

PREM 19/1639



PART 2

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SECRET

Confidential Filing

Review of Social Security  
Benefits - Misc III.

SOCIAL  
SERVICES

Part 1: Feb. 1985

Part 2: April 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART ENDS							
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PART 2 ends:-

MS/Wales to Cm/PA 31/5/85

PART 3 begins:-

Draft Statement 3/6/85







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*Oddi wrth y Gweinidog Gwladol*



ADPM  
3/6  
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*From The Minister of State*

CONFIDENTIAL

31 May 1985

*Dear Nigel,*

SOCIAL SECURITY REVIEW: PAYMENT OF MORTGAGE INTEREST

I have seen Norman Fowler's letter in which he conveys the anxieties of the Building Societies Association about the proposal to disregard mortgage interest during the first 6 months of any supplementary benefit claim. I am writing in Wyn Roberts' absence from the office.

I must confess that we have been unhappy about this proposition from the beginning. Given the Welsh unemployment rates and our high percentage of owner occupiers (65%) any move to undermine confidence in the lower end of the housing market could have disproportionate consequences for us in Wales. I therefore very much support the proposal that we should approach this area with some caution and therefore endorse Norman's proposed wording formula for the Green Paper.

Copies go to Prime Minister, Norman Fowler, Patrick Jenkin, George Younger, Douglas Hurd and to Sir Robert Armstrong.

*Yours ever,*

*John*

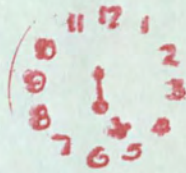
JOHN STRADLING THOMAS

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG



SOCIAL SERVICES: Review  
Pt 2

E3 JUN 1985







10 DOWNING STREET

Prime Minister ①

Mr Forster's statement seems  
much too long - more like the  
Speech he will have to make in  
the Debate or like a Press Notice  
David Willetts has indicated  
areas where it could be shortened.

Agree to Forster be asked  
to edit it down by one third  
or more?

AT  
31/5

I really don't think  
he can shorten this statement  
very much. To do so would  
deprive him of essential support  
material & arguments. I have  
marked my own comments  
in red. ml



SECRET



*Pde*

*CC DW*

*46*

*261/5*

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*

*DW*

*31/5/85*

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

31 May 1985

*Dear Andrew*

SOCIAL SECURITY REVIEW

I attach a draft of the statement my Secretary of State will be making on publication of the Green Paper on Monday. I shall be grateful for any comments as soon as possible.

Copies go also to Rachel Lomax (HM Treasury), Janet Lewis-Jones (Lord President's office), Murdo MacLean (Chief Whip's office), David Morris (Lord Privy Seal's office) and Graham Sandiford (Northern Ireland Office).

*Yours*

*Shene*

S A Godber  
Private Secretary

SECRET



WAST STATEMENT ON SOCIAL SECURITY REVIEW

I will, with permission Mr Speaker, make a statement on the review of social security.

<sup>Over a year ago</sup>  
~~At the end of 1983 and during the early months of last year~~ I informed the House of the establishment of four Review teams to examine the major parts of our social security system - provision for retirement, benefits for children and young people, the supplementary benefit system and housing benefit. Three of the teams were headed by ministers in my Department and the fourth - an housing benefit - by an independent Chairman, Mr Jeremy Rowe. Each had a number of members from outside Government whose advise has been of great assistance this is formulating our conclusions.

The review teams each issued consultation documents and invoked evidence from interested organisations and the public. ~~In total some 40000 consultation documents were issued, 4500 prices of evidenee were received and 69 organisations and individuals gave oral evidence at 19 public sessions.~~

The Government have brought together the results of this programme of research, evidence gathering and consideration and are today putting forward their conculsions ~~on the measures which are necessary if our social security system is to be reformed to meet better the needs of the last part of the twentieth century.~~ The proposals and the reasons for them are set out in full in a three volume Green Paper which is being published this afternoon and of which copies will be available in the Vote Office for Members.

[ Consistent with the process of public consultation and discussion on which the Review has been based, ] the Government will be seeking comments on its proposals from interested organisations and will be providing an early opportunity for the House to debate them.

