

Part A

CONFIDENTIAL

Begins: 29/10/79  
Ends: ~~3/6/80~~ 4/3/81

PO -CH /GH/0040

PART A

PO -CH /GH/0040

PART A

Chancellor's (Howe) Papers:

SOCIAL SECURITY AND  
CHILD BENEFIT

Disposal Directions: 25 Year

*[Signature]*  
24/7/95.

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CONFIDENTIAL



*Handwritten notes:*  
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A line pointing to the top right with the text 'G mp. 1'.  
Below the circle, the text 'Confidential' and '6/4/79' is written.

CHANCELLOR

cc Sir Douglas Wass

DHSS SECURITY

Simply a brief note to record that you intended to raise with Sir Douglas Wass the problem of leaks at DHSS.

ADAM RIDLEY

29th October 1979

CONFIDENTIAL

Please chase reply from Mr. Milligan

PA



HOUSE OF COMMONS  
LONDON SW1A 0AA

28th November, 1979

Dear Sir Derek.

I enclose an analysis of my standard Net Weekly Spending Power P.Q., which once again shows, beyond all doubt, a general deterioration in incentive to work. Ever since 1972, when the D.H.S.S. first gave me a comprehensive answer, the pattern has been the same. This year, despite the Government's determined efforts to create incentives, it can be clearly seen that tax reductions have been cancelled out and overtaken by the 17½ per cent index-linked increases in social security benefits and other allowances.

May I draw your attention to the principal facts which emerge:-

1. Graph A shows that in November 1978 the difference in Net Weekly Spending Power between earning £35 and £85 a week was £15. This gap has been reduced now to £8.
2. Graph B shows that when in receipt of tax refunds the unemployed person is considerably better-off than a person in similar circumstances earning well over the national average manual wage. Table 4 of the P.Q. shows that even without tax refunds there is little or no incentive to work at wages below £75 per week.
3. All the tables show the absurdity of taking tax and national insurance with one hand and giving various benefits with the other, all involving millions of separate calculations and an army of civil servants and local government personnel. For instance, Table 4 - Man, Wife and 2 children, earning £55, finishes up with N.W.S.P. of £53.34 after deductions and handouts.

Cont'd/...

I enclose a letter from a postman, which shows how ineffective our efforts have been and the depth of frustration amongst many who may have voted for us for the first time. Mr. Gibbard was only £1.75 better-off than the particular person on Supplementary Benefit he mentions. Following the 17½ per cent increase in benefits he will now be worse-off. Add to that fact that he most probably has to spend a considerable sum on travelling to work, and other work expenses, and it is obvious that our tax cuts and other measures have done little or nothing to help people at this level. We received a great many votes from such people and unless we dramatically reform the Tax, Welfare, Employment, Education and Housing systems, we will turn these people against us.

My main concern is that however well we look after the top level of industry, managers will not be able to manage any better so long as the work-force is on a treadmill and can see little point in working.

What sense can there be in holding Child Benefit for those working down to £4 per week, while raising it to £5.70 for those not working?

I fail to understand why we are so keen to help and protect the non-workers at the expense of those who work. I feel sure you will agree these figures prove that the changes, so far, have not helped at all. The unemployment trap is deeper than ever in most instances. We are locked into greater and greater spending on welfare. I am convinced as ever that the present chaotic system can never be made to work. I am quite sure that the only way out is to start again with a unified system and one consolidated benefit to bring anyone in need to an acceptable level.

Those who try to defend the system will say that this is merely a snapshot view of reality and that special examples have been chosen to prove the desired points. This is not so. The Parliamentary answer covers all categories of people - single, married couples and families. I have deliberately confined my examples to a small family with two young children. For married couples with older children, or larger families, the situation is much worse.

Cont'd/...

It is my belief that this evidence confirms that the system, as at present operated, is the principal cause of the abysmal performance of the British economy. Also, I am more convinced than ever that we can never correct the system. All attempts have failed. The Heath Government introduced F.I.S., only to make the Poverty Trap and Unemployment Trap worse. The present Government's attempts has made matters worse still.

It is obvious that there is no liaison between the Treasury and the Benefit-giving Authorities of D.H.S.S., Employment, Education, etc.

My recommendation is that all tax and benefit changes should be submitted to a co-ordinating committee before they are put into operation. If this were done, it would become obvious immediately that there is no way of restoring incentives so long as we operate the present complex system.

Therefore, the answer then must be to abandon the system and start again. We should scrap all the various benefit forms operating differing criteria. There should be one assessment and this assessment - similar to the present tax form (which makes allowance for all sorts of circumstances) should be used to decide whether a person pays tax, receives one consolidated benefit to bring his income up to an acceptable level, or falls into a neutral zone in which he neither pays tax or receives benefit. (The Incentive Gap). There is no doubt that some such change must be made urgently.

Yours sincerely  
Ralph Howell



HOUSE OF COMMONS  
LONDON SW1A 0AA

12 November, 1979

FROM RALPH HOWELL, with compliments

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A further set of figures published by the DHSS \* in reply to questions tabled by Ralph Howell, and timed to coincide with this autumn's uprating of all social security benefits except child benefit, show clearly that the Conservative Government has so far failed to arrest the progressive erosion of work incentives, although pledged to do so. For most people earning up to as much as £100 a week the marginal benefits from Sir Geoffrey Howe's June Budget have been more than offset by the increases of 17½% or more in welfare payments and entitlement levels.

A detailed analysis of the Tables is available, and may be summarised as follows:-

I. THE POVERTY TRAP

The situation has worsened since last year. For couples with two children it now makes only £8 difference in terms of spending power whether the father earns £35 or £85 a week, compared with a difference of £15 in 1978. (GRAPH .A.)

For the majority of people, especially families with children, small wage increases are quite futile, because they are quickly swallowed up in extra tax and national insurance contribution, and in loss of means-tested benefits. Wage increases of 18% are necessary merely to preserve the status quo. Much larger increases (of 30%, 40% and even 50%) are necessary in order to produce any real gain.

2. THE UNEMPLOYMENT TRAP

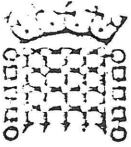
For the unemployed the incentive to return to work is minimal:-

(1) Tax refunds: Because short-term benefits are free of tax, a married man with two children has spending power (defined as earnings plus benefits less tax, NIC, rent, rates and work expenses) of £54 when he earns £65 a week, and £63 during the first six months of unemployment, so long as his tax refunds continue. (GRAPH.B.)

(2) Supplementary benefits: Because the supplementary benefit scheme caters only for those who do not work, it actively discourages self-help. This anomaly affects every-

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\* Hansard 30 Oct 79 cc 496-3 and 7 Nov 79 cc 213-220



body with low earnings potential, but most of all it affects large families, families with teenage children, one-parent families and school-leavers / students. Children's SB rates are much higher than the child benefits available to families in paid work, and the difference this year is greater than before. Similarly tax thresholds for families are lower in relation to FIS and SB levels than they were a year ago. (GRAPHS C (1) & (2) ). For families with older children the level of income at which they start to pay tax is virtually unchanged, whereas both supplementary benefit and family income supplement levels have been increased by about 17%.

Since even the Supplementary Benefits Commission admits that most SB claimants actually live at between 120% and 140% of their SB entitlement levels, it follows that families with children need at least the following approximate earnings levels in order to make work worth while:-

Examples:

- (i) A couple with two children aged 8 and 12 have a spending power (including free school meals) of about £55 at 120% of their SB entitlement, with no extra charge for housing, a winter fuel discount and other perks. They need gross earnings of about £65 (above their FIS level) in order to be a few pence better off by working, and this is only provided that work expenses do not exceed £2.45, and housing costs £9.30. (GRAPH D (1) ).
- (ii) A couple with three children aged 11, 13 and 15 need gross earnings of about £95. (GRAPH D (2) ).
- (iii) A lone mother on long-term SB has spending power of £45 a week if she augments her benefit by £6 (disregarded) earnings. She can live off the State like this indefinitely. She needs earnings of £60 a week to increase her spending power by just over £1.

CONCLUSION

It is becoming increasingly obvious that only a complete re-structuring of the entire edifice of tax, welfare and employment policies will cure the canker which is destroying our society. The effect of the June tax cuts has been negligible. We have a welfare system which traps people in poverty instead of helping them to help themselves. The cost of the latest benefit increases will be £2.7 billion in a full year. Who will pay? In many cases working people with living standards below those of the benefit recipients.



6  
319 Thorne Road  
Doncaster  
South Yorkshire  
DN2 5AP  
31-10-79

Dear Sir

I wonder if you remember the enclosed article from the "News of the World" in 1978, you quote how you are better off on the dole & yet the Conservative Government have not yet done any thing about it.

I enclose you my pay ticket for week ending 26-10-79 as you will see I draw £53.25

I am a Postman starting at 5.10 AM driving in all weathers out from Doncaster to Westerton do a delivery of mail at Westerton & return to Doncaster on a collector 50 miles in all

On Friday after getting my wages I saw one of the unemployed draw £101 for 2 weeks Benefit £1.75 per week less than me

• this person & his wife are doing odd jobs on a Casavan site at Mustisthan, another person at Mustisthan is buying Cars & doing them up & selling them & making a profit a day & unemployment - at the same time

I think it is about time these people were made to report somewhere every morning & find jobs for 12 hrs or so ~~to~~ cleaning the streets etc now they have cut down the council & School meals etc

Why not ask the Postmaster at sub offices if they know if these people are doing odd jobs etc

These people could be found some kind of jobs surely instead of laying in bed waiting for me to deliver them money

Yours faithfully  
P. R. Gilbert  
PTO

£ per week.

