

PREM19

121

SOCIAL SERVICES

(Taxation of short-term,
supplementary & strikers'
benefits)

(Part 1)

PREM 19/121

SECRET

Pt 1

Confidential Filing.

The taxation of short term Benefits, Supplemental/ benefits and strikers' benefits. Deeming strike pay for supplemental/ benefit purposes. Payment of supplementary Benefits to strikers.

SOCIAL SERVICES.

Part 1:

~~SEPTEMBER~~ JUNE 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
23-10-79							
26-10-79							
3-11-79							
20-11-79							
22-11-79							
24-11-79							
4-12-79							
1-12-79							
6-12-79							

PREM 19/121

PART 1 ends:-

cc (79) 26 cones Minute 6

PART 2 begins:-

RIA to TPL A01049 3.1.80



Social Services BR

10 DOWNING STREET

From the Private Secretary

20 December 1979

B/F 10/1/79
Not to change but check to TL
for any follow up.

Thank you very much for coming over to discuss the paper which Christopher Foster sent under cover of his letter of 13 December on the question of taxing unemployment benefits. You agreed to consider Foster's ideas further, and to let us have a note in due course. When you have completed your consideration of Foster's proposals, it would be very helpful if you could let me have a draft reply for the Prime Minister's signature.

I am sending a copy of this letter to John Crawley (CPRS) and also to Tony Battishill (HM Treasury) and Don Brereton (Department of Health & Social Security) together with copies of the Foster letter and paper.

T. P. LANKESTER

J.D. Taylor Thompson, Esq.,
Board of Inland Revenue

File

BK



10 DOWNING STREET

From the Private Secretary

20 December 1979

I am writing on the Prime Minister's behalf to thank you for your letter of 13 December about taxing unemployment benefits.

David Wolfson and I have discussed the ideas set out in your paper, and we have arranged for them to be looked at in detail by those who are studying this whole question. Either the Prime Minister herself or I will write to you in due course when we have further advice on the feasibility of your proposals.

T. P. LANKESTER

Christopher Foster, Esq.

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P.0179

PRIME MINISTER

STRIKERS AND SUPPLEMENTARY BENEFITS

To be raised orally

(Minutes of 28 November from the Secretary of State for Industry and the Chancellor of the Exchequer of 18 December, both to the Prime Minister, are relevant)

BACKGROUND

1. E(EA) has had three inconclusive discussions on this subject. However, the minute from the Secretary of State for Industry dated 28 November now reports an agreed recommendation which has been hammered out between himself and the Chancellor of the Exchequer, the Secretary of State for Employment, and the Secretary of State for Social Services.
2. The Secretary of State's minute was copied to all members of the Cabinet and a number have commented. The comments vary widely but are contained within the compass of Sir Keith Joseph's minute (your office will let you have a complete set). In addition Sir Geoffrey Howe has written clarifying the legal position on the separate but related question of tax refunds. Basically the position is that an employer can only avoid making a refund by letting the Revenue have all the information on which they could make a refund. Since the tax office would only have to write a cheque there is no legitimate scope for administrative delay - and of course the employer would have had to set up special arrangements to supply the information in the right form. So there is little scope for useful action here. And any change in the system would require main legislation, which presents its own difficulties quite apart from your own reported statement in Week-End World on 7 January 1979 that "I'm not going to pass legislation on tax rebates."
3. The commitment to take action on Strikers and Supplementary Benefit is given in the Manifesto extract attached to Sir Keith Joseph's minute.

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In theory one might pass legislation to make trade unions pay a minimum level of strike pay. (Some of the most powerful unions, eg the miners, do not pay strike pay at all.) But this would be represented as interfering in the private affairs of the unions; would be likely to arouse extreme opposition; and has not been seriously canvassed in any of the Ministerial discussions. You may wish to check whether a proposal on these lines would be acceptable to colleagues. If not then there is little choice but to act indirectly, as Sir Keith Joseph suggests, by a measure which assumes that unions, as a matter of good practice, pay a particular level of strike pay. This would be done by the Government "deeming" that level of strike pay when computing the Supplementary Benefit entitlement of strikers' families.

4. Some colleagues - particularly the Lord Chancellor - have questioned whether it is wise to proceed at all with the proposals at present. If the scheme is to proceed, the main points remaining at issue between colleagues are whether strike pay should be deemed for non-unionists, and the timing and presentation of the proposals (though the presentation of the hardship issue will be very contentious).

5. Unionists/non-unionists The arguments are summarised in Sir Keith Joseph's minute. Basically to deem that non-unionists receive strike pay will be argued to be unfair to them and will seem doubly so if those concerned are opposing strike action. Moreover it will be argued that this provision may force non-unionists to consider joining a union as an insurance policy. On the other hand, to deem that only unionists receive strike pay presents the problem of identifying who is a union member and who not (union records are often poorly kept). And unions, who will claim to be too poor to pay the strike pay at the deemed level, will say that the Government is encouraging their members to leave. (They could of course increase their subscriptions!) The administrative problem of identifying the unionist is difficult, because there will be great pressure of numbers, and the unions are most unlikely to co-operate. But officials of DHSS and DEM do not think that identification would represent an insuperable problem, provided some degree of fraud is accepted. It would of course be a criminal act for an individual to take Supplementary Benefit after a false declaration. Thus the choice here - unionist/non-unionist - is essentially one of political and presentational acceptability.

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6. You should note that the deeming would apply to official and unofficial strikes alike (since otherwise the unions would make all strikes unofficial), and also to "lock-outs" since it has, for 70 years or more, been accepted that it is not possible in settling Supplementary Benefit entitlement to distinguish between strikes and lock-outs.

7. The proposal is also that there should be no hardship provision for strikers' families who fall below the normal Supplementary Benefit levels as a result of unions not paying the deemed level of strike pay. The most that a family will be short is £10 below the normal Supplementary Benefit Requirements Level (which is accepted as being sufficient to keep the family - but not the striker - afloat for an extended period). Since the family can usually defer long-term expenditures, this may not be unreasonable - although it would give a strong propaganda card to opponents of the Government's view. (It is relevant that, in practice, the majority of families will have £4 more than the minimum level, because £4 a week of income from tax refunds is disregarded at present in settling Supplementary Benefit. However, this advantage may disappear when Short Term Benefits become taxable, depending on which system of taxation is chosen: E Committee is due to take a paper on that point early in the New Year.) The new Supplementary Benefit arrangements under the current Bill will spell out entitlement very clearly in Regulations, and the only discretion left to make payments in respect of hardship will be in respect of exceptional circumstances "unrelated to the strike"- eg fire, flood, or unexpected serious illness. Previous discussions in E(EA) have considered alternatives of making partial hardship payments, or making payments as a loan, and reclaiming them when the striker returns to work. But each have serious disadvantages. They cut at the roots of the proposal, and are administratively complex. The recommendation in Sir Keith Joseph's minute is therefore against any steps of this kind.

8. You will be aware of the leak of a Treasury brief on these issues which led to coverage in the Daily Mirror (Annex A). This gives a clear preview of the sort of press handling the proposals will face.

9. On timing, Mr St John Stevas has argued that the Government should make its position clear on the Second Reading of the Social Security Bill - which has now been brought forward to Thursday afternoon, 20 December. Mr Prior

*Practical
not complete*

Ch. Sec.
Ap. Sec.

*Non-union
families.*

*Para 3.
Schedule 2.*

*Trade Union -
Party line*

CONFIDENTIAL

on the other hand, is very conscious of the controversial nature of the proposals, and would prefer more time for consultation with the unions and employers. Other colleagues have differing views on this basically political question. We understand that Mr Jenkin currently intends (in his draft speech for Second Reading) to say that the matter is still under review and that the Government will not introduce the measure without adequate time for consultation and debate in the House.

HANDLING

10. You might ask Sir Keith Joseph to remind colleagues of the proposals and then - in view of the doubts expressed by the Lord Chancellor, and perhaps by other colleagues - consider whether the Cabinet are agreed that early action is necessary. Sir Keith's minute points out that the direct effect of the proposed measures will be very small and the question is really one of influencing attitudes. If the Cabinet confirm that early action is needed, you might next seek to eliminate the tax refunds issue as a non-runner: and also remind colleagues of the alternative possibility of requiring unions to pay strike pay (a proposition which may have more supporters at the end of the discussion - given the difficulties - than at the beginning).

11. You will then want to take the Cabinet through the proposals for deeming: first through the specific proposals, and then the timing and tactics of an announcement.

12. On the specific proposals you will want individual decisions on:

- a. Should strike pay be deemed for unionists only, or unionists and non-unionists alike (the politics, and your own preferences, point to the former despite the administrative complications).
- b. Should strike pay be deemed for unofficial strikes and lock-outs? (unavoidable if scheme is to be workable).
- c. Should the amount be set at £10 in 1980, to be increased thereafter in proportion to the increase in Supplementary Benefit? (Any higher figure would create greater problems of "hardship" - £10 is a good

*To proceed - not
4/1/80*

*Non-union
base*

CONFIDENTIAL

round start, and is higher than most strike pay now).

d. Should the "disregard" on strike pay be abolished? (nonsense to do otherwise).

e. Should the disregard on other miscellaneous income (eg war pensions, tax refunds, part-time earnings of the striker, and on wife's earnings) be retained as at present? (Could be altered - but it would treat strikers worse than criminals in prison, and would increase allegations of "hardship").

f. Should there be no provision for hardship payments, except in "exceptional circumstances unrelated to the strike"? (Controversial - but no alternative has been devised which would not cut away the roots of the measure).

13. Finally you might turn to the question of tactics and timing.

A number of colleagues have already indicated in correspondence that they have views on this. Mr Prior, Mr Stevas and Mr Jenkin might be asked for their views, and then other colleagues allowed to join in. If a clear decision is reached it will be for consideration whether Mr Jenkin should announce it in the debate on Thursday afternoon.

CONCLUSION

14. The conclusions will have emerged during the discussion - either for no immediate action, or for action on the itemised list of points in the previous section or for a rethink of the possibility of requiring unions to pay strike pay. You will also need a specific conclusion on what Mr Jenkin should say at the Second Reading of the Social Security Bill immediately after Cabinet and on the way in which any further consultation with the unions and employers is to be conducted.



P Le CHEMINANT

Cabinet Office

19 December 1979

DAILY MIRROR

Thursday, December 13, 1979 9p



REVEALED TODAY

A top Tory
plan to deal
with strikers

HIT THE

SECRET Tory plans that would penalise strikers and their families are revealed today.

The hardline strategy, backed by top Cabinet Ministers, goes beyond the current Tory line on dealing with strikers.

It would mean a cut of £10 a week in social security payments for strikers' families.

And the chief architect of the proposals, Industry Secretary Sir Keith Joseph, suggests that there should be no special provision for hardship payments — "even in distressing cases."

The strategy will be branded as the cruel face of Toryism. For if the Government accept the proposals — which have been leaked to the magazine *Time Out* — families with crippled children or invalid parents will be among the hardest hit.

The Joseph plan is disclosed in a confidential Treasury memorandum.

The memo is a briefing from a senior civil servant at the Treasury to Chancellor Sir Geoffrey Howe.

It says Sir Keith has accepted

FAMILIES

By PAUL FOOT



that the unions will fight the public relations battle and will seek to use the weapon of alleged hardship.

"Nevertheless," the memo adds, "his view is that this battle should be fought and that no provision should be made for hardship."

The main proposal is to dock £10 a week from the supplementary benefit paid for the families of strikers.

This £10 would be what a

striker was assumed to have been paid by his union, whether he actually received it or not.

Sir Keith wants the £10 cut restricted to union members.

According to the memo the Chancellor disagrees. He believes there should be no distinction between unionists and non-unionists.

This is partly because "the object of the exercise is to deter strikes" and partly to avoid a charge of "bribing" union members to defect. The Tory plan

goes a stage further with its strike deterrent.

There is a proposal to allow social security officials to take into account any tax rebate a striker gets—and dock his payments accordingly.

Few unions actually give £10 a week strike pay. Some, like the miners in the strikes of 1972 and 1974, pay nothing at all.

Social Security Minister Reg Prentice told the Commons recently that weekly supplementary benefit payments to strikers averaged £15.51 last year.

So a £10 cut would take away around two-thirds of the money paid to strikers.

The proposals cannot become law without changes in the Sup-

plementary Benefits Act. Ministers could be planning to push them through in a one-clause Bill.

Jeff Rooker, MP, a Labour spokesman on social security, told me: "If that happens I imagine we would withdraw all the normal courtesies from the Government. It would be total warfare."

"These plans hit working people who have done nothing."

Premier Margaret Thatcher will be wondering how yet another confidential document has got into the hands of *Time Out*.

The radical magazine is published today.

Last week it revealed secret details about the Government's nuclear power programme.

● Mirror Comment—See Page Two

2. The Secretary of State for Industry has accepted that the unions will fight the public relations battle and will seek to use the weapon of alleged hardship. Nevertheless, his view is that this battle should be fought and that no provision should be made for hardship. The scheme now put forward is therefore significantly different from the proposals previously considered by Ministers.

BATTLE CALL: An extract from the leaked memo on strike strategy.

3. Sir Keith Joseph suggests no specific provision for hardship payments even in distressing cases (although discretion to pay benefit in cases of extreme hardship caused by extraordinary circumstances unrelated to the strike, eg fire or flood, would continue). This proposal is harsher than those considered so far but it fits in with your own proposal that hardship payments should be set at a low level or preferably retain discretionary power to

TOUGH: What the memo says about Sir Keith Joseph's hard line.

Shocking, callous and unfair

Mirror Comment

THE proposals by Mrs. Thatcher's two chief Ministers to cut down strikes by hitting at strikers' families are shocking, callous and unfair.

They are also potentially catastrophic. SHOCKING? The Treasury document the Mirror publishes this morning says: "Sir Keith Joseph suggests no specific provision for hardship even in distressing cases."

CALLOUS? Sir Geoffrey Howe is told by the civil servant advising him: "This proposal is harsher than those considered so far but it fits in with your own proposal."

UNFAIR? According to Sir Geoffrey's proposals everyone on strike would be assumed to receive union pay of £10 a week, to be deducted from dependants' social security, whether he or she belonged to a union or not.

CATASTROPHIC? If this scheme was carried through in this form it would be equal to a declaration of war

upon the unions. A war they'd feel compelled to fight.

And that's the last thing Britain needs at the moment.

Members of the Cabinet are quick to claim in public that they want peace and co-operation with the unions.

But in private they're singing a different song.

As the Treasury says, Sir Keith Joseph "has accepted that the unions will fight the public relations battle... his view is that this battle should be fought."

That isn't brave. It's foolish. It isn't a strategy for victory. It's a recipe for disaster.

Mirror Briefing

Swoop to stop IRA blitz

INDUSTRY Secretary Sir Keith Joseph kicked seven postmen out of the Post Office boardroom last night. He said that a two-year experiment in worker participation had ended in failure.

EIGHTEEN people were hurt last night when a coach overturned on the Sussex coast road

A HUGE force of armed police arrested twenty-four suspected IRA terrorists in dawn swoops yesterday.

The raids were an attempt to smash IRA



have been under surveillance for some time."

The raids were organised by Commander Peter Duffy, head of Scotland Yard's Anti-Terrorist Squad, using police from the Special Patrol Group, Special Branch and marksmen

Anger at abortion trickery

SUPPORTERS of the Corrie Bill to restrict abortions caused a row yesterday when they admitted using a secret tape recorder to get evidence.

Tory MP Michael Ancram told a Commons committee that the hidden recorder had been used at the British Pregnancy Advisory Service by a woman apparently seeking an abortion.

Health Minister Gerald Vaughan later undertook to review the pregnancy advisory charities to make sure they were doing nothing wrong.

MARK DOWNEY

INDUSTRY Minister David Mitchell is to ask Airfix, owners of Meccano, why it sacked 930 workers at its Liverpool plant without giving 90 days' notice.

Steel plea to railmen

STEEL union leaders asked railmen last night to back their national pay strike in the New Year.

If they do, industry will quickly be crippled, because many firms have low stocks of steel.

It is now feared that the decision to axe 53,000 steel jobs by next August will throw at least another 200,000 workers in other industries on the dole.

ALAN LAW

Close-Up — Page 6

A SEA search was launched last night

Missiles boost

AMERICA is to get 160 of its new low-flying Cruise missiles in the biggest boost to Western defences since the war. NATO Ministers in

within striking distance of Russia. Both Belgium and Holland staged a mini-revolt, declaring that they could not accept the weapons on their



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

STRIKERS AND SUPPLEMENTARY BENEFIT

We shall be discussing in Cabinet on 20th December the minute by Keith Joseph of 28th November about Strikers and Supplementary Benefit. In your comments on that minute you raised a point about the payment of tax refunds, and it might be helpful to colleagues if I clarify the legal position.

2. An employer is required to make a tax refund if one is due, to his employee on each of the latter's ordinary pay days during a strike, that is to say at weekly or monthly intervals (depending on whether the employee is weekly or monthly paid). If the employer either cannot or prefers not to make the refund, he may relieve himself of the obligation to do so by providing the Inspector of Taxes concerned with information about the striking employee sufficient to calculate the level of refunds due. In that case the Tax Office is legally obliged to make the repayments and while in practice some delay might occur, it is not legally possible deliberately to delay payment. To change the position would require primary legislation.

3. I am copying this to all Cabinet colleagues, Norman Fowler, Michael Jopling, and Sir Robert Armstrong.

Prime Minister

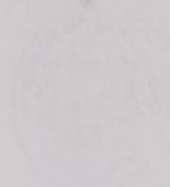
This is the note on tax refunds for strikers. The

thing is providing a further note on what is actually happening in relation to the steel strikers.

*DL
8/1*

(G.H.)

18 December, 1979



THE UNIVERSITY OF CHICAGO
LIBRARY

18 DEC 1979



Original in GR

FICE

LPO



10 DOWNING STREET

cc DISS
15
Enclosure sent.

THE PRIME MINISTER

17 December 1979

Dear Lord Kever

Thank you for your letter of 20 November about the financial help available to strikers from public funds.

I share your view that our benefit and taxation structure should not subsidise industrial unrest.

The present position is that the main cash benefit available to strikers is supplementary benefit. The striker is not entitled to benefit for himself and what he gets for his dependants - which also includes reasonable housing costs - is means-tested. Any income the striker or his family has, such as his final earnings, income tax refunds, strike pay, his wife's earnings and child benefit, is taken into account against the family's needs.

In practice few strikers qualify for benefit for their families. At the start of a strike the employee usually has up to two weeks' wages available for his family's maintenance and benefit is not paid in this period. As the vast majority of strikes (80 per cent in 1978) do not last this long, most of the people who go on strike do not receive supplementary benefit at all.

In 1978 about 12 per cent of those on strike for longer than two weeks received supplementary benefit; the average weekly payment was £15.50. Assessing the role played by supplementary benefit in encouraging or prolonging industrial action is not a straightforward exercise. What research has been done - such

/as that reported

NW

as that reported in the recent British Institute of Management publication: "Funds available to Employees on Strike" - has suggested that supplementary benefit plays only a minor part in financing strikers.

Nevertheless I am not satisfied with the current arrangements and they are under review. We cannot ignore the fact that a striker's family needs support for the essentials of everyday living but I certainly sympathise with the argument that support by the taxpayer should be reduced. Your own solution - that the man himself should foot the bill by repaying the money at the end of the strike - is one possibility. But it may not be the best solution. One point is that strikers would still be able to look to the State for assistance and, depending on the prize at stake, could well decide that it was worth their while to accept a loan of supplementary benefit until the employer conceded their demands. And there is the danger that, once on strike, the strikers might seek to increase any prospective settlement to cover the cost of the loans.. We also have to look at the manpower costs of any such arrangements.

The Government's preferred alternative for reducing the cost to the taxpayer is for unions to take on their fair share of supporting strikers. Our review therefore concentrates on ways in which this might be done and you may be assured that we are looking rigorously at the possibilities.

Your point about strike centres is important and I have asked Patrick Jenkin, the Secretary of State for Social Services to ensure that these are established only as a last resort if large numbers of claims are expected and there is no other way of dealing with the situation. The overriding consideration in these cases is the protection of the regular beneficiaries (the elderly,

/the handicapped,

the handicapped, deprived families and so on) from the disruption which would be inevitable if, for example, several hundred strikers were to descend upon a local office to claim benefit for their families.

Thank you very much for writing. I much appreciate your kind and encouraging words.