[ Mr Speaker, the social security system in this country owes much to the radical restructuring and development proposed by Sir William Beveridge during the second world war. Although much of what he proposed was changed in the implementation and more has been changed since, ]



*Beveridge's original*

many of the principles on which his proposals were founded remain sound. The Government remains committed to the concept of a national insurance system under which entitlement to the major benefits is earned by the payment of contributions during a working life. The Government also believe that social security should be based on a partnership between state provision and provision for which individuals themselves take responsibility. ~~Accordingly we believe that~~ Provision by the State should not, in Beveridge's words, "stifle incentive, opportunity, responsibility". Yet the social security system we have today has moved far from the basis on which it was conceived. [It cannot be denied that it has achieved much.] <sup>Nevertheless</sup> Benefit levels for all the major benefits are higher than ever before. The real value of, for instance, the basic pension and supplementary benefit are higher now not only in relation to prices but also in relation to average take home pay than they were thirty five years ago.]

But the Review has shown that there are many serious shortcomings.

The system is too complex. That my Department requires some 80000 staff to administer the system is some indication of the problem. [That the 35000 staff involved in paying supplementary benefit have to use an instruction manual comprising 16,000 paragraphs of instructions illustrates the problem they face in providing a reasonable service to the public. It is small wonder that few members of the public fully understood the system, that too many errors are made and that the provision of help can too often depend on the reinterpretation of case law rather than assessment of genuine need. Indeed there is real cause for concern that the system is in danger of breaking down.]

② [The system is also highly expensive.] The budget now totals some £40 billion a year. That is over thirty per cent of all public spending and consumes over 11 per cent of Gross Domestic Product compared with only 5½ per cent thirty five years ago. Nor has the pressure for growth in spending ended. [We face the prospect of costs increasing by at least a further 20 per cent in real terms over the next twenty years, even with falling unemployment. And in the next century our growing pensions commitments could double the total bill.]

As well as being more complicated and more expensive than Beveridge envisaged, the system we have today also has to meet different needs. Whereas forty years ago the group facing the greatest problems



For pensioners, today there is little doubt that those in greatest need are low income families with children. Thirty five years ago the basic state pension for a married couple was worth only a third the average take-home pay of a manual worker. Today it is half. And the average disposable income of pensioners is now 70 per cent of the average for a non-pensioner. By contrast almost half the people now living on low incomes are in families with children - an increase of [ ] million in the last 10 years. Moreover, almost half this group are in families where the head is working. Low income working families not only face the difficulty of escaping the poverty trap - where they may get no increase in total income when their earnings rise. They can also find that they would be better off out of work than remaining in their jobs.

Mr Speaker, making better provision to meet the needs of poor working families with children has been a major priority of the Review. We therefore propose to introduce a new benefit - to be called Family Credit - to provide better help for them. The Family Income Supplement will be abolished. The new Family Credit will have three main features;

- First it will be paid on the same basis as help to unemployed families. [Help will be related to the age of children and extra help will be given to single parents and part-time workers.] This will mean that families with children cannot generally be better off out of work than in work.
- Second it will be related to take-home pay not gross earnings, as happens with family Income Supplement. This means that total income must increase as earnings rise. The worst effects of the poverty trap will be eliminated.
- Third it will be paid by employers through the pay packet. We regard it as important that those in work should see their benefit as part of their income from work - whether as an offset to tax and national insurance or, in the case of the lowest paid, as an addition to gross pay.

*Are you sure?  
I thought it  
would be the  
of the children*

~~Those receiving family credit will not receive free school meals or welfare foods but the benefit rates will be increased to give them the freedom to choose how best to meet their children's needs both in and out of school.~~



The Family Credit will be paid in addition to Child Benefit. The Government believe that the extra responsibilities carried by all those bringing up children should be recognised. Child Benefit will therefore continue to be paid (as now) for all children irrespective of the means of the family.

*surely not - we are paying it  
now to everyone but not "as now"*

An important prerequisite of the family credit for those in work is that it should be fully aligned with the help provided to those out of work. So too must housing benefit if we are to achieve a simpler system which can be administered more fairly and more effectively. A more coherent system of income-related benefits providing consistent help for those in and out of work is essential. But we are in no doubt that the present supplementary benefit ~~cannot provide the basis for that system.~~ *is too complex to do this*

Its complexity, the mass of detailed rules and regulations by which it operates, and the continued uncontrolled growth of single payments far beyond what was originally intended, all point to the need for reform. We therefore propose to replace supplementary benefit with a new Income Support System. The income support scheme will be based on a uniform level of benefit for all claimants. It will have no extra payments for particular individual requirements and none of the divisions of the present scheme between householder and non-householders, or long and short term rates. But pensioners and the long-term sick and disabled will receive a higher level of benefit. And families with children will not only receive assistance for each child but also a premium to reflect the extra pressures they have to cope with.