THE POVERTY TRAP

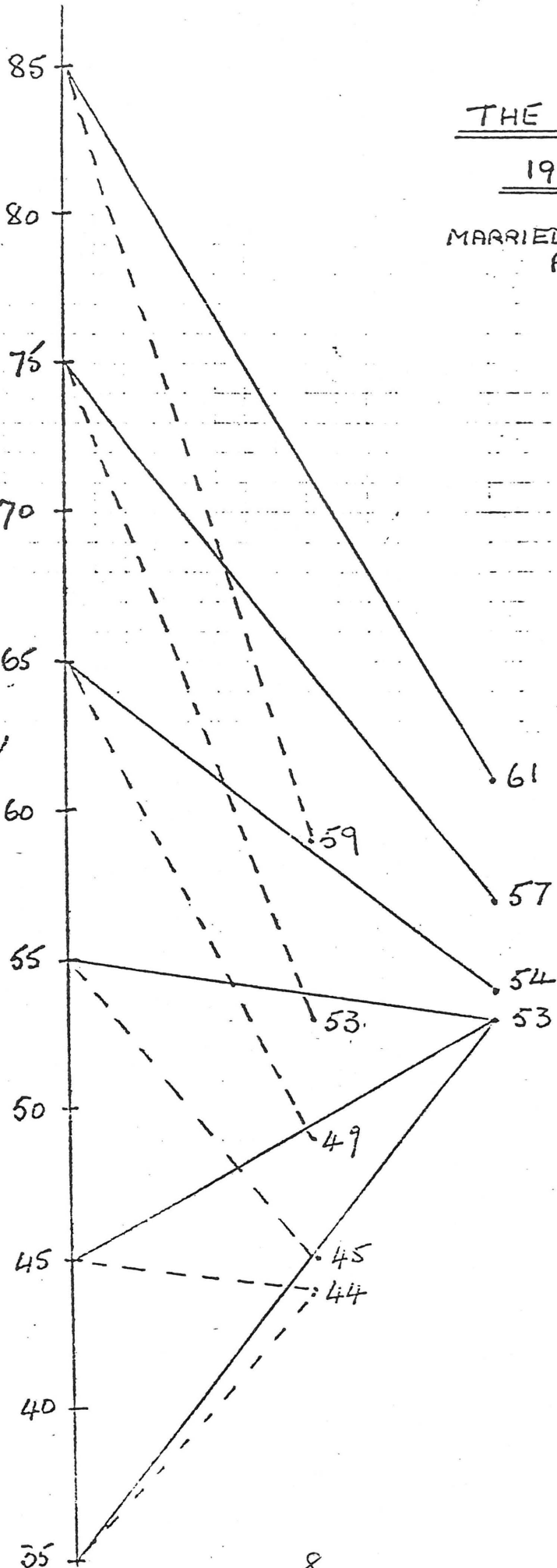
1978 & 1979

MARRIED MAN WITH TWO CHILDREN  
AGED 4 AND 6

----- is 1978  
———— is 1979

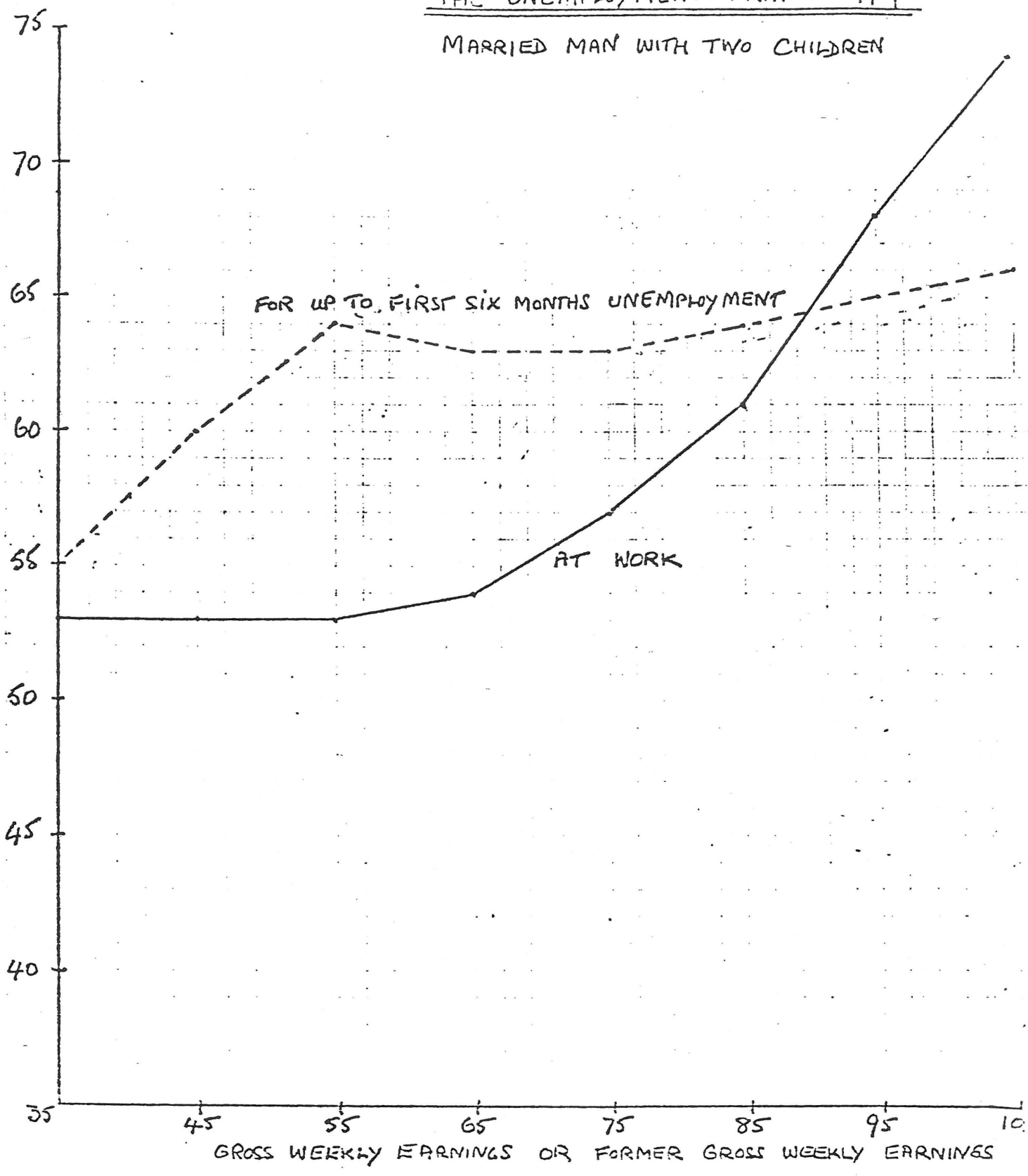
GROSS WEEKLY  
EARNINGS

NET WEEKLY SPENDING  
POWER



NET WEEKLY SPENDING POWER

THE UNEMPLOYMENT TRAP 1979  
MARRIED MAN WITH TWO CHILDREN

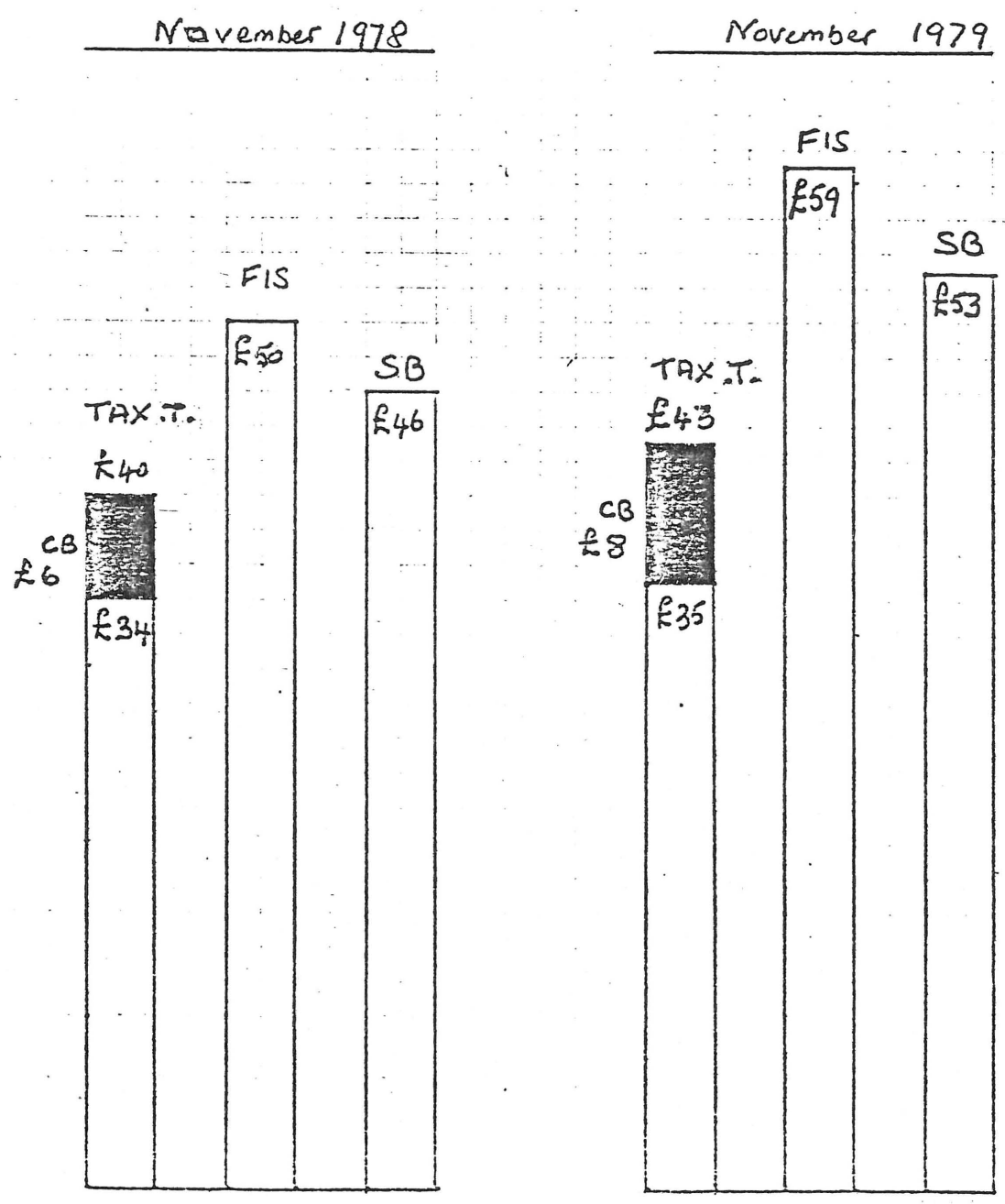


UNEMPLOYMENT FIGURES includes ERS, tax refunds, CB and means-tested benefits

AT WORK FIGURES are after tax, NIC, rent, rates, CB, means-tested benefits and work expenses.

TAX THRESHOLDS, FAMILY INCOME SUPPLEMENT AND SUPPLEMENTARY BENEFIT ENTITLEMENT LEVELS

Married man with two children, aged 8 & 12



TAX.T. is tax threshold including child benefit (shaded in black)  
 1978 : £34 + £6 = £40  
 1979 : £35 + £8 = £43

FIS is maximum income level at which any FIS is payable.

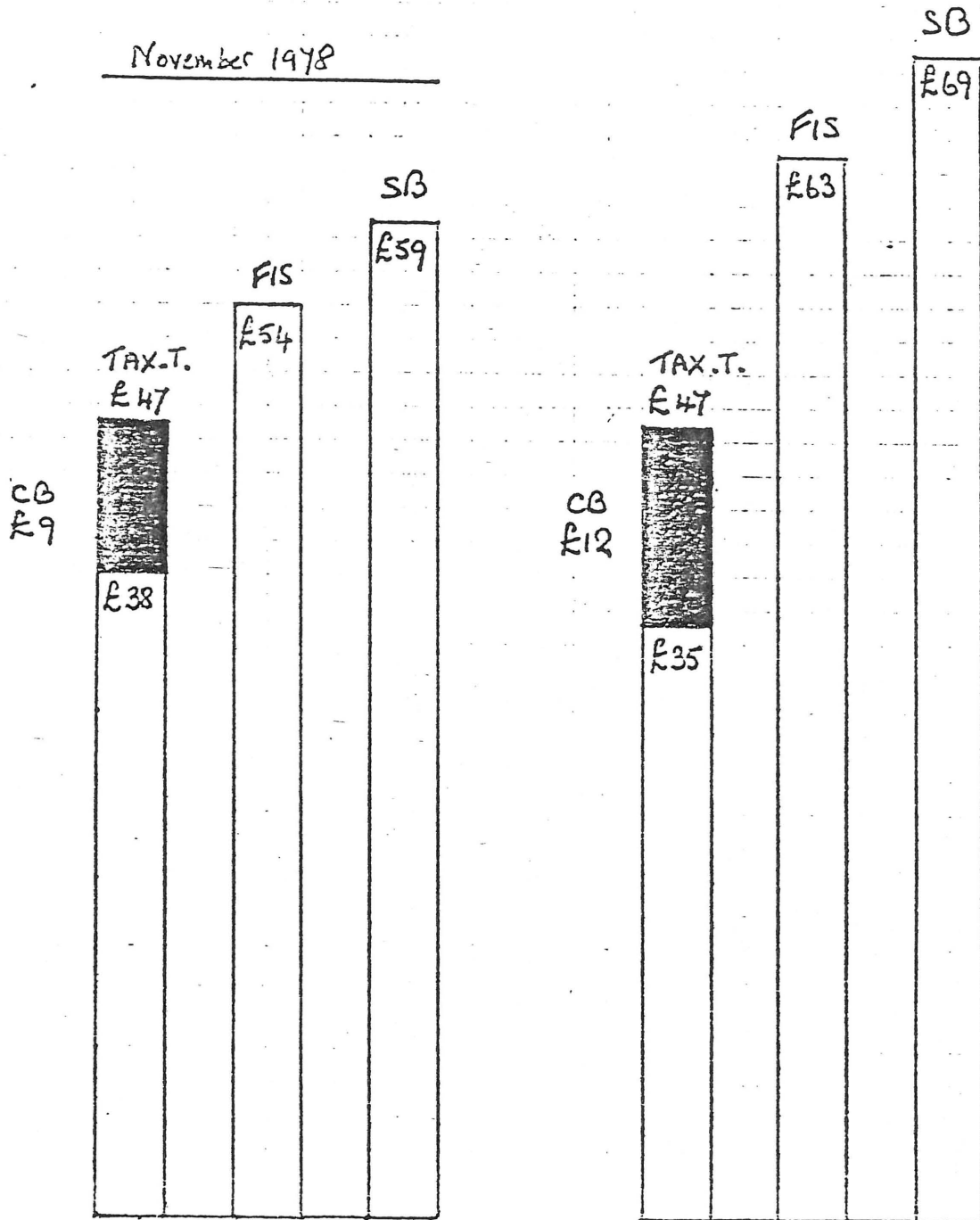
SB includes average local authority housing costs, excludes free school meals

All figures rounded up.

TAX THRESHOLDS, FAMILY INCOME SUPPLEMENT AND SUPPLEMENTARY BENEFIT ENTITLEMENT LEVELS

Married man with three children, aged 13, 15 and 17

November 1979



TAX.T. is tax threshold including child benefit (shaded black)  
 1978 : £38 + £9 = £47  
 1979 : £35 + £12 = £47

FIS is maximum income level at which any FIS is payable

SB includes average local authority housing costs, excludes free school meals

All figures rounded up.

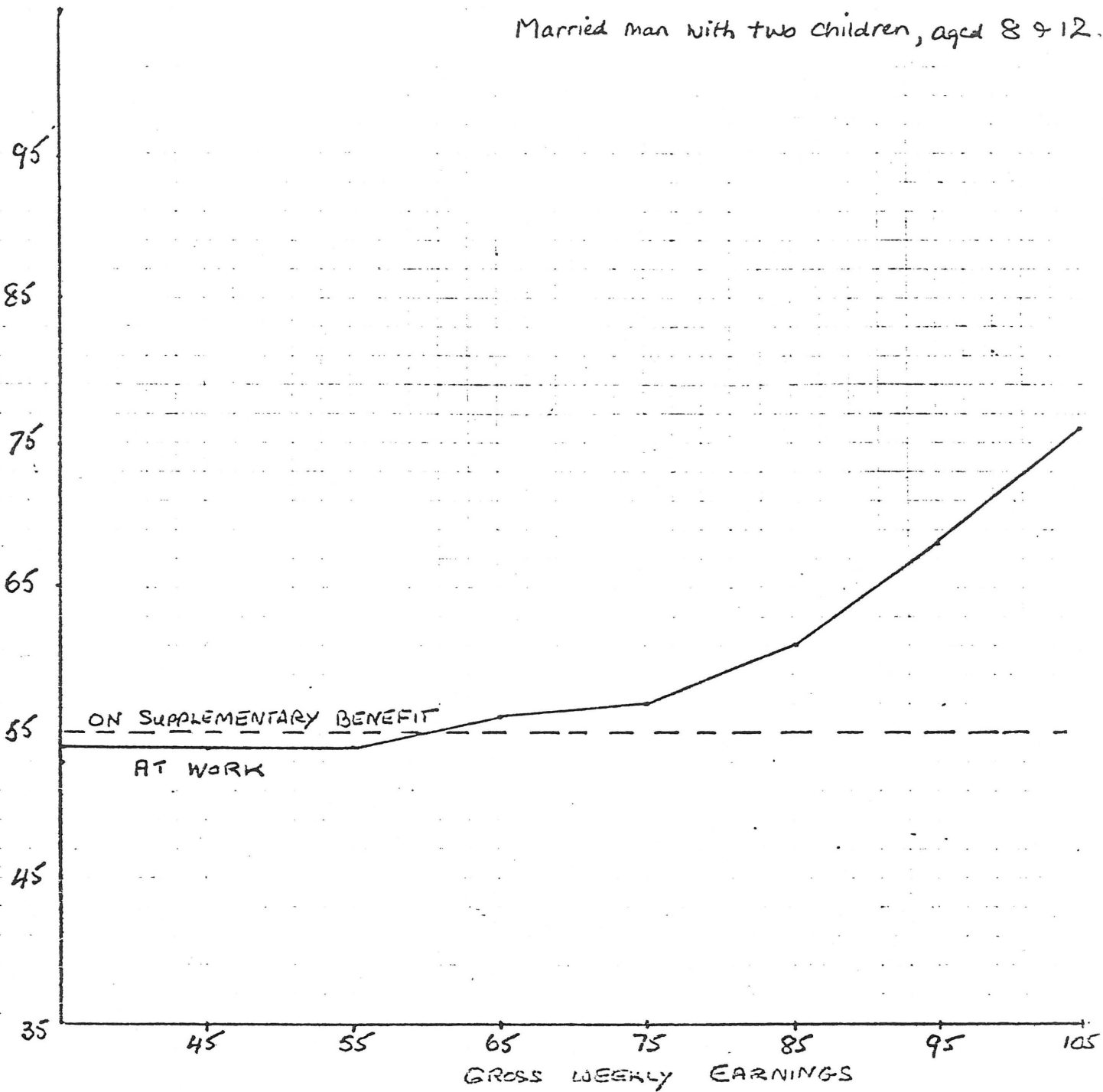


NET WEEKLY SPENDING POWER

£

THE UNEMPLOYMENT TRAP 1979.

