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PART A

Part A.

SECRET

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PO -CH /NL/0397



PART A

Chancellor's (Lawson) papers:

PROPOSALS TO WITHDRAW
CHILD BENEFIT FROM HIGH
INCOME FAMILIES

DD's: 25 Years

13/12/95.

PO -CH /NL/0397

PART A



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House
79 Whitehall
London
SW1A 2NS
Telephone 01-210 5121

From the Private Secretary to the
Minister of State for Social Security and the Disabled

CHIEF SECRETARY	
REC.	24 MAY 1988
FROM	Mr McLartyre
TO	Mr Sir P Middleton
	Mr Husson, Mr Phillips
	Miss Pearson
	Mr Crepper

Mr Call

Miss Jill Rutter
Private Secretary to
The Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

24 May 1988

Dear Jill

CHILD BENEFIT

I enclose a draft minute to the Prime Minister from my Minister. I would be grateful for the Chief Secretary's comments on it as soon as possible.

Yours

NICHOLAS BROMLEY

CONFIDENTIAL

DRAFT LETTER TO NO. 10

CHILD BENEFIT

1. Following the meeting with backbenchers on 17 May, I agreed to set out our thinking on child benefit in more detail, bearing in mind specifically the implications of our manifesto commitment. I think it is important to do so in the wider context of our approach to social security during the rest of the current Parliament.
2. This must, in my view, maintain where possible the emphasis in the reformed structure on placing resources where they help to meet the greatest needs. Despite the great and increasing size of the social security budget, we shall undoubtedly come under growing, perhaps irresistible, political pressure to do more for vulnerable groups, particularly the elderly poor. For pensioners generally, we can point to the growth in occupational provision and SERPS; but there are significant numbers of older pensioners, and those who are sick and disabled, who are dependent solely on the basic benefits. They are also, of course, a group who suffered particularly badly from the undermining of savings through inflation during the 1970s. Following last month's changes we are already under pressure to do more to recognise the special needs of such people and these pressures may well become stronger as the next election approaches: it will be increasingly difficult politically to justify merely protecting such pensioners against prices when the living standards of much of the rest of the community are rising significantly faster.
3. Against this background it is essential to keep under constant review the scope for public expenditure savings in existing benefits as a means of paying for such improvements. These are increasingly difficult to find in a way acceptable to our supporters. Frankly, child benefit is the only major area where savings look possible now. Officials from DHSS and Treasury have been looking at possibilities and I attach a note summarising the options they have

reviewed. Clearly there can be no question of withdrawing child benefit from the great run of families, including those of particular concern to Timothy Raison and his friends, ie those who are above the income support or family credit level but who are by no means particularly well-off. But there is much less to be said for continuing to pay child benefit on a universal basis even to families whom most people would regard as quite adequately off and well able to meet their family commitments in full. Many such families have enjoyed significant improvements in living standards over recent years and the most well-off will, of course, be keeping considerably more of their own money as a result of successive, and particularly the most, recent budget tax changes. I see little real social or political justification for continuing to pay child benefit to such families, particularly when there are other, much higher priority groups in need of any resources which could be spared.

4. We have therefore been considering, with John Major, the possibility of withdrawing child benefit from families with relatively high incomes (from both partners - say £25,000 or £30,000. A £30,000 family cut-off - my own preferred option - would affect only 4-5 per cent of families but could save around £180 million in current terms: more by the time the change was introduced. A £25,000 family income cut-off would affect around 8 per cent of families but could increase the savings to perhaps over £300 million.

5. A change of this kind has many attractions. At their meeting with you, Timothy Raison and the other backbenchers recognised that it was not easy to justify paying child benefit to those on higher incomes, particularly when they had benefited so much from tax cuts. Any move from universality would, of course, be criticised: but a cut-off at say £30,000 ought not to be too hard to defend. It would certainly put the Opposition in a curious position, were they to emerge as strong defenders of the group they usually define as the "wealthy".