Yours sincerely
Raymond DeLoraine

Lord Keyes

Mr Crowley CPRS

SHELLEY HOUSE,
3, NOBLE STREET,
LONDON, EC2V 7DD.
TELEPHONE: 01-806 4040.

13th December 1979

The Prime Minister,
10 Downing Street,
London S.W.1.

Dear Prime Minister,

Taxing Unemployment Benefits

At your luncheon party on 23rd November, you asked me if I could think of a way in which Unemployment Benefits might be taxed, and to send you a note on it if I could. I sent a first note on 26th November; and have subsequently been in touch with your Private Secretary. The note I now enclose has been revised following that discussion and others I have had with colleagues here.

Several schemes seemed worth attention. In particular I looked at taxing unemployment and other benefits received during unemployment by:-

- (a) working within the present P.A.Y.E. system;
- (b) additional taxation on return to work;
- (c) a tax adjustment at the end of the tax year; and
- (d) paying benefit net of tax.

Even a cursory examination suggested all had their drawbacks.

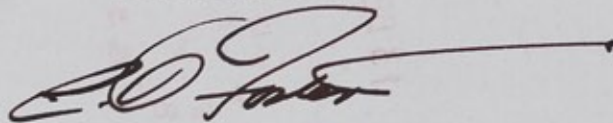
On reflection it seemed to me that another approach might be more worth exploring, although I am well aware there may be major disadvantages to it that I have overlooked, especially given the limited time I have had to go into the matter which has had to be snatched from other things.

As with many matters connected with tax, it is far from easy to describe what I have in mind simply, although I believe it to be comparatively straightforward by comparison to some of the alternatives. Its essence is indeed that unemployment and possibly also supplementary benefits, or some part of them, should be regarded as taxable income; and thus should be added to other income when assessing liability for Income Tax. The means suggested for taxing these benefits is through a reduction in the tax rebates currently payable to the unemployed who have been out of work for more than four weeks. The proposal might meet two other of the Government's objectives. It has properties which would act as a disincentive to become unemployed and an incentive to return to work. Also it can bear on strikers as on other unemployed persons.

Although the idea is simple, complications enter because of the need to consider how it can be put into effect: to relate it to other aspects of tax and social security, and to allow for out of the ordinary cases. Therefore I feel myself in a quandary. Practical problems are all important in a case like this; and unless one has an appreciation of them, this proposal will never carry conviction. On the other hand, I am well aware how impossible it is for anyone outside Government to master all the relevant detail and avoid mistakes. I would hope that should you find this note useful and decide to pass it on to those officials concerned, they will show some generosity to an outsider peering into their mysteries and take this for the essay it is meant to be.

The suggestion is my own, but as you might expect we have staff at Coopers & Lybrand with recent experience of working in tax offices. I found it most helpful to draw on this. I have also discussed the issues with one of my senior partners, Mr. Emmitt and our senior tax partner, Mr. Tansley. While they feel able to commend the scheme I am suggesting as not without merit in principle and therefore worthy of attention, you will appreciate that we have not as a firm been able to undertake as thorough a study of the practical problems of its implementation as I feel would be necessary if the proposal were to come to you in the Firm's name. Hence I am putting it forward on a personal basis.

Yours sincerely,



Christopher D. Foster

Although the fact is that, conventional wisdom suggests that the
 need to consider how it can be met into effect is to be done
 aspects of tax and social security, and to allow for the
 cases. Therefore I feel again in a general way, that the
 important in a case like this, and which has the reputation of
 the proposal will have some contribution of the other hand, I am well
 aware how important it is for various other government to handle all the
 relevant details and avoid mistakes. I would hope that you find this
 note useful and decide to permit it to be discussed in the future, and
 will show some generosity in an attempt to bring about a
 take this for the sake of the state.

The suggestion is very good, and you will find it very useful
 at present & perhaps will receive a number of replies. I
 found it most helpful to have an idea. I have also discussed the
 with one of my senior partners, Mr. Justice and our senior tax partner,
 Mr. Justice. While they feel able to discuss the matter I am responsible
 for without writing in particular and therefore would be pleased, you will
 appreciate that we have not been able to discuss it in detail. I feel
 study of the proposal would be of great value to you in the future. I
 necessarily if the proposal were to come to you in the future, I
 am sending it forward on a personal basis.

13 DEC 1979



SECRET

13

TAXING UNEMPLOYMENT BENEFITS

Presumed Objectives

My understanding is that the Government wishes to subject unemployment benefits (UB) to Income Tax; and possibly supplementary benefits (SB) paid during unemployment also. There would appear to be three main objectives:-

- (a) The first is one of consistency. They are income and it is logical they should be aggregated with other income in determining tax liability. (For the sake of completeness and if only to reject it, I should perhaps mention another view which is that UB and SB are not income as such but more akin to claims on an insurance policy which, of course, are not taxed.)
- (b) Not taxing reduces the incentive to work and increases that to remain unemployed.
- (c) If benefits to strikers' families were liable to Income Tax, it is argued that the tendency to strike would be reduced. This last objective differs from the others in that it concentrates on one kind of recipient of UB and SB. To single them out for taxation would entail considerable administrative complications as Professor Prest argued in the Financial Times of 21st July 1979 (see Annex A). Nevertheless the general policy of subjecting UB and SB to Income Tax might serve this objective also.

While it may seem too obvious to be worth mentioning, it should perhaps be added that although taken by itself the proposal will reduce the effective rate of UB and SB for all incomes high enough to be taxed, this could be offset and is not necessarily implied by a decision to tax them. The adequacy of any particular level of UB or SB is a separate issue; and is not treated in this paper.

Alternative Approaches

2. Although more time and research might have suggested other approaches, at this moment it seems that the following must be among the most likely:-

- (a) The first would bring UB and SB into P.A.Y.E. by making the D.H.S.S. an "employer" of the unemployed and requiring it to collect tax from them for the Revenue.

I would be far from surprised if bringing UB and SB into P.A.Y.E. were not the Revenue's preferred approach since it is a logical extension of the current system. Indeed it is the only method which can bring together the tax files and the D.H.S.S. data on unemployed persons so as to ensure the right tax code at each period of time. There are many excellent reasons for introducing the new computer other than this one, but one can see the force of the argument for delaying taxing both UB and SB until its introduction makes it easier to overcome administrative difficulties. Indeed it may be sensible, although not necessary, to look at any other approach as an interim one until the new computer is ready.

- (b) A second method would be to recoup tax on UB by making extra deductions in respect of the tax liability incurred on them, when the unemployed return to work.

However, it would not seem to meet either the Government's second or third objectives. As far as one can judge it would give perverse incentives. It would not reduce income while someone is unemployed but by imposing more tax when they become employed again, it would discourage searching for, and taking, employment.

- (c) A third approach would wait until the end of the tax year and recoup any tax liability on UB or SB in a final tax assessment.

While this would postpone payment of extra tax past the date of re-employment in most cases, it is not clear that it has any other advantages. It too would appear to have a perverse effect on incentives and one would expect it to be complicated to administer.

- (d) A fourth approach would be to pay UB, and possibly SB also, net of tax and then to let the taxpayer claim any rebates due to him because of unemployment.

Even if practical - and I have no reason to suppose there would not be considerable practical difficulties - it would seem to have two major faults. In effect it would probably have to rely on a degree of self-assessment not yet accepted in U.K. Income Tax; and because UB and SB would be paid net of tax, the impression would be that it was more of a cut in both than is really the case.

- (e) Another approach would be to assume that UB (and possibly SB) are taxable income and then to tax them by appropriate reductions in the tax rebates now paid out after someone becomes unemployed.

It is this scheme which is further considered in the rest of this paper.

Taxing Unemployment and Supplementary Benefits through altering Tax Rebates:

The Existing System

3. The P.A.Y.E. system assumes that a person's income accrues evenly through the year as do the allowances which free some of his pay from tax. When a person becomes unemployed he continues to accrue allowances while his income remains the same. Consequently, since neither UB or SB are regarded as taxable income, he becomes entitled to successive tax rebates throughout the period of unemployment, subject to a maximum of the tax he has already paid. Under present rules a person is entitled to claim a tax rebate not less than four weeks after become unemployed; and may thereafter claim at similar intervals until the entitlement to rebate is exhausted.
4. Alternatively unemployed persons may not bother to claim rebate, especially if the period of unemployment is short. Then they will get the rebates due to them when they return to work or soon afterwards, usually as a reduction of the tax they would otherwise pay.

The Essence of the Proposal

5. The essence of the proposal put forward here is that UB and possibly SB, should be counted in as income when calculating entitlement to tax rebates, not just for the period in which someone has already been unemployed but on the assumption they will remain unemployed for the rest of the tax year. This would reduce the total tax rebates they will receive while unemployed so meeting the Government's first objective of subjecting UB (and possibly SB) to Income Tax.
6. The proposal would also help meet the Government's second objective which was presumed to fall into two parts as outlined above. First, through reducing tax rebates to the unemployed, it would make unemployment relatively more unattractive. Secondly it would encourage returning to work where this is possible, because on return to employment, people will find their tax burden actually reduced by comparison with what they would otherwise have paid. This is because the scheme implies assuming that they will receive at least an income equal to UB and SB for the rest of the tax year. Thus in effect they will have paid the tax on this amount already; and therefore only be taxed, at least to the end of the tax year, on any excess on their new level of income over their UB (and SB) level when they start working again.

The Definition of Income for this Purpose

7. I have not had time to do as much numerical investigation as I would have liked of the exact consequences of what was proposed in the last two paragraphs on persons and families of different levels of income and who move in and out of employment at different points in the tax year. However what has been done points to one difficult issue that must be faced. The danger is that if the level of UB and/or SB income assumed to be taxable is too high relative to employment income, the effect of the proposal could be a tax demand from the unemployed rather than just a reduced rebate. The problem needs more discussion than there is room for here, but here is a brief shot at a summary of it. First, it would seem to affect earnings-related supplements (ERS) and other benefits differently. If one is right to assume that it would be judged either undesirable or impractical or both to levy such a tax demand

on the unemployed, then it could be necessary to limit the proportion of ERS that is counted in as taxable income. Secondly, as far as I can judge the problem should not arise in respect of most of the other categories of benefit: either the basic rate or that plus the increase for wives or other adult dependents. Conceivably it might arise, however, for those who are also on supplementary benefit or who have a large number of children or other dependents. Such a situation might be met by the following rule:-

"Where not less than four weeks after becoming unemployed someone claims a tax rebate, either his (or her) unemployment and other benefits (excluding ERS) on the assumption they will be paid to the end of the tax year or his (or her) personal tax allowance for the rest of the tax year whichever is the less should be added to income already accrued when calculating the entitlement to tax rebates."

8. However, while such a rule is sufficient to avoid tax demands on the unemployed, equity might suggest that if such tax demands are unacceptable and if to avoid them only a proportion of ERS can be taxed, no more than the same proportion of other benefits should be taxable (unless even that exceeds the personal tax allowance assumed to accrue over the rest of the tax year). All this may seem complicated, but its upshot can be put quite simply. If one is right in thinking that it would never be acceptable to replace tax rebates for the unemployed by an actual tax demand, it may not be possible to tax all unemployment income; but it will always be possible to tax a very high proportion of it and that feasible proportion can quite easily be estimated. As it happens the reason why there is any problem at all is that old familiar source of difficulty: the poverty trap.

Taxing Benefits to Strikers

9. Logically strikers' benefit would be taxed in exactly the same way as other UB and SB. The differences are two-fold:-

- (a) They are not entitled to UB, only to benefits for dependents and possibly other SB; so that they would have less income to be taxed; and
- (b) Many employers pay strikers' rebates much earlier than Tax Offices are allowed to, even immediately, either by arrangement with the Unions or of their own volition. Later they reconcile this position with their Tax Offices. To stop them doing this might well seem an infringement of their liberty as well as scarcely practical.

Nevertheless if adopted, the proposal would act as some disincentive to strikers; but that would be greater if employers could be induced to pay rebates not less than four weeks after the start of the strike (which is what tax offices do).

Conclusion

10. The danger of setting down problems that may need to be overcome in implementing a proposal that it is all too easy to overshadow the proposal's merits. Although it is of course for the Revenue and D.H.S.S. to have the final say on the weight to be given to these problems and the ease with which they may be overcome, our tentative judgement is that it might well be possible to overcome them with less difficulty and fewer staff than would be involved by other ways of reaching the same end. If this is correct and the proposal were to prove feasible, then it would seem to achieve the Government's objectives in this matter, if I am right in my understanding of them.

Letters to the Editor

Strikers

From Professor A. Prest

Sir, — In "Unions need equality before the law," (July 12) Samuel Brittan opposes the idea of higher union support of strikes and then writes: "... the best way out is to treat social security pay for strikes' families as a loan to be recovered by higher PAYE deductions on return to work." From this account some readers might think that such a policy would be simple and easy to implement. May I suggest this is not so?

One has to decide what level of benefit it is worth trying to recover £5, £50, £100? And if one takes, say, £50 as the standard, is one content with catching the family which received one £50 payment during the year but not the one which receives two of £45?

There has to be a mechanism whereby the Department of Health and Social Security and/or the Supplementary Benefits Commission informs the appropriate tax district of the Inland Revenue how much is to be recovered and from whom (see below). Any such tie-up involves very substantial additional manpower requirements.

The Inland Revenue has to collect the refund. This involves both linking the recipient of supplementary benefit with a taxpayer—this may not be so difficult with husbands and wives living and taxed together but what about separated but financially linked couples, common law marriages, etc.—and either re-coding each individual case for PAYE or making end-year tax adjustments, with consequential further manpower demands on the Revenue.

Depending on the working of these administrative processes, the end-result could easily be a higher than normal tax bill if and when strikers return to work—not an obvious incentive to do so.

Given these difficulties of our

present social security and tax arrangements, it is by no means clear that the Brittan solution is the preferable one.

A. R. Prest.

London School of Economics
and Political Science,
Houghton Street, WC2.

FURTHER DETAIL ON THE PROPOSAL : IMPLEMENTATION

The more detail one attempts, the greater the disadvantage someone outside Government is at. Nevertheless a number of issues are important in assessing the practical problems of implementing the proposal. Various problems have been raised in the main note. Some of them are covered in what follows, namely:-

- the point of tax incidence;
- the burden on the Revenue;
- the need to certify non-receipt of benefit;
- the definition of relevant taxable income; and
- taxing unemployment income at the start of the tax year.

They are followed by some notes on how these questions of implementation might be solved as they could affect six of the more important kinds of cases:-

- A. Those who claim UB but who not claim rebates.
- B. Those who claim UB while unemployed and also claim tax rebates.
- C. Those who claim neither.
- D. Those who do not claim UB but do claim tax rebates.
- E. Those who begin by not wishing to claim UB but later change their mind.
- F. Strikers.

Lastly by way of summary there is a list of the major procedural points which may be felt to need a solution, as well as a note on the simplest procedure of all.

Point of Tax Incidence

2. It may be argued that the scheme does not have the advantage what I take to be the Revenue's preferred scheme has, of bringing together tax office and D.H.S.S. information at every point of time so as always to be able to establish the correct tax rate (the price of that advantage was its high cost). Indeed it may be argued the proposal implies that the unemployed in effect pay tax to some extent before they receive income. This merits careful consideration as the alternatives can only be:-

- (a) to tax at the same time as unemployment income is received which almost certainly implies a P.A.Y.E. method or self-assessment;
- (b) to tax after the event which in practice is likely to mean a perverse incentive against taking on a new job; or
- (c) to adopt something like this proposal.

However, there would seem to be precedents for what is proposed here as on occasion the Revenue does take into account expectations of future income in deciding tax liabilities: but if another argument were needed part of the tax anyone pays while employed could be regarded as pre-payment of tax liability on UB (and SB) if the occasion should arise.

The Burden on the Revenue

3. Generally by comparison with other systems listed in the main paper, including P.A.Y.E system, this would seem to involve comparatively little extra paperwork or resources in tax offices, it seems not unlikely that the most part of existing procedures and forms could be adapted satisfactorily. Indeed it is not impossible that this new procedure would reduce the burden on the Revenue in one important respect since its logic implies that the unemployed can only claim rebates once and not periodically over successive months.

The Need to Certify Non-Receipt of Benefits

4. Critical to the success of the scheme is that the D.H.S.S. should be able to certify that someone has not received UB (and if it is taxable SB). Our understanding is that in principle the D.H.S.S. computer should be able to do this. We imagine, however, that the extra burden on the system of having to provide information on whether certain persons' file are inactive or non-existent and therefore if UB (and SB) have not been paid for relevant periods, would have to be carefully researched.

Definition of Relevant Taxable Income

5. If consistency in the treatment of taxable income were the only point at issue, then clearly all UB and SB would be counted in when assessing tax liability. Such benefits would include: the basic unemployment benefit, the earnings-related supplement, as well as benefits for wives and dependent relatives including children. It would cover supplementary benefit including, for example, rent and rate allowances.
6. However, it might be argued as a matter of policy that certain kinds of benefit might be excluded on the grounds that the Government does not want to tax them. For example, childrens' increases under UB are comparatively small and it might not be thought worth taxing them. Exact knowledge of some of the more discretionary SB would be difficult to come by without delay so making a case for excluding some of them also. On the other hand insofar as taxing strikers' benefits is desired, benefits to dependents and SB will be important. As a result various issues of principle arise which lie outside the scope of this paper.
7. Whatever exclusions may be made on policy grounds there are also severe practical problems in including all UB and SB as taxable income. The most important is likely to be that in some cases taxing all a person's UB and SB would logically imply a tax demand rather than a rebate four weeks after the start of unemployment. I do not want to add here, however, to what has already been said in the main paper upon this point. There may also be cases where some substitute for the personal tax allowance may be needed in limiting tax liability if the logic of the proposal is to be carried through. I have not investigated them but they may include the case of an unemployed man whose wife is still working or an unemployed married woman whether or not her husband is still working.

Taxing Unemployment Income at the Start of the Tax Year

8. If the procedure adopted were as above and no more of someone's UB income (and SB where relevant) were taxed than will avoid a tax demand rather than rebate if the person becomes unemployed during the course of the tax year, no special problem is posed by a spell of unemployment at the start of the tax year. In most cases no tax would be payable in principle upon such income until the person again becomes employed, simply because unemployed income level will be too low, unless the person in question has other sources of income. However, in some cases there will be some extra tax liability on return to employment in respect of previous unemployment income. After the return to employment the logical procedure would be for tax deductions to be set which counted the relevant part of UB (and where relevant SB) received earlier in the year as taxable income.
9. There is no special problem that arises when someone is unemployed for the whole of the tax year, however, since it is unlikely that they will have a tax liability.

Six CasesA. Those who claim UB but not tax rebates

10. Their treatment would seem the most straightforward of all. When they leave their last employment, they are given parts 2 and 3 of Form P45 which they are to give to their next employer.
11. Arguably all that the new system would require is that they should also give their new employer the letters attached to the Girocheques they have had paying them their UB. This should be sufficient as enough information is given there; but it would probably be preferable if:-
- (a) there were a separate piece of the letter especially for handing to the next employer;
 - (b) the letter informed the unemployed of this; and
 - (c) it would avoid some adding up for the new employer if the letter gave a cumulative total of the amount received in unemployment benefit during the current spell of unemployment.

12. Then the employer would send one copy of the P45 to the Tax Office as at present; but would also send the record of UB payments. He would calculate the total pay to date of commencement of new employment including UB payments (or a proxy for them) as part of taxable income.

13. Those who do not produce their Girocheque slips can be dealt with on exactly the same basis as if they do not produce a P45 (see paragraphs 97 to 99 of Employers' Guide to P.A.Y.E.) by receiving an emergency or penal tax code until the situation is resolved.

B. Those who claim UB and also tax rebates

14. Their treatment would appear to be as easy. When they leave their last employment they will have been given a form P50 with which to claim a refund. The new employer could behave exactly as in Case A above except that he will be told by the Tax Office what adjustment is needed to the Tax Code given the tax the unemployed has been assumed to pay on UB.

15. The main difference is that the Tax Office may need to know whether or not the claimant is in receipt of UB when he asks for his refund. Even this may be questionable since the refunds might be based on the assumption that UB is being paid. However, this will be more difficult if UB and SB are defined widely and are therefore difficult to estimate. But if proof is required, the appropriate part of the D.H.S.S. letter attached to the Girocheques for payments already received might be sent to the Tax Office. The onus to do this could either be on the individual or the new employer.

