 30 fell by *40 percent*, while teenage illegitimate births rose 84 percent and the number of babies born to mothers over 30 almost *doubled*.

The rising age of first-birth mothers contributes to a decline in family size. Moreover, since older first-time moms are more likely to have professional careers, it also contributes to growing physical separation of mother and child. The quality of family life has declined with a rising proportion of illegitimate births. If the birth of illegitimate children to teenagers is undesirable, but the birth of a child to a 25-year-old married mother is desirable, why do we treat both births the same for tax purposes? There are ways we can change the tax laws that would encourage childbearing within marriage.

For example, at birth classify each child into one of three categories for tax purposes. If the child is born out of wedlock, the child is in category A for which no dependency allowance is provided. Category B is for children born to a married woman over the age of 30 or under the age of 20, for which a conventional dependency allowance (say \$2,000) is provided. For category C children, born to married mothers between the ages of 20 and 29, however, a double dependency allowance (\$4,000) is provided, encouraging early (but not too early) births within marriage.

A child's tax classification can change with parental behavioral change. For example, if a couple with an illegitimate child marries, the child's categorization can be upgraded from category A to category B or C. Similarly, a couple that divorces would face a downgrade that hurts financially. Special rules would be needed for second marriages, adoptions, etc. The death of a parent would not normally lead to a category change.

There are family-friendly variants that would accomplish a similar objective. For example, implement the plan above, but give additional bonuses for large families. A category D would give a bonus of, say, 50 percent, for children who are the third or later offspring. Thus a married family with four children, three of whom were born before the mother was 30, would receive \$21,000 in child-related dependency allowances (\$6,000 for each of the first three kids, and \$3,000 for the fourth child). A young unmarried woman with four children by multiple fathers would receive nothing; a yuppie married couple having two kids in their 30s would receive \$4000 in child-related dependency deductions.

The above proposals would be attacked by social liberals, economic conservatives, and tax professionals. Supply-side conservatives would not like the high marginal tax rate necessary to fund the generous dependency allowances. Tax professionals would say that those allowances would add excessive complexity to the tax code. Social liberals and some free market conservatives would say that this is social engineering, favoring childbearing at age 28 to 31, and discriminating against accepted lifestyles. While good counterarguments can be raised, these points would galvanize political opposition.

A true flat-rate income tax would be far more family-friendly than existing law, although less so than the plan above. This alternative would win the needed political support of free market conservatives. True flat-rate proposals, such as suggested by Representative Richard Armey or Steve Forbes, have huge dependency allowances, very low marginal tax rates, but otherwise tax everything, eliminating deductions for state and local taxes and home mortgages.

On balance, a true flat-rate tax is broadly consistent with the concept of the family wage — a wage high enough to sustain a family in modestly comfortable circumstances. For a married couple with four children, \$45,000 or so would be tax free. Low marginal tax rates and the removal of double taxation of capital appeals to free-market conservatives, as does the vast tax code simplification. Traditional families of moderate means with several kids cared for by mom would benefit, and most would pay no federal tax even with the elimination of the mortgage deduction. The low (20 percent or less) marginal rate would not burden the family unduly if it prospered financially. The flat tax appeals to a broad public as being fair and user-friendly. It may be the most politically feasible option. In any case, taxes matter, in family as well as economic affairs.

*Dr. Richard Vedder is Distinguished Professor of Economics at Ohio University. He serves on the Institute's Academic Advisory Board. Reprinted by permission of the Rockford Institute from the publication The Family in America.*

*The views expressed in this publication are those of the author and not necessarily those of Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.*