Married man with two children, aged 8 & 12.



SB FIGURE is 120% SB entitlement + free school meals (£55.38)

AT WORK FIGURE is after tax, NIC, CB, rent, rates, means-tested benefits and work expenses @ £2.45.  
(£55.68 at earnings of £65)

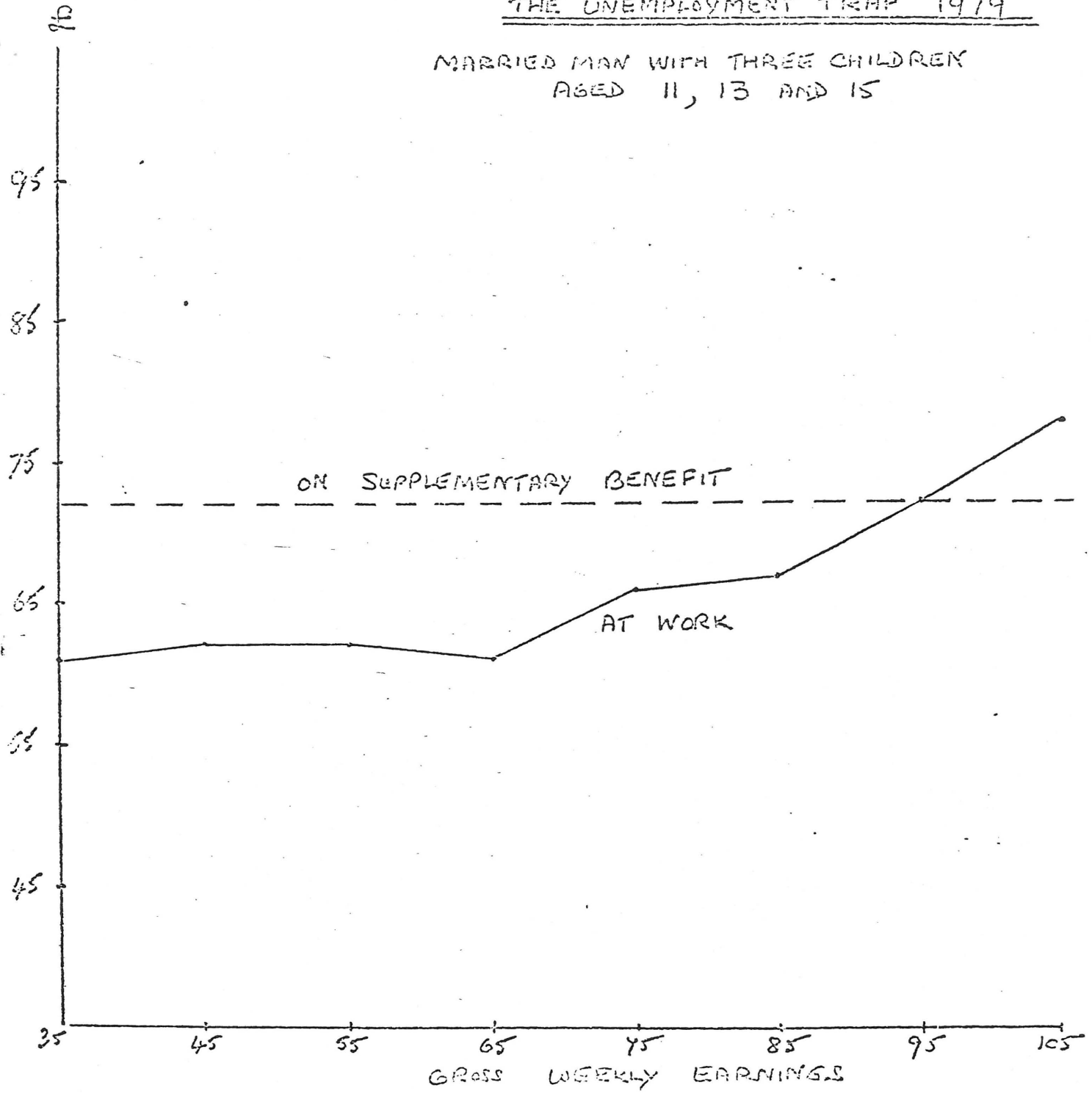
All figures rounded.



NET WEEKLY  
SENDING POWER

THE UNEMPLOYMENT TRAP 1979

MARRIED MAN WITH THREE CHILDREN  
AGED 11, 13 AND 15



SB FIGURE is 120% SB entitlement + free school meals

AT WORK FIGURE is after tax, NIC, CB, rents, rates, means-tested benefits and work expenses @ £2.45.

people. Where necessary, special arrangements are made for registered disabled candidates to attend tests and interviews, for example, in wheelchairs; and those competing for clerical vacancies are generally allowed to take "short-answer" tests if they lack the necessary qualifications. Candidates who are not disabled must have the necessary qualifications. We have been studying the possibilities for employing disabled people in areas, for example in computer programming and photoprinting, where they might enjoy an advantage over those who are not disabled.

#### Small Businesses (Purchasing Contracts)

Mr. Grylls asked the Minister for the Civil Service what arrangements there are in his Department to ensure that small businesses receive a proportion of all purchasing contracts issued by his Department; and what proportion he expects this will be in 1979-80 and 1980-81.

Mr. Channon: The Departments for which I am responsible have no special arrangements of this kind. In particular, the Civil Service Department is not a major purchasing Department. Computers and computer services are the largest category of purchase by the CSD, the arrangements for which remain substantially unchanged from those reported to this House in March 1971.—[Vol. 812, c. 419.]

## SOCIAL SERVICES

### Mentally Handicapped Persons

Mr. Kilroy-Silk asked the Secretary of State for Social Services if, in any new legislation introduced to amend or replace the Mental Health Act 1959, he will ensure that mentally-handicapped people are treated separately.

Sir George Young: Following the White Paper issued last year on "Review of the Mental Health Act 1959"; a number of differing views have been expressed by interested bodies on whether a revised Mental Health Act should include provision for the mentally handicapped as well as for the mentally ill. The Government have yet to come to a decision on this difficult issue but we shall take into account all the views expressed.

11 C 27

### Electricity Discount Scheme

24. Mr. Dubs asked the Secretary of State for Social Services what account he took of the needs of the chronically sick and disabled in formulating his electricity discount scheme.

Mr. Prentice: Chronically sick and disabled people who have extra heating needs can qualify on the existing criteria for the inclusion of heating additions in the assessment of their requirements for supplementary benefit purposes.

No special provision for these groups was made in the previous Government's electricity discount scheme.

### National Health Service (Expenditure)

Mr. Kilroy-Silk asked the Secretary of State for Social Services what percentage of gross national product was spent on the National Health Service in the latest year for which figures are available; and what this was as a percentage of all public expenditure.

Dr. Vaughan: In 1978, the latest year for which figures are available, 5.46 per cent. of gross national product at factor cost was spent on the National Health Service.<sup>(1)</sup> This represented 12.2 per cent. of all public expenditure.<sup>(2)</sup>

Source: National Income and Expenditure (Blue Book) 1979, CSO.

Notes:

(1) NHS expenditure is net of income from charges in the calculations.

(2) Public expenditure here excludes debt interest.

### One-parent Families

Mr. Ralph Howell asked the Secretary of State for Social Services (1) if he will update in line with benefit changes due to take effect next November the reply given to the hon. Member for Norfolk, North on 4 December 1978, *Official Report*, column 494, showing the net weekly spending power of a lone mother at different levels of earnings, and when unemployed, on long term as well as on ordinary supplementary benefit rates, on the assumption that when working she is contracted in to the State pension scheme, and has work expenses, including child-minding costs of £12 a week;

(2) if he will bring up to date in line with benefit changes due to take effect next November the reply given to the hon.

Member for Norfolk, North, *Official Report*, 4 December 1978, column 494, on the previous assumptions but assuming that work expenses for a lone parent are now £12 a week.

Mrs. Chalcker: The following tables provide the information requested, table

3 showing the levels at which, on the basis of my hon. Friend's hypothetical assumptions, there may no longer be title to means-tested benefits. My hon. Friend will appreciate that the figures relate only to the illustrative examples he has chosen and have no general validity.

TABLE 1

NET WEEKLY SPENDING POWER (£) OF A SINGLE MOTHER WITH TWO CHILDREN AGED 4 AND 6; RECEIVING SUPPLEMENTARY ALLOWANCE (SHORT TERM) AND EARNING £6 A WEEK

Supplementary allowance	Child benefit	Net earnings	Rent rebate	Rates rebate	Free school meals	Free welfare milk	Net weekly spending power
29.50	10.50	6.00	6.50	2.80	1.50	1.05	39.25

TABLE 2

NET WEEKLY SPENDING POWER (£) OF A SINGLE MOTHER WITH TWO CHILDREN AGED 4 AND 6; RECEIVING SUPPLEMENTARY ALLOWANCE (LONG TERM) AND EARNING £6 A WEEK

Supplementary allowance	Child benefit	Net earnings	Rent rebate	Rates rebate	Free school meals	Free welfare milk	Net weekly spending power
34.90	10.50	6.00	6.50	2.80	1.50	1.05	44.65

TABLE 3

NET WEEKLY SPENDING POWER (£) OF A SINGLE MOTHER WORKING FULL TIME WITH £12 WORK EXPENSES

Gross earnings	Tax	National insurance contribution	Child benefit	Family income supplement	Rent rebate	Free school meals	Free welfare milk	Net weekly spending power
25.35	—	1.65	10.50	14.50	6.50	—	—	—
32.25	—	2.10	10.50	14.20	6.15	—	—	—
35.00	0.02	2.28	10.50	12.80	5.81	—	—	—
40.00	1.27	2.60	10.50	10.30	5.19	—	—	—
50.00	3.81	3.25	10.50	5.30	3.94	—	—	—
60.00	6.81	3.90	10.50	0.39	3.03	—	—	—
70.00	9.81	4.55	10.50	—	1.43	—	—	—
77.00	11.91	5.00	10.50	—	0.24	—	—	—
82.00	13.41	5.33	10.50	—	—	—	—	—
95.00	17.31	6.18	10.50	—	—	—	—	—
96.00	17.61	6.24	10.50	—	—	—	—	—
Gross earnings	Rates rebate	Work expenses	Free school meals	Free welfare milk	Net weekly spending power			
25.35	2.80	12.00	1.50	1.05	39.25			
32.25	2.40	12.00	1.50	1.05	44.65			
35.00	2.29	12.00	1.50	1.05	45.25			
40.00	2.09	12.00	1.50	1.05	45.46			
50.00	1.69	12.00	1.50	1.05	45.62			
60.00	1.39	12.00	1.50	1.05	45.81			
70.00	0.81	12.00	1.50	—	45.58			
77.00	0.39	12.00	1.50	—	51.42			
82.00	0.09	12.00	1.50	—	54.05			
95.00	—	12.00	1.50	—	62.21			
96.00	—	12.00	—	—	61.35			

#### Care Orders

Mr. Kilroy-Silk asked the Secretary of State for Social Services how many young people in community homes in England and Wales on 31 March 1979 had been given care orders following a court appearance for a criminal offence.

Sir George Young: On 31 March 1977, the latest date for which figures are available, 7,843 children and young per-

sons subject to care orders following a court appearance for a criminal offence were accommodated in community homes.

#### National Insurance Contributions

Mr. Field asked the Secretary of State for Social Services if he will list the national insurance contributions for women workers earning at (a) the lowest decile, (b) median, (c) highest decile and

11.2.23

Revised figures for 1977  
Rate R 8.2 66

where appropriate—from earnings or social security benefits.

2. There have been no previous spells of unemployment or sickness which would affect the amount of unemployment benefit and earnings related supplement payable.

3. Means-tested benefits are taken up in full by working and unemployed families. In the case of family income supplement—FIS—where entitlement exists while at work,

payment continues for the first six months of unemployment.

4. There are no tax allowances apart from personal allowances.

These tables relate only to the particular illustrative situations quoted, and have no general application and no validity if quoted out of context without stating the assumptions used.