The income support scheme should provide for the needs of almost all claimants but we recognise that the system must be ready to cope with particular problems which can arise and to do so flexibly and quickly. We therefore propose to set up a social fund which will be operated on a discretionary basis by DHSS local offices. It will provide emergency help where needed and help those who cannot manage their resources properly. We also expect that the social fund will, in time, provide a better basis for contributing cash help to accompany health and personal social services to those being cared for in the community.

Mr Speaker, the use of a common basis of assessment for the family credit and income support schemes marks an important step towards a simpler and better benefit system. But it is essential that the same basis should also underly housing benefit. At present the benefit is provided on a different basis for those in and out of work. The Report of the



Housing Benefit Review, which I am also publishing today, recommended that we should move to a uniform basis of assessment and one which is aligned with the income support scheme. I have accepted that and most of their other recommendations. The Review Team also found that Housing Benefit was excessively complicated, involving six different tapers applied to different groups at different incomes levels. It is also expensive and poorly targetted, with over one third of all households - some with income up to average earnings - receiving benefit.

We intend to move to a simpler, clearer system. It will be based on the same net income assessment basis as the income support and family credit systems. It will also provide help on the basis of rent and rates together rather than separately as at present. ~~This will mean that less help is provided to those on higher incomes who currently receive help with their rates alone but we believe that to be justified.~~

For the poorest families, housing benefit will continue to meet 100 per cent of rent, and the new system will ensure that help is withdrawn consistently as income rises. We will, however, take action to ensure that local authorities operate the system economically and to prevent excessive rents being paid wholly from public funds.

We believe, however, that the basis on which help is provided with rates needs to be changed. ~~At present some 7 million householders receive help with some or all of their rate bills and over 3 million householders pay no rates at all. As a result, a large proportion - in some areas as much as half - of people live in households in which no rates are paid. This means that there is no effective link between payment for and use of local services and hence a weakening of local accountability.~~ The whole structure of rates is currently under review but the Government believe that, so long as domestic rates remain a significant element of local government finance, all householders should be required to make a contribution towards them. The maximum level of help with rates under the reformed housing benefit scheme would therefore be set below 100 per cent, probably at about 80 per cent.

Mr Speaker, the reform of income-related benefits which I have outlined is intended to provide a simpler, more coherent and better targetted system which will be fairer, easier to understand and to administer.



marks a major step away from the detailed inquiries into individual circumstances on which much of the current system is based and towards greater fairness and equality of treatment for those in and out of work. It will also provide a more flexible system better geared to today's needs.

Apart from pensions, the other major area covered by the review is the contributory national insurance benefits for unemployment, maternity and widowhood. [As I have already made clear, the Government remains committed to the principle of basic provision for these contingencies organised by the State through the National Insurance system.] We therefore propose no fundamental change in the structure of these benefits. We do, however, propose some modifications in benefits for widowhood and maternity to relate them better to today's needs.

*First sentence only of each of next three paras.*

For widows, we propose to replace the widows allowance payable to all widows over the first six months by a lump sum grant, probably of about £1000. [This will give more help when it is most needed - at the time of bereavement - and allow widows greater flexibility in using the help available to them. The continuing benefits available to widows after the initial period - widowed mothers allowance and widow's pension - will continue and will be paid from the time of bereavement. But the rules of eligibility will be modified to concentrate help more on older widows and widows with children who are least likely to be able to continue in or resume work. The changes will not affect the benefit paid to any existing widows.

In maternity, we propose to adjust the rules governing maternity allowance so that the mother can have greater freedom in choosing when, around the time of her confinement, she wishes to be paid the allowance. We also intend to change the qualification period so that the benefit is more likely to be paid to women who have had to give up work in order to have their baby. Both these changes will help to apply the allowance more effectively to the changing pattern of women's working habits, in modern society.