6. The earliest this change could possibly be implemented would be 1990 (probably in the Autumn). This would avoid likely election years and would give some flexibility, at a sensitive time, to do more for those in particular need as well as making some contribution to reducing public expenditure. However, I do not believe we could carry this change if it were seen purely as a savings measure. I should therefore like to reserve part of the savings for

greater help to poorer pensioners. In particular, I should like to increase the income support premiums to give an extra £2 (single) or £3 (couple) to the older pensioners - those above 80 - and to all disabled pensioners on income support. This would help over a million people, at a cost of around £90 million.

7. Timing, however, is a major constraint. To implement the child benefit changes in 1990 would require primary legislation in the coming Session and therefore some public statement shortly, preferably this side of the Summer Recess. I doubt if it would be possible or sensible to announce the child benefit change in isolation, so that if we envisaged a fuller package it would be appropriate to give some idea of what it would contain. On the other hand, we would clearly not want to decide the details too far in advance of implementation.

8. The major question, of course, is whether such a change to child benefit would be seen as consistent with the Manifesto commitment. I would hope that we could present the change as a minor adjustment, affecting a small minority of families who, since the last election, have done particularly well from rising living standards and reductions in tax. If pressed, we would have to concede that anything short of complete universality did represent a change of focus since the Manifesto, but argue that it was well justified on its merits and in the light of higher priorities for scarce public resources.

9. In the meantime, we also need to consider the intermediate PES years. There is an outstanding commitment to save some £44 million in 1989 by a less than full uprating of child benefit next year. This is likely to be difficult in the Commons and I doubt if the Lords would prove any easier. Politically, I have little doubt that even those who favour universal child benefit would as Timothy Raison's group seemed to when we saw them, prefer withdrawal from better off families rather than a further, across the board, real terms reduction.

10. I hope you may agree that this is something we should discuss as a matter of some urgency, in view of the wide spread and increasing political interest in these issues.

11. I am copying this to John Major.

NICHOLAS SCOTT

CONFIDENTIAL

CHILD BENEFIT

Background

1. Child benefit was last considered on a comprehensive basis as part of the social security review exercise. The Green Paper on Reform of Social Security (1985) concluded that there was no need to change the benefit; it had a continuing role in its current form as a recognition of the additional costs incurred by all families in bringing up children. The 1987 election manifesto contained the pledge that 'child benefit will continue to be paid as now, and direct to the mother'. Public statements by Ministers at that time and since are at the Annex.

Problems with child benefit

2. The universal nature of the benefit means that it is expensive. All 6.7 million families receive it (in respect of around 12 million children). This will cost £4.5 billion in 1988/89 (10 per cent of the entire social security budget). It is however ill-targetted in the sense that the wealthiest families receive the same level of benefit as those on modest incomes. Poor families, receiving income support or family credit, see no real benefit as child benefit is taken into account in calculation of those benefits. The case for continuing to subsidise all families, including the wealthiest, is weaker now that those at the top of the income scale have done so well from recent tax changes.

3. This year's freeze on the rate of child benefit, and the partial freeze in the 1985 uprating, have helped to slow the growth in expenditure. However freezing of the rate is an unsatisfactory measure. It does not help to improve targetting: on the contrary, families on modest incomes experience the same drop in its value as everybody else. (The poorest families receiving income related benefits are protected). Further, although freezing is consistent with the letter of the manifesto pledge it is widely perceived as contrary to its spirit.

Possible options

4. The need to put child benefit on a more sustainable long term basis has led to consideration of possible options for the future. The range of options falls into three groups

- (a) further freezes or reductions in the rate;
- (b) bringing the benefit into taxation;
- (c) removing it from better-off families (eg families whose income was above £25,000 or £30,000 annually).

All these options, except a freeze, require primary legislation.

5. The first two of these appear unsatisfactory for a number of reasons. Technically further freezes or partial cuts are consistent with the manifesto pledge but would mean

- all families (apart from those on income related benefits) would lose and the losses would be experienced directly by the mother;
- no real improvement in targetting: modest income families would suffer proportionately greater losses than wealthy ones;
- more low income families eligible for income related benefits.

6. Taxation would:

- increase "churning";
- increase the tax burden of families, bringing some into tax for the first time.

Not necessary

In addition, the introduction of independent taxation of husband and wife in 1990 would raise difficult questions about whose income child benefit is. (If the wife's, then the non-earning wife of a very wealthy man might still be able to receive her benefit free of tax.)