TABLE 1

SINGLE PERSON. RENT £5.40; RATES £2.30; WORK EXPENSES £2.45  
EMPLOYED

Normal earnings £	Tax £	NI £	Rent rebate £	Rate rebate £	Net weekly spending power £
35	3.15	2.28	3.50	1.46	24.38
45	6.06	2.93	1.72	0.84	28.42
55	9.06	3.58	—	0.24	32.45
65	12.06	4.22	—	—	38.57
75	15.06	4.87	—	—	44.92
85	18.06	5.53	—	—	51.26
95	21.06	6.18	—	—	57.61
105	24.06	6.82	—	—	63.97
115	27.06	7.48	—	—	70.31

UNEMPLOYED (weeks 3-28)

Former earnings £	UB £	Rent rebate £	Rate rebate £	Net weekly spending power £
35	23.31	5.18	2.00	22.79
45	24.68	4.83	1.89	23.70
55	25.94	4.52	1.79	24.55
65	27.20	4.20	1.69	25.39
75	28.46	3.89	1.59	26.24
85	29.72	3.57	1.49	27.08
95	30.98	3.26	1.39	27.93
105	32.24	3.04	1.31	28.89
115	33.50	2.82	1.23	29.85

TABLE 2

MARRIED COUPLE. RENT £5.40; RATES £2.30; WORK EXPENSES £2.45  
EMPLOYED

Normal earnings £	Tax £	NI £	Rent rebate £	Rate rebate £	Net weekly spending power £
35	0.02	2.28	5.40	2.30	30.25
45	2.52	2.93	4.63	1.82	35.85
55	5.31	3.58	2.48	1.11	39.55
65	8.31	4.22	0.78	0.51	43.61
75	11.31	4.87	—	—	48.67
85	14.31	5.53	—	—	55.01
95	17.31	6.18	—	—	61.36
105	20.51	6.82	—	—	67.72
115	23.31	7.48	—	—	74.06

UNEMPLOYED (weeks 3-28)

Former earnings £	UB £	Rent rebate £	Rate rebate £	Net weekly spending power £
35	29.95	5.40	2.30	29.95
45	32.16	5.40	2.30	32.16
55	37.39	5.28	2.03	37.00
65	38.65	4.97	1.93	37.85
75	39.91	4.65	1.83	38.69
85	41.17	4.33	1.73	39.53
95	42.43	4.02	1.63	40.38
105	43.69	3.70	1.53	41.22
115	44.95	3.39	1.43	42.07

TABLE 3

MARRIED COUPLE WITH ONE CHILD, AGED 3 RENT £6.20; RATES £2.70;  
WORK EXPENSES £2.45; CHILD BENEFIT £4.00

## EMPLOYED

Normal earnings £	Tax £	NI £	FIS £	Rent rebate £	Rate rebate £	Free welfare milk £	Net weekly spending power £
35	0.02	2.28	10.50	5.91	2.32	1.05	45.13
45	2.52	2.93	5.50	4.66	1.92	1.05	45.33
55	5.31	3.58	0.50	3.51	1.55	1.05	45.37
65	8.31	4.22	—	1.89	0.97	—	47.98
75	11.31	4.87	—	—	0.38	—	51.85
85	14.31	5.53	—	—	—	—	57.81
95	17.31	6.18	—	—	—	—	64.16
105	20.31	6.82	—	—	—	—	70.52
115	23.31	7.48	—	—	—	—	76.86

## UNEMPLOYED (weeks 3-28)

Former earnings £	UB £	FIS £	Rent rebate £	Rate rebate £	Free welfare milk £	Net weekly spending power £
35	31.65	10.50	5.50	2.19	1.05	45.99
45	32.16	5.50	6.20	2.55	1.05	42.56
55	39.09	0.50	6.14	2.39	1.05	44.27
65	40.35	—	5.95	2.33	—	43.73
75	41.61	—	5.63	2.23	—	44.57
85	42.87	—	5.31	2.13	—	45.41
95	44.13	—	5.00	2.03	—	46.26
105	45.39	—	4.68	1.93	—	47.10
115	46.65	—	4.37	1.83	—	47.95

TABLE 4

MARRIED COUPLE WITH TWO CHILDREN AGED 4 AND 6. RENT £6.50; RATES £2.80; WORK EXPENSES  
£2.45; CHILD BENEFIT £8.00

## EMPLOYED

Normal earnings £	Tax £	NI £	FIS £	Rent rebate £	Rate rebate £	Free school meals £	Free welfare milk £	Net weekly spending power £
35	0.02	2.28	12.80	6.44	2.49	1.50	1.05	53.23
45	2.52	2.93	7.80	5.19	2.09	1.50	1.05	53.43
55	5.31	3.58	2.80	3.94	1.69	1.50	1.05	53.34
65	8.31	4.22	—	2.70	1.26	1.50	—	54.18
75	11.31	4.87	—	1.00	0.66	—	—	56.73
85	14.31	5.53	—	—	0.06	—	—	61.47
95	17.31	6.18	—	—	—	—	—	67.76
105	20.31	6.82	—	—	—	—	—	74.12
115	23.31	7.48	—	—	—	—	—	80.46

## UNEMPLOYED (weeks 3-28)

Former earnings £	UB £	FIS £	Rent rebate £	Rate rebate £	Free school meals £	Free welfare milk £	Net weekly spending power £
35	33.35	12.80	5.60	2.22	1.50	1.05	55.22
45	33.35	7.80	6.50	2.62	1.50	1.05	51.52
55	39.31	2.80	6.50	2.55	1.50	1.05	52.41
65	42.05	—	6.50	2.55	1.50	—	51.30
75	43.31	—	6.31	2.45	1.50	—	52.27
85	44.57	—	5.99	2.35	1.50	—	53.11
95	45.83	—	5.68	2.25	1.50	—	53.96
105	47.09	—	5.36	2.15	1.50	—	54.80
115	48.35	—	5.05	2.05	1.50	—	55.65

TABLE 5

MARRIED COUPLE WITH THREE CHILDREN AGED 3, 8 AND 12. RENT £6.50; RATES £2.80; WORK EXPENSES £2.45; CHILD BENEFIT £12.00  
EMPLOYED

Normal earnings £	Tax £	NI £	FIS £	Rent rebate £	Rate rebate £	Free school meals £	Free welfare milk £	Net weekly spending power £
35	0.02	2.28	15.00	6.50	2.61	3.00	1.05	61.11
45	2.52	2.93	10.00	5.56	2.21	3.00	1.05	61.62
55	5.31	3.58	5.00	4.31	1.81	3.00	1.05	61.53
65	8.31	4.22	—	3.33	1.43	3.00	—	60.53
75	11.31	4.87	—	1.63	0.88	3.00	—	64.58
85	14.31	5.53	—	—	0.28	—	—	65.69
95	17.31	6.18	—	—	—	—	—	71.76
105	20.31	6.82	—	—	—	—	—	78.12
115	23.31	7.48	—	—	—	—	—	84.46

## UNEMPLOYED (weeks 3-28)

Former earnings £	UB £	FIS £	Rent rebate £	Rate rebate £	Free school meals £	Free welfare milk £	Net weekly spending power £
35	35.05	15.00	5.55	2.21	3.00	1.05	64.56
45	35.05	10.00	6.50	2.61	3.00	1.05	60.91
55	39.31	5.00	6.50	2.67	3.00	1.05	60.23
65	43.75	—	6.50	2.71	3.00	—	58.66
75	45.01	—	6.50	2.61	3.00	—	59.82
85	46.27	—	6.49	2.51	3.00	—	60.97
95	47.53	—	6.18	2.41	3.00	—	61.82
105	48.79	—	5.86	2.31	3.00	—	62.66
115	50.05	—	5.55	2.21	3.00	—	63.51

TABLE 6

MARRIED COUPLE WITH FOUR CHILDREN AGED 3, 8, 11 AND 16. RENT £7.50;  
RATES £3.20; WORK EXPENSES £2.45; CHILD BENEFIT £16.00  
EMPLOYED

Normal earnings £	Tax £	NI £	FIS £	Rent rebate £	Rate rebate £	Free school meals £	Free welfare milk £	Net weekly spending power £
35	0.02	2.28	16.50	7.50	3.03	4.50	1.05	68.13
45	2.52	2.93	12.30	6.51	2.56	4.50	1.05	69.32
55	5.31	3.58	7.30	5.26	2.16	4.50	1.05	69.23
65	8.31	4.22	2.30	4.17	1.80	4.50	1.05	69.14
75	11.31	4.87	—	2.86	1.34	4.50	1.05	71.42
85	14.31	5.53	—	1.16	0.74	4.50	—	74.41
95	17.31	6.18	—	—	0.14	—	—	74.50
105	20.31	6.82	—	—	—	—	—	80.72
115	23.31	7.48	—	—	—	—	—	87.06

## UNEMPLOYED (weeks 3-28)

Former earnings £	UB £	FIS £	Rent rebate £	Rate rebate £	Free school meals £	Free welfare milk £	Net weekly spending power £
35	36.75	16.50	6.27	2.49	4.50	1.05	72.86
45	36.75	12.30	7.32	2.82	4.50	1.05	70.04
55	39.31	7.30	7.50	3.02	4.50	1.05	67.98
65	45.45	2.30	7.50	2.93	4.50	1.05	69.03
75	46.71	—	7.50	3.01	4.50	1.05	68.07
85	47.97	—	7.50	2.91	4.50	—	68.18
95	49.23	—	7.28	2.81	4.50	—	69.12
105	50.49	—	6.96	2.71	4.50	—	69.96
115	51.75	—	6.65	2.61	4.50	—	70.81

NI = National Insurance.

UB = Unemployment Benefit.

FIS = Family Income Supplement.

WHY WORK ? 1979An analysis of Written Parliamentary Replies to RALPH HOWELL:

Hansard 30.10.79 cc 496-8  
and Hansard 7.II.79 cc 213-220

compared with

Hansard 30.II.78 cc 293-306  
and Hansard 2.I2 78 c 494

Despite the 18% increases in adult tax allowances last June, and the reduction of 3% in the standard rate of tax, work is still all too often not worth while, or only marginally so. Incentives have been restored at the top, but not at the bottom.

For most people the tax cuts resulted in spending power increases of not more than £3 a week. But increases in unemployment benefit, and notably the doubling of the national insurance child addition, have pushed up unemployment benefits by £3 for most single people, by between £4 and £5 for married couples, and by much more for families with children, for instance by £6 for most two-child families, and by up to £8 for four-child families. (TABLE I)

The magnitude of this discrepancy is partially concealed in the DHSS Tables by the introduction of a new £5 earnings disregard for rent and rate rebates. This disregard pushes up the relative spending power of those at work, but the long-term consequence will be to drag more working people into the poverty trap. It solves nothing, but adds a further twist to the already incomprehensible tangle of housing rebates, and it is bound to increase the number of people employed by the local housing departments.

The graphs and statistics in this paper illustrate the TREADMILL SOCIETY, vintage 1979. One of the most striking characteristics of the published figures is the smallness of the differentials between incomes in and out of work, from different levels of gross earnings, and from earnings related supplement. What does it all achieve? The amount of effort and paper work, expenditure and frustration involved is incalculable. And the whole edifice is self-defeating.

We have a taxation system which pushes people below the poverty line, and we have a welfare system which traps them there, instead of helping them to help themselves.

Given the various assumptions behind the figures in the DHSS Tables, for instance work expenses of only £2.45 a week, minimal housing costs, and also the continued payment of family income supplement during the first weeks or months of unemployment, it would be dangerous to quote the figures as true in every case. With higher travel costs, a mortgage, or older children in the family, the picture changes substantially. What the figures do show is a trend. It is a downward trend, and the angle of descent this year is perceptibly steeper than it was a year ago.

TABLE I: APPROXIMATE TAX SAVINGS COMPARED WITH APPROXIMATE INCREASES IN UNEMPLOYMENT BENEFIT (INCLUDING ERS), 1979

	Gross weekly earnings / former earnings							
	35	45	55	65	75	85	95	105
<u>Single person:</u>								
tax saving	1	1	2	2	2	3	3	3
UB increase	2	3	3	3	2	3	3	3
<u>Married couple:</u>								
tax saving	1	1	1	2	3	3	3	3
UB increase	4	0	4	5	5	4	4	5
<u>Couple + 1 child:</u>								
tax saving	1	1	1	2	2	2	3	3
UB increase	6	0	5	5	6	5	5	5
<u>Couple + 2 children:</u>								
tax saving	0	0	1	1	1	2	2	2
UB increase	6	1	4	6	6	7	6	6
<u>Couple + 3 children:</u>								
tax saving	0	0	0	0	0	1	1	1
UB increase	7	3	4	7	7	7	7	7
<u>Couple + 4 children:</u>								
tax saving	0	-1	-1	-1	-1	0	0	0
UB increase	8	5	3	7	8	8	8	7

NOTES: all figures rounded up  
 a minus sign indicates a tax increase  
 for families with children add £1 per child to take account of the April increases in child benefit





I. THE POVERTY TRAP

For increasing numbers of people, and especially families with children, it makes little difference whether they work full-time or part-time, and whether the father is skilled or unskilled. A married man with two children has £53 spending power whether he earns £35 or £55, and he needs to earn about £90 in order to be left with an extra £10 to spend.

A lone mother with two children has £39 spending power during the first two years on supplementary benefit, if she also works part-time for £6. After two years she qualifies for the long-term SB scale, and her spending power goes up to £45, provided again that she works part-time for £6. In order to increase her spending power by a mere £10, she needs a gross wage of £82, which is well above the average for women workers.

This erosion of spending power differentials is one of the most important causes of so-called wage inflation, and of the Hidden Economy. If spending power is no longer related to skills or effort, how can government expect wage restraint? High, apparently exorbitant wage claims are all too often a rational response to a totally irrational state of affairs. It is the system we should blame, and not its victims.

Since November 1978 the poverty trap has widened and deepened:

TABLE 2: APPROXIMATE LEVEL OF EARNINGS NECESSARY TO ESCAPE THE POVERTY TRAP

	<u>Nov 1978</u>		<u>Nov 1979</u>	
	£ per week	% of average earnings	£ per week	% of average earnings
Single person	65	86	75	87
Married couple	75	99	85	99
Couple + 1 child	75	99	95	110
Couple + 2 children	85	112	105	122
Couple + 3 children	85	112	105	122
Couple + 4 children	95	125	115	134

Average earnings taken from New Earnings Surveys, males & females aged 18 & over, all occupations: April 1978: £76.30  
April 1979: £86.20



As always it is families with children who are the chief victims. Because of the poverty trap, a generation of children is being brought up in circumstances where self-help is no longer rewarded, and where often there is no hope of raising the family's living standard within the law:-

TABLE 3: NET WEEKLY SPENDING POWER FROM A GROSS WAGE OF:

	35	55 £ per week	75	95	TOTAL GAIN FROM AN EXTRA £60 EARNINGS
Couple + 1 child	45	45	52	64	19
Couple + 2 children	53	53	57	68	15
Couple + 3 children	61	62	65	72	11
Couple + 4 children	68	69	71	75	7

It is the withdrawal of means-tested benefits at the same time as tax is charged, often at 30%, and national insurance contribution at 6.5%, which produces the poverty trap. And in most cases it is only because of the high incidence of income tax, NIC and local authority rates that people are forced to rely on means-tested benefits in the first place. Often the total cost of taxes almost exactly equals the total value of means-tested benefits. Thus our tax system, originally engineered as a means of income redistribution from rich to poor, has become a prime cause of poverty. Only the bureaucrats benefit from such a system:

TABLE 4: ROBBING PETER TO PAY PETER

Married couple with 2 children, gross weekly earnings £55

	(a) <u>Deductions</u>		(b) <u>Means-tested benefits</u>
Income tax	5.31	FIS	2.80
NIC	3.58	Rent rebate	3.94
Rates	2.80	Rate rebate	1.69
		Free school meals	1.50
		Free welfare milk	1.05
TOTAL DEDUCTIONS:	11.69	TOTAL BENEFITS:	10.98



2. THE UNEMPLOYMENT TRAP

During the first six months of unemployment, for so long as tax refunds continue, and assuming the claimant is in receipt of earnings related supplement, a return to work is not financially worth while unless the wages offered are as follows, with the comparable 1978 figures in brackets:

Single person minimum	£55	(£55)
Married couple minimum	£85	(£75)
Couple + 1 child minimum	£85	(£85)
Couple + 2 children minimum	£95	(£95)
Couple + 3 children minimum	£105	(£95)
Couple + 4 children minimum	£115	(£100)

On balance the tax refund anomaly has been reduced. For single people and married couples tax thresholds have risen in relation to average earnings. This is not so for families with children, but for them the value of tax refunds has been reduced since the removal of residual child tax allowances. Tax refunds are now £11.20 a week for all married couples regardless of the number of children, whereas before they were graduated according to family size.