The maternity grant and the death grant have, however, almost entirely lost their relevance to modern society. The grants have been left at their present level - £25 and £30 respectively - for many years [and are now quite inadequate for their purpose.] The average cost of a funeral is now over ten times as much as the death grant and the cost of

*So much as  
if you  
are going  
to witness  
the*



Administering the benefit is nearly as much as its total value. In both cases, therefore, we should aim to target the resources better on those who most need help. We intend to end the maternity and death grants as universal benefits and to replace them by help at a realistic level for those who need it. A new maternity grant, probably of about £75, will be introduced for low-income families including those receiving income support and family credit. Realistic help with the full cost of funerals will be made available more widely than at present to anybody who has responsibility for a funeral and <sup>costs?</sup> costs the resources to pay for it. [Help will be provided through the social fund to ensure that it can be given quickly and flexibly and with the minimum of detailed enquiry. These changes will concentrate help where and when it is most needed instead of providing a token contribution to everybody when it may be of little practical use.]

Mr Speaker, the largest single area of social security spending is on pensions. The basic pension alone accounts for over £15 billion and is paid to 9 million people. That pension accounts, on average, for half the income of pensioners and has been a major factor in raising pensioners living standards since the war. In the last thirty five years its value has increased two and a half times in real terms and it has helped substantially to improve the income of pensioners relative to those of working age. It is, and must remain, the basis on which individuals can build additional provision related to their earnings. The question is how that extra provision should be made.

At present about half the working population belong to occupational pension schemes and about half are contracted-in to the State Earnings Related Scheme. The development of occupational pension schemes has been an important factor in improving living standards since the war. But the coverage of schemes has not increased since the mid 1960s. The development which it was said would follow the 1975 Social Security Pensions Act has not taken place. [In view of the complexities and uncertainties for employers involved in contracting-out it is unlikely that further development can be expected.] Experience since 1975 has, therefore confirmed the anxiety expressed on our side of the House at the time that the new scheme leaned too heavily towards state provision.

I also expressed concern at the time about the burdens which the State Scheme would place on succeeding generations. Its funding on a pay-as-you-go basis means that unlike private schemes those in work are



Building up entitlements but they are not saving now to meet the cost of their own pensions.

*Personal wealth ownership theme here*

The analysis which we have undertaken in the review has shown concern about the financial implications of the state scheme to be well founded. The costings on which the state scheme was based depended on assumptions of much higher levels of economic growth and lower levels of unemployment than we have seen in the succeeding ten years.

More important, it is now clear that the long term costs resulting from the inevitable growth in the number of pensioners in the next century will be considerable. Even if no improvement is made in the value of the basic pension, the cost of providing it will increase over the next fifty years from £15 billion to £22 billion at today's prices. If the basic pension was to keep pace with earnings the cost would treble. But on top of that the cost of the state earnings - related scheme will eventually add another £23 billion. The pensions bill will at least treble and could increase by over four times.

That is not a cost we can ignore. The amount by which the basic pension is increased is within the control of governments which can decide, as economic growth permits, how much of additional national wealth can be given to existing pensioners. And the basic pension provides help to all pensioners whatever their age. But the cost of the State earnings-related scheme is inevitable. Entitlements are being built up now which will have to be paid for in forty years. They will place extra burdens on the taxpayers of that time and restrict the freedom of governments at that time to devote extra resources to other public services or to the basic pension itself.

Mr Speaker, I believe that there is now a growing acceptance that the State Scheme cannot be left as it is. Delaying action is not an option as every year which passes builds up a larger bill to be faced in the future. The Government believe that action should be taken now. We have considered whether the terms of the State Scheme should be restricted so as to reduce its eventual cost. But the effect of restricting the scheme in this way would only be to reduce the additional pensions which those in the scheme could expect.

*we must*  
The Government have concluded that it would be preferable to begin



now to replace the state earnings-related scheme by a new partnership - a partnership based on continued commitment to the basic national insurance pension by the state and additional provision by all employers and employees through occupational and personal pension schemes.

That goal ~~cannot be fully achieved overnight.~~ <sup>will take some time to achieve</sup> The Government do not intend to make any change for those now within sight of retirement. For men aged 50 or over and women aged 45 and over at the time of implementation the existing arrangements will continue. Nobody retiring in the rest of this century and no existing pensioner will be affected.

