

SECRET

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Thank you
JW - PRIME MINISTER
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You should see too MS

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I been that a
frustrate me how
no Ministry will
fine will
do
to
MS

Social Security (No. 2) Bill

You should be aware at once of the very tight timetable indeed which is proposed for the Commons handling of the Social Security (no. 2) Bill. It is set out in the attached note from Patrick Jenkin's office.

]

Jim Prior telephoned us earlier in the week to say that he was very worried, as a former Leader of the House, about the prospects for getting the Bill through the House on this timetable. It will be far and away the sternest test of the Government's management of the House, and no doubt the Opposition will use all the tactics at their command to fight the Bill.

There is no alternative to going ahead on a schedule as fast as this, simply because of the operational need to get new order books distributed; but the combination of time pressure and potential difficulties from Government back-sliders ^{on} ~~and~~ the Committee means that the business managers will have to monitor the progress of the Bill with the greatest care.

MS



Chancellor of the Duchy of Lancaster

SECRET

PRIVY COUNCIL OFFICE
WHITEHALL LONDON SW1A 2AT

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MS
Social Services

28 March 1980

has been

The Chancellor of the Duchy has seen the copy you sent me of your letter of 26 March to Nick Sanders about the timetable for the Social Security (No 2) Bill. While this reflects quite accurately the timetable discussed at the Ministerial meeting on 24 March and confirmed at Legislation Committee, the Chancellor of the Duchy has asked me to stress again the point that both he and the Chief Whip made during those discussions, namely that, while they would do all they could to adhere to the timetable, there could be no guarantee of doing so. In particular, the business managers must retain some flexibility about the time made available for the Report and Third Reading of the Bill while recognising the need to get it to the Lords before the Spring Bank Holiday.

I am copying this letter to Nick Sanders and the other recipients of yours.

John Stevens

J W STEVENS
Private Secretary

Don Brereton Esq
Private Secretary to the Secretary of
State for Social Services
Department of Health and Social Security
Alexander Fleming House

SECRET

29 MAR 1980



THE SOCIAL SECURITY PACKAGE

p.a.

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Social security benefits will be increased by more than £3 billion in the next financial year under improvements and uprating announced by Ministers this week. Changes in the system will on the other hand save only £270 million in 1981/82 and £480 million in 1982/83. 28/3

As Patrick Jenkin told the House: "These are not the actions of a Government that does not care."

In the week beginning 24 November, the basic retirement pension will increase by 16½% to £27.15 for a single person and £43.45 for a married couple; widows' pensions, new scheme additional pensions and graduated pensions, war and industrial disablement pensions, attendance allowance, non-contributory invalidity pensions and invalid care allowance all go up by 16½%.

Mobility allowance will go up by 21%

Supplementary pensions will be aligned with retirement pensions and will also be price protected by an increase of 16½%.

Short-term supplementary benefit scale rates will be fully price protected.

Sickness benefit, injury benefit, unemployment benefit, maternity allowance and invalidity benefit will be increased in November by 11½% (an interim measure ahead of moving over to taxation of income from benefits in 1982).

Family Income Supplement will go up by about one-third - greatly improving the real value of FIS.

The child benefit increase of 75p will give £4.74 a week for each child, and the premium for one parent families will be increased by 50p to £3 a week.

The £10 Christmas bonus will be paid.

Special heating additions paid with supplementary benefit are to go up by as much as 80% and more people are to be

brought into the scheme to give help for consumers who would be hardest hit by the higher fuel costs of next winter. A basic rate of £1.40 a week will be paid to supplementary pensioner householders over 70 instead of being restricted to the over 75s. Supplementary benefit families with children under 5 will also get the additional £1.40 a week automatically. And to help the low income families who are working, a new addition of £1 a week will go to FIS families on top of the £1 already added for fuel this winter.

Needy pensioners who now get a 66% grant for home insulation work will in future get 90% of the cost paid by the Government.

WHAT IT ALL COSTS

The Social Security programme costs about £20 billion a year

It is about one-quarter of all public expenditure.

It has grown, in real terms, by £7,000 million in the last ten years.

The cost per year works out at the equivalent of £1,000 for every household in the country.