C. Those who do not claim UB or tax rebates

16. Obviously they will not be able to produce Girocheque slips when they go to their new employer since they have not received UB. Their new employer and the Tax Office will need to know if they have had UB to determine their tax liability and any refund they should receive. In this case it is surely in the interest of the employee to provide this information since it will reduce his tax liability.

17. The only source of such information would appear to be the D.H.S.S. The newly employed needs a certificate from D.H.S.S. that he has not had UB. Either he or his new employer could obtain this. There are two drawbacks to providing it:-

- (a) There may be some presentational difficulty in asking someone who is not drawing UB to apply to D.H.S.S. for a certificate that this is so, particularly where pride is a motive. The best solution is probably that someone could do this through the post and then themselves send the certificate to the tax officer of their new Tax Office. There might be less psychological objection - particularly if the appropriate form were given to them with their P45 and P50 when leaving their last job. If the person is found not entitled to benefit when he fills in form UB 461 at the D.E. local office or subsequently when his last employer has returned a UB 85, the matter would seem easier since the relevant certificate in those circumstances can be issued there and then. The unemployed not only must give, but has an interest in giving, them to his next employer, or Tax Office.
- (b) There will be extra work for the D.H.S.S. as it would have to issue such certificates. As far as can be judged its computer can provide such information at any time if the applicant provides his N.I. number. How many clerks would be needed to process these certificates is an important question; and their number would need to be researched. It would probably be smaller if some simple procedure could be adopted as a rule of thumb to cover those out of work but not claiming for periods of, say, less than two weeks or a month, although this in its turn would have consequences which would have to be dealt with.

D. Those who do not claim UB but do claim tax rebates

18. They differ from the last group in two respects. First they would have to provide a certificate from D.H.S.S. that they had not claimed, and that it was not their intention to claim UB since, if they do not, they would be entitled to the higher tax rebates available under the present system. By issuing such a certificate D.H.S.S. should know the claimant had foregone his right to claim (unless he later made a new approach. See E. below).

19. The second difference is that on taking up new employment, the employee would gain if he could avoid either his new employer or the Tax Office knowing that he had not received UB. Therefore it is vital that he produces the relevant certificate and that he should be subject to an emergency tax code if he does not.

E. Those who change their mind over claiming UB

20. There are probably substantial numbers of people who on becoming unemployed at first decide not to claim UB - probably in the hope that they will become re-employed quickly, but later change their mind. If they have not claimed tax rebates, there is no special problem, since when they do, or become re-employed, all they need to do is to provide evidence - using Girocheque slips - of the period or periods when they were getting UB and - using a certificate from D.H.S.S. - of those when they were not.
21. A more difficult situation may arise when someone has already claimed rebates before changing his mind since he will have got higher rebates precisely on the assumption that he will not be getting UB for the rest of the tax year. The most straightforward approach might be to make it clear to such claimants for tax rebates, that if they do change their mind, their UB payments will be net of tax at some appropriate rate, the final tax reconciliation being achieved at the year end.
22. D.H.S.S. would have to know this. It would be necessary for such people to let the local office know they have had a rebate. If there was any doubt, the local office should ask the Tax Office. The claimant for UB has to show the local office his P45 anyway and the relevant P45 would be that issued after the last tax rebate; but there will be additional work.

F. Strikers

23. As explained in the main note, firms often pay strikers' tax rebates instead of Tax Offices. Moreover they usually pay them out before four weeks are up - indeed quite often they pay them out almost immediately. They do this because of a union agreement or because they have freely decided to do it themselves.

24. They can only do this because it is comparatively easy for them to estimate rebates due. Taxing SB would make this less easy; and might in itself lead them to delay payment until after they had consulted the Tax Office; or even to let the Tax Office take over and deal with the matter in exactly the same way as for other unemployed persons as described above. Otherwise employers would have to make a rough estimate of SB entitlement in calculating rebates which might be possible but could pose tricky problems for them.

Conclusion

25. As it seems to me the major implementation issues are all concerned with the practical implications, in terms of clerical processes and manpower requirements, of changing existing precedures. Since additional sources of income are being brought into the Income Tax net, there is likely to be some additional manpower whatever approach is adopted. All solutions are likely to involve increases in either clerical or computer processing in one or all of the following areas:-

- (a) Inland Revenue Tax offices;
- (b) Unemployment Benefit offices;
- (c) D.H.S.S. Computer Centres; and
- (d) Employer payroll departments.

We imagine that the major problems which would require solution would include the following:-

- (a) Finding the easiest and most sensible basis for adding UB and SB to other earned income at the time a tax rebate is claimed.
- (b) Deciding what clerical effort will be needed at tax offices because of processing changes implied by:-
 - (i) the aggregation of UB and SB with earning income for the purposes of calculating tax rebates;
 - (ii) their aggregation with earned income when a new employment is begun and no tax rebate has been claimed previously, although most of the work will fall on employers.

- (c) Determining how D.H.S.S. can best provide access to its computer records and meet the clerical and processing problems entailed by:-
- (i) producing a certificate of UB and SB paid to those unable to produce details of the benefits they have received;
 - (ii) producing a certificate of zero benefits for those who have not claimed either UB or SB.
- (d) Deciding what new clerical routines and therefore staff are needed at Tax Offices to deal with exceptional cases.
- (e) Determining whether the changes suggested conflict with others planned in the various departments concerned.

A Last Comment

26. The simplest short cut solution which would cut through many of the estimating problems while preserving the spirit of the proposal would simply be to assume that during a period of unemployment, UB and SB income was received at least to the level of the relevant personal tax allowance, and adjust rebates accordingly - achieving a final reconciliation if at all on return to work. Given the particular difficulty firms have in estimating strikers' entitlement to rebates, this might have particular value as a rule of thumb in such cases even if more precise calculations were to be done in other cases.

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Soc Servs



10 DOWNING STREET

From the Private Secretary

12 December 1979

Dear Tony.

I have written to you today about the papers which were submitted for E Committee on the Taxation of Short Term Benefits. I would like to mention one further point. At last Friday's meeting of Ministers on the economic outlook and public expenditure, there was a good deal of discussion about the need - if possible - to deindex social security benefits. And the Prime Minister asked the Chancellor to arrange a wide ranging study of the scope for deindexation. The Prime Minister has now pointed out that de-indexation of short term benefits might be a better approach than to tax them. It would be helpful if the revised paper on the taxation of short term benefits could cover this point - though I realise that this will not be easy in advance of the study which the Chancellor is to commission.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

Yours

Tin Lamm.

A M W Battishill Esq
HM Treasury

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28



10 DOWNING STREET

From the Private Secretary

12 December 1979

As you know, it has been necessary to take the taxation of short term benefits off the agenda of the Ministerial Committee on Economic Strategy (E) arranged for 12th December. I understand that the Chancellor of the Exchequer and the Secretaries of State for Employment and Social Services are to meet, with a view to trying to resolve the outstanding differences between them.

The Prime Minister welcomed this development. She thought that the matter was in no fit state, as it stood, to be submitted to the Ministerial Committee. It seemed that there had been no preliminary discussion among the Ministers concerned, with a view to trying to resolve the differences between them; and it appeared that there had been no attempt to present the Ministerial Committee with a single paper in which the issues for decision, and any remaining differences between the Ministers directly concerned, were set out clearly and succinctly.

The Prime Minister hopes that the discussions now to be held between the Chancellor and the Secretaries of State will be able to arrive at a resolution of the differences between them, and that the matter can then be presented to the Cabinet in a single paper which presents the issues for decision clearly and as briefly as is possible in a subject which is admittedly complex.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Employment and Social Services and to Sir Robert Armstrong.

J. P. LANKESTER

Sl.

A M W Battishill Esq
HM Treasury



CABINET OFFICE
Central Policy Review Staff

With the compliments of
Sir Kenneth Berrill KCB

70 Whitehall, London SW1A 2AS

Telephone 01-233 7765



See the Appendix

12
12/12

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: Sir Kenneth Berrill KCB

Qa 04378

12 December 1979

Dear Chancellor,

Taxation of Short-Term Benefits (E(79)75, 78, 79 and 81)

The fact that the discussion of taxation of short-term benefits in E has had to be postponed to next week means there is a bit more time for the pros and cons of the different options to be considered. The papers at present offer an effective choice between (A) 'current' taxation of flat-rate Unemployment Benefit and Supplementary Benefit, and current 'net of tax' payment of Earnings Related Supplement (favoured by yourself in E(79)79); and (B) 'subsequent' taxation of flat-rate Unemployment Benefit, Earnings Related Supplement and Supplementary Benefit (favoured by the Secretaries of State for Social Services and Employment in E(79)75 and 81). The CPRS wonders whether consideration should also be given to an intermediate option, under which Earnings Related Supplement would still be taxed on a current 'net of tax' basis (as under option A above), but flat-rate Unemployment Benefit and Supplement Benefit would be taxed on the subsequent basis (as under option B).

This intermediate option would still make a significant impact on the incentives problem. Earnings Related Supplement would be caught on a current basis so that, as compared with option B, the gap between out of work and in work net income would be substantially widened where at present it tends to be at its narrowest. Moreover, tax refunds would, as under option B, be held over until return to work. From the incentives point of view this would be an improvement on option A under which tax refunds (albeit limited in amount) would be paid currently during the period of unemployment. Finally, the fact that one would be taxing flat-rate Unemployment Benefit and Supplementary Benefit on a subsequent rather than a current basis should mean that the numbers whose income during unemployment would be reduced below Supplementary Benefit level would be much less than they would be under option A.

The Rt Hon Sir Geoffrey Howe QC MP
HM TREASURY
S W 1

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I believe that the tax yields of this intermediate option would be about the same as both A and B so unless the staff costs would be substantially higher than either A or B (I do not myself see why they should be), you may feel that this is an option which is worth considering. It tackles the incentive problem effectively while minimising the Supplementary Benefit problem.

A final point on the Supplementary Benefit problem. While it may be desirable to minimise it, it seems, as you suggest in paragraph 6 of E(79)79, difficult to argue that it is necessarily wrong in principle that taxation should in some cases bring income below Supplementary Benefit levels. There are after all a fairly large number of employed and self-employed families and individuals in work whose net incomes (after tax and NIC) are reduced below what their out of work Supplementary Benefit entitlement would be.

I am sending a copy of this letter to the Secretaries of State for the Social Services and Employment, and to Mr Whitmore and Sir Robert Armstrong.

Yours sincerely

Kenneth Berrill

KENNETH BERRILL

12 DEC 1979



CONFIDENTIAL

Prime Minister
Agree that I
should write as
suggested?
R.
11/12

Ref. A0918

MR. LANKESTER

You will have heard that the taxation of short term benefits, which was to have been discussed at the meeting of E tomorrow, has now had to be put back, and arrangements have been made for the three Ministers directly concerned - the Chancellor of the Exchequer, the Secretary of State for Social Services and the Secretary of State for Employment - to meet to try to resolve their differences.

2. This is a welcome development, since the matter was in no state to be submitted to a Ministerial Committee under the Prime Minister's chairmanship. ~~There were three separate papers, ill-related to each other; no attempt had been made to resolve the differences between Ministers, or even to present the Committee with a paper which set out the issues for decision and the differences between Ministers clearly and succinctly.~~

3. I think that it might help to avoid these matters coming back to the Committee in so ill-digested a form if you were to write a letter on the lines of the draft attached.

Yes but

REA

(Robert Armstrong)

I'm - another point
come from the meeting the
other day namely - is it better
to de-identify short term benefits.
or to leave them as is.

11th December, 1979

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DRAFT LETTER FROM MR. LANKESTER TO THE
PRIVATE SECRETARY TO THE CHANCELLOR OF
THE EXCHEQUER

As you know, it has been necessary to take the taxation of short term benefits off the agenda of the Ministerial Committee on Economic Strategy (E) arranged for 12th December. I understand that the Chancellor of the Exchequer and the Secretaries of State for Employment and Social Services are to meet, with a view to trying to resolve the outstanding differences between them.

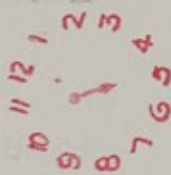
The Prime Minister welcomed this development. She thought that the matter was in no fit state, as it stood, to be submitted to the Ministerial Committee. It seemed that there had been no preliminary discussion among the Ministers concerned, with a view to trying to resolve the differences between them; and it appeared that there had been no attempt to present the Ministerial Committee with a single paper in which the issues for decision, and any remaining differences between the Ministers directly concerned, were set out clearly and succinctly.

The Prime Minister hopes that the discussions now to be held between the Chancellor and the Secretaries of State will be able to arrive at a resolution of the differences between them, and that the matter can then be presented to the Cabinet in a single paper which presents the issues for decision clearly and as briefly as is possible in a subject which is admittedly complex.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Employment and Social Services and to Sir Robert Armstrong.



11 DEC 1979



Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side.



Social
Services

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

6 December 1979

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
Victoria Street
London
SW1

man
12
4.2

Dear Keith,

I have read John Nott's letter to you of 4 December and I thought I should write to say that I do not agree with him.

I do not dissent from his belief that consultation will not bring the TUC round to our point of view. It may, however, be an advantage to get employers' agreement.

More important, I would much prefer that we should get the already controversial Social Security (No 2) Bill under way without having this provision in it ab initio to focus emotional opposition and Press comment on to what is a comparatively unimportant change.

I am copying this letter to Cabinet colleagues and Sir Robert Armstrong.

Yours etc,

ANGUS MAUDE

1-6 DEC 1979



Cuckoo in the nest

Social security gobbles up too much of Britain's public spending. How to trim it . . .

With the blood hardly dry on their first spending cuts, Mrs Thatcher's ministers are being braced for a second round. The first merely halted the growth (in real terms) of public spending, which was supposed to allow all the benefits of economic growth to flow to the private sector. As national output rose, the public sector's share of it would fall.

Unhappily the government's (or at least the treasury's) forecast now says there isn't going to be any growth—not next year, anyway. A constant level of public spending will therefore eat up a larger share of gnp. But ministers are reluctant to wield the axe again, and not just for the Keynesian reason that cutting spending in a recession is a sure way to make it worse. Merely holding spending constant has already earned them plenty of abuse, as old people's homes are threatened with closure, teachers with the sack and doctors with equipment shortages. What will "real cuts" do?

Ministers can blame local authorities who are only too ready to protect their bureaucracies while cutting services; and curse those (themselves included) who allowed Professor Clegg to run riot with the public

sector's pay bill. But that is not the whole truth. Expanding some programmes while holding total spending steady must anyway mean real cuts in others. Some spending plans are being fattened deliberately: defence, law and order. More important, the largest form of public spending is growing out of control.

Public services are cheeping with starvation because an ever-increasing share of spending is still being poured into cash benefits. Unless social security's appetite is checked, the Tories' attack on public spending will go on earning them maximum unpopularity for minimum results.

The bill for cash benefits has grown unmanageably large since 1974-75. In real terms, total public spending in that year was at about the same level as is now planned for the coming year. But, in the interval, the social security bill has risen, in those same "real" terms, by over a third—from slightly over 20% of total spending to nearly 30%.

In the early 1970s, it was fashionable to say that the thrust of public spending should be away from the traditional services (health, education, transport, what have you) towards income-boosting cash transfers that

gave poor people the right to choose their own expenditures. Some of Britain's social security benefits (pensions in particular) looked mean in comparison with European systems. And national insurance contributions were not high in relation to European rates, either for employee or employer.

All that was true enough. Britain needed, and got, a new pension scheme—though neither costs nor benefits of that have really begun to build up yet. There was a real rise in the value of the present basic state pension and of other benefits. And completely new benefits, all for very good reasons: an income support scheme for low earners with children, an invalidity benefit for those who had never been able to work, a child benefit which did something to narrow the gap between British and European levels of family support. But the cost has been heavy, both to other public services and to those in work who pay national insurance contributions. In 1975, contributions for employer and employee together amounted to 14% of pay, up to a top earnings limit that was then £69 per week. Last week, the government announced that, from next April, combined contributions will exceed 20% of earnings, and the top pay limit will be £165 a week.

The best way to spend money

After years in which governments have hacked almost continuously at capital spending in schools, hospitals and roads, and when, as a result, public investment has been reduced so far that further spending cuts now mean closing buildings or abandoning services, it is time to ask whether the extra £1 in an unemployed teenager's pocket is actually better spent than an extra £1 on the education or health service. And it is time to ask, too, whether national insurance is not contributing to high unemployment. The rise in contributions (including the 3½% surcharge imposed on employers' contributions by Mr Denis Healey) has sharply widened the difference between the cost to the employer of taking on labour and the reward to the employee from taking the job. Employees rightly regard their so-called national "insurance" contributions as just another kind of income tax which, because rates are fixed quite separately, has made nonsense of the tax structure. Britain's income tax rate theoretically rises from 25%, to 30%, to 40% and so on: add on the new rate of employees' national insurance, and it will run from 31¼%, to 36¼%, to 30% on the slice of income above the top of the insurance limits, but before income tax rises to 40%. Add on employers' contributions, and the progression would look even madder.

The two systems need to be dovetailed into each other, and then the whole bill cut. How?

One way is not to spend less, but to scoop some cash back. At present, some benefits (eg, pensions) are taxed; most (eg, unemployment benefits) are not. Few benefits, except for large families, are big enough to yield much tax from those to whom they are the only source of income; indeed, such overlap as there is implies that either the tax threshold is too low or benefits too high. It would take more taxmen to scoop money back. But allow for those with other income,

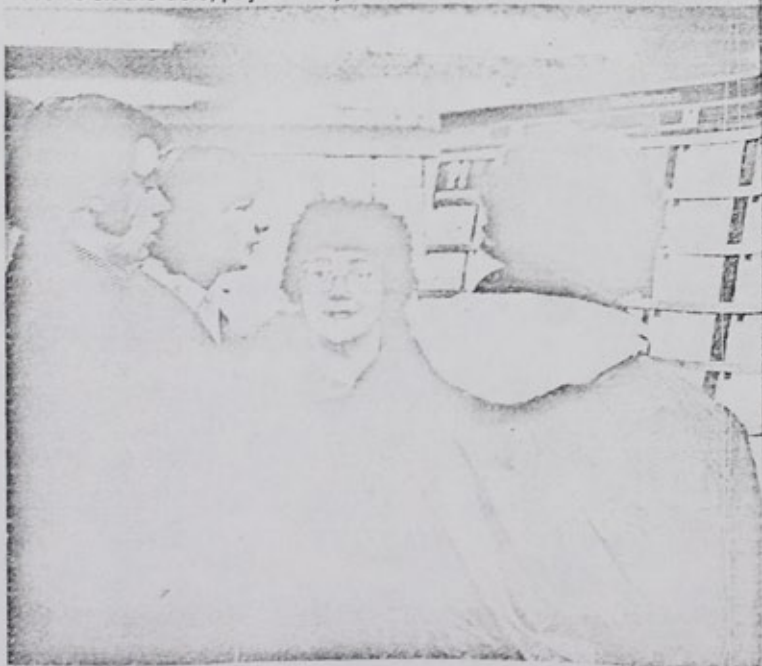
and for the tax rebates now paid to those who stop work (because the taxman ignores benefit income and deems them to be penniless), and the revenue looks worth having: say, £500m-1 billion a year.

Don't play leapfrog

That extra tax revenue should allow the national insurance surcharge to be (a) cut and (b) diverted back into paying for what it purports to finance: benefits. The government still needs to stem their rising tide. It has begun to wriggle off the hook of "leapfrog" indexation. Since 1974 pensions and other long-term benefits have been raised in line with prices or earnings, whichever rose faster; which inevitably means, over the long term, benefits rose faster than either. Quite soon, the last government began to find this promise onerous; and since benefits are announced well in advance, it was naturally tempted to underguess inflation. The incoming Tory government announced that it would not stick to the double guarantee (while hastily muttering that, of course, pensioners had always got better off under Tory administrations), but then promptly announced a 19¼% increase in benefits which was above the expected rate of inflation or earnings or prices, in order to make up for Labour's failure to make a big enough guess at earnings last year. That piece of post-election showing-off is costing Tories dear. On Thursday, however, the government's new Social Security Bill made it clear the Tories intend to look only at prices for the future. For the long term, does that make sense? If output falls, benefits will cost a rising share of it; if it rises, those out of work will not share in the country's increasing affluence.