For the younger age groups, however, we propose to change to a system in which everybody will contribute to his own personal pension or to an occupational scheme organised by his employer. Every employee will also be entitled to at least a minimum contribution to his pension from his employer. Under these new arrangements everybody will have time to build up a reasonable level of pension investment by the time they retire to augment their basic national insurance pension. In addition all rights built up in the state scheme up to the time of the change will be honoured. All men in their forties and all women between 35 and 45 will also have their entitlement under the state scheme enhanced to provide a better basis for their own additional pension provision when they retire.

The Government believe that this new approach on pensions will restore the proper balance between state and private provision.

[The proposals will not affect existing pensioners, those nearing retirement or the Government's commitment to the basic pension. But they will mean that everybody will in due course be contributing to their own additional pension through their job. We will end the overdependence on state provision and ensure that our children are not faced with an excessive and unavoidable bill for the pensions promises we have made to ourselves. We will provide greater freedom and choice in pensions and give more people a direct stake in their own future, in their own investments and in the economy.

? The self-employed will not be affected as they were not included in the SERPS. ?



Mr Speaker, the Government's review of social security has been the most wide-ranging for forty years. I have been able to do no more today than give the House the briefest outline of our conclusions on what is a highly complex system. I can, however, assure the House that the Government will provide an opportunity for the proposals to be fully debated when Members have had the opportunity to digest the Green Paper. That will be an important part of the process of consultation and public discussion which we wish to see take place. ]

~~The Green Paper seeks to identify a new direction for social security in the future.~~ It aims to define a broad structure for the system not to settle precise levels of benefit or rules of entitlement at this stage. It is not, therefore, possible to assess the precise costs or impact of the proposals. Nonetheless, the Green Paper indicates the main directions of change.



At defining the right benefit structure is only a part of the Government's responsibility. It must also ensure that the system is administered and managed as effectively as possible to provide a better service to the public. [The Government's benefit proposals will in themselves make the system simpler. But we are now also embarking on the largest computer strategy ever in this country to modernise and improve the system. Carrying through the changes against this background will be a major management challenge to my Department.] I shall therefore also be establishing a new Management Board within the Department involving outside members to provide a better focus and direction for the Department.

The benefit changes and the computerisation both of my Department and the Inland Revenue will also provide opportunities to achieve better co-operation and closer working between the tax and benefit systems. [The Government intend to take advantage of those opportunities and, as my rt hon Friend announced in his Budget speech, the Government will be considering this further in the context of the Green Paper on Personal Taxation.]

The Government have however already decided to take a significant step towards better harmonisation by aligning the tax and benefit years. Instead of benefits being uprated in November each year the uprating date will be moved to April. This will be of considerable assistance also to local authorities who at present have to reassess housing benefits cases twice a year - in November and at the time of annual rent and rate changes in April.

The change in the benefit year will be brought in at the time of implementation of the major structural reforms. We expect this to be on 1 April 1987. After the uprating of benefits due at the end of November 1985, these will therefore be a 16 month period before the change in April 1987. The Government has concluded that it would not be sensible to have upratings both in November 1986 and April 1987. This would be confusing to claimants and would complicate the process of change over to the new benefit system and the new uprating date. Accordingly, the uprating due in November 1986 will not take place. [PAUSE] Instead an extra uprating of benefits will be made four months earlier in July 1986. This will be eight months after the 1985 uprating and eight months before the first uprating on the new cycle. The new pattern of upratings will be based on the movement of prices during



the intervening periods as at present. The Government will be introducing an amendment to the Social Security Bill in another place to allow for this change.

Mr Speaker, I believe that the proposals contained in the Green Paper for the reform of our social security system will gain widespread acceptance. In pensions our proposals will create a new partnership which will give everyone the right to his own pension through his job, in addition to the basic state pension. They will continue the Government's drive to give greater freedom and choice in pensions. And they will help to achieve the wider spread of ownership of assets which we want to see. For those on low incomes, the new system of income-related benefits will be simpler, fairer and easier to administer and understand. They will do much to reduce the impact of the poverty and unemployment traps and to give relatively more help where it is most needed. We will also provide better help for the least well-off at times of special need.



SECRET



45

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 Flesher Esq  
Private Secretary  
10 Downing Street

30 May 1985

*Dear Tom,*

SOCIAL SECURITY REVIEW

This is to confirm, for the record, that my Secretary of State proposes to make his statement on the outcome of the social security review on Monday 3 June.