7. The third option - removing the entitlement of well-off families - is more attractive because

- most families would continue to receive child benefit (paid direct to the mother and non-taxable)
- targetting would be improved and the anomaly of the wealthiest families receiving social security benefits would be removed (these are the families who have gained most from the recent Budget changes)
- there would be valuable public expenditure savings (of the order of £150 - £300 million depending on the income threshold selected).

As well as primary legislation, this option would require a number of operational changes - the earliest possible implementation date would be 1990. Even this option might still be criticised by those who regarded incomes of, say, £25,000 as modest rather than high - eg a two earner family each earning £12,500, and by those mothers who might have difficulty in establishing and declaring their husbands' income.

CHILD BENEFIT - PUBLIC COMMITMENTS

The following quotations are examples of recent public commitments on child benefit. They reflect the stance established in the Green and White Papers on the reform of social security:

"Everyone with a family will continue to receive child benefit. The standard rate is £7 per week per child. It partly compensates for the removal of the child allowance. The right hon Gentlemen is trying to give the impression that child benefit is not going to every family. He is wrong."

Source: Prime Minister's reply to a question from Dr Owen. Official Record, 20 June 1985, Vol 81 Col 432-433.

"We'll review child benefit each year as we always have, but I can't tell you what the outcome of that will be. But I can tell you that child benefit will continue as a non-means-tested universal payment, paid to the mother and tax-free. There ought to be no question about that".

Source: Minister of State for Social Security (Mr John Major) in a pre-election interview with Richard Berthoud. "Poverty", pp 8 Spring 187, No 66.

"Child benefit will continue as a universal tax-free and non-means-tested benefit".

Source: General Election Briefing - Conservative Research Department, 22 May 1987.

"There are no plans to reduce the scope of child benefit. All families will continue to get child benefit and it will be paid to the mother ..."

Source: Minister of State for Social Security (Mr Scott). Official Record, 14 July 1987, Vol 119, Col 464.

"I repeat that I have no specific proposals at present to change the nature of child benefit, but ... there is clearly a need to keep it constantly under review".

Source: Secretary of State (Mr Moore) Official Record 27 October 1987, Vol 121, Col 186 (Uprating Statement).

CHILD BENEFIT - RECENT PARLIAMENTARY STATEMENTS

UPRATING DEBATE
27 OCTOBER 1987

Mr. Moore: My hon. Friend is of course right. I find the debate very difficult. There are those who simply cannot get out of the past and understand that, in this announcement, we are focusing £320 million on families with children — 3 million-plus children. I fully understand people's attitude towards child benefit, but we are still talking about a child benefit system that is still spending £4.5 billion on top of the amount that I am talking about, so I find it a very unusual set of priorities for the Opposition to focus on the degree to which we are trying to target — [Interruption.] I apologise; from a sedentary position I have been reminded that I did not properly answer one of the questions on child benefit put by the hon. Member for Livingston (Mr. Cook). He asked

whether there was a review in progress. I repeat that I have no specific proposals at present to change the nature of child benefit, but—I believe that this has been said from the Dispatch Box by almost every Minister of every Government since the benefit was introduced—in view of its cost and its ill-targeted nature there is clearly a need to keep it constantly under review. I am beholden to do that.

Mr. Ronnie Fearn (Southport): If child benefit is to be frozen, is it not a fact that a great administrative cost will be involved? Is it also true that the Secretary of State now has a team working in the belief that child benefit will be abolished some time next year?

Mr. Moore: No. I have made the position on child benefit quite clear. I read clearly the precise words that I obviously intended to use. I am beholden under section 63 of the Social Security Act 1986 to look at the uprating of child benefit each year, but there is no statutory requirement. I have explained precisely why I believe that this year I have been able to target better on those families with children who are poorer. I have also clearly said that there is no review in progress.

REPORT STAGE SOCIAL
SECURITY BILL
12 JANUARY 1988

Sir Ian Gilmour: Will my right hon. Friend then say what the words in the manifesto really did mean?