Why not work from earnings, not prices? And total earnings, not the rate of increase achieved by those who price others out of a job? At present, the government announces benefits, and then its actuary works out the level of contributions needed to pay for them. The government's advisers are brooding on a reversal of this system. If the contribution percentages were fixed, benefits would be calculated according to

Receive on the dole, pay on the job



the amount of money in the till. They would then rise or fall automatically with earnings, bringing home the truth that benefits have to be paid for by those in work. When the economy was not growing, it would force choices between benefits. If pensioners are to be protected from the fall in national income, the chancellor could ask on budget day, which benefits should be cut further to make up?

One problem would be that, when unemployment rose, benefits would automatically have to fall; there would have to be an automatic subsidy from general taxation to compensate. But apart from such cyclical stabilisers, the national insurance fund could be left to digest its own problems. Ideally, it should be widened to embrace all benefits: so-called insurance pay-outs; means-tested income support benefits; automatic payments like child benefits—the lot.

The new Social Security Bill (see page 32) takes a half-tiptoe towards fusion by abolishing two separate quangos: one reviewing national insurance, one means-tested supplementary benefits. It promises some welcome simplification, but more change is needed. The sine qua non of social security reform has always been that it should make nobody worse off; which inevitably means both that any change is expensive, and that too little is made. As there are still holes in Britain's welfare net, through which the sick and helpless can fall into unconscionable poverty, this should be replaced by real choices between needs, and a system which makes them plain to the social security lobbies. The only alternatives are no change at all—or another five years' indiscriminate growth in the social security cuckoo, which will leave the other public services dead in the nest.

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

2



HOUSE OF LORDS,
SW1A 0PW

Prime Minister

PRIME MINISTER

*ans 12
6/12*

STRIKERS AND SUPPLEMENTARY BENEFIT

I have seen a copy of Sir Keith Joseph's minute to you dated 28th November 1979 proposing a scheme to force unions to bear a part of the costs of strikes.

I do not myself find this scheme an attractive proposition for the following reasons:

- (1) It hits the family man rather than the bachelor;
- (2) It hits the non-unionist rather than the unionist;
- (3) The real incentive to strike, which is the automatic tax refund, is untouched;
- (4) We have enough controversy on our hands for the time being. It is admitted that the practical consequences of this scheme will be small. In my view we should save the controversy for something that will be more cost effective *in time for Parliamentary debate & practical results*

*not necessarily
TL*

There are many commitments contained in our manifesto. I see no reason why we should rush into doing something about all of them all at once. There are serious objections which can be made to this proposal and I think it deserves very serious consideration before we go ahead with it.

H: of S: M.

I am sending copies of this to all those who received copies of Keith Joseph's minute.

6th December 1979



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1979

Original in G/Room
VB

u DKS



10 DOWNING STREET

4 December 1979

THE PRIME MINISTER

Dear Ralph,

Thank you for your letter of 9 November. As Willie Whitelaw and I have both said in answer to your Questions in the House in the last week, there can be no doubt that the objective you have argued for so consistently has very widespread support in the country as a whole. We are fully aware of the need to restore the will to work at all levels, and although we inherited an appalling economic situation six months ago, we made a start by reducing personal taxation at all levels.

Those measures alone are by no means enough; we have the objective constantly before us in looking at our policies. For example, we are urgently examining the practicalities of bringing unemployment benefit and sickness benefit into tax. But in other areas, such as school meals and help with fuel costs, we are bound to be constrained by the need to limit the burden of public expenditure on our productive economy.

I take your point that an increase in child benefit would help with the incentives problem. But such an increase would be costly and we concluded that no increase beyond the £1 given by our predecessors in April could be justified in this year's uprating of benefits, given the background of our present economic problems. But we must not allow those problems to deflect us in the longer term from doing all we can to ensure that those who work are properly rewarded.

Yours ever

[Handwritten signature]

12 Downing Street,
Whitehall,
London, S.W.1

With the Compliments
of the
Chief Whip

CONFIDENTIAL

FROM: THE RT HON MICHAEL JOPLING MP

*Social
Services*



Government Chief Whip
12 Downing Street, London SW1

4 December 1979

John Keith

I have seen the recent correspondence about Strikers and Supplementary Benefits.

This is clearly a very sensitive area and indeed, in my view, the position of non-union strikers could well be taken up by a number of our back-benchers. I believe that there would be merit in trying out the proposal on selected groups in private.

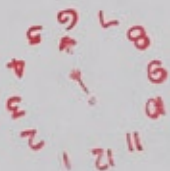
I am copying this to the Prime Minister, all Cabinet colleagues, Norman Fowler and Sir Robert Armstrong

*James
D. Stewart*

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
SW1E 6RB

*I think this ought to have
wider discussion by Ministers before
we agree to it
WJ*

CONFIDENTIAL



-6 DEC 1979

CONFIDENTIAL



PRIME MINISTER

STRIKERS AND SUPPLEMENTARY BENEFIT

Prime Minister SOCIAL SERVICES.

I have asked
that Sir Keith's
proposals be
considered by Cabinet.

[Handwritten signature]

12

4/12

I agree with Jim Prior that the question of timing in relation to the announcement of these proposals needs to be discussed at Cabinet. More importantly, however, while the general issues raised in Keith Joseph's minute of 28 November have, of course, been discussed at E(EA), I nevertheless feel strongly that Cabinet should consider them.

I am very concerned that the proposals of the ad hoc group will provide the unions with an irresistible argument to attract members.

If you are involved in a strike - whether or not of your own creation - you will lose the first £10 of Supplementary Benefit so why not pay the union dues as an insurance premium and let the unions stand behind you?

I am copying this to Cabinet colleagues, Norman Fowler, Michael Jopling and Sir Robert Armstrong.

[Handwritten signature]

MH

4 December 1979



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24 DEC 1979

CONFIDENTIAL

*From the Secretary of State*

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1

*John Nott**R. J.**4.* December 1979*Dear Keith*

STRIKERS AND SUPPLEMENTARY BENEFIT

I welcome and fully agree the proposals which are long overdue. In particular, I am sure that my three colleagues are correct in deeming a £10 deduction for all strikers - whether unionised or not.

My reservations only concern the timing of the announcement.

I cannot see why we should "consult" anybody. Whenever this decision is announced it will be considered highly provocative by the TUC - and will be fiercely opposed. "Consultation" will not change anything. There is no reason to imagine that our relations with the TUC will improve; they may well worsen. In principle, I favour the announcement of difficult decisions as soon as they are made. The passage of time normally makes them more difficult - not easier.

I am copying this letter to Cabinet colleagues and Sir Robert Armstrong.

John Nott

JOHN NOTT

—44 DEC 1979

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CONFIDENTIAL

cc Duguid
Wofson

MFJ



cc Cabinet
Transport
CWO
CO

David Sinner

10 DOWNING STREET

From the Private Secretary

4 December 1979

Dear Ian,

Strikers and Supplementary Benefit

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 28 November on the above subject. She has also read the minute of 30 November from the Chancellor of the Duchy and the minute of 3 December from the Secretary of State for Employment.

The Prime Minister would like the proposals contained in Sir Keith's minute to be considered by Cabinet. He will wish to be aware, however, that she has serious reservations about deeming the £10 per week in respect of non-union members. In her view, this would be seen as grossly unfair since they could not possibly be in receipt of strike pay - and all the more so if they had not wanted to go on strike. *However,* The Prime Minister does not agree with the point that, by applying the deeming proposal to non-union members, the Government will appear to be encouraging people to join unions.

The Prime Minister has also queried the comments in paragraph 3 of Sir Keith's minute about the possibility of delaying the payment of tax refunds to strikers. Her impression is that employers already have the power to delay the payment of tax refunds - in that they do not have to repay themselves but can pass the obligation to the Inland Revenue.

I am sending copies of this letter to Private Secretaries to members of the Cabinet, the Minister for Transport, the Chief Whip and Sir Robert Armstrong.

Yours sincerely,

Tim Latham

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

at the bottom
of the document

CONFIDENTIAL

Prime Minister

PRIME MINISTER

In view of your reservations,
do you want to hold a small
meeting before this is taken in
Cabinet. OR, can it go straight
to Cabinet? (If the latter, I
would of course warn the Ministers
of your reservations).

STRIKERS AND SUPPLEMENTARY BENEFIT

While supporting the package of proposals for fulfilling our election
commitment on which the Secretary of State for Industry minuted you
on 28 November, I feel strongly that the question of when these proposals
should be made public should be discussed at Cabinet and not simply
cleared by correspondence, in view of the very delicate situation into
which we are getting with the trade unions. The TUC are calling a
conference of union executives for 22 January. Mr Murray and Mr Urwin,
at my meeting with TUC representatives on the forthcoming industrial
relations legislation, both stressed the importance of this conference
for the question of the whole future attitude of the trade union movement
towards the Government.

R. 3/12

Supplementary benefit and strikers is a very sensitive area for the
trade unions and it is crucial that we should not cause them
unnecessary offence by mishandling our proposals. Fortunately we
now have room for manoeuvre both as regards the timing and the method
of implementing them. These are matters for collective decision
and I strongly urge that we should discuss them in Cabinet.

I am copying this to all Cabinet colleagues, Norman Fowler, Michael
Jopling and Sir Robert Armstrong.

Let it go straight
to Cabinet.

J P
3 DECEMBER 1979

See also the St John's minutes at
Page A.

R. 3/12

3 = DEC 1979

12 1 2 3 4 5 6 7 8 9 10 11 12
C B A G U M



Chancellor of the Duchy of Lancaster

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

30 November 1979

Don Kutt

STRIKERS AND SUPPLEMENTARY BENEFIT

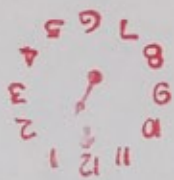
I have seen a copy of your minute of ~~28~~ November to the Prime Minister about strikers and supplementary benefit.

I agree that your proposals will need careful handling, particularly as they will be seen in the context of the Employment Bill which will be introduced next week, and will affect the handling of the Social Security Bill since the Opposition will no doubt recognise that it gives statutory authority for the arrangements you propose. They will undoubtedly press us to state our intentions on second reading, and I doubt if it would be helpful to proceedings either then or subsequently in Committee to say that we are still considering the matter. It is probably as well that we are unlikely to find time to give this Bill a Second Reading before Christmas, but we must take it very soon afterwards since, for other reasons, the Bill needs to reach Royal Assent by mid-May. I really must ask that we should put ourselves in a position to make a firm announcement of our policy at that stage. The Bill is controversial enough already; the issue of strikers' benefits will make it more so; and uncertainty about our intentions will make its passage exceptionally and unnecessarily difficult. In particular a guillotine is almost certain to be needed, but it will be very hard to impose an effective guillotine in committee if the Government are also to make a major new policy statement at that stage.

I am copying this letter to our colleagues in Cabinet, to the Minister of Transport, the Chief Whip, and to Sir Robert Armstrong.

James Callaghan

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
Victoria Street



3 - DEC 1979



Social Services

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 November 1979

I. K. C.

R 3/10

STRIKERS AND SUPPLEMENTARY BENEFIT

At their meeting last Monday evening, the Chancellor of the Exchequer and your Secretary of State discussed with colleagues the paper attached to your letter of 20th November. There is one specific point in the paper which the Chancellor thinks it would be helpful to have on record.

The Chancellor agrees with the paper's conclusion that it is not open to the Government to legislate to withhold PAYE rebates from strikers. However the suggestion in Annex D of the paper that there is no obligation to make tax refunds promptly is not well founded. The legal position is that an employer is required to make a tax refund, if one is due, to his employee on each of the latter's ordinary pay days during a strike, that is to say, at weekly or monthly intervals (depending on whether the employee is weekly or monthly paid). If the employer either cannot or prefers not to make the refund, he may relieve himself of the obligation to do so by providing the Inspector of Taxes concerned with information about the striking employee sufficient to calculate the level of refunds due. In that case, the Tax Office is legally obliged to make the repayments and while in practice some delay might occur it is not possible legally deliberately to delay repayment.

The Chancellor's view is that in these circumstances it would be neither helpful nor realistic to encourage employers to refuse to make PAYE rebates to strikers. The large employer would have to digest and hand over to the Revenue a substantial amount of information - this is no doubt the practical reason why employers very rarely take the step of handing over to the Revenue the payment of rebates to strikers. The Revenue would have to incur extra staff costs (perhaps considerable) in making the rebates - this can effectively be done only by cheque, which for security reasons is a staff-

/intensive

I. K. C. Ellison, Esq.

CONFIDENTIAL



intensive process. And at the end of the strike, the Revenue would have to prepare updated tax records for the employees, and the employer would have to re-incorporate these in his payroll system. The striker would have received his rebates in much the same way as from the employer, at substantial extra cost to public funds.

The Chancellor therefore takes the view that the choice lies between legislation to withhold tax refunds from strikers - which, like your Secretary of State, he does not regard as a practical option - and leaving the present position undisturbed.

.....
I attach a suggested revision of Annex D to reflect this; if Ministers agree on this, it would follow that the last recommendation in paragraph 20 of the paper would be omitted.

I am copying this to the recipients of yours.

Yours,

M.A.

M. A. HALL
Private Secretary

CONFIDENTIAL

PAYE REBATES AND STRIKERS

1. PAYE rebates are one of the major sources of income for strikers and might typically amount to £11 or £12 pw or more for higher paid workers. Rebates arise because workers pay tax weekly (or monthly) on the basis that they are allowed 1/52 of their annual allowances each week (or 1/12 each month); so that if in any week the worker's income falls below the level of his weekly allowances because, for example, he goes on strike, he will find that he has overpaid tax and so becomes entitled to a rebate. This entitlement to rebates applies to all taxpayers, including in particular single men, those without families and those with working wives who do not usually receive supplementary benefit. Rebates are almost always paid by the employer and strikers are allowed to cross picket lines and to go into factories to collect their rebates. Legally, it is open to an employer to refuse to pay refunds in respect of any week in which no pay is received. Those who refuse are required to report the facts to their tax office, and the tax office is then obliged to pay refunds in the same way as the employer. It is open to us to require employers not to pay tax rebates during strikes and to delay payment by tax offices, but to do this would require primary legislation.

2. Such a course would deprive strikers of an important source of income and, unlike action on supplementary benefit, would have an impact on single men etc who are not constrained from striking by family obligations. On the other hand, the deferral of tax rebates would lead to more call on supplementary benefits. We are, however, prevented from legislating, even if we wanted to, on rebates by the Prime Minister's categorical statement "I'm not going to pass legislation on tax rebates" ("Weekend World", 7 January 1979).



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29 NOV 1979



PRIME MINISTER

STRIKERS AND SUPPLEMENTARY BENEFIT

I am very worried about 'deeming' to be revised by non-union members who could not possibly receive it. The suggestion has been made by the unions - especially if they have to go on strike.

Since this is a contentious issue, perhaps it should be taken in Cabinet. Alternatively, if you are content with the proposals, shall I say "yes" subject to other colleagues' views?

As you know there have been several discussions in E(EA) on possible ways of altering the payment of Supplement Benefit to the families of strikers so as to encourage trade unions to bear a share of strike costs. The problem is very difficult, but I have now been over the issues again with the colleagues most closely concerned: the Chancellor of the Exchequer, the Secretary of State for Employment, and the Secretary of State for Social Services. We have identified a package, which we can jointly recommend to our colleagues, to fulfil our election commitment on this point.

The relevant passage in the Manifesto is attached at Annex A. It proposed a financial disincentive to make people think twice before striking. It promised that we would review the situation and that unions would be made to bear a fair share of the cost of supporting those of their members who are on strike.

We have considered, but rejected, the possibility of delaying the payment of tax refunds to strikers. This would require legislation and was firmly ruled out in your television interview on "Weekend World" last January. We have concluded therefore that the financial disincentive should be imposed by "deeming" that a striker's family has an income of £10 per week when calculating their entitlement to supplementary benefit. We have considered carefully whether this assumption

Employers already have power to delay. They don't have to pay themselves because the duty is to the Island Revenue



(a)

28 NOV 1979





could be applied only to union members who are on strike, since it could then be clearly identified with strike pay from the union. However, we have concluded that the problem of identifying whether strikers were union members would make such an arrangement very difficult to administer, and more particularly would open the door to abuses of the system by legal tricks from the union side. We therefore recommend that the £10 per week should be counted for all strikers, whether or not they are union members, and whether the strike is official, unofficial, or indeed a "lock-out". We acknowledge the presentational problems of this proposal. For example a non-unionist, who may have resisted the strike, but is unable to work because of action by his colleagues, or by the management, will find that his family is deprived of £10 per week of Supplementary Benefit. Although we can argue that the man who pays no union dues could prepare himself for the contingency of a strike, it will be suggested that we are encouraging people to join unions. Nevertheless, we think that this is the lesser of two evils, since the alternative would not only have the problems of administration that I have mentioned but would also be presented by the unions as our encouraging their members to withdraw from membership.

We would take the deemed amount into account in full in determining the Supplementary Benefit entitlement of the striker's family. We recommend, however, that we should continue, as at present, to disregard the first £4 of other miscellaneous income to the striker, the first £2 of any part-time employment of the striker,

/and ...

*I think
that is
most
concrete*

I disagree



and the first £4 of wife's earnings. The net effect of the changes will be to leave the striker's family up to £10 per week worse off than at present, depending on the amount of strike pay that the striker actually receives. If the striker is a union member and the union builds up its strike pay to the £10 per week level, as some unions do already, the family will be no worse off and the family might also benefit from the disregards.

We have considered what should be done about families who have no strike pay, and who might be said to suffer hardship. In the extreme case, the whole family, including the striker himself, will be £25 per week below the income acknowledged as adequate for their long-term needs under the normal Supplementary Benefit entitlement. Strikers, however, usually defer as many of their long-term expenses as possible and, looking at the needs of the family alone, excluding the striker himself, the worst case will be a £10 per week deficit from the long-term requirement level. In most cases, because there is some tax refund, the deficit will be less. We considered whether loss of Supplementary Benefit on this scale would amount to hardship and whether we should make hardship payments, but decided that hardship payments would cut at the roots of the whole proposal, since we would be imposing no financial disincentive on strikers, nor any pressure on unions to increase their strike pay. We therefore concluded that deficits of these amounts should not be reckoned to constitute hardship, and that the regulations governing the payment of Supplementary Benefit should make it clear that hardship payments would only be made in "extreme circumstances unrelated to the strike" - for



example fire, flood, or unexpected serious illness. In order for this to be administratively workable under the extreme pressures experienced during strikes, the residual discretion will have to be tightly drawn in regulations. We acknowledge that there will be hard cases but that is an inevitable consequence of imposing a financial disincentive on striking.

We propose that the amount of income deemed for strikers should initially be £10 per week, as discussed above, but that this should be increased in proportion with the increase in Supplementary Benefit, so that it was not eroded by inflation.

If colleagues accept our recommendations on this, the provisions already included in the Social Security Bill, which went to Legislation Committee yesterday, would provide all the primary powers needed. We think, however, that proposals as sensitive as these will require careful presentation. We therefore suggest that when the Social Security Bill is published, the Secretary of State for Social Services should merely say that no decision has yet been taken on the treatment of strikers.

We could then consult with the TUC and employers at a convenient stage over the next month or so and present our detailed proposals to the House when the Bill is in Committee. The Secretary of State for Employment particularly emphasises the delicate state of relations with the TUC at present on a number of fronts.



I am copying this minute to all Cabinet colleagues, Norman Fowler and Michael Jopling, and to Sir Robert Armstrong. They will no doubt let you know whether they can accept our recommendations without further collective discussion. I think we all recognise that the measure will cause considerable controversy and that its direct consequence will be quite small, since only a small minority of strikers' families actually draw on Supplementary Benefit. Nevertheless we have a commitment and our supporters will expect some action. I believe that the recommendations in this minute are the best compromise we can devise.

KJ

K J

28 November 1979

Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

3. WIDER PARTICIPATION

Too often trade unions are dominated by a handful of extremists who do not reflect the common-sense views of most union members.

Wider use of secret ballots for decision-making throughout the trade union movement should be given every encouragement. We will therefore provide public funds for postal ballots for union elections and other important issues. Every trade unionist should be free to record his decisions as every voter has done for a hundred years in parliamentary elections, without others watching and taking note.

We welcome closer involvement of workers, whether trade unionists or not, in the decisions that affect them at their place of work. It would be wrong to impose by law a system of participation in every company. It would be equally wrong to use the pretext of encouraging genuine worker involvement in order simply to increase union power or facilitate union control of pension funds.