I am copying this to Alison Smith (Leader's office), Margaret O'Mara (HM Treasury), Janet Lewis-Jones (Lord President's office), Murdo MacLean (Chief Whip's office) and to Richard Hatfield (Cabinet Office).

*Yours sincerely*

*S H F Hickey*

S H F Hickey  
Private Secretary

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CONFIDENTIAL

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9

31 MAY 1985





44

D.W.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 4/6/2

29th May 1985

NBPM

*Dear Secretary of State*SOCIAL SECURITY REVIEW: PUBLIC SERVICE PENSIONS

Thank you for sending me a copy of your letter of 20th May to Nigel Lawson.

We have discussed this matter informally. As I understood what you were saying the Armed Forces would not be included in the proposed personal pension arrangements if that necessitates the Armed Forces Pension Scheme becoming directly contributory. That would almost certainly add £25 million a year to the Defence Budget at current prices, and the figure could rise to £45 million. There is obviously no point in accepting this level of additional expenditure simply to offer Servicemen a choice that few, if any, would regard as a real extension of opportunity.

I am prepared, while maintaining the present arrangement whereby the Armed Forces Pay Review Body deducts 11% from comparator pay in respect of the full excess of benefit of the Armed Forces Pension Scheme over comparator schemes, to offer the choice of a personal pension to Servicemen on the basis that my Department will contribute to that pension both the minimum employer's and employee's contributions of 2% each with the Serviceman relinquishing any claim to occupational pension scheme benefits accruing from the date of the option. There is, of course, a presentational difficulty

The Rt Hon Norman Fowler MP





in offering such a one-sided choice - and the Armed Forces will not be alone in that - and for that reason I see considerable merit in good occupational pension schemes being exempt from the requirement to offer a personal pension to their existing members. To my mind it is easier to defend no choice at all than a completely bogus choice.

If, however, you maintain your present policy that all occupational pension scheme members should, without exception, be offered the choice of a personal pension, then I am sure that we shall in the coming months come under considerable pressure to explain why, if the Government is so committed to personal pensions, there is not a requirement on employers to fund them to the same level of contribution as they currently fund, or notionally fund, occupational pensions. If that were conceded, however, and extended to the public services, there could be a considerable adverse effect on public expenditure in the short term, even if neutral in the longer term. It will be important, therefore, rigidly to maintain the minimum contribution requirement of 4%; and in no circumstances to require public service pension schemes to fund personal pensions over and above that amount.

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

Michael Heseltine

*(Approved by the Secretary of State  
and signed in his absence)*



SOL SERVICES  
Review  
pg 2



29 MAY 1985





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

28 May 1985

Steve Godber Esq  
Private Secretary to the  
Secretary of State for Social Services  
Department of Health & Social Security  
Alexander Fleming House  
Elephant and Castle  
LONDON SE1

*NBM*

*Dear Steve,*

**SOCIAL SECURITY REVIEW: UPDATING TIMING**

Thank you for your letter of 23 May.

The Chancellor accepts that the measures you have shown would enable us to secure savings of £150 million in 1986/87. (These would, of course, be in addition to the amounts outstanding from the last Survey, of £105 million in 1985/86 and £123 million in 1986/87, on which your Secretary of State will no doubt be writing to the Chief Secretary shortly). The Chancellor would be grateful for confirmation that the £30 million attributable to measures affecting students is a net figure ie after any necessary transfers to the DES programme.

As you emphasise in your letter, the agreement at the Prime Minister's meeting was to secure savings of at least £150 million in 1986/87. The Chancellor therefore thinks that further work should be primarily directed at identifying further measures that might be brought forward to July 1986 with a view to increasing the total savings in that year. He thinks these issues should be pursued in the context of the current Survey.

The Chancellor understands that there have been a number of detailed changes to the savings from the reviews. He would be grateful for an up-to-date list of costings, indicating how these now make up the agreed savings of £800 million in 1987/88 and £1 billion in 1988/9.

Finally, the Chancellor notes that the appropriate level for child benefit after the 1985 uprating will be for discussion in the Survey. As you know, his view is that it should be maintained at £7.00 per week for the Survey period.

I am copying this letter to Andrew Turnbull.