Mr. Scott: The words say that the benefit would be paid as a universal benefit, tax-free, and to the mother. That undertaking has not been changed by anything in this year's uprating. I believe that that obligation was right. I am sure, bearing in mind the pattern of linking other social security benefits to the RPI, that had there been an intention to link this benefit it would have been included in the list by one Government or another.

SOCIAL SECURITY BILL (CONSIDERATION
OF LORDS' AMENDMENTS) 14 MARCH
1988

Mr. Raison: Will my hon. Friend assure me that no decision has been taken that there will not be any further upratings of child benefit? Will he assure me also that the pledge in our election manifesto that child benefit will continue to be paid will not be diluted within this Parliament by any attempt to introduce any kind of means testing or tax on child benefit?

Mr. Scott: I cannot give that assurance to my right hon. Friend. The future of child benefit will be reviewed each year as annual upratings are considered. On the fundamentals of child benefit, I can go no further than my right hon. Friend did. A benefit of that sort and scale must be under constant review. Certainly, we have no present plans to change the status of child benefit. That is as much as I can say to my right hon. Friend at the moment.

BUSINESS STATEMENT
21 APRIL 1988

Mr Kinneck C 1984

Given the anxiety being expressed over the Government's internal review of child benefit, can we have an urgent statement on the nature of the review, its terms of reference and whether the Government are considering taxing or means-testing that method of help for families, which, as the Leader of the House knows, is regarded as vital by people in all parties.

Mr Wakeham C 1984

The right hon. Gentleman also asked about community care. There are two reports, the Griffiths report and Lady Wagner's report, both of which are being studied. That is the best way to proceed at the moment. I shall pass on to my right hon. Friend the Secretary of State for Social Services the question about the review of child benefit. I am sure that a statement will be made at the appropriate time when the review has been completed. However, I cannot promise a debate in the near future.

PRIME MINISTER'S QUESTION
TIME 17 MAY 1988

Mr. Cartwright: As the right hon. Lady reminded her supporters yesterday of her manifesto's commitments, will she assure the House that she will honour the manifesto commitment that child benefit would continue to be paid as now, and that there is no truth in the press suggestions that child benefit is to be cut, taxed, frozen or abolished?

The Prime Minister: I agree with the hon. Gentleman that the manifesto clearly stated:
"Child benefit will continue to be paid as now, and direct to the mother."
That commitment will be honoured.



Ch [dismissed @
CST White]

This doesn't seem on
the right lines at all.
And, on the procedure,
do we want Nick
Scott to mention PM
followed by CST
commenting? Why not
a note that incorporates
CST's views.

AB

Page

FROM: J P MCINTYRE
DATE: 24 May 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Miss Peirson
Mr Turnbull
Mr Ramsden
Mr Call

CHILD BENEFIT/PENSIONERS

The letter from Mr Scott's private office of today asks for your comments as soon as possible on a draft minute Mr Scott wants to send to the PM proposing:

- a. Withdrawal of child benefit (CB) from families with joint incomes over £30,000 a year, to take effect in 1990. 290,000 families (4-5 per cent) would lose. Savings would be at least £180 million.
- b. Full uprating of CB in April 1989. This would unwind a saving from the partial uprating agreed in the 1987 Survey. Cost: £44 million.
- c. Use part of the CB savings to increase income-related benefits for poorer pensioners. The premium in Income Support (IS) payable to the over-80s and disabled pensioners would increase by £2 for single pensioners and £3 for couples. Over 1 million would gain. Cost: £90 million.

General Comment

2. As you said the other day, the great risk for the Treasury in DHSS putting forward a package of this kind is that the proposals involving additional expenditure will be accepted and means testing of CB turned down. However, given the Manifesto commitment which the PM has now reaffirmed, it must be doubtful whether any reform of CB could be achieved in this Parliament unless it was part of a wider package which would channel some of

the savings to poorer groups. Furthermore, it may be hard to resist more money for poorer pensioners at some stage in this Parliament and a full uprating of CB next April, whatever happens on CB reform. We may as well make the most of the opportunity which these concessions offer.

3. Would it be in the Treasury's interest to argue for delaying CB reform until the next Parliament, when we might hope for a tougher means test and higher savings? I doubt it. We do not know that the next Manifesto will be any less of a constraint than the last. And in any case, it might still be difficult to get agreement to a means test at much less than the £30,000 proposed by Mr Scott.