TOO MANY STRIKES

Further changes may be needed to encourage people to behave responsibly and keep the bargains they make at work. Many deficiencies of British industrial relations are without foreign parallel. Strikes are too often a weapon of first rather than last resort. One cause is the financial treatment of strikers and their families. In reviewing the position, therefore, we shall ensure that unions bear their fair share of the cost of supporting those of their members who are on strike.

Labour claim that industrial relations in Britain cannot be improved by changing the law. We disagree. If the law can be used to confer privileges, it can and should also be used to establish obligations. We cannot allow a repetition of the behaviour that we saw outside too many of our factories and hospitals last winter.

RESPONSIBLE PAY BARGAINING

Labour's approach to industrial relations and their disastrous economic policies have made realistic and responsible pay bargaining almost impossible. After encouraging the 'social contract' chaos of 1974-5, they tried to impose responsibility by the prolonged and rigid control of incomes. This policy collapsed



DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

Tim Lankester Esq
Private Secretary
10 Downing Street
London SW1

u h h/fh-

MBM

TZ

23 November 1979

20/11

Dear Tim

Thank you for your letter of 22 November about the draft reply to the letter from the Managing Director of Babcock Contractors. You asked me for a note on the point in the reply about people being disqualified from receiving unemployment benefit if they have an interest in the outcome of a strike.

I understand that the situation about "trade dispute disqualification" is as follows. Disqualification for unemployment benefit has operated since the benefit was introduced in 1911. At that time a person was disqualified for as long as the strike or lock-out continued where he had lost his work because of a trade dispute "at the factory, workshop or other premises at which he was employed". (Except that different departments were to be regarded as separate premises if they were engaged on work that was normally carried out at separate businesses elsewhere).

Over the years the terms of the disqualification have been narrowed so that since 1977, following the recommendations of the Donovan Commission, a person will be disqualified for unemployment benefit only if he is taking part in a dispute at his place of employment or has a direct interest in it (I attach a copy of the relevant provision in the Social Security Act 1975).

The Act defines a trade dispute as "any dispute between employers and employees, or between employees and employees, which is connected with the employment or non-employment or the terms of employment or the conditions of employment of any persons, whether employees in the employment of the employer with whom the dispute arises, or not". Thus it covers lock-outs as well as strikes.

The disqualification is absolute and consequently the merits or the reason for a dispute are not relevant factors to be taken into account by the independent adjudicating authorities in deciding whether there is a stoppage of work due to a trade dispute.

E. R.

It is for claimants to show that they are not participating in, or directly interested in, the dispute which caused the stoppage of work. The Act does not define "directly interested" nor, under current case-law (established by the decisions of National Insurance Commissioners), can it be defined precisely. The question must always depend on the particular facts and circumstances of each case. It may be said, however, that a person is directly interested in a trade dispute if a change in the terms of a claimant's employment would occur without any act or event breaking the chain of causation between the outcome of the trade dispute (decision of the Commissioners in 1972) and the change. It is for the claimant to show that whatever the outcome of the dispute he would not automatically be affected in material terms, whether to his advantage or disadvantage.

In 1968, the Donovan Commission recorded that there was "no suggestion from any quarter that a person directly interested in the result of a trade dispute at his place of employment which has led to his being unemployed should receive unemployment benefit". The report acknowledged, however, that the TUC were not always happy about the way "directly interested" was interpreted, and that the problem of distinguishing between direct and indirect interest was notoriously difficult. But the Commission admitted that it was unable to suggest a definition "which will put all doubts to rest". Since then, the decision in 1972 - referred to above - does seem to go a very long way towards meeting the fears which were held at the time of Donovan.

I hope you find this explanation helpful. In practice the disqualification rule is rigidly adhered to. Frequently, however, in those instances where the adjudicating authorities would have to make a great many similar decisions, agreement is reached with the trade unions to bring a few test cases, and the decisions reached in these are then applied to everyone involved. Finally, I should point out that although the disqualification rule might seem somewhat draconian, the fact that it applies only to those people in the same premises and with a direct interest greatly reduces its actual significance.

hardly!

Bernie MA

B C MERKEL
Private Secretary

SOCIAL SECURITY ACT 1975 (c. 14)

Part II, ss. 18-19

Duration of
unemployment benefit.

18.—(1) A person who, in respect of any period of interruption of employment, has been entitled to unemployment benefit for 312 days shall not thereafter be entitled to that benefit for any day of unemployment (whether in the same or a subsequent period of interruption of employment) unless before that day he has requalified for benefit.

(2) A person who has exhausted his right to unemployment benefit requalifies for it when—

- (a) he has again been in employment as an employed earner and has been so employed in 13 weeks since the last day for which he was entitled to that benefit; and
- (b) in each of those weeks he has worked in such employment for [¹16 hours] or more.

(3) Where a person requalifies for unemployment benefit, subsection (1) above shall again apply to him but, in a case where the period of interruption of employment in which he exhausted his right to that benefit continues after his requalification, as if the part before and the part after his requalification were distinct periods of interruption of employment.

Loss of employment due
to stoppage of work.

19.—(1) A person who has lost employment as an employed earner by reason of a stoppage of work which was due to a trade dispute at his place of employment shall be disqualified for receiving unemployment benefit so long as the stoppage continues, except in a case where, during the stoppage, he has become bona fide employed elsewhere in the occupation which he usually follows or has become regularly engaged in some other occupation; but this subsection does not apply in the case of a person who proves—

- (a) that he is not participating in ...² or directly interested in the trade dispute which caused the stoppage of work; ...²
- (b) ...²

(2) In this Act—

- (a) “place of employment” in relation to any person, means the factory, workshop, farm or other premises or place at which he was employed, so however that, where separate branches of work which are commonly carried on as separate businesses in separate premises or at separate places are in any case carried on in separate departments on the same premises or at the same place, each of those departments shall for the purposes of this paragraph be deemed to be a separate factory or workshop or farm or separate premises or a separate place, as the case may be;

¹ Words substituted by the Social Security (Miscellaneous Provisions) Act 1977 (c. 5), s. 17(1).

² Words deleted by Employment Protection Act 1975 (c. 71), s. 19(1).

- (b) "trade dispute" means any dispute between employers and employees, or between employees and employees, which is connected with the employment or non-employment or the terms of employment or the conditions of employment of any persons, whether employees in the employment of the employer with whom the dispute arises, or not.

20.—(1) A person shall be disqualified for receiving unemployment benefit for such period not exceeding 6 weeks as may be determined in accordance with sections 97 to 104 of this Act (adjudication by insurance officers and other statutory authorities) if—

Other disqualifications,
etc.

- (a) he has lost his employment as an employed earner through his misconduct, or has voluntarily left such employment without just cause;
- (b) after a situation in any suitable employment has been properly notified to him as vacant or about to become vacant, he has without good cause refused or failed to apply for that situation or refused to accept that situation when offered to him;
- (c) he has neglected to avail himself of a reasonable opportunity of suitable employment;
- (d) he has without good cause refused or failed to carry out any official recommendations given to him with a view to assisting him to find suitable employment, being recommendations which were reasonable having regard to his circumstances and to the means of obtaining that employment usually adopted in the district in which he resides; or
- (e) he has without good cause refused or failed to avail himself of a reasonable opportunity of receiving training approved by the Secretary of State in his case for the purpose of becoming or keeping fit for entry into, or return to, regular employment.

(2) Regulations may provide for disqualifying a person for receiving sickness benefit or invalidity benefit for such period not exceeding 6 weeks as may be determined in accordance with sections 97 to 104 if—

- (a) he has become incapable of work through his own misconduct; or
- (b) he fails without good cause to attend for, or to submit himself to, such medical or other examination or treatment as may be required in accordance with the regulations, or to observe any prescribed rules of behaviour.

(3) Regulations may also provide for imposing, in the case of any prescribed category of persons, additional conditions with respect to the receipt of unemployment benefit, sickness benefit or invalidity benefit, and restrictions on the rate and duration thereof, if, having regard to special circumstances, it appears to the Secretary of State necessary to do so for the purpose of preventing inequalities, or injustice to the general body of employed earners, or of earners generally, as the case may be.



Original in G/R.

Social Services

cc Mr. Daymond
Mr. Wolfson

10 DOWNING STREET

From the Private Secretary

~~B/F 29.11.79.~~

22 November 1979

We have spoken about the draft letter which Yvonne François sent over on 16 November which was intended as a reply to the letter from the Managing Director of Babcock Contractors about unemployment benefit in Australia.

As I told you, the Prime Minister found this draft unnecessarily obtuse and long-winded, and she would prefer it if Mr. Jenkin would reply on the lines of the enclosed redraft.

You said that you would let me have a note on the point that people are disqualified from receiving unemployment benefit if they have an interest in the outcome of a strike - even if they are not directly participating in it.

I. P. LANKESTER

B. C. Merkel, Esq.,
Department of Health and Social Security.

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CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey
Mr F Jones
Mr Littler
Mr Dixon
Mr Unwin
Mrs Heaton
Mr Kemp
Mr Patterson
Mr Mower
Mr Rayner
Mr White
Mr Ridley
PS/Inland Revenue

STRIKERS AND SUPPLEMENTARY BENEFIT

You are meeting the Secretary of State for Industry and the Secretary of State for Employment on Monday, 26 November, to discuss the proposals set out in the paper by Sir Keith Joseph attached to the Private Secretary letter of 20 November.

2. The Secretary of State for Industry has accepted that the unions will fight the public relations battle and will seek to use the weapon of alleged hardship. Nevertheless, his view is that this battle should be fought and that no provision should be made for hardship. The scheme now put forward is therefore significantly different from the proposals previously considered by Ministers.

Proposed Scheme

3. The scheme is summarised in paragraph 20 of the paper. In brief, it is proposed that:-

- (i) from a date in 1980 the Government will assume that union members with an interest in the outcome of a dispute will receive at least £10 per week from their union (the amount to be increased annually in proportion to increases in supplementary benefit) and therefore this sum will be taken into account by DHSS staff in processing claims by strikers for supplementary benefit for their families;

/(ii)

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- (ii) where the benefit officer is satisfied that the striker is not a union member; the deemed amount would not be taken into account - membership of a union would be defined in regulations as having paid a subscription to a union at any time in the last [? 3] months;
- (iii) it will be made clear that failure for income to reach the supplementary benefit level because unions failed to pay strike pay at the deemed level will not be regarded as hardship;
- (iv) the disregards on strikers' income from income tax rebates and strike pay will be abolished, together with the disregard in respect of a striker's second job;
- (v) the attention of employers should be drawn to the scope they have under existing legislation to refuse to pay PAYE rebates.

4. There has already been general agreement that action should be taken to ensure that when strikers claim supplementary benefit for families they should be deemed to be drawing a specified amount of strike pay. There has also been provisional agreement that the disregards of strikers' income from income tax refunds and of strike pay should be abolished.

5. The two outstanding issues for discussion are therefore the question of whether there should be a distinction between unionists and non-unionists in respect of deemed strike pay and the treatment of hardship.

Unionists and Non-Unionists

6. It is suggested that deeming receipt of £10 a week of strike pay should be restricted to union members. It is proposed to define membership of a union in regulations. (If it is the intention to include provision relating to deeming strike pay in the Social Security Bill, presumably the Secretary of State for Social Services will have to take power to make these regulations, although it is hardly relevant to social security legislation.) It is also

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suggested that the definition of a union member should be "anyone who has paid a subscription to a union in the last ? months". Three months has been proposed, although this seems to be a comparatively short time. On the basis of this statutory definition, the benefit officer must be satisfied from his enquiries - to include a valid declaration by the claimant - that the man is not a union member as defined. The claimant would be warned that making a false statement with intent to obtain benefit would be a criminal offence. It is probable that DHSS staff would have serious difficulty in operating this arrangement. It is unlikely that enquiries to local Branch Secretaries of unions would result in adequate evidence even if Branch Secretaries did not refuse to answer any queries because of general trade union opposition to the provisions. In a special office set up to deal, for example, with a dispute at Fords, Dagenham, the small number of staff handling claims could be swamped if they have to investigate every case where strikers claimed to be non-unionists. Even where claims are being handled in the normal local office, investigations of the kind suggested could impose difficulties which might prejudice the general working of the system in regard to other clients.

7. You have already expressed the view in your letter of 23 October that there should be no distinction between unionists and non-unionists, partly on the grounds that the object of the exercise is to deter strikes, whether by unionists or non-unionists, and partly on the grounds of the administrative difficulties which would be almost insuperable and would risk bringing the whole operation into ridicule, and on the political level that it would be unwise to risk the charge of "bribing" unionists to defect.

Hardship

8. Sir Keith Joseph suggests no specific provision for hardship payments even in distressing cases (although discretion to pay benefit in cases of extreme hardship caused by extraordinary circumstances unrelated to the strike, eg fire or flood, would continue). This proposal is harsher than those considered so far but it fits in with your own proposal that hardship payments should be set at a low level or preferably retain discretionary power to

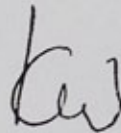
/be

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be used exceptionally to deal with really distressing cases. The Secretary of State for Social Services, in his reply of 13 November, argued that it would be unreasonable to ask local office staff to operate on a discretionary basis and that there must be clear cut rules not susceptible to variation. The Secretary of State for Industry's proposals would meet this criterion - although it is unlikely to be welcomed by the Secretary of State for Social Services.

Recommendation

9. You have already indicated that you agree with Sir Keith Joseph's proposal that you should proceed with a scheme for deeming the receipt of strike pay and that no hardship payments should be made. The major dispute at the meeting next week is likely to be the distinction between non-unionists and unionists and we recommend that you continue to press that there should be no distinction. The remaining elements of the scheme put forward, including ^{the} abolition of disregards, are acceptable.



MISS K WHALLEY

22 November 1979

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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TELEPHONE DIRECT LINE 01-212 3301
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PS/ Secretary of State for Industry

in the presence

20 November 1979

M Hall Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
London SW1

MBM

27

R

Dear Martin

STRIKERS AND SUPPLEMENTARY BENEFIT

Following the Prime Minister's request that this subject should be considered further before a decision is taken on whether it should be put to the Cabinet, my Secretary of State has put together a further paper with the help of the E(EA) Secretariat. He thinks that the best way forward would be for there to be an informal discussion of the issues with the Chancellor, the Employment Secretary and the Social Services Secretary. I understand that the Cabinet Office are making the arrangements for the meeting.

I am copying this letter and its enclosure to the Private Secretaries to the Employment Secretary and the Social Services Secretary and, for information only, to the Private Secretaries to the Prime Minister, Lord Cockfield and Sir Robert Armstrong.

Yours sincerely

Ian Ellison

I K C ELLISON
Private Secretary

STRIKERS' AND SUPPLEMENTARY BENEFIT

Note by the Secretary of State for Industry

1 I have been giving thought to where we now stand as a result of discussions in E(EA), and in correspondence, over the issue of strikers and supplementary benefit.

... 2 The attached note summarises the various arguments. Our supporters expect us to take some action here. The direct consequences may be small, and even if our changes are effective, those who seek to use industrial muscle will probably vary their tactics. Nevertheless we made a commitment.

3 The unions will fight the public relations battle hard - and will use the weapon of alleged hardship to do it. My own view is that we should face that, and fight it by making it clear in advance that any such hardship is entirely the fault of the unions in paying inadequate strike funds. I would not therefore favour weakening our stance by admitting the possibility of hardship payments if the going gets too rough. There are larger issues behind the small change we propose. If we do succeed in encouraging unions to build up substantial strike funds and to pay benefit we may find that we have increased union strength. This may seem desirable insofar as unions are enabled to keep the bargain they make, but it may prove harmful if they remain luddite.

4 Subject to this and any other larger issue, I suggest to colleagues that we should consider the policy summarised in Para 23 of the paper.

K J

20 November 1979

STRIKERS AND SUPPLEMENTARY BENEFIT

Note by the Secretary of State for Industry

1 There have been three discussions in E(EA) on the subject of Strikers and Supplementary Benefits. This note pulls together the conclusions so far reached, and summarises the arguments on points which remain in doubt.

The Purpose of Legislation

2 The Manifesto said:

"Strikes are too often a weapon of first rather than last resort. One cause is the financial treatment of strikers and their families. In reviewing the position, therefore, we shall ensure that unions bear their fair share of the cost of supporting those of their members who are on strike."

3 Thus the aim is to apply financial pressure on unions to discourage strikes, particularly those strikes where action is taken without exhausting other possible avenues first. We also hope to do something to redress the balance between strikers and employers which is at present heavily tilted in favour of strikers.

The Size of the Problem

4 The duration of strikes in 1976 and 1977 is summarised in Table 1 in the Annex. Two thirds of strikes lasted less than a week, and 83% less than 2 weeks.

Possible Levers for Government Action

5 It seems generally agreed that the Government could not legislate to require unions to pay strikers, bearing in mind the difficulty of enforcement. So the pressure has to be indirect. The first avenue is publicity; the Government could say that, for their part, they will assume that unions pay at least £x p.w. in strike pay, as many do now. The second avenue is to act on supplementary benefits; the Government could take steps to ensure that strikers' families did not receive the full amount of supplementary benefit thus putting pressure on the trades unions to give strike pay. In adopting these courses of action we would in fact leave it open to the unions to decide whether they would give strike pay to all their members on strike or only to those who might have the supplementary benefits payable to their families reduced. If they chose to give strike pay to all their striking members, the cost would be heavy; if they chose to limit strike pay to those who might otherwise have received supplementary benefit the cost would be small. A possible third avenue, action on PAYE rebates as described in Annex D, is not open to us.

Supplementary Benefit Payments

6 These have been the main focus of our consideration. But we should recognise they apply only to a very small proportion of

/strikers and ...

strikers and people. Benefits are not normally paid until the strike is in its third week, so that on the 1976-77 experience only 17% of strikes are relevant. And the great majority of strikers are ineligible and a proportion of those eligible to claim do not do so. Table 2 in the Annex shows figures of between 13% and 25% for the take-up between 1960 and 1977. The proportion of all strikers who could in principle have taken up supplementary benefits varied between 1% and 8%.

Suggested Courses for Action

7 It is clear therefore that any action we take will have very little direct effect on the majority of strikes or the majority of strikers. We must judge measures also in the light of their potential indirect effects through changed attitudes as a result of the publicity the legislation would attract.

8 The discussions in E(EA) have led to the conclusion that we should "deem", for settling the level of Supplementary Benefit to a striker's family, that he receives £10 pw strike pay from his union. At the same time we would alter the rule about "disregarded" income to say that the full amount of deemed strike pay would be taken into account in settling supplementary benefit. In the earlier E(EA) discussions we have not given close attention to what income should be disregarded. In the first discussion (E(EA)(79)25) it was suggested that the present "disregard" which applies to strikers' income (notably strike pay and tax refunds) should be abolished. This paper did not, however, consider the "disregard" in favour of £4 pw of wife's earnings, if any, and £2 pw of strikers' earnings from a second job. Moreover, later papers from DHSS, and the examples of family income given in them, which we considered, were based on the altered assumption that £4 of income tax refund would continue to be disregarded. We could of course go either way either by taking more of the disregarded items into full account or, alternatively, by abolishing only the disregard on strike pay. If we take the former course, it would put the striker in a different situation from other supplementary benefit recipients and it might be represented that the Government wished to penalise strikers per se. On the other hand, strikers place themselves in a different position to other recipients of supplementary benefit and we could justifiably point out that the Government was taking firm action to avoid using taxpayers' money to subsidise strikes. (Moreover, Annex C shows that there is already discrimination against strikers per se; non-strikers have their income tax rebate disregarded in full). There are therefore presentational arguments for abolishing the "disregards" on both strike pay and income tax rebates (and indeed in respect of all sources of strikers income except wife's earnings if any) or for retaining the disregard on income tax rebates. But, if we wish our changes to be effective on motivation before and during a dispute, then we should abolish both "disregards". (The question of whether the disregard on income tax refunds should be abolished for all benefit recipients is a wider issue requiring separate consideration).

Who are the Strikers?

9 It is very difficult to be sure in an industrial dispute who is willing to work, and who is prevented from doing so by the action of the employer (a lock-out) or that of other employees. So it is long-

established - by legislation going back more than 60 years - that all those who stand to benefit from an industrial dispute are not eligible for unemployment benefit or supplementary benefit while the dispute lasts. (Their families are eligible for Supplementary Benefit once normal pay is assumed to have run out - usually the third week of the strike.) Thus we see no way of distinguishing the "militant" striker from the man who would prefer to return to work. But by not distinguishing, and so penalising some individuals, it will intensify the pressure from the men onto the union or strike leaders to achieve a settlement.