*Yours ever*  
*Rachel*

RACHEL LOMAX  
Principal Private Secretary



Social Services: Review  
pk2

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2 3 4  
5 6 7

29 MAY 1985



cc DW  
42

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

NBM

28 May 1985

The Rt. Hon. Norman Fowler MP  
Secretary of State for Social Services

Handwritten signature of Norman Fowler in cursive.

**SOCIAL SECURITY REVIEW: PAYMENT OF MORTGAGE INTEREST**

Thank you for our letter of 21 May.

I am content with your suggested line for the Green Paper, on the clear understanding that, as you say, you are committed to finding the savings of £60 million a year which would have been achieved by your original proposal. I think we are all agreed that the present supplementary benefit treatment of mortgage interest is unusually generous - as the BSA have conceded, probably the most generous in the world - and that it is entirely proper to look for substantial savings in this area.

I am copying this letter to the Prime Minister, Patrick Jenkin, George Younger, Nicholas Edwards, Douglas Hurd and to Sir Robert Armstrong.

Handwritten signature of Nigel Lawson in cursive.

NIGEL LAWSON



SOCIAL SERVICES: REVIEW : Pt 2.

28 MAR 1962



SECRET

Ree



41 *dfg*

10 DOWNING STREET

*From the Private Secretary*

28 May 1985

The Prime Minister has now seen your Secretary of State's minute of 23 May setting out proposed transitional pension provisions following discussion in Cabinet. She has noted the arrangements proposed by your Secretary of State.

I am sending copies of this letter to Rachel Lomax (H.M. Treasury) and Richard Hatfield (Cabinet Office).

A handwritten signature in black ink, appearing to be 'TF' or similar initials.

Timothy Flesher

Steve Godber, Esq.,  
Department of Health and Social Security

SECRET



SECRETSERPS: TRANSITIONAL PENSION PROVISIONSPension £ per week

Age	Full SERPS	SERPS Abolished (old scheme)	SERPS Abolished (new scheme)
50	56.80	-	-
49	57.20	49.60	56.30
45	58.50	55.10	50.65
40	60.20	53.40	52.66

Costs of SERPS

## £ billion

	Full SERPS	SERPS Abolished (old scheme)	SERPS Abolished (new scheme)
2003/04	5.5	4.5	4.6
2013/14	11.2	5.6	6.1
2023/24	17.6	5.2	5.6
2033/34	25.3	3.2	3.4

SECRET



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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

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

24 May 1985

Dear Andrew

1 copy to JR  
1 copy to PM  
✓ 1 copy to AT

SOCIAL SECURITY REVIEW

As agreed, I enclose a copy of the Green Paper as it has gone to print.

I understand that the Chancellor and John Redwood have both asked to see the Volume 2 chapter on pensions and I enclose copies for them.

Yours ever  
*S H F Hickey*  
for S H F Hickey  
Private Secretary

SECRET





cc: [handwritten initials]

38 A

PRIME MINISTER <sup>②</sup>

To note. A significant improvement in pension for <sup>40-49</sup> 49 year olds can be achieved at relatively small cost. The 49 year olds get £6-70 p<sub>w</sub> more. This adds £½ billion to residual cost of SERPS in 2013/14 but saving is still £5 billion. AT 23/5

SOCIAL SECURITY REVIEW: TRANSITIONAL PENSION PROVISIONS

Full SERPS

Cabinet agreed that people within fifteen years of retirement should remain fully covered by SERPS up to retirement.

The Green Paper will, therefore, propose that full SERPS cover should be maintained for men over 50 and women over 45 in 1987. On this basis no one retiring this century will be affected.

Enhanced SERPS rights for men over 40 and women over 35

Cabinet also felt that continuing SERPS in this way without any special help for people in the age group immediately below those remaining in SERPS would produce sharp discrepancies between the pensions that the two groups could expect. Although those under 50 (45) will be covered by the new occupational/personal pension arrangements, they will not have time to build up nearly as much pension as the older group will get from SERPS.

For example, a man of 49 on weekly earnings of £100 at today's levels could expect a total (state plus occupational) pension of £49.60 compared with the total pension from SERPS for a 50-year old on the same earnings of £56.80. If the occupational pension were not fully indexed, as SERPS pensions are, the difference would be still more marked.

We recognised this problem at the meeting you called on 6 May and agreed that ways should be investigated of dealing with it, for example by adding a bonus to the SERPS pension of those just below the cut-off. We agreed that such a solution should not involve any immediate extra costs.