The figures above are however very approximate. Spending power differentials are so small that the balance for or against work can be swung either way by work expenses or housing costs higher or lower than those assumed in the Tables. Very many people are deterred from accepting jobs because of the high travel costs involved. On balance the figure of £2.45 assumed by the DHSS seems very low, especially if one also takes into account other costs, for instance trade union dues. In both Germany and France work expenses are tax deductible, and a change in this direction would have a far greater impact on work incentives than a further reduction in the standard rate of tax. Could it also be almost self-financing?



After the first six months of unemployment, earnings related supplement is no longer payable, and any FIS payments to families will probably have run out. Most families with children will need to augment their flat rate national insurance benefit by claiming supplementary benefits. For large families and families with older children SB is of the greatest importance, because children's SB rates are age-related and are much higher than either child benefit or, in most cases, the national insurance child addition.

Because child benefit has been held at £4 whereas children's SB rates have been increased in line with inflation, the gap between incomes in and out of work is now greater for families with children than it was a year ago. When working, families have to pay tax on incomes well below their SB entitlement levels. For families with older children tax thresholds today are no higher, and in some cases are actually lower, than they were a year ago.

TABLE 5: COMPARISON OF TAX THRESHOLDS, SUPPLEMENTARY BENEFIT AND FAMILY INCOME SUPPLEMENT ENTITLEMENT LEVELS £ per week

	Nov 78			Nov 79		
	Tax threshold	SB	FIS	Tax threshold	SB	FIS
couple + 1 child aged 15:	35	41	46	39	48	54
couple + 2 children,						
aged 4 and 8:	40	44	50	43	50	59
aged 14 and 16:	41	51	50	43	60	59
couple + 3 children						
aged 4, 8 and 11:	45	50	54	47	58	63
couple + 4 children						
aged 4, 8, 11 & 15:	51	59	58	51	69	68
aged 11, 13, 15 & 17:	52	67	58	51	78	68

Tax thresholds include child benefits

SB entitlement levels include average local authority housing costs, but exclude the value of free school meals

FIS is the maximum level at which any FIS is payable



It is hard to discover any logic or equity in our system of tax reliefs. We are taxing families with as many as three children on incomes (including child benefits) which are below the level at which pensioner couples start to pay tax, and well below the tax threshold for two-wage couples. The former criterion of taxation according to ability to pay seems quite forgotten:

TABLE 6: WEEKLY TAX THRESHOLDS COMPARED

	£
Two-wage married couple	57.31
Pensioner couple	47.21
Married couple + 1 child	38.90 (including CB)
" " 2 children	42.90 " "
" " 3 "	46.90 " "
" " 4 "	50.90 " "

Families in receipt of SB need not rely entirely on the State. Because of the various disregards, the Supplementary Benefits Commission calculates that most SB claimants live on incomes somewhere between 120% and 140% of their SB entitlement. The amounts involved are not large, but because the differentials in spending power from different levels of gross earnings are so small, even this extra 20% leaves many claimants with spending power well above anything they could hope to achieve by getting a job, and also well above the equivalent levels of gross earnings at which they would qualify for FIS

TABLE 7: GROSS WEEKLY EARNINGS NECESSARY TO LIVE AT 120% SB ENTITLEMENTS

	120% SB + FSM / FWM	Approximate gross earnings necessary to live at 120% SB
	£	£
couple + 2 children, aged I3 & II:	59	80
aged I6 & I4:	63	90
couple + 3 children, aged I5, I3 & II:	72	95
couple + 4 children aged 4, 3, II & I5:	75	97



The question must be asked what will be the effect on this situation if the charge for school meals goes up to 50 or 60 pence, and if free school meals are restricted to families claiming SB, or FIS. There would be a concertina effect on the poverty trap, with implied marginal tax rates well above 100% as families lose their entitlement to FIS, and the unemployment trap would be exacerbated by a doubling in the value of free school meals.

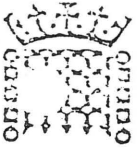
3. CONCLUSION

The will to work will never be restored by the simple expedient of raising adult tax allowances or reductions of a few pence in the standard rate of income tax. We need to cut clean through the maze of existing tax and welfare legislation, and start again on the basis of new principles. Tax should be levied according to ability to pay, and welfare should be structured in such a way as to help people to help themselves, instead of trapping them into semi-permanent dependence on the State.

The first priority must be to raise tax thresholds well above SB levels. Nobody should both pay tax and receive means-tested benefits. This may well involve re-thinking the child benefit system. It will certainly mean changes in the structure of adult tax allowances.

All income from whatever source should be reckonable for tax, but this does not mean, or should not mean, taxing flat-rate national insurance benefits. It should not be attempted so long as tax thresholds are below flat rate benefit levels.

Finally we must look again at the relationship between minimum incomes in and out of work. A national minimum income which applies only to the unemployed makes no sense at all. The best solution would be a national minimum wage at a level at least £10 above the SB entitlement for a married couple, with child benefits at uniform rates regardless of the employment circumstances of the parents. If



this is not acceptable, then we should follow the German pattern, and extend supplementary benefits to provide a national minimum for the entire population, with substantial disregards for people who work, and with corresponding reductions for anyone who clearly does not want to work.

Chancellor

MST (h) is dealing with this  
but you may be interested  
to see in connection with  
entomise etc.

B/F H/i  
B/F 12/ii



TM please see 20  
where this has got  
to and B/F reply  
copy of reply in due  
course.  
RT 14/2.

R11  
1/2

+ to her N  
sequel

Treasury Chambers, Parliament Street, SW1P 3AG

29 January 1980

W R Merton Esq  
Chairman  
Robert Fleming & Co Ltd  
8 Crosby Square  
LONDON  
EC3A 6AN

*[Handwritten initials]*

Thank you for your letter of 21 January suggesting  
that I might see Lewis Cartier about his potential  
CGT liabilities.

Although I do of course have a general interest  
in CGT matters, they are not strictly my responsi-  
bility. CGT falls to Arthur Cockfield; I have  
thus passed your letter and enclosure on to him.  
X | No doubt you will hear from him shortly.

*[Handwritten signature]*

NIGEL LAWSON



# ROBERT FLEMING & CO LIMITED

8 Crosby Square, London EC3A 6AN. Telephone: 01-638 5858.

22 JAN 1980

21

21st January 1980

Nigel Lawson, Esq. M.P.  
Financial Secretary to The Treasury,  
Treasury Chambers,  
Parliament Street,  
London, S.W.1

*Dear Nigel,*

I am sorry to bombard you with another fiscal problem so soon but I do think the point raised is an important one although it may well have already been taken into consideration in pending legislation.

One of our clients is a very successful entrepreneur, Lewis Cartier aged 33 who recently sold his chain of supermarkets to Tesco for £20 million. He is a man of exceptional energy and has since the sale of his business in September 1979 already started a new retail operation (supermarkets for sport and leisure goods) and has plans in hand for a major development in Canterbury and also a project in the USA. The current CGT legislation could seriously inhibit his ability to finance these new projects and provide the necessary entrepreneurial flair for them. The attached letter, addressed to Sir Geoffrey Howe, outlines certain anomalies under the CGT legislation in general, and his position in particular.

I hope we have entered an era when the entrepreneur will be encouraged and we believe that the proposals in his letter deserve serious consideration. He would obviously appreciate the opportunity to meet you if that were possible.

*With kind regards*

*Yours ever,*

*Bill*





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**CARTIERS**

**SPORTS & LEISURE LTD.**

(FORMERLY LAURELPALM)

*Reg. Office:*  
75-81 HIGH ST., STROOD, KENT

*Tel:*  
MEDWAY 724134

21st January 1980

Rt.Hon.Sir Geoffrey Howe Q.C., M.P.  
House of Commons,  
Westminster,  
London S.W.1

Dear Sir Geoffrey,

I am writing to bring to your attention certain aspects of existing Capital Gains Tax law which are of particular concern to me.

I would like to introduce myself as the founder in 1971 of a supermarket group, Cartiers Superfoods Limited, which was last year acquired by Tesco for some £20m. On the day the offer from Tesco became unconditional I resigned as a director of Cartiers Superfoods and started a new retailing operation called Cartiers Sports & Leisure Limited which is already trading profitably and employing approximately 60 people with plans for rapid expansion. Together with my remaining food retailing interests I currently employ 210 people. Arrangements are in hand with the city of Canterbury for me to start a major sports and leisure complex development there. I also have in hand the raising of capital in the London markets for a \$120 million project in the United States which, if successful should in due course produce substantial overseas earnings.

Under the existing law any gain realised on the sale of shares is fully liable to CGT and no relief is available even though the proceeds are to be used to fund a further entrepreneurial enterprise. This tax liability reduces the amount of funds available for the new enterprise and represents a serious disincentive.

There are precedents for deferring liabilities of the type envisaged in the existing capital gains tax legislation. For instance where certain assets used in a trade are sold, any resulting CGT liability can be deferred if the sale proceeds are used to purchase further qualifying assets to be used in the trade (e.g. farming land). This relief could be extended to include shares in a family business as one of the categories of qualifying asset.



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Furthermore a form of CGT relief is already given to the owners of family companies who give away shares in their companies. What is being sought, essentially, is that this relief should be extended to the sale of a family company where this is followed by the reinvestment of the proceeds of sale in another company.

Now that we have a Government committed to encouraging entrepreneurial activity it would seem an appropriate time for this anomaly in the tax law to be removed. Clearly the disincentive is likely to be greatest on those individuals whom the Government wishes to encourage the most, namely the entrepreneur who has proved himself by building-up one successful business and now wishes to start up afresh in a new area, using the capital he has accumulated in his first enterprise. The case would seem sufficiently strong to justify retrospective relief.

I would welcome the opportunity of a few minutes of your time to explain the projects in hand, and the wealth and job creating aspects of them. I shall be in London on 29th and 30th January and the 1st, 4th and 5th of February and would very much appreciate a meeting at some time convenient to you on one of these days.

Yours sincerely,



L.E. Cartier





PA

RIT

MST(L) said a meeting has been set up and no reply is being sent.

TAN 14/2

But X1 suggests there will be some reply in due course!

RIT

14/2

Note of mtg in due course pl.

RIT 17/2



PA

RIT

MST(L) said a meeting has been set up and no reply is being sent.

TAW 14/2

But xil suggests there will be some reply in due course!

RIT

14/2

Note of mtg in due course pl.

RIT 14/2



10/1/80 . C 25

*Certainly let this be followed then: BUT:  
① Do you P.U.S. ministers, \* below: any ideas?*



CHANCELLOR

*② How does the main theme "square with" the D.Em. scheme (I figure its initials: JAS?) to emerge early retirement?*

- cc Chief Secretary
- Financial Secretary
- Minister of State (L)
- Minister of State (C)
- Sir A Rawlinson
- Mr Bailey
- Mr Kemp
- Mr Cropper
- Mr Cardona

SOCIAL SECURITY - THE EARNINGS RULE

Since the prospects here are now looking so difficult and we may encounter heavy criticism for whatever is decided about the future of this programme, there can be no harm in considering whether there are one or two small things of a positive kind which can or should be done at the same time. I therefore suggest that it would be worth considering the immediate and total abolition of the earnings rule. We are pledged to do this in any case over this Parliament (Manifesto, bottom of p27). It is an utterly objectionable provision. Its disappearance would, rightly, be widely welcomed.

2. The obvious apparent objection would be cost. I gather that DHSS, who are responsible for costing its value, have put a figure of circa £100m on the net increase in expenditure attributable to its abolition. However this estimate was consistently challenged in opposition, most notably by Kenneth Clarke and Chris Mockler. They have claimed that the increase in the limit forced on the last Government a few years ago did not lead to the disastrous financial consequences forecast by Ministers at the time, no doubt on the basis of the DHSS calculations. However I remain very sceptical of the DHSS estimates myself, and would accept the Clarke/Mockler view of a negligible cost. I seem to remember that Patrick Jenkin did, and that you yourself shared some of this scepticism.

3. If there is any attraction in the idea, the first thing to do would be to have the DHSS and Mockler estimates and arguments



re-examined by Mr Kemp and the economists here, if possible in such a way as to allow Mockler an opportunity to feed in his own ideas about the DHSS results at a suitable stage. That done, you and your colleagues could then judge whether or not the cost issue mattered, and what scope for early action there might therefore be.

\* 4. Mr Kemp points out to me, rightly, that the biggest need for "Brownie points" this year is likely to be in relation to the young rather than the old. However it is also likely to help you and your colleagues considerably to be able to refer to anything positive in the Social Security area!

AR

ADAM RIDLEY

10th January 1980

# Conservative Research Department

24 Old Queen Street, London SW1H 9HX Telephone 01-222 9511

cc. for  
CBS  
B/S/T  
[unclear]

Director: ALAN HOWARTH

CM/FL

S/ Mr Cropper  
wanted a  
copy  
The one in Soc. Sec.

14th January 1980

Mr. Adam Ridley,  
The Treasury,  
Whitehall,  
London SW1

Dear Adam,

I enclose a copy of a paper on child benefit which I have circulated to DHSS Ministers and which they have found helpful. A copy is also being sent to Geoffrey Howe and to a few other key people (not Treasury).