Unofficial/Official Strikes?

10 Most unofficial strikes are likely to last less than 2 weeks so that entitlement to benefit does not arise. But by saying that the Government intends to treat unofficial and official strikes similarly, it would encourage pressure to have strikes declared official (so as to achieve entitlement to strike pay). This could be two-edged. It might increase the power of militants within the union. But however one views that argument, the key point is that the other course would create converse pressure for unions to make strikes "unofficial" so as to avoid the need to pay out strike pay.

Union Members Only?

11 Only union members can actually receive strike pay from a union. So to deem that others do so would penalise them for not being a union member. If they are also opposed to the strike, and yet have been denied benefit under para 9 above, the further penalty would seem doubly harsh.

12 The unions will argue that, by assuming that all their members receive strike pay, we will be encouraging people to leave the unions and this claim would have some substance for any impoverished unions. But bearing in mind our overall aim of "making unions pay a fair share" we should be able to face that argument squarely. The remedy of the impoverished union is in their own hands/is to raise subscriptions.

/and

13 We have also been concerned that it would be administratively difficult to decide who is or is not a union member at the point of paying out benefit. Annex B gives proposals on how this might be done. Provided we asked simple questions of fact within the knowledge of the individual striker, eg:

- a) Are you a union member?
- b) If so which union?
- c) If in doubt - "Have you paid a union subscription at any time in the last 3 months?"

then it would be a criminal offence for him to take money by making a fraudulent declaration. We could make it a condition of payment that the benefit officer was satisfied that the man was not a union-member. Thus the onus of proof could lie on the striker, and would

/leave the scope ...

leave the scope for the DHSS to initiate inquiries to his employer etc if there was prima facie indication of fraud. The level of abuse would probably be tolerable if the declaration is made sufficiently clear cut. There is the option of going further and taking a power to demand access to union membership lists. But it carries the risk that, if the union refused to obey, there would be no effective sanction, and it could intensify union opposition to the whole scheme.

Hardship Provisions.

/or 14 We have examined proposals for making hardship payments (possibly recoverable when work recommences) to strikers for whom the loss of the whole/part of the deemed amount would take the family income below the "Requirements Level" used in setting Supplementary Benefits. This level relates to the needs of dependants only and therefore the family is already some £15 below their normal entitlement. But apart from administrative complexity, hardship payments have the serious disadvantage that they cut at the roots of the proposal. We are in any case only operating on that minority of strikers who claim Supplementary Benefits. My preference therefore would be to say that there will be no hardship provision in respect of the deeming, and that it is the responsibility of the unions not Government to make sure that the risk of hardship does not arise.

15 The great majority of strikers manage their finances without calling on benefit at all. The standing expenses of the family - rent, rates, water, electricity, gas, telephone, HP, clothes - can all be deferred. Travelling costs are reduced. But I recognise that, particularly in a long strike, the absence of a hardship provision will intensify political pressure. But if the measure is to achieve anything we must be prepared to face pressure, and repeatedly to place the onus on the unions. And I am sure there will always be "hard cases" in the media, as there have been in past strikes under existing rules, whether or not we adopt these proposals.

16 In E(EA) we have considered a time-limited hardship provision (eg no hardship till the 5th week of the strike). But that would not prevent political pressure in earlier weeks, and it would remove the incentive for the unions to act themselves and might indeed encourage them to pay more in earlier weeks and withdraw their payments once the hardship provision is available. If we went this way at all, a longer time limit might be preferable.

17 If we make a hardship payment at all, there seems no great objection to making it recoverable, since for many supplementary benefit recipients such arrangements have already to be made to recover the whole of the benefit which they receive during their first two weeks back at work, before normal pay is resumed. And these are likely to include any people who have no other resources and have claimed hardship. But we should keep in mind that an increasing debt of this kind may lead to pressure for a compensating lump sum settlement from the employer to bring about the end of the strike. And there is the point that any repayment scheme also adds some work for DHSS staff and employers. This would be the greater if the union encouraged its members to make hardship claims.

18 I recognise that, without a simple rule for determining hardship payments, we could not retain a discretion to deal with hard cases connected with the circumstances of the strike. Once there was acknowledged discretion the unions would swamp the DHSS with claims, and this would give the worst of all worlds presentationally, with the Government admitting hardship but taking a long time to make payments.

19 There would remain the catch-all discretion for extraordinary circumstances (eg fire or flood) unrelated to the strike. But any hardship provision more than this destroys the whole basis of what we are seeking to achieve and would be exploited.

Summary

20 In summary therefore I consider that the following scheme might be adopted in fulfilment of our Manifesto commitment:

- i The Government should state that as a matter of good practice unions should pay at least £10 pw to members who are called out on strike.
- ii For its part the Government will assume - from a commencing date in 1980 - that all union members with an interest in the outcome of a dispute are receiving at least £10 pw from their union.
- iii This sum will thereafter be increased annually in proportion to the increase in Supplementary Benefit.
- iv Where the benefit officer is satisfied that the striker is not a union member, the deemed amount would not be deducted. "Membership" of a union would be defined (in Regulations) as "having paid a subscription to a union at any time in the last [3] months".
- v The Government should make it clear that a failure for income to reach the Supplementary Benefit Requirements levels because unions fail to pay strike pay will not be reckoned to constitute hardship.
- vi The Government will retain a residual discretion to pay benefit only in cases of extreme hardship caused by extraordinary circumstances unrelated to the strike.
- vii The "disregards" on strikers' income from income tax rebates and strike pay should be abolished, together with the "disregard" in respect of a strikers second job.
- viii We should draw to employers (and especially small employers) attention the scope that they have under existing legislation to refuse to pay PAYE rebates.

1. Duration of Strikes - 1976, 1977

<u>Period</u>	<u>Cumulative %</u>
Less than 1 day	18.4
" " 1 week	65.3
" " 2 weeks	83.3
" " 3 weeks	89.8
" " 4 weeks	93.3
" " 6 weeks	96.5
" " 10 weeks	99.0
More than 10 weeks	100.0

2. Supplementary Benefit Claims

	<u>% of all strikers</u>		
	<u>Eligible to Claim Benefit</u>	<u>Received Benefit</u>	<u>% of those eligible who received benefit</u>
1960-70	8.0	1.3	16
1970-74	32.0	8.0	25
1975-77	26.3	3.4	13

Source Management Information Sheet No 58
British Institute of Management Foundation

Definition of a Union-as in existing legislation

Definition of Union Member

(To be laid down in Regulations)

Criteria along the lines of:-

Anyone who has paid a subscription to a union in the last 3 months.

Anyone who has resigned within the last 2 months will still be deemed to be a member.

Qualification for No "Deeming" deduction

The Benefit Officer must be satisfied on the basis of his inquiries - to include a signed declaration by the claimant - that the claimant is not a union member as defined. The claimant should be warned that making a false statement with intent to obtain benefit is a criminal offence.

DISREGARDS ON INCOME FOR SUPPLEMENTARY BENEFIT

The basic disregards for strikers' incomes when their supplementary benefit entitlement is being calculated are:

- a. £4 a week of wife's earnings, plus
- b. £2 a week of the striker's own earnings if he has a separate part-time job while on strike, plus
- c. £4 a week of miscellaneous other income apart from child benefit, family income supplement and the main national insurance pensions and benefits.

This last ^{dis}regard is the one which covers items of income such as strike pay, income tax refund and a war disablement pension. All such items of income are aggregated and a single £4 disregard given. The disregard is not £8 if someone has for example both a tax refund and strike pay.

The difference in treatment for claimants who are not strikers is that income tax refunds are ignored in full. (Such claimants do not, of course, receive strike pay.)

Act references. Supplementary Benefits Act 1976, Schedule 1, para 22(1)

b. ditto. The disregard is actually set at £4, but under their general discretionary powers the Supplementary Benefits Commission reduce it to £2: the disregard for the unemployed is £2 and it is thought wrong to give a striker more favourable treatment than the unemployed

c. Supplementary Benefits Act 1976, Schedule 1, para 23

PAYE REBATES AND STRIKERS

1. PAYE rebates are one of the major sources of income for strikers and might typically amount to £11 or £12 pw or more for higher paid workers. Rebates arise because workers pay tax weekly (or mothly) on the assumption that their pay will continue at approximately the same rate throughout the year. If a worker's income falls because, for example, he goes on strike, he will find that he has overpaid tax and so becomes entitled to a rebate. This entitlement to rebates applies to all taxpayers, including in particular single men, those without families and those with working wives who do not usually receive supplementary benefit. Rebates are almost always paid by the employer and strikers are allowed to cross picket lines and to go into factories to collect their rebates. Legally, it is open to an employer to refuse to pay refunds. Those who refuse are required to report the facts to the local tax office and, while the tax office is under a duty to pay rebates, there is no requirement to pay them promptly. It is therefore open to us to require employers not to pay tax rebates during strikes and to delay payment by tax offices, but to do this would require legislation.

2. Such a course would deprive strikers of an important source of income and, unlike action on supplementary benefit, would have an impact on single men etc who are not constrained from striking by family obligations. On the other hand, the deferral of tax rebates would lead to more call on supplementary benefits. We are, however, prevented from legislating, even if we wanted to, on rebates by the Prime Minister's categorical statement "I'm not going to pass legislation on tax rebates" ("Weekend World", 7 January 1979). It therefore seems that the only course open to us is to draw attention to employers' freedom to refuse to pay out tax rebates if they so wish.

1979

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1979



20 NOV 1979





Social Services
of Mr Dwyer

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

13 November 1979

Dear Geoffrey,

PAYMENT OF SUPPLEMENTARY BENEFIT TO STRIKERS

Thank you for your letter of 23 October. As you know, the questions still unresolved after the E(EA) discussion on 23 October are to be considered at a meeting of an ad hoc group shortly, on the basis of a paper by Keith Joseph as Chairman of E(EA).

This paper will, I gather, cover your first two points ie the inclusion or not of non-unionists, and the need for hardship payments. On hardship payments I would only add that I would find it difficult to accept your suggestion of the retention of discretion to deal with extreme cases. All our experience is that the existence of discretion in this sensitive area can result in undue pressure on my staff and the risk of accusations in some strikes that the Government was using social security to put pressure on the strikers. Whatever rules we decide, I am certain that they must be quite clear-cut and not susceptible to variation in the individual case.

As regards the idea of paying benefit to the wife instead of the striker, I appreciate the political and presentational advantages but there would, I am afraid, be considerable difficulties. I do not think it would be practicable to make her the actual claimant as she would not necessarily be able to supply accurate information about her husband's last wages, strike pay, tax refunds, etc. If, however, the striker himself made the claim but the money was sent to his wife, we could not persist with the recipient's standard declaration of entitlement to the payment, which is often necessary in fraud proceedings, because the wife could not reasonably be held responsible for the statement made by her husband. The risk of abuse in both instances would be greatly increased. Apart from this, I do not think that the idea would avoid the need to set up temporary offices as special strike centres where there are large concentrations of strikers at any particular office or offices.

People normally claim at the office where they live, not where they work, so the workload would in no way be spread among greater numbers of offices if we made the wife the claimant. She would go to the same office as he would.

I am copying this letter to the Prime Minister, members of E(EA) and Sir Robert Armstrong.

Your
Patel

14 NOV 1979

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7

SIR ROBERT ARMSTRONG

Strikers and Supplementary Benefits

The Prime Minister has seen your minute A0521 of 30 October to me about Ministerial consideration of this subject.

She would like to handle this matter in a small group under her own chairmanship, and she would like the membership to be the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Social Services, the Secretary of State for Industry, the Attorney General and the Chief Whip. She would be grateful if you would now make the necessary arrangements. As you say, we will now need to follow up Mr. Lankester's letter of 29 October in the way you suggest.

CAW

1 November 1979

KRF

CONFIDENTIAL

CONFIDENTIAL

Prime Minister.

Do you want to set up
a group under your own
management?

MR. WHITMORE

If so, are you content with
the membership proposed or X1?
Do you wish to include N & John
Strikers and Supplementary Benefits
Stevens or the Chief
Whip?

Strikers and Supplementary Benefits

When we discussed forthcoming Cabinet business with the Prime Minister on Monday, she said she was unhappy at the proposal to discuss this subject in Cabinet on 8th November.

full
30x

2. The minute of 26th October from the Secretary of State for Industry reports the inconclusive discussion in E(EA). It was inconclusive, at least in part, because the Chancellor of the Exchequer had put his own very strong views in writing, but was not able to attend the meeting to discuss them. The Secretary of State for Employment and the Secretary of State for Social Services (for differing reasons) could not accept all the Chancellor's points. The result was therefore bound to be deadlock. One would not necessarily reach the same situation in full Cabinet, but it would be a complicated and difficult discussion. It would also need a fresh paper from DHSS with clear proposals.

X

3. If the Prime Minister prefers, as she tentatively suggested yesterday, to handle this in a smaller group, then I suggest that the composition should include, as a minimum, the Prime Minister herself; the Secretary of State for Employment; the Secretary of State for Social Services; the Chancellor of the Exchequer; the Secretary of State for Industry; and (useful but not essential) the Attorney General. The Prime Minister might also want to consider including either the Chancellor of the Duchy or the Chief Whip: the parliamentary tactics of these proposals will be important.

4. The timetable is tight, but not desperately so. The Secretary of State for Social Services wants to get his Bill to Legislation Committee on 28th November, in time for introduction before Christmas. Provided that the new group can come to conclusions within the next couple of weeks, it should be possible to maintain this timetable.

CONFIDENTIAL

5. If the Prime Minister, on consideration, agrees, we will make the necessary arrangements. Mr. Lankester will also need to send a "chaser" to his letter of 29th October, making it clear that the group proposed in this minute will take delivery of the report commissioned in his letter.

RA

(Robert Armstrong)

in K. Dwyer with
min with the PM.
possibly next week.
R.

30th October 1979



CONFIDENTIAL

11 OCT 1952

30 OCT 1952

SECRET

(When Filled In)

CONFIDENTIAL

CONFIDENTIAL

6
Social Services



10 DOWNING STREET

From the Private Secretary

29 October 1979

Strikers and Supplementary Benefits

The Prime Minister has considered your Secretary of State's minute of 26 October reporting on the further discussion in E(EA) on the above subject, and has noted that there still remain major difficulties which need to be resolved. The Prime Minister's view is that, unless suitable modifications can be found to meet the objections to the existing proposals, there is little point in putting this issue to Cabinet. If the proposals cannot be improved upon, then she believes the scheme must drop.

The Prime Minister would therefore be grateful if Ministers would consider this matter again urgently, and report back to her.

I am sending a copy of this letter to Don Brereton (Department of Health and Social Security), Ian Fair (Department of Employment), Alistair Pirie (HM Treasury) and Martin Vile (Cabinet Office).

J. R. LANKESTER

Ian Ellison Esq
Department of Industry.

CONFIDENTIAL

TCR

Prime Minister



*Mr. Whitby
Mr. Hodgson*

PRIME MINISTER

STRIKERS AND SUPPLEMENTARY BENEFITS

We have had a further discussion of the problems of Strikers and Supplementary Benefits in E(EA) Sub-Committee. It seems

clear that these proposals will arouse great controversy, and there is no common view among colleagues about how the various problems should be overcome. You may feel therefore that we

should examine the matter in Cabinet.

You may find it helpful if I try to set out briefly where I think our discussions have now reached and what questions remain to be resolved.

The Manifesto said:-

"We shall ensure that unions bear their fair share of the cost of supporting those on strike".

It has been generally agreed that the best way of achieving that is to "deem" that the striker receives a certain amount of strike pay from a union, in settling the amount of any supplementary benefit payable in respect of the striker's family. There is also general agreement that an appropriate sum to deem as being paid might be £10 with provision for this amount to increase automatically by the index by which supplementary benefits are increased. This figure is higher than most unions pay now in strike pay - and so announcing that this provision would come into force in say a year's time would put pressure on them to build up funds and pay more.

/The ...

*There is no point in
having this to be decided
unless we have found a
way of resolving*

*the problem. The same difficulties
will remain & the same divisions*

We can't go ahead like this.

*The first step is to see whether
any modifications to meet the objections are
proposed. If not, the issue must drop.*

TL

24/6

Ans.

*Here but the
Tendons should put
a paper to Cabinet
as suggested in last*



The areas of remaining doubt relate to the scope of the "deeming" provision and whether, and if so how, we should make provision for dealing with cases of hardship.

Scope of the Provision

It is not thought practicable to distinguish between official and unofficial strikes, or between those people who are voluntarily on strike, and those who are willing to work but are prevented from doing so by others striking at their place of work. So everyone from that plant who is without pay as a result of the strike would be treated similarly. But should only union members be deemed to receive the strike pay, or should non-unionists also be included?

Non-unionists clearly will not actually receive strike pay. So deeming that they do will penalise them for not being a union member. And if they are not merely non-unionist, but also willing to work in defiance of the union, the penalty will seem to them doubly harsh. But if we deem only union members to receive the pay, there would be great practical difficulty in identifying the people with certainty. We can be sure that the unions will try to make it difficult to work the legislation, and that they will try any legal tricks that their lawyers can devise to subvert the intentions of the provision. But the individual could be made to sign a declaration - and the fact that some people would fraudently take funds (and risk a criminal prosecution) may well be less damaging than the suggestion that non-unionists should be penalised financially. We must recognise that this is a

/balanced ...



balanced decision - and that at the very least the unions will argue that we are trying to discourage people from union membership. On the whole I think that a majority of colleagues on E(EA) felt that we should exclude non-unionists - and that we should take such legislative steps as we can to ease the problem of identifying the union member.

Hardship

It seems very difficult to judge whether the loss of the £10/week in supplementary benefit that this proposal entails would constitute "hardship" for some families. In a strike the DHSS staff would have to cope with large numbers of claimants and so they require a simple rule of thumb. The rule so far suggested would be to say that the family are now getting less than their accepted requirements, (which are used to set the supplementary benefit level) by the amount of the sum deemed. Therefore they should receive an extra amount for "hardship" of £10, (if they can establish that they get no strike pay from the union). This of course is circular - we would be taking the money away with one hand and giving it back with the other. So to have any effect at all we would need to make the hardship payment a loan, to be recovered from earnings when the man went back to work. To limit the demands for this type of treatment it has been proposed that no hardship payments would be made until the 5th week of the strike (the third week of supplementary benefit payments).

It is apparently a fact that only about 30 per cent of strikers claim supplementary benefit anyway. But since the whole of this



proposal only aims at affecting that group, I think that we have to recognise that a hardship provision on these lines does open the door for a large proportion of those people, with union encouragement, to obtain the amount "deemed" as a loan, and for the union then to seek to ensure that the equivalent amount is written into the settlement the employers eventually make to end the strike. If they are successful the unions will not have been encouraged to raise their strike pay at all by our measure, and its whole purpose will have been lost. But on the other hand E(EA) colleagues have so far been unable to come up with any alternative approach.

I can only suggest that you may wish to ask Patrick Jenkin to put forward a Cabinet paper - on which he would no doubt consult Jim Prior. If so I think it might be helpful if it could include any available statistical evidence on the way strikers in fact finance themselves - two thirds apparently don't make any claim on public funds - so that we can better judge whether we could not get away with £10 "deeming" without a hardship provision at all.

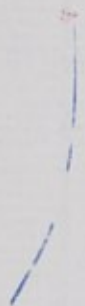
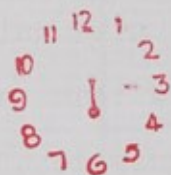
I am copying this to Patrick Jenkin, Jim Prior, and John Biffen and Sir Robert Armstrong.

KJ

K J

26 October 1979

26 OCT 1979



Social Security

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 October 1979

Patrick Jenkin

R 22/10

PAYMENT OF SUPPLEMENTARY BENEFIT TO STRIKERS

The reason I had not intervened in the recent correspondence on the present arrangements for the payment of supplementary benefit to strikers was not because I felt that these are satisfactory but because I thought that the detailed administrative arrangements (as opposed to the policy), and the arguments for and against any change in these administrative arrangements, were best left to colleagues most closely concerned.

On policy, I am in favour of early action on the "deemed strike pay" proposal. However I have doubts about two aspects of the scheme to be discussed tomorrow in E(EA). To begin with, I do not think we should seek to distinguish between unionists and non-unionists. There are three reasons for this. Firstly, the object of the exercise is to deter strikes, whether by unionists or non-unionists. Secondly, on the political level I do not think we should lay ourselves open to the charge of "bribing" unionists to defect, which is what the distinction comes to - I would rather face the opposite charge that we were encouraging non-members to join. And thirdly, I think that the administrative difficulties of distinguishing unionists and non-unionists would be almost insuperable, and would risk bringing the whole thing into ridicule.

