



Social
Services VMS

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON SE1

1 November 1979

Dear Secretary of State

STATUTORY PROVISION FOR SUPPLEMENTARY BENEFIT UPRATING

Thank you for your letter of 16 October.

I am afraid that I still cannot agree with you that your Social Security (No 2) Bill should give formal statutory protection to supplementary benefit rates. Geoffrey Howe and my other Ministerial colleagues here are fully in agreement with me on this point. So, I see, is Norman Fowler.

As I see the argument, you are saying that since we shall always wish to behave as though supplementary benefit were statutorily price protected, there would be advantage, in the context of the controversial provisions in your Bill, in giving this statutory protection formally. However I would put this argument the other way round, saying that if we were indeed going to behave as though the benefit was statutorily protected then there would be no need for us to take this step, while if we were not it would be wrong to do so; so that statutory protection is either otiose or costs money.

I can see it might be helpful, in the context of your Bill, that you should be able to give this statutory protection. But I do not think we should over emphasise the advantages of this; I have seen no great public demand that this protection should be given, nor, in your Bill, will you be announcing any present intention to move from the long-standing customary practice. Against that, there are the

positive risks which I see in giving statutory protection, in that this would be a closing of options which in the long run might work not only against our public expenditure policies, but also perhaps our work incentive policies.

The risk on public expenditure is that by giving statutory protection we must reduce our flexibility, which must risk adding to, or losing the opportunity to reduce, expenditure. Supplementary benefit is a "minimum living standard" means-tested benefit, which almost by definition implies a need for flexibility and a readiness quickly to adapt to changing social and other conditions. Statutorily to tie our hands - and in one direction only - does not make sense. And I have to say that there seems to me most certainly to be a risk that protection here could lead to pressures for statutory indexing of child benefit - you will have seen Malcolm Dean's comments in his article in the Guardian on 18 October.

Statutory indexing could also introduce inflexibility in our struggle to improve work incentives. The essence of this is the widening of the gap between in work and out of work income, and we have now commissioned a study by officials on this whole area. I do not want to prejudge our consideration of that study, but it is not impossible (and without wanting to harm the most vulnerable members of society) that we may conclude that there are circumstances in which supplementary benefit may be excessive in the context of work incentives, and a statutory provision might tie our hands unnecessarily in looking for solutions.

Finally there is a general point. Social security is far and away the largest public expenditure programme. The fact that many benefits are already indexed by statute - itself a "lunacy" according to the Economist - coupled with demographic factors, means that the programme has in-built growth tendencies. Sooner or later we are going to have to ask how far we can afford expenditure on this scale, let alone anything bigger given that it can only come from other expenditure programmes being lower than they would otherwise be, or from the living standards of those who actually create wealth. Even if you were to argue that extending statutory price protection to supplementary benefit does not risk adding very much, in proportionate terms, to the programme, it all points in the wrong direction in the light of our current public expenditure (and work incentives) policies, and could suggest that we lack determination to carry them through.

For all these reasons I do not think that your proposal is appropriate, and I hope you will be able to agree with me. If not, we shall have to discuss it again collectively.

I am copying this letter to the Prime Minister, members of H Committee and Sir Robert Armstrong.

Yours sincerely,

Aspin

J.P.
JOHN BIFFEN
(Approved by the Chief Secretary
and signed in his absence)

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From the Secretary of State for Social Services

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
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11 October 1979

Dear John,

- will request if requested

Thank you for your letter of 26 September. I am sorry I have not so far succeeded in convincing you of the importance of providing in the Social Security Bill this autumn for the uprating of supplementary benefits in line with prices. This is, I am sure, a point of some political importance on the presentation of a Bill which is going to be far from popular in itself and where we shall need wholehearted support from our own benches if we are to get through the major changes involved.

Dealing with your initial points I must say that the removal of the earnings link with pensioners does not seem to me to be inconsistent with a statutory provision to price protect supplementary benefit. Indeed I am seeking to have statutory cover for pensions and supplementary benefit on exactly the same basis ie both to be uprated only in line with prices. Nor would I really think that the pressure to uprate child benefit, which is certainly likely to intensify over the coming months, is going to be much influenced by a decision to give statutory cover to the long-standing uprating practices for supplementary benefit.

The nub of the matter is, as you rightly say, whether we should retain an escape hatch against the eventuality that one day a Government may be forced to defer or miss an uprating of supplementary benefit. As to that, if any Government should ever find itself in such parlous straits, they would naturally first look to the National Insurance benefits for economies in the uprating before turning to supplementary benefit savings. Since a Bill would be necessary to cut back on National Insurance benefits, should a decision be taken to hold back on supplementary benefits as well this could clearly be dealt with in the same Bill. I simply cannot envisage a Government, on the one hand, depriving supplementary benefit claimants of an uprating on grounds of economic difficulties but, on the other, permitting increases to be paid in full to National Insurance beneficiaries generally. The effect would of course be, to deprive the two million poorest pensioners - those whose pensions are being supplemented - of their increase.

This autumn's Social Security Bill contains a major re-structuring of the Supplementary Benefits Scheme in which existing legislation will be extensively revised. In this context, a failure to write in a commitment to uprate supplementary benefit at all (remembering that Clause 1 of the Bill will at the same time be restricting the uprating of National Insurance benefits to earnings only instead of the better of earnings and prices) seems likely to me immediately to arouse the suspicions of our opponents and worry our supporters, in a quite unnecessary way. We have, after all, every intention of protecting the poorest from the effects of higher prices. This is certainly not the time to add new public expenditure commitments. I agree with you there. My point is that there is no new public expenditure commitment involved, at all, in providing statutory cover for the supplementary benefit uprating.

I should be glad to come and talk about this issue if it would be helpful, and meantime I am copying this letter to members of H Committee and to Sir John Hunt.

You are
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