We don't do we?

4. Against this background, it seems to me that if we want to establish the principle of means testing, we should back Mr Scott's proposals or at least not object to his putting them to the PM. Our condition must be that, if means testing CB is ruled out, then the other proposals (full uprating of CB and more help for poorer pensioners) get put into the Survey in the usual way.

Child Benefit

5. DHSS propose a £30,000 threshold. Though it is not spelled out in Mr Scott's draft minute, they envisage families with one child losing all CB at that point ie there would be no income taper. Families with 2 children would not lose CB until joint incomes reached £32,000 ie there would be a step of £2,000 per child so that the threshold would be progressively higher for larger families.

6. The savings of £180 million assume the current rate of CB (£7.25) and the £30,000 threshold applying now. Given a full uprating in April 1989 and, presumably 1990, actual savings would be increased by about £20 million by the time the change was implemented. Further savings would also arise from increases in earnings pushing more families across the threshold between now and implementation.

7. As you know, we have pressed DHSS to consider lower thresholds eg £25,000 (which is twice average earnings) or somewhere in the "kink" area where marginal rates of tax are only 25 per cent. But their Ministers have taken the view that only a high cut-off point would be reconcilable with the Manifesto commitment, because it would withdraw CB from only a small minority of families. (A £25,000 cut-off would roughly double the number of families affected to around 570,000, 8½ per cent of the total.)

how does it make
it any more
reconcilable?

8. In presenting their case, DHSS would also have in mind the substantial tax cuts which those on £30,000 plus have enjoyed since 1979. The single earner family on £30,000 will pay about £2000 less in tax and NICs this year than under an indexed 1978-79 regime.

9. Mr Scott's draft minute to the PM does not refer to Independent Taxation (it is mentioned only in the context of the taxation option, discussed in the Annex). In pitching the threshold as high as £30,000, he has arguably made it rather easier to reconcile means testing CB with Independent Taxation. In practice, DHSS are likely to want to know precise joint incomes only of those earning over, say, £25,000. Below that level, applicants would simply have to declare that their incomes were below £25,000 (there would be a sample check of perhaps 5 per cent of cases each year to deter fraud). So the number of women having to give a precise figure for the joint incomes of themselves and their partners would be very small: no more than ½ million, and many of these would not apply because they would know that their incomes were well above the cut-off point. (This compares with a total of 31 million tax units.)

10. The Annex to Mr Scott's draft briefly reviews 3 main options for changing CB - freezing/cutting the rate; taxation; and means-testing. Taxation is opposed on churning grounds and because more families would be brought into tax. Paragraph 6 of the Annex also draws attention to the difficulties of taxation in the context of Independent Taxation.

11. Subject to your and the Chancellor's views, I would see no need to comment on what is said about taxation at this stage. But it would be helpful to know whether you would like to comment on this option when you write to the PM with your views on Mr Scott's proposals.

Pensioners

12. The main questions for us here are:

- i. Are the DHSS costings of these concessions broadly correct?
- ii. Is this the most sensibly targetted and cost-effective package that could be devised for poorer pensioners?
- iii. Might the proposed concessions generate pressure for further measures to help other groups?

13. The answer to (i) appears to be yes, though we have obviously had to check this very quickly. Mr Scott's draft is not specific on the timing of these increases. But if they were to be announced this year, as part of the CB package, implementation would probably be next April - we would have no reason to delay.

14. On (ii), Mr Scott's target groups are those pensioners on IS who are either over-80 or disabled. IS for both these groups is currently as follows:

	SINGLE	COUPLE
Personal Allowance	33.40	51.45
Premium	13.05	18.60
	————	————
	<u>46.45</u>	<u>70.05</u>

Mr Scott's proposals would increase the premium for single people by £2, taking their total IS to £48.45. Couples would get an extra £3, taking total IS to £73.05.

15. It would be possible to halve the cost of the concession to around £45 million by giving singles only £1 and couples £1.50. Bearing in mind that the increases would be made at the same time as a normal uprating (which would add perhaps £1.90 for singles and £2.80 for couples), this might still be presented as a fairly generous measure.