Yours  
Chris

Chris Mockler

c.c George Cardona  
Peter Cropper

CHILD SUPPORT

Note by Research Department

1. PREFACE

For understandable reasons the Conservative Government did not raise child benefit in 1979. There was obvious pressure to restrain public expenditure and the increase in pensions and other long-term benefits by almost 20% in November meant that there was less money available for other aims.

However in 1980 the situation will be very different in a number of important respects and this paper sets out the case for raising child benefit this year.

2. FAMILIES WITH CHILDREN: THEIR FINANCIAL NEEDS

Families with children have the greatest difficulty in managing, compared with single people and married couples of working age, and their financial burdens will be mounting heavily in 1980.

Indeed the review of the supplementary benefits system ("Social Assistance" 1978) concluded that families with children were at a disadvantage compared even with pensioners and the Commission has argued forcefully that:

"an increase in child benefits should be the first priority for any additional expenditure on the whole system of social security benefits... The first priority should be to raise the living standards of low-paid workers with children. (Annual Report published in October 1979).

The fact is that the true cost of raising a child is significantly higher than child benefit or even the supplementary benefit scale rates.

A recent pamphlet set out in authoritative detail the costs of raising a child aged 5.

CHILD AGED 5

	<u>£ per week</u>
Food	4.48
Clothing and Footwear	1.67
Household provisions	0.30
Heating and lighting	0.48
Toys and presents	0.06
	<u>6.99</u>

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None of these items are excessive and indeed they are near to subsistence level.

For example "food" assumes:

BREAKFAST

Cereal 1oz and milk,  $\frac{1}{4}$  pint  
1 egg, class 2  
1 slice of bread and margarine  
1 cup of milk

LUNCH

Sausages, 2oz  
Potatoes, 4oz  
1 orange, 4oz  
1 cup of milk

TEA

Spaghetti, 1oz  
Cheese,  $\frac{1}{2}$ oz  
Tomatoes 1oz  
1 slice of bread and margarine and jam  
1 cup of milk

Household provisions are estimated at:

Household linen	10p
Washing clothes	10p
Soap etc	10p
	-----
	30p
	-----

("The Cost of a Child  
CPAG Nov. 1979)

What is important is to compare these costs of £7 per week (calculated in July 1979) with the supplementary benefit child rate of only £5.30 and the ordinary child benefit rate of £4 per week.

During 1980 families with children are likely to be singled out for the heaviest extra financial burdens. By the time of the next uprating child benefit will have fallen from £4 to £3 per week (at April 1979 prices) and school meals are likely to go up on average to 40p per day in April and 50 pence per day in September.

It is important to note that in the event of both these changes being made in September 1980, the cost of school meals (£2.50) and school transport (£1.50) will put many parents in a position where the whole of their child benefit of £4 per week is being diverted to meet these two items.

In sum, the fall in the real value of child benefit coupled with increases in school charges is likely to lead to increasing political dissatisfaction as the year goes on.

The last Conservative Government had a poor record on family support, with family allowances not being raised even once between 1970-4.

If the present Government does not raise child benefit in 1980, it follows that by 1981 child support will be lower under us than at any time in the 1970s during either Conservative or Labour administrations. We will legitimately be charged as a Government which has increased family poverty.

### 3. WHY WORK?

One of the main reasons why people are better-off out of work is because child support is less for the working family than it is for the family that is unemployed.

#### Financial support per child

	April 1978	Nov 1978	April 1979	Nov 1979
<u>Family in work (i.e. child benefit)</u>	2.30	3.00	4.00	4.00
<u>Unemployed Family</u>				
(i) Receiving unemployment benefit	4.50	4.85	4.85	5.70
(ii) Receiving supplementary benefit				
(aged 0-5)	4.10	4.40	4.40	5.20
(aged 5-11)	4.95	5.30	5.30	6.25

The "why work" problem will be further aggravated in 1980 by the increase in school meal charges to £2.50 per week and the withdrawal of free school meals from many families who previously had this entitlement. These two changes will together make it more attractive to be unemployed than to be in work.

If there is scope within the forthcoming budget for making tax cuts for the low-paid, then the most effective measure that could be taken would be to raise child benefit by a significant amount in November. This would obviously help families with children who, as explained earlier, are these who will be under most financial pressure in 1980 and it will be the most effective way of easing the "why work" problem.

Of course an alternative would be to make family poverty worse by deliberately making major cuts in NI and supplementary benefit rates for children and making unemployed families poorer. However, as stated above, even the supplementary benefit child allowances are lower than what is needed for near subsistence and there is unlikely to be scope for reductions of any significance.

Finally, it should be noted that the taxation of unemployment benefit is complementary to raising child benefit but not a substitute for it. So long as child support is greater for the unemployed family than the employed family, the "why work" problem is unlikely to go away.

#### 4. FULFILLING OUR COMMITMENTS

A further advantage of raising child benefit is that we would be fulfilling our commitments set out in Opposition.

In a Research Department paper presented to the Treasury team in December 1978 it was emphasised that:

"The background to a Conservative Government in the first year of office is likely to be a difficult one of rising council rents, higher food prices, increased indirect taxes and possibly higher unemployment.

The main "plus" will come from our cuts in income tax, yet even here there is clearly a possibility of our doing most for single people and married couples without children...

The present balance between families with children and those without (taking into account of the November 1978 child benefit increase) look reasonably satisfactory and the question is whether we maintain this balance or permit a relative decline in child support as in the past. This is, perhaps, the most important issue to be considered." (CRD Paper 8/12/78)

At a Fentiman-type meeting on 12 December 1978 this matter was discussed and it was agreed, with Sir Geoffrey Howe, that increases in child benefit should be raised as part of our tax reduction campaign. (Para. 7 of the Minutes)

This commitment, agreed in private, was spelt out during the General Election campaign. The wording was agreed at the highest level and stated that:-

"Further improvements in child benefit would form part of our plans for increased personal income tax allowances". (Question of Policy 17/4/79)

At an interview with Mr. Robin Day on 23 April 1979 Sir Geoffrey Howe confirmed that:

"Obviously the child benefit will be adjusted in light of inflation"

Finally two further points should be borne in mind. We are considering how to make employers liable for the first six weeks or so of sickness and to reduce supplementary benefit for strikers, and in either case we would be well-advised to protect the interests of the children. Both our objectives would be made considerably easier by raising child benefit in the ways set out below, because the sickness benefit rate for children need no longer apply and a reasonable level of child benefit would (so it could be argued) protect children from extreme hardship during strike action and would ensure that the adults would bear the main burden.

## 5. FUTURE POLICY

Three principles need to be accepted:

- \* families with responsibility for children should be recognised as carrying out a difficult and vital task in our society and they should be strengthened rather than weakened.



- \* families with children should be treated as fairly as single people or married couples with children. To date our policies have penalised the former and favoured the latter.
- \* child support should be the same for a family whether it is in or out of work, instead of (as at present) being greater for the latter.

In practice, this means that:

A. Child Benefit should be raised in November 1980 by as much as the expected movement in prices between April 1979 and November 1980.

This would not represent a cost in real terms and would simply restore the position which existed on our return to office.

Indeed with the number of children entitled to child benefit falling by about 48,000 between 1978/9 and 1980/1 (because of the lower birth rate) it follows that there will be an actual saving of around £90m per annum. Over the following two years there will be another reduction of about half a million children.

B. In 1981 and subsequently child benefit should be raised in proportion to the increase in the adult tax allowances. This will prevent families with children losing ground to single people and married couples without children.

C. Our ultimate aim should be to raise child benefit so that child support is the same whether a family is in work or in receipt of unemployment benefit. This would have a very major effect on the "why work" problem and enable the Government to abolish the unemployment benefit rate for children altogether.

Christopher Mockler  
Conservative Research Department  
9/1/80

cc Mr Ridley  
Mr Cardona

CHANCELLOR

CHILD SUPPORT

1. You requested my reactions to Chris Mockler's memo.
2. Much as I like and admire Chris, I do not think his memo should have been circulated as a "Note by Research Department". I have heard of the NEC, but I do not think that, even in the Labour Party, the research department would think in terms of obtaining a private commitment from shadow ministers before an election and then try to hold them to it in office.
3. The plain fact is that Child Benefit is one of the few social security items where incoming Ministers' hands are not partly tied by legislation.
4. Every political person has his own ideas on Child Benefit and I happen to approve of it, though for quite different reasons from Chris Mockler. I do not think the whole fiscal structure should be governed by the requirements of poor families. There will always be (relatively) poor families and they should be looked after - beyond a certain point - by selective measures.
5. My own reason - and I would personally favour raising the CB from £4 to £15 or £20 - is based on a belief that couples with young families have a very tough time compared with other sections of the population. The wife stops working (or ought to), and the husband in his mid-twenties has often not reached the full extent of his earning capacity (increasingly so as brain replaces brawn). It is in nobody's interest that men in this age group should be harrassed by poverty while pensioners flock in their thousands to the Costa Brava.
6. I would like to see the level of Old Age Pensions reduced by 20 per cent as part of a direct switch to Child Benefit, but OAPs have votes and children do not. An alternative and entirely legitimate manner of financing higher CBs would be VAT on food, as long as hypothecation was guaranteed.
7. However that is just a personal view.
8. I do not think it is at all helpful for Chris to be campaigning now for CB to be raised by the estimated rise in prices from April 1979 to November 1980, calling supposed "commitments" in aid, and he should not be allowed to use CRD as an address.

  
PETER CROPPER  
17th January 1980



CHANCELLOR

4/3/80.  
A.R.: How much, lower 35  
no coming during  
c Mr Cropper  
to let it be  
(P.M. shows our  
view, incl. on  
unemployment or  
inflation.)

"POLITICS TODAY" FOR MARCH 10TH AND CHILD BENEFIT

I attach a copy of "Politics Today" which is due to be despatched very shortly. I have spoken about it to Alan Howarth, with the following results. He agrees, after looking carefully at the text, that it is damaging rather than helpful to the Government's cause at the present juncture. He will be quite willing to withdraw the issue forthwith, but naturally would like to know what you think before finally making up his mind. He has not shown the text to Patrick Jenkin, and is not at the present inclined to do so. He has the impression that Patrick is happy in broad terms with what is said, but <sup>has</sup> no grounds for thinking that the text has been shown to him. Chris Mockler is, incidentally, away ill at the moment. In normal circumstances this issue would be despatched today and tomorrow. I asked Alan to ensure that no decision was taken to mail it before tomorrow. I promised him that we would be in touch later today to let him know your reaction.

2. Turning to the text itself, I have marked up ten points which seem to me to merit your particular consideration.

- i. The whole of the first part of the document could be construed as an argument that the UK spends too little on social security and health. While the international comparisons are used as a basis for criticising Labour's failure to encourage economic growth, the thrust of the argument could easily be interpreted as being directed to present administration.
- ii. This is an emphatic statement about how far we have fallen behind other countries.
- iii. The reference here brings up the issue of family policy, which is one of the rallying cries being used by the child benefit enthusiasts in the Parliamentary Party.



iv. There is a carefully selected quotation from the October 1979 Supplementary Benefits Commission Report to the effect that increases in child benefits should be the first priority ...

v. The reference to health expenditure is not designed to facilitate the presentation of the Public Spending White Paper.

vi. This is perhaps the most objectionable feature of the whole publication. There is both a reference to the "error" of calling child benefits an item expenditure; and a quotation from your speech in the House of Commons in July 1977 arguing both for treating child benefits as taxes, and for an increase in the real value of the benefit.

vii. A reference bringing in the incentives argument.

viii. A backhanded reference to the fact that benefits were not increased last November.

ix. A fairly full quotation from one of the more embarrassing parts of the Press Release from the Conservative Party with International Advisory Committee.

x. This introduces the CPAG arguments about the cost of a child. It is not helpful to the Government's present position!

3. I have considered these points with Peter Cropper. Our reaction is that the text is, by and large, not quite as bad as Peter's original conversation with Chris Mockler suggested it would be. It is not so evidently outrageous that its publication would cause further turmoil. So on balance we think it would be best if you allowed this issue to proceed as planned. However, I would advise



that, should you do so, we should give further consideration in the near future to what must be done to avoid such things happening again, and to bring home the seriousness of this "Transport House" behaviour. If you would rather have it stopped, then we must tell Alan as soon as possible.

A handwritten signature in black ink, appearing to be 'AR'.

ADAM RIDLEY  
4 March 1980



C 38

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Minister of State (C)  
 Minister of State (L)  
 Mr Cropper

POLITICS TODAY AND CHILD BENEFITS

Further to my minute of earlier today, I have spoken to Alan Howarth again on the lines you suggested after lunch. I told him that

- (a) Patrick Jenkin ought to be shown a copy of Politics Today immediately;
- (b) it should not yet be sent out for the time being;
- (c) you were very displeased.

2. We must now decide whether to confirm<sup>s</sup> your present disposition to acquiesce in publication. Ideally this should be conveyed to Alan Howarth tomorrow morning. If we are still uncertain then, I ought to get in touch with him nonetheless to tell him to hold back distribution for a further while.

3. You will be seeing Lord Thorneycroft shortly about other matters. That meeting might be a good opportunity for raising the incident with him. No doubt you will be able to say tomorrow whether you feel anything else should be done in the interim.

*Put with papers for that only*

*AR*

ADAM RIDLEY

5th March 1980

6/3/80.

*cc to Ministers*

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CHANCELLOR

c Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Cropper

NOTE FOR THE RECORD - MEETING ABOUT CHILD BENEFIT - MARCH 5 1980

Present: Mr Ridley, Mr Cropper, Wm Waldegrave MP, Robin Squires, MP  
John Patten, MP

At the outset of the meeting I explained that it would inevitably be more an occasion for the MPs to talk to the Advisers than vice versa, given the inevitable restrictions of Budget confidentiality. But I understood that it was still the Chancellor's hope that he would be able to arrange a meeting with Mr Waldegrave and his friends to discuss the issue further, possibly before the Budget.