Even with the savings decided on by the Government, which do not in any way affect those at the supplementary benefit level, the social security programme will grow next year by about 2½% in real terms.

As Mr Jenkins told the House: "It is inescapable that this programme must bear some share of the necessary economies".

Paymaster General's Office
Privy Council Office
68 Whitehall
SW1

28 March 1980



Treasury Chambers, Parliament Street, SW1P 3AG

B C Merkel Esq
Private Secretary to the
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London SE1 8BY

27 March 1980

Dear Bernie,

STATEMENT ON SOCIAL SECURITY BENEFITS

We spoke earlier today about the draft statement attached to your letter of today to Tim Lankester, and this is to confirm the points I made.

The Chief Secretary is content with the statement, subject to two points.

First he feels it will be desirable to include, perhaps somewhere on page 10, a reference to the encouragement that the Government are giving to the fuel industries to help with the problems of poor consumers. The Chief Secretary thinks that otherwise the impression is given that the problem of fuel poverty is solely and exclusively one for the Government to deal with, whereas it is clear that the fuel industries themselves have a role.

Second, while the Chief Secretary feels that the reference to the urgent study into ways of helping the old and disabled to save fuel using younger unemployed people is arguably premature - after all the study has not even been launched yet, and there is no knowing whether anything sensible can be devised - he is prepared to go along with it provided it is clearly understood that if any additional expenditure arises, this comes out of existing Department of Employment or Department of the Environment programmes, as Cabinet agreed when the matter was discussed.

Subject to these points, and provided the other Ministers involved are content, the Chief Secretary is, as I say, also content.

I am copying this letter to Tim Lankester and those who had copies of your letter, and also to David Edmonds (DoE)

A C Pirie

A C PIRIE
Private Secretary



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Nick Sanders Esq
Private Secretary
10 Downing Street

26 March 1980

Dear Nick,

SOCIAL SECURITY (NO 2) BILL

I promised a note about the timetable for this Bill in the Commons.

My Secretary of State attended a meeting on Monday with the Chancellor of the Duchy and the Chief Whip (with the Secretary of State for Employment present) and the conclusions they came to were that the timetable should be as follows:-

Bill to be published	-	28 March
Second Reading	-	15 April (or 14 April, if necessary)
House of Commons Committee of Selection	-	16 April
Standing Committee hearings start	-	22 April
Business statement announcing Guillotine motion	-	24 April
Guillotine motion	-	28 April
Last Committee hearing	-	13 May

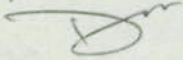
(If the Committee meets twice a week, this would give 7 full days, meeting morning and afternoon - apart from Thursday mornings when Secretary of State will be in Cabinet)

Business statement announcing Report Stage	-	15 May
Report and Third Reading	-	19 May

This programme was confirmed by Legislation Committee this morning.

The date for Third Reading is critical. We had hoped for an earlier date but my Secretary of State accepts that this is the earliest possible date for clearing the Commons. The point is that for operational reasons we shall need to anticipate approval by Parliament of clause 1 of the Bill (affecting the uprating of short-term benefits) by issuing certain order books containing one or more orders (from 24 November) at the new rates. This is customary practice - we have to do this every year before the relevant uprating orders have been approved - but the legislative changes proposed this year increase the risks, so we are making special arrangements to ensure that no order books containing orders at the new rates are issued until after the Bill has cleared the Commons on 19 May. It is important that there should be no slippage in that date.

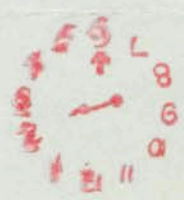
I am copying this to John Stevens (Chancellor of the Duchy), Richard Dykes (Employment), Murdo MacLean (No 12) and Wilfred Hyde (Cabinet Office).

Yours ever


D BRERETON
Private Secretary



GOVERNMENT



MAR 1961

URGENT AND PERSONAL



H M Treasury

Parliament Street London SW1P 3AG

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MR SANDERS

cc Mr Lankester

Social Sec

Amshurst

This is account.