Secondly, while I can see the need for hardship payments I do not think we should try to make them recoverable. The annex to your paper sets out the difficulties and drawbacks involved in trying to get the money back, and in my view these are very persuasive. Additionally, I think there is a risk that a recovery rule could either actually prolong a strike, or cause

/bad blood

The Rt. Hon. Patrick Jenkin, MP



bad blood (and even martyrs) after it was over. I would prefer to set any "routine" hardship payment at a rather lower level than you suggest (while still not making it available during the first 2 - or maybe 3 - weeks of a strike) but ensure that we retain discretionary power, to be used only very exceptionally, to deal with what you call "really distressing cases". This will put some work on your offices, but not as much - I would think - as a recovery arrangement would.

Going back to the administrative practice, perhaps I could say that given the unfortunate impression which the establishment of the strike centre at Rolls Royce caused, it seems to me that it might be worthwhile looking further at the idea of making any benefit payable go directly to strikers' wives, rather than to the strikers themselves. This would have the advantage of being more clearly understood by the public at large, and also - given the way travel-to-work areas are growing - might obviate the need for special centres altogether. On the other hand I know that there are some real disadvantages in the idea - e.g. in relation to the rules for eligibility for supplementary benefit in general, and in a possible risk of additional cost in the longer run - which would need examination, and it may be that if the measures we now contemplate are adequate without it, it is not worth pursuing. But perhaps it should be kept in sight for the time being.

I am copying this letter to the Prime Minister, members of E(EA) and to Sir John Hunt.

A handwritten signature in dark ink, appearing to be "G. Howe", written in a cursive style.

(GEOFFREY HOWE)

23 OCT 1979



Incl 10

TW

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D/E
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CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

28 September 1979

Dear Andrew

Strikers and Supplementary Benefits

The Prime Minister has considered your Secretary of State's minute of 26 September reporting on the further discussion in E(EA) Committee on 26 September on strikers and supplementary benefits. She is content with the Committee's conclusions as far as they go, and has noted that Sir Keith will be reporting back to her again when the Committee has considered this issue further.

I am sending copies of this letter to the Private Secretaries of Members of E(EA), to Don Brereton (Department of Health and Social Security), and to Martin Vile (Cabinet Office).

Non ev.

A.A. Duguid, Esq.,
Department of Industry.

Tim Laker.

CONFIDENTIAL

SL

Prime Minister

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[Handwritten signature]

PRIME MINISTER

STRIKERS AND SUPPLEMENTARY BENEFITS

This is an interim report: E(EA) will be considering further.

Are you content as far as it goes?

(Relevant to E discussion tomorrow)

We had a further discussion in E(EA) on 26 September of the means of implementing the Manifesto proposals to ensure that unions bear their fair share of the cost of supporting members on strike. This followed your request - in the minute from your office of 30 July - for further examination of the repercussions of our proposals.

12
26/9

Our discussion was on the basis of a paper by officials, E(EA)79 44 and our main conclusions were as follows-

(i) we reaffirmed our earlier view that in principle the proposals should be based on "deeming" that unions were contributing a certain sum in strike pay to their members, and this amount should be deducted from supplementary benefits payable to strikers' families. In principle we felt the right amount was the amount of supplementary benefit to which a single person was now eligible - about £15 and that this should be indexed in future years in line with increases in that amount.

(ii) The measures should apply to unofficial as well as official strikers and to those locked out as well as those on strike. I know you were concerned about this. However it appears quite impracticable to distinguish between strikes and lock-outs; the distinction is not made at present when

/withholding ...



withholding benefit from those involved in stoppages.

(iii) We should aim to exclude non-unionists from the measures. This would meet your earlier point. We were concerned however that this could open the field to abuse - for example through strikers denying they were union members which could be difficult to disprove; and so we shall re-examine this point.

(iv) We should give further consideration to whether to allow a "hardship" provision for those affected by the measures, and if so whether the "hardship" payments should be for the full amount of the "deemed" strike pay but recoverable or for a lesser amount but non-recoverable. We felt that on the one hand the absence of a hardship provision would have the advantage of providing an additional incentive for unions to live up to their responsibilities, but on the other hand such a course could obviously give rise to hard cases which could be presentationally difficult to handle. Before reaching final decisions on these points we have asked for further information to be provided on the financial implications of the alternative courses.

(v) We should announce our firm intention to legislate to introduce the proposals - i.e we should not make legislation conditional upon the failure of unions to improve their levels

/of ...



of strike pay as had been earlier suggested. But we would still want to give the unions a short period to make improvements, and so we would either legislate this session through the Social Security Bill, but with an implementation date in a year's time, or legislate in the 1980/81 session.

I shall be reporting to you again when we have given further consideration to points (iii) - (v) above. Meanwhile I am sending you this report, as it is relevant to our discussion on industrial relations legislation at E on Thursday.

I am copying this minute (without attachments) to members of E(EA), Patrick Jenkin and Sir John Hunt.

KJ

K J

26 September 1979

Department of Industry
Ashdown House
123 Victoria Street



26 SEP 1979





Soc Services

of Mr Wolfson 2

PRIME MINISTER

Here are the answers to
your questions.

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

MS

25/9

Nick Sanders Esq
Private Secretary
10 Downing Street
London SW1

25 September 1979

Dear Nick,

ARRANGEMENTS FOR PAYMENT OF SUPPLEMENTARY BENEFIT TO STRIKERS

Thank you for your letter of 24 September confirming that the Prime Minister had agreed to the proposition in my Secretary of State's note to her that there should be some urgent discussion with the Secretary of State for Employment and the Home Secretary about the arrangements for handling payment of benefit during the current engineering strikes. A meeting took place yesterday morning, and the Secretary of State for Employment has minuted the Prime Minister about the outcome.

The Prime Minister raised also a number of questions about the detailed arrangements for payment which I deal with below.

First, she had enquired why benefit could not be paid direct to dependants. The short answer to this is that the law does not permit it. The normal rules for supplementary benefit are that a family is assessed as a whole; that only the head of the family can claim for the whole group; and that the benefit has to be paid to him. So in the case of a striker's family, even though benefit is only payable in respect of the dependants, it is necessary to deal with the striker himself. Enquiry has to be made into his resources, before it can be determined how much benefit - if any - is payable to his dependants. And the benefit payment has in the end to be made to him. (There is a legal let-out for paying the benefit to someone other than the claimant in exceptional circumstances; but this could not be applied as a general rule to all strikers).

The Prime Minister also asked to see the forms that are handed to strikers. They are given a special leaflet (SB2), and a claim form: I enclose copies of each of these. The leaflet is designed to clarify who can claim and, more particularly, who can not (in order to avoid hopeless claims). The claim form is specially designed so that the claimant can do a major part of the work for us by setting down all the relevant facts himself. In normal cases, a supplementary benefit claim is taken by one of our officers, who interviews the claimant and elicits the relevant particulars from him, entering them on a form which the claimant is then asked to sign. This process takes far too long, and would be unmanageable in a strike, when quite exceptionally large numbers of claims have to be taken in a short period. The claimant is therefore given this form for completion himself. But as you will see, he is required to present it with supporting documents like last pay slips. (See also paragraph 14 of the leaflet).

E. R.

Finally the Prime Minister asked what were the circumstances in which a striker himself could receive benefit - ie as opposed to his dependants.

The particulars are given in paragraphs 6 and 7 of the leaflet. The rules are very stringent. The striker has to demonstrate that he is in urgent need, and cannot look to anyone else for support (eg a parent or relative). He is expected to make any resources from his employment last at the rate of £14 a week before a claim can be considered. And then, if benefit is awarded, it will not bring his resources above a figure of £10.50. These rules are so tightly drawn that few qualify. In 1978, for example, only 230 strikers received payments, whereas payments for dependants amounted to nearly 45,000.

I hope this information is helpful.

Yours ever

D

D BRERETON

25 SEP 1979



CONFIDENTIAL



atto
CO
DHSS

10 DOWNING STREET

From the Private Secretary

25 September 1979

SF 27/9/79

Arrangements for Payment of Supplementary
Benefit to Strikers

The Prime Minister has seen your Secretary of State's minute dated 24 September. She is content that all of the proposals in that minute should be put into effect.

She has noted, however, that she understands that the Rolls Royce factory in Derby has been closed to those on strike. She takes it that the special DHSS office cannot therefore be on the factory premises. I should be grateful if Don Brereton, to whom I am copying this letter, could let me know where exactly the office has been established in Derby.

cleared
by phone
WTS/DB

Copies of this letter also go to John Chilcot (Home Office) and Martin Vile (Cabinet Office).

N. D. SANDERS

Sf

I.A.W. Fair, Esq.,
Department of Employment.

CONFIDENTIAL

PRIME MINISTER

~~to~~ Go ahead. But as the
 funding is done to them on strike,
 I think it that the office can be
 within the gates.

ARRANGEMENTS FOR PAYMENT OF SUPPLEMENTARY BENEFIT TO STRIKERS

MS.

As proposed in his minute to you of 21 September, I have urgently discussed this issue with Patrick Jenkin and John Belstead.

We agreed that the established arrangements whereby temporary offices are opened to handle claims from relatively large numbers of strikers should be continued. The major consideration is the disruption which would otherwise arise in local offices, which would result ⁱⁿ intolerable delays in meeting the needs of ordinary claimants. We should be the readier to explain publicly that their protection has to be our first concern. Although we could look to the police to maintain order in and around local offices if they had to deal with crowds of strikers on top of their normal case-load, experience shows that ugly scenes could well develop with the risk of damage to property and even personal injury. Disorder would be courted and we could not be sure that local office staff would be ready to continue working normally in such conditions.

We thought Patrick Jenkin should continue with the special arrangements planned for the payment of benefit to the families of strikers from Rolls Royce plants although these arrangements had been suspended following the discussion at E Committee last week. The management has been very ready to co-operate in establishing these arrangements. Entitlement to benefit will I understand begin at the end of this week, and in the circumstances we agreed it was necessary to start to make the arrangements now. We hope you will agree.

I am copying this minute to members of E Committee Angus Maude, Sir Michael Havers, John Belstead and Sir John Hunt.



25 SEP 1979



CONFIDENTIAL



Social Services File

BK.

B/F 27.9.79

10 DOWNING STREET

From the Private Secretary

24 September 1979

Arrangements for payment of
Supplementary Benefit to strikers

The Prime Minister has seen your Secretary of State's minute of 21 September. She agrees that there should be early discussions with the Secretary of State for Employment and the Home Secretary about the issues involved.

She has commented that in her view, since the law specifies that benefits are to be paid for dependants, then they should be paid direct to the dependants, so that the wife would receive the benefit for herself and her children.

Secondly, the Prime Minister would like a further explanation of the second sentence of the first paragraph of the note attached to your Secretary of State's minute. She is not clear under what sort of exceptional circumstances benefit is paid to strikers themselves.

Thirdly, the Prime Minister would like to see the leaflet mentioned in paragraph 4 of that note, together with specimen claim forms and any other literature given out to strikers on such occasions.

Perhaps you could let me have a note in response to these queries from the Prime Minister, together with a record of the proposals that your Secretary of State is now going to put forward, to reach us here as soon as possible.

I am copying this letter to the Private Secretaries to the members of E Committee, Richard Prescott, Paymaster General's Office, Bill Beckett and Martin Vile.

N. J. SANDERS

Don Brereton, Esq.,
Department of Health and Social Security

CONFIDENTIAL

Prime Minister
Agree Mr Jenkin's proposals?

Agreed and 1-3 below? A.B.J.
- see 1-3 below? . Duty Clerk 21/9

Prime Minister

ARRANGEMENTS FOR PAYMENT OF SUPPLEMENTARY BENEFIT TO STRIKERS

Following our discussion about claims for supplementary benefit from strikers I have gone into the problems they create for my Department. As the law stands we cannot avoid paying benefit for dependants of strikers who qualify. Nevertheless, I have halted arrangements which were being planned (but had not yet been implemented) for establishing "strike centres" ie temporary offices for handling claims from strikers.

The consequences of changing the normal arrangements, for instance, by leaving strikers to apply to ordinary benefit officers could quickly lead to scenes of disorder on the basis of earlier experience.

Thus substantial law and order implications arise and also the risk of exacerbating relations in the engineering strike. If therefore we are to go down this road I suggest that Willie Whitelaw and Jim Prior would be immediately involved. I would like to consider this with them urgently to decide the action we should take.

Agreed and

I attach a brief paper setting out some of the factors which can serve as a basis for this discussion.

I am copying this minute to members of E Committee, Angus Maude, Sir Michael Havers and Sir John Hunt.

P.J.

- ① If the law is dependants (and it is) the money ought to be paid direct to the dependants - i.e. the wife for herself and children.
- ② What does the phrase "exceptionally" mean? be paid to strikers themselves?
- ③ Can't see the form. Mr.

ARRANGEMENTS FOR PAYMENT OF SUPPLEMENTARY BENEFIT FOR STRIKERS

1. Although strikers themselves are disqualified there is an entitlement to supplementary benefit for their dependants if their income is below the level of the dependants' requirements. There is also provision for overriding the disqualification and making payments, exceptionally, to strikers themselves if their need is urgent?
2. In consequence my Department's local offices are liable during strikes and lock outs to have to deal with numbers of claims much larger than they have either the staff or accommodation to handle. For example in Derby we may receive up to 5000 claims from Rolls Royce workers whereas in an ordinary week we would get less than 1600 claims altogether.
3. The arrangements hitherto used by the Department to cope with such large numbers of claims have been to bring in more staff and house them in special centres. If they do not do this there would be long delays in clearing all claims, large numbers of claimants descending upon ordinary offices, and, experience shows, a real risk of ugly scenes. The special arrangements are thus designed primarily to protect ordinary claimants not to help strikers.
4. Strikers have to be told about these arrangements, and it has hitherto been the view that the cheapest, most effective and most discreet way of doing so is through union officials. They are given copies of a leaflet, basically still as designed last time we were in power, explaining the supplementary benefit provisions, supplies of claim forms and details of the arrangements for taking claims. The Department generally gets co-operation and manages as a result to prevent claims being made unnecessarily or too early, to spread work as evenly as is possible and above all to avoid large congregations of strikers at our offices.

5. Colleagues should know that there are strike centres on this basis which have been in operation for a few weeks as a result of strikes at GEC in Stafford, Talbot (Chrysler) near Coventry and Vauxhall at Ellesmere Port, without national publicity and these I have not withdrawn because of the very serious consequences of doing so. If we are not to repeat these arrangements for Rolls Royce strikers (factories affected are in several locations across the country), it is inevitable that arrears will quickly build up and, if public disorder results, the offices will have to be closed to the public. Moreover it is possible that the unions in the Department would refuse to operate arrangements which exposed their members to risks of violence or unpleasantness from large numbers of claimants.

6. It may be right to accept these consequences as a price for not appearing to be making it easy for, or even encouraging, strikers to claim benefit. We could not hope to do this without attracting a great deal of publicity some of which would be bound to be hostile because of the impact on ordinary claimants.

7. The alternative course is to repeat the same arrangements as have applied hitherto, making it clear that it is our intention to change the law.



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Faint, illegible text in the middle section of the page, possibly a main body of text.

CONFIDENTIAL



21 SEP 1978

Prime Minister

You might want
to raise this
with Mr Tindal

RESTRICTED

Qa 04264

To: MR LANKESTER

From: SIR KENNETH BERRILL

Incl fol 2
~~Prime Minister~~
A good point. I
will ask DHSS for
a report.

R
19/2

Payments of Supplementary Benefit to Rolls Royce workers

1. You may have noticed that the main news item on the engineering talks in today's "Telegraph" includes the following:

'At Derby, the Department of Health and Social Security is moving in 60 volunteers from its East Midlands staff to begin payments of supplementary benefits to about 5,000 Rolls Royce workers. Forms of application have already been sent by the Department to union branch officers.'

2. There is a risk that the Government is pulling in opposite directions. On the one hand it is concerned to bring home forcibly to the workforce that industrial action has painful consequences. On the other hand, the action of the DHSS, if correctly reported, would seem to be designed to ensure that the pain was much diminished.

3. It is at least arguable that the Government should not take special measures to explain how social security payments can ease the difficulties and special measures to accelerate payment. If you agree, you may wish to ask DHSS whether the report is true, whether they have a general policy on this issue, and whether it has recently been reviewed.

4. I am sending a copy of this minute to Sir John Hunt.

KB.

19 September 1979

RESTRICTED



indbl 2

DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 7691
 SWITCHBOARD 01-212 7676

From the
 Minister of State
 Lord Trenchard

17 August 1979

The Rt Hon Reginald Prentice MP
 Minister of State
 Department of Health and Social
 Security
 Alexander Fleming House
 Elephant and Castle
 London SE1 6BY

Prin Minister

*This is the letter which
 was leaked to the
 Guardian. (There will be e)
 a page on all this to
 ECEA which will then report
 back to you).* 12

Dear Reg

M

GOVERNMENT ASSISTANCE TO STRIKERS

I understand that you have overall responsibility for the review, ^{12/9} for which the Prime Minister has asked, of the repercussions of a scheme to offset strike pay against supplementary benefit.

Unfortunately, because of pressure of other events when we discussed this question at the meeting of E(EA) on 18 July, I was prevented from making a number of points to which I attach great importance. Now that the Prime Minister has reopened the question I am writing to suggest that the paper she has commissioned should not be confined to the question of repercussions, but should cover all the various options which are open to us.

My anxiety is that our decisions should adequately reflect industry's needs and should go some way to redress the fundamental imbalance in industrial relations, to which we drew attention in the Manifesto. I sympathise with colleagues' anxiety not to provoke a full-scale confrontation with the unions by taking the pace of reform too quickly. But the reality is that trades unionists who withdraw their labour or who disrupt production by guerilla strikes, often in breach of negotiated agreements do not incur any real penalties. On the other hand, employers suffer very expensive penalties in terms of capital charges on unused plant and on working capital, loss of revenue, lost orders etc. During the Ford strike last autumn the Company told the Department that the strike was costing them £40m for every £1m that the unions were spending on strike pay. There is very little we can in fact do to correct this imbalance, but the present situation is that we make matters worse by making special arrangements for strikers to receive accelerated payments of PAYE rebates and for their families to receive supplementary benefits.



It is contrary to all reason that the Government should add to industry's difficulties in this way. We are positively tilting the balance against employers and are allowing strikes to be undertaken on the cheap. The result is that strikes are always seen to pay in contrast to the position in France, for example, where as Sir Nicholas Henderson has pointed out strikes very rarely pay and where the tax and benefit arrangements are very different.

In my view we ought to take the opportunity afforded by the Prime Minister's intervention to take a comprehensive look at the whole question of Government payments to strikers and at the various alternatives which are open to us. We ought at the very least to examine the scope for withholding PAYE rebates until after strikes are over, which I am told can be arranged administratively without introducing controversial legislation. We ought to consider whether loss of PAYE rebates would have any impact on those strikers who do not have wives or families and who may be more susceptible to going on strike than those who have to face economic pressures in the home. As I understand it, these workers do not qualify for supplementary benefit in the usual way and would be unaffected by proposals on 'deeming'. We should also consider whether payment of PAYE rebates in the first pay packet after a return to work would provide a cash incentive for strikers to go back to work. Action on PAYE rebates would be less open to emotional misrepresentation about 'starving strikers' families' and might fit in more readily with the general strategy of avoiding a confrontation with the unions. It could also be said that, by reducing the funds available to strikers, action on PAYE rebates would meet our Manifesto commitment about making the unions bear a greater share of the cost of supporting those of their members who go on strike.

I also think we need to look at the possibility of combining action on PAYE rebates with action on supplementary benefits. Although the idea of delaying PAYE rebates has been opposed because, under present arrangements, the rebates which would be withheld would be added back to the benefit payable to strikers' families, this assumes that the existing supplementary benefit Regulations would remain unaltered. But it would be a simple matter to amend them. The problem would not arise if for example unions were 'deemed' to pay the full amount of supplementary benefit to which strikers' families were entitled. Another approach would be to abandon the 'deeming' approach altogether and to treat supplementary benefit payments as a loan recoverable once the strike was over. This idea has considerable attractions since it would ensure that strikers' families were not penalised during strikes whilst it would add to the costs borne by individual strikers. It can be argued that a loan system would prolong



ill feeling after strikes but to adopt that approach ignores the very real damage suffered by firms and the damage which strikes do to long term job security.