2. Mr Waldegrave, who acted as spokesman for the trio, presented their case as follows. In as far as the Party had, for some time, made a convincing and politically valuable case for special help for families and special measures to reduce the poverty trap, through child benefit and raising allowances, it would obviously be very difficult to defend a position in which the increases in child benefit fell well short of indexation. While no-one would object to a full Rooker-Wise, with a generalised range of benefits being enjoyed by all those in lower income groups, he and his colleagues would undoubtedly prefer to see generous increases in child benefit rather than full Rooker-Wise if the choice had to be made at the margin. This would be a far better way of helping the family. The case for assisting families at this juncture was not just the general one which the Party had supported for some time. It was strengthened by the fact that, with the massive increases in nationalised industry prices and the introduction or increase in charges for school meals and transport, the prices faced by families with children would almost certainly be increasing particularly rapidly for a little while to come. Furthermore, an improvement in child benefits was essential in the "why work" context in order to



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reduce the growing gap between the scale of assistance given to children of those on supplementary benefit and those in work. Protagonists of the tax credit system were also very anxious, because every occasion on which benefits and other credit-like payments were not properly indexed would make the ultimate cost and difficulty of transition to some kind of credit system increasingly difficult.

3. Politically speaking priorities clearly pointed towards fairly generous action. Our biggest accretion of support in the election had been in the votes of working class women. While their husbands were showing some tendency to revert to their normal voting habits, there were still encouraging signs that the women were staying with us. However, the anxieties that they feel are growing, and it would be not difficult to lose them before long. The Prime Minister's arguments that the system of child benefit splits the family by transferring money from the husband to the wife did not make any sense on the ground.

4. Looking at the broader context of the Budget itself, Mr Waldegrave stressed that he saw the gravest difficulties in defending a Budget which would be generous in relation to Capital Tax but do little or nothing on the social front. Generosity on child benefits would, on the other hand, reinforce the valuable if somewhat equivocal momentum in our favour which dated back to the CPAG's criticism of the Labour Government's record towards the poor which had been so helpful in 1970. As far as particular figures were concerned, an increase of £1 would be a decent figure, if not quite up to the full value that indexation would suggest. An increase of 75p would create a lot of nervousness. An increase of 50p would undoubtedly be a disaster.

5. Looking further ahead, Mr Waldegrave saw a very important link between generous treatment of child benefits, sorting out some of the anomalies in the tax allowances (such as married couples receiving  $2\frac{1}{2}$  normal allowances) and the taxation of short term benefits.





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6. Mr John Patten said that he would particularly wish to emphasise the importance of Ralph Howell's argument about the length of the poverty trap. A married man with two children would only stand to gain some £8 in take home pay as his income rose from £35 to £80. He was particularly anxious about the clash with our past commitments, both in Parliament and in policy documents, and any lack of generosity on child benefits in this Budget. In political terms, he saw generosity in this front as also being very valuable in retaining a measure of useful support from what he termed the "Guardian" lobby. He would see great value, whatever is done on benefits in this Budget, in Ministers making a firm commitment to doing all they can to greatly reduce the poverty trap in years to come.

7. Robin Squire reiterated the importance in his eyes of the fact that it was cheaper to use child benefits than personal allowances to deal with poverty trap and incentive problems. He also expressed anxiety about the continuing tendency to treat child benefit as a piece of expenditure like other short term benefits - with which it often becomes loosely associated - rather than as part of the tax system. He stressed there was a significant group of people - principally poor families with children - who neither gained much from the reduction in income tax in the last Budget nor are likely to gain much from the income tax changes in this one. Yet this same group will have suffered twice round if we are not careful. They will have had to meet the burden of the full increase in VAT in 1979, and now the rising prices of nationalised industries, costs of transport, school meals and so on. He agreed with Mr Waldegrave about the importance of the earliest possible move to tax short term benefits.

8. In commenting on these observations I made a number of points:

a. It had to be borne in mind <sup>that</sup> / Government was severely hamstrung by the extent of indexing, de facto linkages such as those arising in the pay field, and the firm commitment to uprate pensions in line with prices which created particular problems for the rest of the social security budget. While



there was a good case for a degree of indexation a la Rooker-Wise, it was vital to be left with a degree of discretion. At no period was it more vital than in a year like 1980 when output was likely to fall and there was a massive excess in people's earnings and expectations about living standards which would necessarily have to be corrected before long.

b. I also deployed some of the arguments about the political difficulties of the moves which Mr Waldegrave and some of his colleagues were involved in. I suggest that any change in expenditure and fiscal matters at this stage could unbalance the painfully won agreement which underpins the expenditure decisions recently made. I pointed out that this might have far more serious consequences than was, perhaps, realised - not least on the future of child benefit itself. I pointed out that there was a particular problem for the Chancellor and his colleagues in reacting to isolated proposals made late in the day for higher expenditure on worthy causes. Finally I suggest that Mr Squire, whose motion still stands on the Order Paper<sup>\*</sup>, should be under no illusion about the extreme difficulties which the Government would be faced with if there was a Supply Day on child benefits and it did not go well. I don't think he appreciated the significance of what he has done.

ADAM RIDLEY  
6th March 1980

PREV Pps 43  
THAN FOR A TO  
SEE

# Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

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Director: ALAN HOWARTH

Personal

7th March 1980

*Dear Chancellor*

I am so sorry that you should have had to be distracted by the matter of our Politics Today on the Social Services. We certainly slipped up and I do hope you will accept my apology.

As I have put it to Chris Mockler - and he readily agreed - there is a vital distinction to be made between offering advice privately and expressing oneself publicly in a way that could be interpreted as bringing pressure to bear. Chris's paper on Child Benefit of 9th January, which I sent to you as a submission from the Research Department, was in the category of private advice to you and colleagues particularly concerned with the issue. I am sure you would accept that it was legitimate to offer, discreetly and in a spirit of loyalty, certain considerations on a subject about which he is knowledgeable and cares very much. Politics Today on the other hand is a publication and in my judgement, which Chris accepts, it was wrong to have incorporated some of the material that was there. Accordingly I have stopped the publication. The Politics Today will be revised and appear in an altered version next week.

With my renewed apologies. I hope you will feel that you can count on the friendship and personal support of members of the Research Department in the colossal tasks that you are undertaking.

*Yours sincerely  
Alan*

ALAN HOWARTH

The Rt. Hon. Sir Geoffrey Howe, QC, MP,  
The Treasury,  
Whitehall,  
London, S.W.1.

ATH/JLS

7/3/80 44

Place in the earlier papers

- a.s.a.b. - for use in discussions

Do PJC still agree?

(Some or all arguments on inclusion etc. ed. would find a place in the later papers)

Chancellor.

Brief for the Whips on Child Benefit

Adam invites me to improve on his proposed paragraph 2 insertion.

It seems very good to me.

PJC

7 Mar 80.

P.S. In the penultimate line of Adam's notes, it should read "Their Manifesto plans for taxing short-term benefits" — not "Supplementary Benefit"

PJC



CHANCELLOR

c Chief Secretary  
 Financial Secretary  
 Minister of State (C)  
 Minister of State (L)  
 Sir Douglas Wass  
 Mr Bailey  
 Mr Kemp  
 Mr Cropper  
 Mr Cardona

BRIEF FOR THE WHIPS ON CHILD BENEFIT

Sir Anthony Rawlinson's minute to you on Child Benefit of March 5 suggested that I might have some comments to make to amplify the draft brief for the Whips which he has submitted to you. I accordingly attach a number of amendments which I would recommend. These have been drafted in part in the light of subsequent discussions of yourself and with Members of Parliament.

2. Since dictating these notes, I have seen Mr Kemp's minute to you of March 6 reporting that Andrew Bennett has moved in Committee that child benefit should be increased, in effect, to the level of supplementary benefit children scale rates. This point should undoubtedly be added to the list of specific arguments at the end of the brief as a new (g). One might use the following form of words:

9 "To raise child benefit to the level of supplementary benefit children scale rates, as Andrew Bennett has recently suggested in the Amendment he has proposed in the Standing Committee on the Social Security Bill would be even more difficult to achieve than a simple indexation of child benefit. It would mean increases of anywhere between £1.20 and £5.40 per week, depending on the age of the children involved. The cost in a full year would be little under £2 bn - a sum not very different from the total given away by the Chancellor in his Budget last year. Furthermore, the proposal misunderstands the nature of both forms of



assistance. Child benefit is not intended to cover the cost of a child - after all parents are expected to spend a little money of their own on their children in normal circumstances. [Supplementary benefit, on the other hand is meant to come much nearer the full cost of maintaining a child.]"

3. A final point, which Mr Cropper might like to consider, is whether there is anything to be gained from a strengthening of the argument I have inserted in para 2. The words I have proposed are designed to weaken the argument that there is any obvious base to be found in the precursors of child benefit from which it can be argued that child benefit is ungenerous. I assume that he will minute you independently if he wishes to pursue this point.

AR

ADAM RIDLEY  
7 March 1980

AMENDMENTS TO DRAFT BRIEF FOR THE WHIPS  
ON CHILD BENEFIT

para 2 delete second sentence and insert:

(A)

"It has in effect replaced both child tax allowances (CTAs) and family allowances. The old system had a fairly complicated impact, with discrimination between the ages and numbers of children, and "clawback" provisions (for family allowances). It is not, therefore, easy or meaningful to compare the value of child benefit with that of the previous arrangements at a particular date or the net assistance to families in the period of transition between them with the present system."

para 3 - redraft sentence 2 on:

(C)

"There has never been any commitment to the indexation, either of the CTAs and family allowances, or of Child Benefit. Sophisticated indexing to the "cost of children" would be difficult, as no such index is compiled [nor could one be, without considerable resources]. It may, however, be presumed that such a hypothetical index would not always move in line with the RPI, both because the RPI gives a heavy weighting to drink, tobacco and other commodities such as motoring which bear little if at all on spending on children, while VAT is not levied on children's clothes, food or other relevant necessities such as energy."

Create a new para 4 with the last sentence of para 3.

Amend the old para 4 as follows:

- a. In periods of rising import prices (such as those provoked by OPEC in 1974 and the present), falling output or circumstances when incomes and expectations are excessive,

rigid indexation provisions are extremely damaging. They mean that all the accommodation of lower living standards has to be focussed on the unindexed part of the economy such as profits, private sector pensions, private incomes and so on. Such adjustments are difficult to make at the best of times. What we need is less rigid indexation, not more, particularly of the statutorily binding kind.

b. For the reasons already given, 1980 is a year in which the general economy case for less than full indexation of almost anything other than profits and indirect taxes is particularly strong. This does not necessarily rule out scope for doing better than indexing would suggest in the future, when circumstances will be more favourable.

c. The Government's decisions about any one element in its expenditure and tax strategy are easy to isolate and grumble about. But

i. they are part of a very much broader canvas of decisions and can only be judged fairly in that context;

ii. the integrity of this agreed strategy is of greater importance than the (impossible) goal of pleasing all interests at all times. To force Ministers to unwind a decision on Child Benefit at this stage could put the whole expenditure package in jeopardy, and conceivably thus bring the threat of unwanted tax increases - or yet another (crisis) package of expenditure cuts - which would be far more unwelcome than a less-than-full indexing of child benefit.

d. To dispute whether Child Benefit is in spirit a part of the tax system or an item of spending is to miss the point. Money has to be found to pay it however it is



classified, and in practice it has therefore to be considered as part of the Public Spending proposals being announced in the White Paper.

e. No one would deny that CB helps poor families with children efficiently and reduces poverty trap problems. However it must be remembered that there are other ways of dealing with the problems of the poverty trap, and high marginal tax rates on low incomes such as those identified by Ralph Howell. There are other ways of helping the family, too. It is not axiomatic that children or child benefit should have unqualified priority over other uses of available revenue - all the more so since a lot of CB recipients are well off.

f. Narrowing the gap between CB and the scale of assistance for children under Supplementary Benefit is obviously vital if one is to tackle "Why Work?" However CB increases are not the only way of doing this. Not to operate through CB this year does not prevent Ministers from pressing ahead with their Manifesto plans for taxing ~~Supplementary Benefits~~, or pursuing other methods of reducing the gap between it and CBs.

short term

g)

CHANCELLOR

cc Mr Tolkien

POLITICS TODAY AND CHILD BENEFIT

Mr Tolkien's minute of March 6th records your desire to convey to Lord Thorneycroft and others your and the Prime Minister's dismay about the recent edition on social policy which was held back after our representations. This is obviously a somewhat delicate matter. I had hoped to be able to find a moment to consider it a little more carefully, in particular to be able to have a word about it with Lord Thorneycroft. This has not, unfortunately, been possible so far. What I would propose as the best approach would be that you should send a letter to Lord Thorneycroft on the lines of the attached draft. Before you send it, I would have a tactful word with him in advance so as to make clear to him what it signified. If you sent such a letter, it is difficult to know whether or not to copy if more widely - the draft suggests it should also go to Angus Maude and Michael Jopling, but I am not clear that this is necessarily the best thing to do. The basic problem we have to find our way round is that, if we criticise CRD too heavily, it will diminish the likelihood that they would be able to be effective in supporting and explaining Government policy.

2. I shall try to talk to Lord Thorneycroft as soon as possible, and would meantime be grateful to know whether you approve the letter attached to this minute on a provisional basis.

A handwritten signature in black ink, appearing to be 'AR'.

ADAM RIDLEY

17th March 1980

✓ 19/3



DRAFT LETTER FOR THE CHANCELLOR TO SEND TO LORD THORNEYCROFT

As you are doubtless aware, the issue of "Politics Today" on Social Policy which was to have been sent out last week contained what can only be described as some very unhelpful passages on Child Benefit. I am sure that Alan Howarth was right to hold it back for revision. Had it been distributed, it could well have caused us gratuitous embarrassment with the Party both in the House and in the country.

Now that the danger is passed there is no point in pursuing this particular incident any further. But it ~~now~~ raises a general issue about which both the Prime Minister and I remain concerned. While it has long been normal for the Labour Party to display its disagreements in public, and for Transport House to pitch in against the leadership from time to time, our Party machine has hitherto sustained a long and valuable tradition of unity and loyalty. It would be most unfortunate for it to be weakened at this moment, particularly by barely veiled public criticism of sensitive aspects of Government policy in an official Party publication.

*I know, therefore, no doubt that you wish to pursue*

In my experience the Research Department has been consistently meticulous in ensuring that it explains and defends Policy and, when we are in power, Government Policy. ~~Could I therefore ask you~~ to remind CRD of the great importance of continuing to do so in future.

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I am sending copies of this letter to the Prime Minister,  
[~~Angus Maude and Michael Jopling~~].