16. I suspect it would be hard to justify doing something for the over-80s only and not the disabled pensioners, given that they currently receive the same premium. If this is right, it would not be possible to cut the cost of the measure by narrowing the target groups any further.

17. On (iii), the group who would gain nothing from Mr Scott's proposals are pensioners on IS under 80 who are not entitled to the sickness/disability premium. There are roughly 1½ million of them, with a further 2½ million on Housing Benefit. For single people, their IS at present is £2.40 a week less than that of the over 80s and the disabled; for couples, the gap is £2.35. Under Mr Scott's proposals, the gaps would widen to £4.40 and £5.35 respectively.

18. Perhaps this could be defended as good targetting. But we might well come under pressure to do more for all pensioners on IS in the under-80 group, not just the disabled. If this pressure led to the same increases going to all pensioners on IS, the extra cost might be of the order of £300 million, compared with the £90 million package Mr Scott has proposed. If we think a wider concession inevitable, this argues for a smaller increase spread more thinly; a £1/£1.50 increase would cost roughly £150 million.

19. The other possible source of pressure would be from disabled people under pension age on IS. At present, this group gets an IS premium equal to that of the over-80s and the disabled pensioners. We would have to defend not extending the concession to them on

the grounds that pensioners were the target group and that disabled people under 60 did well out of the reforms (additional spending of £70 million compared with the old system). But if that line could not be held, and we had to give the increases to all the disabled on IS, the extra cost would be roughly £40 million on top of Mr Scott's proposals.

PES consequences

20. If all Mr Scott's proposals were accepted as they stand, the PES consequences would be:

	<u>£ million</u>		
	1989-90	1990-91	1991-92
CB means testing*	-	-100	-200
Full uprating of CB	44	46	47
Pensioners**	90	93	95
	<u>134</u>	<u>39</u>	<u>-58</u>

* Assumes implementation in October 1990.

** Assumes implementation in April 1989, ahead of CB means testing, on grounds that delay could not easily be defended.

Conclusions

21. You will no doubt want to write to the PM with your views soon after Mr Scott has sent his minute. But in responding to Mr Scott now, you might:

- a. Raise no objection to his putting forward the proposals; exceptionally, agree that these could be taken ahead of the Survey.
- b. Stress that if means testing CB is ruled out, the proposals to uprate child benefit and to increase the IS premia for over 80 and disabled pensioners would have to be taken in the Survey in the usual way.

c. Warn that you will want to consider whether the particular proposals on pensioners/disabled are the best means of meeting government objectives.

22. You may wish to discuss the line you would like to take in writing subsequently to the PM. In particular, it would be helpful to know whether you would want to comment on the taxation option referred to in the Annex to Mr Scott's minute.

23. I attach a draft private secretary letter.

JM

J P MCINTYRE

DRAFT LETTER TO

ps/ Nicholas Bromley Esq MP
Minister of State for Social Security and the Disabled
DHSS
Richmond House
79 Whitehall
LONDON SW1A 2NS

CHILD BENEFIT

Thank you for your letter of 24 May enclosing a draft minute which Mr Scott intends to send to the Prime Minister. You asked for comments as soon as possible.

The Chief Secretary would expect that, in the normal course of events, expenditure proposals would be dealt with in the Survey discussions. However, the Chief Secretary notes the statement in Mr Scott's draft minute that, in order to implement child benefit changes in 1990, there would need to be primary legislation in the next Session and a public statement shortly, preferably before the Summer Recess. He also understands why he would wish to take the proposals on pensioners at the same time as child benefit. For these reasons, he is prepared to agree that, exceptionally, the proposals should be considered in advance of the Survey discussions this year.

However, he has asked me to add that if you do not proceed with the proposal to means test child benefit, he would then expect to consider your other proposals in the Survey, in the usual way (that is, your proposals to reverse last year's

Survey decision to save £44 million in 1989-90 through partial uprating of child benefit and to increase the Income Support premium for over 80 and disabled pensioners.)

On the pensioner premium, the Chief Secretary will want to consider further with you whether the particular proposals you have put forward are the most cost-effective means of meeting the government's objectives.