A more fundamental approach would be for all tax paid under PAYE to be assessed on a monthly or weekly basis and not on an annual basis. No right to rebate would then arise.

I am copying this letter to colleagues of E(EA) Committee, Norman St John Stevas, Michael Jopling and Sir John Hunt.

LORD TRENCHARD

*Yours sincerely
Norman St John Stevas*

CONFIDENTIAL

NO TMP.
(incl PS)



10 DOWNING STREET

c D/M
DOE
So
WO
D/Trade
D/N
CSO + below.

From the Private Secretary

B/F 10-9-79

30 July 1979

Dear Andrew

STRIKERS AND SUPPLEMENTARY BENEFITS

The Prime Minister has seen your Secretary of State's minute to her of 23 July. She has commented that she has doubts about whether the proposals set out in it have been thought through. In her view, such a scheme could only apply to workers who belong to a trade union, and not to those who do not but who have nevertheless been thrown out of work because of a strike. She is not clear how the Government could know who belonged to a union, given that we have no access to union membership lists.

She would like a detailed paper to be prepared, covering the "repercussions" of a scheme, before the point is taken further. I should be grateful if that paper could reach us after the summer holiday.

X

I am copying this letter to the Private Secretaries to the Members of E(EA), Don Brereton (Department of Health and Social Security), John Stevens (Office of the Chancellor of the Duchy of Lancaster), Murdo Maclean (Chief Whip's Office) and Martin Vile (Cabinet Office).

X Have told Cabinet Office that the paper should go straight to E(EA) and that the chairman should report the conclusions to the PM.

Yours ever

Nick Sanders

A.A. Duguid, Esq.,
Department of Industry.

T 12/9

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PRIME MINISTER

cc Mr Wolfson
Mr. Hoskyns

Strikers and Supplementary Benefits

David Wolfson has suggested that, before legislation is threatened (as proposed by the Committee), a viable scheme should be fully worked out. His argument is that the threat will not be credible unless we can say precisely what we would do.

I have checked with Mr. Prior's office: they say that a concrete scheme can very quickly be worked out. The Committee concluded that there should be no announcement on this matter until after the TUC Conference in September. Assuming you agree with this, there is enough time for a detailed scheme to be prepared.

My own view is that the "compromise", which would involve consultation with the unions before finally deciding whether and when to legislate, is right. We are more likely to win the argument, and avoid unnecessary aggravation, if we proceed in this way.

12

27 July 1979

Tim Lankester

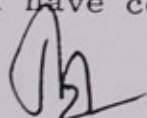
MR WOLFSON

STRIKERS AND SUPPLEMENTARY BENEFITS

Copy of KJ's memo to the Prime Minister returned herewith.

1. Important to show firmness, clear-mindedness etc in all our actions to give credibility in other areas (eg lowering inflationary expectations).
2. I think it's a mistake to offer a period of "consultation" unless we do believe that we cannot be sure of getting the formula right without such consultation. In other words, if the consultation is a fiction, forget it. If we are not sure that we have thought it through properly (or that we cannot think it through properly without the process of consultation - in other words without the unions themselves acting as devils advocate) then we had better have the consultation. But it is real. (And there are plenty of examples of Governments getting things wrong because they did not consult).
3. I would not try to introduce legislation this Session. I would allow whatever trouble we have this winter to create the climate for action - calm and deliberate - in time for the following winter 1980/81 (whether or not we decide as per 2. above that real consultation is needed).
4. The proposed compromise on page 2 looks confused and rather feeble. If we believe in the logic of our case, surely we should end up by legislating.
5. Since the decision whether or not to consult will be a matter of judgment, I would favour consultation (ie unless it can be seen to be transparently a fiction and thus insulting to the unions). The advantage of consultation - provided we use it sensibly - is that it can bring out various aspects of union behaviour, immunities etc, which help us in the general debate about the unions' future role. The more discussion there is, the stronger our position. If that is not the case - ie our position turns out to be weaker than we thought - then it's just as well we consulted rather than letting the thing go off at half cock.

I have copied this note to Tim Lankester.



JOHN HOSKYNS
26 July 1979



Can the 1977 go.

Prime Minister

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*Has this been thought through
It can only apply to workers*

*Are you content
with the compromise
proposal at x*

PRIME MINISTER

STRIKERS AND SUPPLEMENTARY BENEFITS

*who belong to a T.U. - not
to those who don't. But who belong?*

*are we the less known
out of work because
of a strike. 24/7*

We discussed at E(EA) on 18 July proposals for putting into effect our Manifesto commitment to ensure that unions bear their fair share of the cost of supporting members on strike.

*How can we know who
belongs to a Union?*

We haven't got access to the

We accepted the view of Jim Prior and Patrick Jenkin that the basis of our approach should be to "deem" that a striker would be

T.U. membership lists?

*Could we have a
detailed paper on the*

receiving a specified amount of strike pay from his union, and reduce the level of supplementary benefit to his family by that amount.

*"represents" before that
point is taken further.*

We left open how much that amount should be - though we felt that we might want to ensure that whatever figure we chose could easily

be adjusted either in the light of experience or to take account of inflation. We also agreed that as consequential changes we should consider redefining the discretion of the Supplementary Benefit Commission to make payments in the case of urgent need, and that the £4 "disregard" which applies to strikers' income should be abolished.

We did not, however, reach firm views on the tactics and timing for the handling of this matter - though we felt that any announcement should be delayed at least until after the TUC Conference in September. Jim Prior's and Patrick Jenkin's original proposal was that we should make an announcement in the autumn giving the union about 12 months for them to bring their levels of strike pay up to a specified figure and improve their arrangements for paying it, and to promise legislation in the 1980/81 Session if they do not respond satisfactorily. They argued that early legislation would merely harden union



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2.

attitudes, and would make progress on the other, more crucial, employment legislation planned for the autumn even more difficult.

However a number of other members of the Sub-Committee felt that we should not tie our hands by introducing a 12 month moratorium, and so should not rule out the possibility of introducing legislation this Session. It might prove useful to have a weapon available if strike action in the coming months led to increasing demands for action. A compromise, which appeared to be acceptable to most members of the Sub-Committee, would be to announce our intention in principle to introduce legislation unless the unions could show us convincing reasons - for example by increasing their levels of strike pay - why we should not do so. In this way we would put the burden of argument onto the unions' shoulders - without committing ourselves to a year's moratorium.

If we took this route we should still in all probability defer legislation beyond this session, and I do not think we need provide for it in the Social Security Bill. The essential point is that we would be keeping our options open for a Bill if necessary later in this session - although we all recognise that the constraints of the timetable would make that difficult.

I undertook to report the case to you and to ask whether you would be content to adopt a course along the lines of the compromise suggested above.

/I am.....



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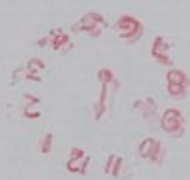
3.

I am copying this minute to members of E(EA), Patrick Jenkin, Norman St John Stevas, Michael Jopling and Sir John Hunt.

19.

K J
23 July 1979

Department of Industry
Ashdown House
123 Victoria Street
London SW1



213 JUL 1979



hd Pol

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

13 July 1979

The Rt Hon The Lord Soames GCMG GCVO CBE
Lord President of the Council
Civil Service Department
Whitehall
LONDON
SW1

R 13/7

Dear Christopher,

THE ATTACK ON SCROUNGING

You may, or may not have seen this article from the West Wales Guardian, which gives a very good picture of the sort of action which can be achieved, if one can deploy enough manpower in our local social security offices. Reg Prentice is of course, developing with officials plans to make the maximum use of the limited number of extra people whom we are to deploy on this kind of work, following our settlement of the revised manpower cash limits for this year. I must however reiterate my view, which I expressed very strongly in Cabinet that there is a direct correlation between the number of people we can put on to fraud prevention, unemployment review and other similar measures, and the amount of money we can save. All the evidence points to the fact that we are a long, long way from the point of diminishing returns. In our PESC proposals, we are including the comparatively modest sum of £20 million annual savings through the stepping up of activity of this kind. At the same time I am having to put forward to colleagues some extremely unpalatable measures to save sums considerably smaller than this, in order to achieve the Chief Secretary's targets. It does seem to me perverse that we should be contemplating such hideously unpopular measures as abolishing the Death Grant, or abolishing the Maternity Grant, when we could save sums in excess of the cost of those benefits, by employing a few more fraud investigators.

Apart from the money saved, I cannot believe that there is a single right minded person in the land who does not give a silent inward cheer when he reads an article such as that

attached. I believe the political dividends would be every bit as important as the financial savings. I recognise, of course, that we are stuck with the limits which have been agreed this year, and I am not ^{unaware} *ungrateful for* of the extent to which you stretched your discretion to try to help. I must however reiterate my central point, which is that it must be sensible to look at manpower costs and benefit savings, as part of the same calculation and not into entirely separate compartments. Reg Prentice recently met his Australian counterpart, who told him that in Australia they had recently decided to do just this with some extremely satisfactory results. I wonder whether, in the light of Thursday's Cabinet discussion, you would consider reopening this question for 1980/81 and subsequent years?

I am copying this letter to the Prime Minister and to Jim Prior, John Biffen, and Sir John Hunt.

Your
Pat

**BASIL JONES
& SONS**

**OLD BRIDGE
HAVERFORDWEST**

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AUCTIONEERS, VALUERS

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Basil Jones, Haverfordwest

The Pembroke County and West Wales Guardian

Registered at the Post Office as a Newspaper.

FRIDAY, JULY 6th, 1979

MID-PEMBROKESHIRE

D. H. S. S. save £10,000 in County with a...

WORK OR STARVE CHOICE FOR SCROUNGERS

THE DEPARTMENT OF HEALTH and Social Security in Pembrokeshire are claiming a saving of at least £10,000 a week because of their tough 'work or starve' measures against dole scroungers and a massive cut-back in benefit fiddling. Hundreds of fit men and women, some of whom have not worked for years, have had their supplementary benefit stopped and have been told to pick potatoes. It has been a well planned operation and Department officials are delighted with its success. 'After all, this is taxpayers' money,' commented a spokesman yesterday.

A team of eight inspectors bone-idle to work.

THE DEPARTMENT OF HEALTH and Social Security in Pembrokeshire are claiming a saving of at least £10,000 a week because of their tough 'work or starve' measures against dole scroungers and a massive cut-back in benefit fiddling. Hundreds of fit men and women, some of whom have not worked for years, have had their supplementary benefit stopped and have been told to pick potatoes. It has been a well planned operation and Department officials are delighted with its success. 'After all, this is taxpayers' money,' commented a spokesman yesterday

A team of eight inspectors were drafted in to assist local officials. They set up centres at all the major areas of population — Cardigan, Fishguard, Pembroke Dock, Neyland, Tenby, St. Clears, Milford and Haverfordwest.

Then they interviewed all people registered as unemployed. Many of them were delighted to go to work on farms.

But others were bluntly told there was work available picking potatoes and their benefit would be stopped. The choice was theirs—work for money, or go without!

"Our people were selective," said the spokesman, "and took into account things like fitness and age. But we were not too concerned whether they were married or single. People were also warned of the consequences of fiddling!

"Unfortunately, it's a fact that there are people who need a little push to make an effort to find work. There are also people we call the 'Skrimshankers,' those who are too

bone-idle to work.

"These are the people who would rather lay about on the beach at Tenby all day than toil in the potato field a mile away.

"Then there are those — the entrepreneurs — who would rather toil in the fields, but will also claim benefit. These people are bare-faced robbers!"

"OUR DUTY"

"We have a duty to the public to stamp out the fiddlers. After all, it's the taxpayer they are robbing." Eighteen-year-old single people living at home get £13.90 benefit each week. They can easily earn this sort of money EACH DAY on the potato field.

Unemployed people sign a declaration that they are available for work.

The Department inspectors ask people if there is any reason why they cannot be engaged in potato picking.

"Obviously, if they produce medical evidence the matter is dropped," said the spokesman. "But if they are not fit for work they should be claiming sickness benefit."

13 JUL 1979





DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon The Lord Soames GCMG OCVO CBE
Lord President of the Council
Civil Service Dept
Whitehall
LONDON SW1

12 July 1979

2
1377

Dear Christopher,

TAXATION OF SHORT-TERM BENEFITS

cc
Civil
Service
Hampson
May 79

I have seen your letter of 7 June to Geoffrey Howe in which you draw attention to possible staffing costs of taxing short-term benefits, together with Geoffrey's reply of 26 June and Jim Prior's letter of 25 June.

I am aware that Inland Revenue will be taking the lead in examining ways to taxing unemployment benefit. I hope very much that the inter-Departmental group to be established will examine the feasibility of an early date for implementing a scheme and not be content to wait until 1983-84. The problem of incentives is absolutely central to the Government's whole strategy. Until we bring short-term benefits into the tax net we shall face mounting criticism over the "why work?" syndrome. While we must have staffing implications very much in mind we must not lose sight of the fact that the revenue yield from taxing short-term benefits will greatly exceed the cost of collection. Moreover I assume that the inter-Departmental examination of taxing unemployment benefit will take full account of Lord Cockfield's ideas for keeping the extra staff needed to the minimum.

As Geoffrey has said we think the right approach on sickness benefit is to substitute employers' sick pay for benefit in the early weeks of sickness. Reg Prentice and Lynda Chalker are working on proposals for doing this and we would hope to come to colleagues with proposals in the early autumn.

I am copying this letter to the Prime Minister, Geoffrey Howe, Jim Prior, Sir John Hunt and Sir Derek Rayner.

Yours
Patel



CABINET OFFICE
Central Policy Review Staff

With the compliments of
Sir Kenneth Berrill KCB

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

CONFIDENTIAL

Qa 04163

fw

To: MR WOLFSON
From: SIR KENNETH BERRILL

Short-term Benefits, Supplementary Benefit, Strikers'
Benefits and Taxation

1. At last Tuesday's meeting of E you asked me if the CPRS kept an eye on the taxation of benefits and I said we could let you have a short note. This is attached.
2. As always in this field, it is a complicated situation. But briefly the position is this: full-scale taxation of short-term contributory benefits is unlikely to be practicable until the Revenue's PAYE is fully computerised (in the later 1980s). A limited scheme to tax unemployment benefit (possibly linked with transfer to employers of responsibility for paying most sickness benefit) might be practicable by 1982 - see (a) of the note. This would be helpful in improving in-work/out-of-work incentives, and would bring in a substantial revenue yield. But there are problems still to be worked out (in particular the treatment of supplementary benefit) and the Revenue staff cost would still be considerable.
3. This would, however, have very limited effect on the position of strikers. If the objective is to reduce the financial resources available to strikers, it would be necessary to consider one of the two approaches set out at (b) of the note. These could in principle be introduced with little delay. But they would be much more controversial.
4. So far as we know, a good deal of work has been done already on the limited option described at (a) for taxing short-term contributory benefits, but detailed work on the options under (b) for dealing with strikers' financial

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position has not yet advanced far. But we shall find out when we see the paper on benefits for strikers which, following the meeting of E on 19 June, the Secretaries of State for Social Services and Employment have been asked to prepare. I was not clear how widely the paper was expected to range. Presumably it will cover tax refunds to strikers and so involve Treasury Ministers as well. But if it were thought desirable that both of the problems set out under (a) and (b) should be covered, I think that the Ministers concerned would need to be told.

5. I am sending a copy of this to Clive Whitmore and John Hunt.

RR

25 June 1979

Att

SHORT-TERM BENEFITS, SUPPLEMENTARY BENEFITS, STRIKERS' BENEFITS
AND TAXATION

There are two distinct issues

- (a) the taxation of short-term benefits, with implications for incentives; and
- (b) the treatment of strikers' benefits and tax refunds, with implications for industrial relations.

(a) Taxation of short-term benefits

It has long been accepted by both parties that the short-term contributory benefits (in particular sickness benefit and unemployment benefit) ought to be taxed, in the same way as the long-term contributory benefits (in particular retirement pensions and widows' pensions) are already taxed. The original intention in 1946 was that both short and long-term benefits should be taxed, and it is administrative problems only which have hitherto prevented the taxation of short-term benefits. If they were subject to tax, this would bring in substantial additional revenue (around £400 million from unemployment benefit and sickness benefit combined), and would reduce some of the incentive problems that arise in the comparative positions of those in work and those out of work.

The full taxation of short-term contributory benefits, if introduced by the Revenue on a manual basis before computerisation, would cost some 10,000 additional Revenue staff. On manpower grounds this option seems to be out of the question until PAYE has been computerised (this will not be completed on present plans until 1987).

Some work has been done on a more limited scheme for taxing unemployment benefit only on a manual basis by 1982 (this date links with relevant computerisation plans in DE and DHSS). This would reduce the staff cost to around 3,000. It is possible that this option could be linked with the option which is currently under study in DHSS for transferring payment of sickness benefit for the first six weeks to employers.

.../...

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(Apart from securing a substantial DHSS staff saving, this would allow most payments of sickness benefit to be brought within PAYE operated by the employer, without adding to Revenue staff costs.)

This option is being further considered at official level, but we understand that Ministers have not yet taken any firm view.

A particular problem which arises if short-term contributory benefits are brought into tax is the tax treatment of supplementary benefit. Supplementary benefit, whether payed at the "ordinary" rates or long-term rates, is not taxable at all at present. The case for taxing it is less clear cut and more controversial than for the contributory short-term benefits. A traditional argument has been that, since supplementary benefit is a means-tested benefit designed to secure minimum subsistence, it would be wrong to tax it. But, if supplementary benefit were not taxed at all, while contributory short-term benefits were taxed, there would be serious anomalies between people qualifying for full contributory unemployment or sickness benefit and those whose contributions are deficient and whose contributory benefit is topped up by supplementary benefit. One possible approach to this difficulty would be to "take account" of supplementary benefit payed in respect of the claimant and his wife (or other adult dependent) but not to take account of supplementary benefit paid for children or other dependents. This would ensure that the taxable supplementary benefit did not exceed the weekly tax threshold, while at the same time reducing tax refunds due later in the year but would avoid a situation in which tax had to be actually deducted from supplementary benefit when paid. But this idea has not yet been fully worked out, and it is not yet clear whether it would provide a fully practicable solution to the difficulty.

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(b) Treatment of strikers' benefits and tax refunds

Strikers cannot claim either unemployment benefit or supplementary benefit for themselves. They can however claim supplementary benefit in respect of their dependants (wife and children), and they can, while on strike, get PAYE tax refunds, normally direct from their employer (exceptionally direct from the Revenue, if the employer is unwilling). The evidence is that only a minority of those on strike actually claim any supplementary benefit for dependants, and, if the aim were to reduce financial resources available for strikers, action to limit or stop PAYE refunds would probably be more important than action to tax any supplementary benefit which they claim.

The effect on strikers' resources of taxing short-term contributory benefits on the lines of the limited scheme discussed at (a) would be very small. If supplementary benefit claimed in respect of a wife were to be taxable, this would reduce the tax refunds which could be claimed, but only by about one third. There would be no effect for the majority of strikers who do not claim any supplementary benefit.

A more direct method would be to legislate to defer the tax refunds for strikers until they return to work. This could in principle be done without delay, and without significant staff costs. The main problem, apart from political difficulties in withholding from strikers money which it could be claimed is by right theirs, is that for strikers who at present both claim supplementary benefit and also get tax refunds, their benefit entitlement is reduced by any tax refund received. If tax refunds were deferred, the entitlement to supplementary benefit would go up pro tanto, so that the benefit of the tax refund could in effect be received twice, once in the form of higher supplementary benefit than is at present due and again when the actual refund was made on return to work.

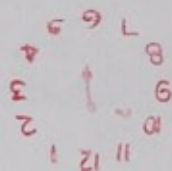
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An alternative approach which was canvassed before the election would be to deem strikers to be in receipt of a notional level of strike pay from their union. (One would have to deem this, whether a strike was official or unofficial, or there would be an incentive towards unofficial strikes.) A notional level of strike pay would presumably be taken into account both by DHSS in calculating any supplementary benefit claimed (so reducing entitlement), and by employers in operating PAYE (so that tax refunds would be reduced). But, assuming that a notional level of strike pay could probably not exceed around £10 - £12 a week, the effect on tax refunds, if employers were required to take account of additional pay, would again be limited. They might be reduced by about one third but not eliminated.

CONFIDENTIAL



25 JUN 1979

END

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February 2010