53  
M

# Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

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Personal

Director: ALAN HOWARTH

2nd April 1980

*Dear Chonella*

The Chairman of the Party has shown me your letter to him of 28th March. It is very disappointing to me that you have not felt able to accept my apology and the assurance of support that I gave you in my letter of 7th March.

If you were able to spare the time I would very much appreciate the possibility of having a talk with you about how the Research Department can best be of help to you in the future.

As these matters have been brought to the Prime Minister's attention I am sending her a copy of this letter as well as my previous personal letter to you.

*Yours sincerely*  
*Alan*

ALAN HOWARTH

The Rt. Hon. Sir Geoffrey Howe, QC, MP,  
The Treasury,  
Whitehall,  
London, S.W. 1.

ATH/JLS

11 / 84

F:  
THE CHAIRMAN OF THE PARTY  
The Rt. Hon. The Lord Thorneycroft

CONSERVATIVE & UNIONIST CENTRAL OFFICE,  
32 SMITH SQUARE,  
WESTMINSTER, SW1P 3HH,  
Telephone: 01-222 9000

PT/SO

3rd April 1980

*Y did I now see  
A. H.'s letter in  
7 max?*

*BIF 10/4*

*Alan Jeffrey.*

*I shall certainly see  
him re discuss*

Thank you for your letter. I entirely endorse your view that the display of disagreements in public is inimical to the Conservative cause. Indeed, it is a prominent topic of complaint in letters reaching me here.

I was aware at the time of the episode in the Research Department to which you refer, and as you say Alan Howarth was right to hold back that issue of Politics Today for revision. I know, too, that he was distressed at what had happened and wrote to you to offer his apologies.

I know of no other instance of conduct on the part of members of the Research Department about which you might have reason to complain. They are doing their very best in what have not been easy circumstances and members of the Government can be assured of their continuing loyalty and support.

I too am copying this letter to the Prime Minister.

*Yours*

The Chancellor of the Exchequer

*[Signature]*

G/HOL/11

CONFIDENTIAL

SSCS - 724

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*(Handwritten mark)*

CHANCELLOR

SOCIAL SECURITY (NO.2) BILL

I have been under heavy pressure to assist Lady Young on the Committee Stage of the Social Security (No. 2) Bill. The argument is partly that the provisions of the Bill derive more from public expenditure policy than from social security policy: partly from the exceptional pressures under which Lady Young has been working as she has had to pilot a number of major bills through the Lords.

On previous occasions supported by official Treasury advice I have resisted such approaches. The official Treasury view remains the same namely that if I participate it could well be interpreted as the Treasury dragging an unwilling Department along behind it thereby suggesting a lack of collective will on expenditure cuts thus weakening the Government's position. This is much my own view and if you agree I will talk to Lady Young on this basis.

The matter has already been raised tentatively in connection with other Bills still in the Commons (e.g. the Local Government Bill): so that we have to take a decision essentially on principle rather than on any basis of helping out Ministers who are under particular pressure.

*A.C.*

LORD COCKFIELD

3 June 1980

10, WINING STREET,  
WHITEHALL S.W.1

*With the Private Secretary's  
Compliments*

10 DEC

THE PRIME MINISTER

*Dear Mr. Roper,*

Thank you for your letter of 2 December about points raised by your constituent Mrs Frances Morris of 39 Whittle Street, Walkden, about aspects of Government policy that affect large families.

You will remember that I wrote to you on 27 May 1980 commenting on a number of similar points raised by Mrs. Morris.

With regard to changes in the Welfare Food Scheme, I am afraid I can add nothing to what I said in my letter of 27 May. If Mrs. Morris thinks her family might qualify for free milk and vitamins on the grounds of low income she should complete the claim form on the enclosed leaflet M11 and sent it to her local social security office.

Mrs. Morris again mentions the cost of school meals. She may be interested to know that apart from the mandatory provision of free meals to children whose families receive supplementary benefit or family income supplement I understand that the Bolton education authority also grant free meals on the basis of an income scale which takes account of family size. I do not know whether any of Mrs. Morris' children would qualify for free or reduced price meals under these arrangements, but, if she has not already done so, she might like to approach the Bolton authority on this matter.

/ I appreciate



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I appreciate Mrs. Morris' concern about the effect that increases in national insurance contributions will have on her family but I am afraid that these increases are necessary. They are required both to meet the rising cost of benefits due to inflation and higher unemployment and to help maintain the level of services provided by the National Health Service. We have also decided that those in work should pay directly a larger share of the cost of benefits. The contribution to the National Insurance Fund which is made from general taxation, the Treasury Supplement, is therefore being reduced and the difference will be made up by part of the increase in the employee's contribution rate. The reduction in the Treasury Supplement and the increase in the NHS element of the contribution will help to reduce the Public Sector Borrowing Requirement. This is vital if we are to bring inflation under control and create the climate for economic growth which, in the long run, will benefit the whole community.

You say also that Mrs. Morris is concerned about the "recommendation" that the Wife's Earned Income Allowance should be abolished. Mrs. Morris presumably has in mind some of the possible changes to the system of taxing husband and wife discussed in the Green Paper, "The Taxation of Husband and Wife", which was published on 3 December. As Geoffrey Howe stressed at the time of publication, this Green Paper is in no sense a set of firm proposals for change. Rather it is designed to enable members of the public and interested organisations to make their views known before the Government formulates any proposals for departing from the present system. I would assure Mrs. Morris that we are well aware of the special difficulties faced by those with large families, and will bear these in mind in considering possible changes to the tax system.

Mrs. Morris also suggests that large families pay a disproportionately high amount in indirect taxation. A large element of indirect taxes is of course placed on items such as

/ alcoholic

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alcoholic drinks and smoking which would normally be expected to be consumed mainly by adults. I assume, therefore, that what Mrs. Morris primarily has in mind is VAT, which is currently charged on a wide range of goods and services, and which was increased in our June 1979 Budget to a rate of 15 per cent.

The amount of VAT borne by any individual family will of course depend on its particular spending pattern. But in general, reliefs from VAT have been provided for nearly 50 per cent of consumer expenditure, including those items which are felt to be of the most importance to families. VAT for example is not charged on most food (except for a few less essential items such as confectionery), public transport, house rents and prices, young children's clothing and heating and lighting. Insofar as families with lower incomes or an above average number of children tend to spend more of their income on such items, they will in general pay proportionately less indirect taxation than the average household.

You may have heard that the Government have made proposals to pay child benefit, for most families, at four weekly intervals. I am sure you will be interested to hear that we have also proposed that families with four or more children would be able to retain weekly payments if they wished. This is because we recognise that for large families, child benefit represents a significant part of family income and so should be drawable weekly if the mother so wishes.

Finally let me say that the Government holds the family at the centre of its domestic policies. However, our first priority must be to get the economy right. It is only in this way that the standard of living of all members of our society can be improved.

Yours sincerely  
Margaret Thatcher

John Roper, Esq., M.P.

Pwp

c. Sir D Wass  
 Mr Burns  
 Mr Bull  
 Mr Evans  
 Mr Kemp  
 Mr R Allen

sl  
 11/2

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CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Minister of State (L)  
 Minister of State (C)  
 Mr Cropper  
 Mr Cardona

6/2/81.

## PRESENTATION OF THE UNEMPLOYMENT FIGURES

The point was made this morning about the importance of achieving a more constructive presentation of the unemployment figures. As I understand it, you expressed some desire that efforts should be made to get the Department of Employment to do this.

2. While sympathising wholeheartedly with the objective, I think we must be fairly careful to establish reasonably precisely what we want to try and get over; and equally careful in considering how to persuade the Department of Employment to cooperate in this venture.

3. It is easy enough to say in general terms that one wants to convey to the general public that the published unemployment register must include a number of "workshy" scroungers and the rest. It is also easy enough to identify the problem that the vacancies figures understate, even (I don't doubt) at times such as this, the number of true vacancies in the country. But it really is extremely difficult to find either a firm empirical foundation for making these points which does not rest on anecdote alone; and it is a very delicate matter indeed to get the point across to the public at large without causing real offence to the unemployed themselves and the growing number of those in work who see the threat of unemployment as very real and very unappetising.

4. I make these observations partly on the basis of having discussed closely with the CPS the change in the presentation of the unemployment statistics which they developed in their monthly press releases in opposition, which sought to put the unemployment statistics as published at that time by the Department of Employment in a rather different light; and

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partly because I know that the literature on this subject is very sparse indeed. To take one example, I believe there have only been one or two reasonably firmly based surveys of the proportion of the unemployed who are "unsuitable for work". Even these are open to a certain amount of criticism from our opponents on the grounds of their necessarily subjective basis.

5. Then there is the question of what one would want done in practical terms. Do we wish to see a new format of the unemployment statistics? If so what kind of change are we looking for? One approach would be to publish more footnotes on the lines of the one already given for the vacancies figures, which points out that recorded vacancies have tended to understate the true level by a significant factor. But what would these extra footnotes say, and to what statistics would they be applied? Then there is the issue of publicity and presentation of a broader case. Is it envisaged that Ministers should take leading role in attempting to discredit the present statistics? If so, are they really the right people to do it? Would it not be wiser to try and get this done by individual MPs, or friendly commentators in the press? May I suggest, if you wish to pursue the matter further, that it would be sensible for us to go into these issues fairly carefully at an early prayer meeting, and that a Special Adviser should prepare a background note or annotated agenda?



ADAM RIDLEY

6 February 1981

10, DOWNING STREET,  
WHITE HALL S.W.1

With the Private Secretary's  
Compliments

REET

20 February 1981

Dear Mr. Crowther,

Thank you for your letter of 3 February, in which you questioned the figures I gave, in reply to your supplementary question on 29 January, about this year's estimated cost to the National Insurance Fund of unemployment benefit and supplementary benefit.

I confirm that the figures I gave you - to which I made further reference during my speech in the Economic and Industrial Policy Debate on 5 February - are correct. For the 1980/81 financial year the expenditure on unemployment benefit is estimated at between £1.1 and £1.2 billion, and on supplementary benefit it is just over £1.2 billion. The figures do of course relate to benefit costs only.

As regards the average payment of benefit made to unemployed people it is not possible to obtain this by dividing £2.3 billion by 2½ million as you appear to have done. You must bear in mind that the figures I quoted related to payments of benefit during the 1980/81 financial year and experience to date suggests that the average numbers wholly unemployed over this period will work out at a little more than 1.8 million. Moreover, not all those who are unemployed receive benefit, for example some married women get no benefit and some occupational pensioners get no supplementary benefit once they have exhausted their contributory unemployment benefit.

Yours sincerely

Margaret Thatcher

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3rd March, 1981

The Rt. Hon. Sir Geoffrey Howe,  
Chancellor of the Exchequer,  
11, Downing Street,  
S.W.1.

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LMS

CH/EXCHEQUER	
REC.	- 4 MAR 1981
ACTION	Mr KEMP
COPIES TO	PS/DHSS

Dear Chancellor,

May I draw your attention to the findings of a survey which we conducted in The Sun newspaper at the end of February. These show that there is a very strong feeling among readers that in your forthcoming Budget Child Benefit should be uprated not only enough to allow for inflation since spring last year, but to £5.70 or more in order at the very least to cover the erosion in its value since April 1979.

As you will be aware, the Department of Health and Social Security recently invited comments on plans to pay Child Benefit monthly in arrears, rather than weekly as at present, to all families except those in the specially exempted categories.

Since Child Benefit is of great importance in the lives of many mothers, we published a short article in our issue of Friday, February 20, 1981, suggesting that readers fill in a form indicating their views and return it to us, so that we might pass on their feelings to your Department.

We received completed forms from 4,340 readers - a sizeable number, especially in view of recent increases in postal charges. There was nearly unanimous opposition to the introduction of compulsory monthly payments in arrears: 98.7 per cent believed that parents should keep the right to collect Child Benefit weekly if they wish or need.

We next asked readers: "Would it cause your family financial difficulty if Child Benefit were paid monthly in arrears?"

The replies were:

Yes, great difficulty	64.5 per cent
Yes, some difficulty	31 per cent
No difficulty	4.5 per cent

continued...

The strength of this response surprised me, because in carrying out previous surveys I have found that readers tend to play down rather than exaggerate difficulties in their own situation.

We also asked readers whether they thought Child Benefit should be increased in the forthcoming Budget or not. We explained that to allow for inflation since the last Budget would demand an increase to £5.25. To make up the value lost because Child Benefit was not increased enough in the last Budget to cover inflation would mean raising it to £5.70. Readers replied as follows:

No increase	2.3 per cent
To £5.25	13.7 per cent
To £5.70	42 per cent
To more than £5.70	42 per cent

We also received more than 700 letters from readers. Most explain what an important part of the wife's weekly budget the Child Benefit is (even when it is not that large a percentage of the family income), emphasize the extra stress that a change to monthly payments would put on their family, and/or detail why they believe that the forthcoming Budget should include a sizeable increase in Child Benefit. They communicated much anxiety and hardship among families.

Of course, a write-in sampling of opinion such as this cannot claim the authority of a properly constituted random survey, but this large and almost undivided response shows a strength of feeling and widespread degree of agreement which is extremely unusual on topics such as this.

There is clearly a strong feeling among readers of The Sun - the biggest selling daily newspaper in this country - that Child Benefit must not only be safeguarded against inflation, but that its value must be restored and even increased in real terms. I am sure you will wish to take these views into consideration.

Yours sincerely,

*Deidre Sanders*

Deidre Sanders

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10, DOWNING STREET,  
WHITEHALL S.W.1

With the Private Secretary's  
Compliments

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REET

4 March 1981

Dear Mr. Field,

Thank you for your letter of 9 February.

Any public sector employment programme is likely to involve substantial costs in terms of administration, supervision and materials. Moreover, if the wages offered were close to unemployment and supplementary benefit levels, the offsetting savings to the government from income tax and employee's national insurance contributions would be small.

The detailed costings which you asked for in your letter will of course vary from scheme to scheme and I cannot provide you with any overall estimate. You may however be interested to see the attached reply given by the Chief Secretary in answer to a recent PQ. This details some of the additional net costs which the Government would incur if it sought to employ people in the public sector at a wage equal to the direct Exchequer cost of private sector unemployment.

Yours sincerely

Margaret Thatcher

Frank Field, Esq, MP



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