A N Ridley
Special Adviser

cc Mr Lankester

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Patrick Jenkin Esq MP,
Secretary of State
Department of Health and
Social Security
Alexander Fleming House
Elephant & Castle
London SE1 6BY

26 March 1980

Dear Patrick,

In view of the continuing interest in the child benefit proposal being announced in the Budget, we have prepared here some background notes which you and your Ministerial colleagues might find of some use. I am sending it to you in advance of its more general distribution on the Postmaster General's circuit. The material is in two parts - a short summary of the key arguments pro and con, and a more considered background note designed to answer the more profound arguments which may be brought forward. I hope this will be of some use in public debate in the next few days. It has been prepared with advice from officials here, but there may well be points which you would wish to see altered or strengthened in various ways.

With best wishes,

Yours sincerely,

Adam Ridley

ADAM RIDLEY

CHILD BENEFIT

In view of the special interest in this issue, the following material may be of particular interest. It comprises a brief one-page summary of key points - some positive and some defensive. That is followed by a longer background note setting out a more considered explanation of the Government's proposals and analysis of popular criticisms of them.

CHILD BENEFITS - KEY POINTS

Q. 75p on CB in November 1980 ungenerous?

A. No. 75p a very good deal.

- 75p up on £4 is an increase of nearly 20% (18½%), More than the inflation expected/up to November 1980.
in the year

- over the two years Nov 1978 - Nov 1980 it will have gone up by nearly 60%, prices by less than 40%. So hence a very hefty increase over and above inflation.

- CB will then be far more generous than old Family Allowances (FA) and Child Tax Allowances (CTAs). For typical couple (2 children under 11) old system worth £6.90, CBs £9.50, Both at today's prices

- the 20% on CB one of the most generous increases in Budget.

DEFENSIVE:

Q. Bigger increase needed than 75p to make this a Family Budget?

A. No. This is a Family Budget. By November, when CB is paid, Budget tax changes and CB will give least help to singles, more to marrieds, most to families with children.

Q. Surely Budget should have indexed CB for the 30% inflation likely since CB was fixed at £4 in APRIL 1979?

A. No. CB increase moved forward from normal November uprating by Healey to April 1979 for political reasons (Election). Why else did Labour raise ante to £4.50 CB promised during Election? And why did he announce it a year earlier in the April 1978 Budget? November 1978 or 1979 the proper date to measure from. Increased from these dates well over
inflation rates.

Q. Surely a bigger CB increase is desirable, to deal with incentives/why work/poverty?

A. CB does help all three problems, but it is a very expensive way of doing so.

- Each 10p extra costs nearly £60m. The 50p extra some people want on top of our 75p would cost £275m. That is 3 or 4 times as much as the generous and most efficient scheme for help with fuel bills DHSS are about to introduce.

- CB goes to all families with children. Those affected by the poverty trap, "why work?", or poverty are only a small fraction of all families with children. Far better to help them with selective schemes - the FIS, fuel scheme etc. Why spend £100 through CB and give £90 to those who don't need it, when you can do as well with £10 well directed?

- We are tackling these three problems. Supplementary Benefit rates go up by less (16½%) than the 18½% increase in CB, narrowing "why work" gap. Taxation we propose of Benefits and interim de-indexed increases help it too. Special effort to keep Rooker-Wise 18% increase in tax thresholds preserves incentives of last Budget for all.

BACKGROUND

NOTES ON CHILD BENEFIT (CB)

1. £4.75 a generous decision

(a) Fixing CB at £4.75, and not more, does not represent, as some imply, a reversion to a drastically reduced level of provision for children. CB replaces old Child Tax Allowances (CTAs) and Family Allowance (FA). CB levels have been much more generous than the system they replaced, and will continue to be after the £4.75 increase, being worth over £2.50 or so more (at current prices) than the old system for standard rate tax payers [see Table attached]. For the poor, who paid little or no tax, the value is much greater still.

(b) CB levels after the 75p increase will ensure the benefit continues to better inflation, not fall behind it, as critics say. Between November 1978 and November 1980 CB will rise from £3 to £4.75 by nearly 60%. Over the same period prices are projected to rise by under 40%. Over the 12 months November 1979 to November 1980, the increase from £4 to £4.75 is nearly 19%, more than the projected increase in inflation over the year. It is wrong, for reasons given in 4(c) below, to compare the value of the 75p increase with inflation since April 1979. The increase on that date represented an advance on the normal November uprating, which remains the proper benchmark from which to measure the value of changes.