JOHN MAJOR

CONFIDENTIAL

mp

FROM: P J CROPPER
DATE: 25 May 1988

CHIEF SECRETARY

cc Chancellor ←
Sir P Middleton
Mr Anson
Mr Tyrie
Mr Call

*I have written to the
CSG about the
proposal to withdraw
child benefit from those
with incomes over £30,000
quite deplorable.*

CHILD BENEFIT

I apologise for such a Raisonsque expression of view, and admit that I am allowing my own politics into the open, but I find the DHSS proposal to withdraw child benefit from those with incomes over £30,000 quite deplorable. The saving of a puny £180 million on a cost of £4.5 billion is chicken feed, but at the cost of a catastrophic sell-out of principle. The next thing we will have is the disallowance of OAP for better-off pensioners (despite the fact that they have "contributed" through their lifetime through NICs, just as the better off have "contributed" to their child benefit entitlement through income tax). Then we will have the disallowance of health and education services for the so-called better-off.

2. As with all of these sort of measures, the people it will really hit are by no means better-off. They are probably struggling to maintain a modestly middle class existence in inner London in face of stupendous housing costs, chaotic public transport conditions and intense pressure to use private education. These people have not done particularly well at all out of recent Budgets. You need to go a good deal higher than £30,000 for that. And then you would find yourself with a saving of even less than £180 million out of £4.5 billion.

3. I will eat my hat if it makes political sense to put people with a combined family income of £30,000 in the same category of "wealthy" as Halpern, Ronson etc.

4. Let the well merited higher payments to the indigent elderly be paid for out of the £15 billion of tax lost through the Black Economy, taxi drivers drawing unemployment pay, etc etc.

A handwritten signature in black ink, appearing to be 'TJL' or similar, written in a cursive style.

Tunbridge Wells

myp

FROM: A G TYRIE
DATE: 25 MAY 1988

CHIEF SECRETARY

cc Chancellor
Sir Peter Middleton
Mr Anson
Mr Cropper
Mr Call

[Covermen] Agree with para 4, this will be outside when of national CB freeze for higher rate payers

What have the CB freeze for us, the amount by 1/3 first yr.

CHILD BENEFIT

I have seen the note from Lord Tunbridge Wells.

2. It brings out the gulf between "older Conservatives" who accept the social democratic consensus of the 1950s and 1960s and the universal benefit mentality which goes with it (sometimes caricatured as "the nanny state") and the younger breed of Conservative who believes in greater self reliance in targetting help (which some caricature as blood-sucking).

3. Having put child benefit at the top of my list of things which should be cut immediately after the Election, I naturally support this first step towards targetting: the sell out of "principle" is just what's needed and the savings, even on these modest proposals, are substantial.

4. Regretably, I think the only hope for eroding child benefit is through taxation, probably by taxing CB in the hands of higher rate payers. But there is an enormous administrative problem with independent taxation. So, in practice, I expect nothing can be done, except, perhaps, another freeze.

** This should be tax thresholds but trying a 33% of net in CB, promised that some keep the CB, promised to be on April 1st think on the basis of some in the gov to get the new (with 100%), and have the higher rate cut by 20% CB what would all this save (in 1988 terms)?*

A G TYRIE

SECRET

CHANCELLOR

*Some points pls,
 look at / submit
 agree.
 2- for also
 Mates on paper*

FROM: ROBERT CULPIN

DATE: 26 May 1988

cc Chief Secretary
 Financial Secretary
 Sir P Middleton
 Mr Anson
 Mr Phillips
 Mr Scholar
 Miss Peirson
 Mr Turnbull
 Mr McIntyre
 Mr Ramsden
 Mr Call

CHILD BENEFIT/PENSIONERS

You asked if I had any comments on Mr McIntyre's minute of 24 May. My only comments are obvious, and may well have been overtaken.

2. First, the DHSS proposals would create steep cliff-edges (Mr McIntyre's paragraph 5).

- Earn £30,000 with one child and you get £375 a year of child benefit. Earn an extra £1 and you lose that £375.
- Earn £32,000 with two children and you get £750 of child benefit. Earn an extra £1 and you lose £750.
- And so on.

This is the sort of thing Mr Mates believes in. It would create manifest distortions which would be hard, to say the least, to justify.

3. To take just one example, someone on £30,001 and a 40 per cent marginal tax rate would need to earn an extra £625 to make up for the loss of benefit on one child. So he or she should simply not accept any pay rate in the range £30,001-£30,625. If this would not create disincentives, I don't know what would.

SECRET

4. Second, to solve the problem by tapering the withdrawal of child benefit would raise the effective marginal rate well above 40 per cent for a significant number of people - defining the effective marginal rate on the sum of the rates of tax, national insurance contributions and loss of benefit. This would be hard to square with the spirit of this year's Budget. And again, it would manifestly worsen incentives.

5. At the bottom of the income distribution, we can defend high withdrawal rates as a necessary consequence of targeting benefits on the poor. It is not clear how this argument would run at incomes of £30,000 plus.

6. Third, to assess families on joint incomes of over £30,000 would go right against the grain of independent taxation - and in the very year that independent taxation is introduced (Mr McIntyre's paragraph 9).

7. I am sorry that these points are necessarily negative. They are certainly not arguments against restricting child benefit, which is plainly desirable. (Politics apart, I would gladly vote for cutting or abolishing it.) But they do suggest that Mr Scott's way of doing it may, to coin a phrase, be less than ideal.



ROBERT CULPIN

pmc

FROM: J P MCINTYRE
DATE: 26 May 1988

CHIEF SECRETARY

cc **Chancellor**
Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Mr Peirson
Mr Turnbull
Mr Ramsden
Mr Call

Told Jill - OK

OK

*Ch / CST would like
to be sure you
are content before he sends
(this evening) mpm 26/5*

CHILD BENEFIT

Following our discussion this morning, I attach a draft letter for you to send to Mr Moore, together with a paragraph setting out your views for inclusion in Mr Scott's letter to the Prime Minister.

2. For the record, the additional savings we would get from freezing child benefit next April would be around £100 million, net of additional payments on Income Support and Family Credit.

Jm

J P MCINTYRE

DRAFT LETTER TO:

Rt Hon John Moore MP PC
Secretary of State for Social Services

CHILD BENEFIT

We discussed your proposals this morning, and I agreed to write with my reaction.

First, let me say I am grateful to you and Nick Scott for giving me an opportunity to comment on Nick's draft letter to the Prime Minister. This is a difficult issue. As Nick's draft acknowledges, the major question is whether means testing would be seen as consistent with the Manifesto commitment. Another problem, not brought out in Nick's draft, is that the change would come in at about the same time as Independent Taxation. X

Against this background, I have come reluctantly to the conclusion that it would not be right to pursue the possibility of means testing, at least for the time being. However, I do think that it would be possible to maintain child benefit at its current level in cash terms and to channel some of the savings to pensioners on modest incomes. I am not sure that I would want to provide the extra help for pensioners in quite the way suggested in Nick's draft letter, but this is something we will obviously have to consider further in the Public Expenditure Survey, together with the rate of child benefit.

Nick may want to revise his draft letter in the light of these comments. I attach an additional paragraph which I would like him to include, setting out the Treasury's views, together with one or two other amendments. Perhaps the new paragraph would fit in best after the existing paragraph 9.

JOHN MAJOR

'Paragraph for inclusion in Minister of State's letter to the Prime Minister:

"The Chief Secretary's view is that this would not be the right time to pursue the possibility of means testing. It would be difficult to reconcile with the Manifesto commitment and with the introduction of Independent Taxation in 1990. ~~However,~~ the Chief Secretary believes that it would be preferable to maintain the current level of child benefit in cash terms and to consider deploying some of the savings to help poorer pensioners (probably those without any significant SERPS entitlement). He would like to pursue these matters in the Public Expenditure Survey."

Amendments

Paragraph 4: Amend the first sentence: "DHSS and Treasury officials have therefore been considering the possibility..."

Paragraph 9: Amend the second sentence: "It was agreed in the 1987 Public Expenditure Survey that £44 million should be saved from 1989-90 by a less than full uprating of child benefit in April 1989".