2. This is a Family Budget

The Budget's tax changes and the increased CB in November will give back least money to the single, somewhat more to childless couples, and much the most to families. If that is not reflecting the priorities of families and children, what is?

3. The present argument for "indexation" is misconceived.

a. Only limited parts of the tax and benefit system are legally indexed: pensions, unemployment and sickness out of a mass of benefits, and (flexibly) basic rate income tax thresholds out of a wide range of bands and allowances. The rest of the tax system is totally unindexed. Neither the previous Government nor this administration have committed themselves to indexing CB. It is therefore incorrect to argue as if, or imply that, the increase now proposed "infringes" some indexation principle or other. To do so is no more than to argue, and that in a confusing way, that the figure ought to be larger. Neither CTAs nor FA were ever indexed.

b. No indexing argument means anything unless there is a 'right' base to start indexing from. No Government has, in fact, ever defined such a base. Nor is there, or could there be, any objective criterion which indicates what CB "ought" to be worth. It is not a subsidy designed to meet, in part or in full, the costs of child rearing. Such a subsidy would be contrary to the Conservative philosophy of the family, which expects parents to be primarily responsible for their children rather than the state. CB simply represents a sum Governments feel they can afford to help families with children. Its value is, therefore, necessarily arbitrary, and has to be decided by the Government's judgement in relation to its whole tax and spending policy.

c. There is however a right benchmark date from which CB changes should be measured - November each year, when all Social Security Benefits are adjusted. CB was, exceptionally, raised in April 1979. But this in effect represented a decision to advance the normal November uprating by 6 months in a particular year. The reasons for the decision constitute further strong grounds for treating arguments based on April 1979 with extreme scepticism.

d. This rather pedantic argument about dates is very important because the campaigners for "indexing" have not been arbitrary. They have chosen to argue from the £4 figure in April 1979, simply because this was the most favourable they could find. However, it is the least objective base imaginable. Its genesis was determined, in all likelihood, more by political necessity than the plight of the family. The £4 increase in April 1979^{was} first announced by Mr Healey in his April 1978 Budget Speech, on top of a normal November 1978 uprating to £3, at a time when, as is now clear, Labour Ministers were contemplating an election later in the year. It is difficult to see why else his decision should have been announced so improbably far in advance. This consideration is much reinforced by subsequent developments. The 1979 election

campaign itself saw the Labour Party "up the ante" still further by promising £4.50 in November if elected. That demonstrated even more clearly the highly political way in which CB levels were determined, and made it clear why the Nov 79 increase had been advanced to April.

4. CB and incentives, why work, and poverty

Three further arguments are often used to justify massive increases in CB: that they improve incentives; help the poor; and reduce the "why work" problems. All are true, but weak. For CB is expensive. An extra 10p on the rate for a child would cost nearly £60m - and the extra 50p many people are asking for would cost no less than £275m, 3 or 4 times the cost of the generous special scheme we are announcing (27 March) for help with fuel costs. It is also an inefficient and, arguably rather unfair way of solving any of these problems. That it helps solve them is a valid argument in support of an increase which has been decided on for other reasons - eg the need to help children. But there are many other better ways of solving each if that is one's main aim.

Incentives

a. The chief alternative to CB as a means of improving incentives is increases in income tax allowances, or reductions in income tax rates. Neither is discriminatory as between those with children and without. Hence channelling available funds towards them is fairer than using CB which would favour families with younger children alone. Since there are no grounds for thinking that families with children suffer special disincentives, general cuts in income tax must be preferred. The poverty trap only affects a relatively small proportion of taxpayers - though a large number of people in absolute terms. So it is easy to see why CB increases are both an indefensibly discriminatory and expensive way of dealing with the problem.

"Why work?"

b. Raising CB massively would, of course, help reduce the present imbalance in relation to the Supplementary Benefit (SB) child assistance available to those out of work. As it happens, this Budget does increase CB by 18 $\frac{3}{4}$ % as against the 16 $\frac{1}{2}$ % increase in SB child rates, so the gap is narrowed. But it would be immensely expensive to look to CB for the "final solution" to the problem. CB would have to be raised for all eligible families just to assist the small minority affected by the comparison with SB rates, at a vast cost of little under £2 bn if the gap were to be closed fully. There are other better ways of tackling the "why work?" issue. But unfortunately, given that SB rates are where they are, and have to be related to the costs of child rearing, it is probably wrong to envisage a dramatic closing of the gap until we have attained a much higher level of prosperity than can be foreseen for some time. In other words it would simply be unreasonable to expect this Budget to solve "why work?" by CB or any other acceptable means.

Poverty

c. CB increases certainly help the poor. But the millionaire's wife gets it too. With poor families only accounting for, say 10% of total CB, raising CB is a very bad buy as a way of reducing poverty. So any available money can be much more effectively applied in selective tailor-made schemes such as Family Income Supplement or the supplements to single parent families, Both of which are strengthened in this Budget.

5. Should Child Benefit be price protected or increased?

The issues here are big, and rarely discussed honestly or rationally.

a. To argue for price-protection or indexation of CB

(or anything else) is tantamount to claiming that CB is so important that it must under all circumstances take absolute priority both over all other public spending except pensions and short-term benefits, and over the need to cut borrowing and taxes, whether output and incomes are rising or falling, come hell or high water. No case for doing so has yet been advanced and it is very difficult to see how a proper one could be. Were almost all public spending and taxing to be indexed, the case would be a little different. But it is not.

b. It is of course perfectly reasonable for people to argue that CB should be increased because they think children deserve more help. But if so the case cannot be advanced ^{basis of} on/the claims of children alone. It must deal with all the other competing priorities of schools, hospitals, tax cuts and so on. At a period of falling output, major reductions in borrowing and in spending on most Government programmes, and falling living standards, the rational and equitable arguments all point the other way. And in the final count it remains for the Government to decide. That is its job and whatever its priorities may be it is better placed than the pressure groups to reach a fair judgement - not least on the claims of competing pressure groups themselves!

COMPARISON OF THE VALUE OF CHILD BENEFIT AND THE OLD SYSTEM OF FAMILY ALLOWANCES AND CHILD TAX ALLOWANCES,
AT CURRENT PRICES, FOR SAMPLE FAMILIES PAYING INCOME TAX AT BASIC RATES

	<u>1979/80</u>			<u>1980/81</u>			<u>Extra Money Under Child Benefit</u>
	<u>Revalorised FAM/CTA</u>	<u>Actual Child Benefit</u>	<u>Extra Money Under Child Benefit</u>	<u>Revalorised FAM/CTA</u>	<u>Actual Child Benefit Pre Nov</u>	<u>Actual Child Benefit Post Nov</u>	
Married couple with <u>1</u> child aged 3	2.40	4.00	1.60	2.90	4.00	4.75	1.85
Married couple with <u>2</u> children aged <u>4</u> and 6	5.90	8.00	2.10	6.90	8.00	9.50	2.60
Married couple with <u>3</u> children aged 3, 8, and 11	9.70	12.00	2.30	11.40	12.00	14.25	2.85
Married couple with <u>4</u> children aged 3, 8, 11, and 16	13.70	16.00	2.30	16.10	16.00	19.00	2.90

Figures assume FAM, CTA's, and clawback all revalorised, as in the Rooker-Wise amendment, for RPI growth between Dec-Jan 1975/6, the last year of the old system, and Dec-Jan 1978/9 or 1979/80.

26 March 1980



cc. Mr Lankester

Social Services

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H M Treasury

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A N Ridley
Special Adviser

Michael Jopling MP
Chief Whip
12 Downing Street
SW1

26 March 1980

Dear Michael,

In view of the continuing interest in the Government's proposals for child benefit, we have prepared here a further briefing on the Government's position. I am therefore attaching a number of copies for you and your colleagues in case they will be useful in the immediate future. Arrangements have also been made for this note to be circulated more generally in the Postmaster General's circuit.

The material being sent to you comes in two parts: a very brief one-page summary of the key issues, designed to be rather more compact and more immediately of use than the somewhat longer note which the Chancellor sent to you under his letter of 10 March; and a considered background note, which puts the issue in a wider context and might be helpful in dealing with the more profound arguments which people may attempt to bring against the Government's position.

*Copies are also going
Direct to other ministers*

Yours sincerely

Adam Ridley

ADAM RIDLEY