E.R.

I have identified a way of achieving this which will be explained and illustrated in the Green Paper. It is basically a development of the "added years" method which enables people to add to their occupational pension rights. When SERPS has been phased out, people will retain their pension rights already accrued under the scheme. These pension rights will be boosted by crediting people, according to their age, with additional years of pension rights. At the top end of the age group - men aged 49 and women aged 44 - 7½ additional years will be credited; at the bottom end men of 40 and women of 35 will get one year added.

This will have the effect of smoothing out the differences between various age groups' pensions that would otherwise exist. There is no extra cost this century. The maximum effect is in 2013/14 when it reduces the savings from £5½ billion to £5 billion. We still, of course, achieve our objective of entirely replacing SERPS.

I am copying this minute to Nigel Lawson and Sir Robert Armstrong.

23 May 1985

  
NF





NBMH  
AT  
23/5

cc DW 3P

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*

SECRET AND CMO

Mrs Rachel Lomax  
H M Treasury  
Whitehall  
LONDON SW1

23 May 1985

*Dear Rachel*

**SOCIAL SECURITY REVIEW: UPRATING TIMING**

My Secretary of State undertook, at yesterday evening's meeting with the Prime Minister, to let the Chancellor have a note on the review savings that, as matters now stood, might be brought forward to July 1986. The list below, which gives the full year savings, demonstrates that we could achieve savings in 1986/87 of at least £150 millions if we took these measures. It would however be a matter for decision nearer the time, in the light of any further work we had done, whether we took these particular measures to meet the target figure, or whether there were better alternatives.

The measures are:

Introducing a capital limit into housing benefit:	up to	£90 million
Increase in housing benefit rates taper:		£45 million
Measures affecting students:		£30 million
Curtailment of mortgage interest payments:		£60 million
Supplementary benefit additional requirements:		£12 million

I am copying this to Andrew Turnbull at No 10.

*Yours  
Steve*

S A GODBER



**SECRET**

WJDPN

BT 2318

copy 10 of 12

37

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref: J/PSO/14078/85

Your ref:

23 May 1985



*Dear Secretary of State*

SOCIAL SECURITY REVIEW

Payment of Mortgage Interest

Thank you for sending me a copy of your letter of 21 May to Nigel Lawson. *att.*

I welcome the approach you now propose on this subject in the Green Paper. It goes a considerable way to meeting the concerns which we discussed on 30 April. In particular, it should enable us to discuss with lenders ways of achieving savings without detracting significantly from our encouragement of home ownership. I should like my officials to be involved in the discussions.

I am content with the terms of the paragraph which you propose to include in the Green Paper, subject to one important addition. I should prefer the penultimate sentence to read:

"Equally, however, the Government wishes to give as many people as possible the opportunity to become home owners, and it recognises the interests of the lending institutions whose policies have been developed within the existing policy rules."

I am copying this letter to the Prime Minister, Nigel Lawson, George Younger, Nicholas Edwards, Douglas Hurd, and to Sir Robert Armstrong.

*Yours sincerely*

*P. Jenkin*

P PATRICK JENKIN

*Approved by the Secretary of State  
and signed in his absence.*

**SECRET**



23 MAY 1985

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CC MASTER

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10 DOWNING STREET

*From the Private Secretary*

23 May 1985

SOCIAL SECURITY REVIEWS: UPRATINGS

The Prime Minister held a meeting last night to consider the pattern of upratings following the social security reviews. Present were the Secretary of State for Social Services, the Chancellor of the Exchequer, the Chief Secretary and the Minister for Social Services. Mr. Willetts was also present.

The Secretary of State for Social Services said it was impossible to introduce the changes emerging from the reviews by November 1986. The earliest date would be April 1987. There were, however, advantages in moving to April as the month for upratings. This would align the tax, benefit and financial years. In addition, the seasonal pattern of the RPI used for upratings was more favourable.

There were a number of ways in which the move to April 1987 could be achieved. He had ruled out an uprating in November 1986 followed by another uprating only five months later. The alternatives were to pass over the November 1986 uprating and carry right through to April 1987; or to have another uprating in July 1986.

There were advantages to the first option. The public expenditure savings would amount to £570 million in 1986-87 and the size of the increases in benefits would be larger, thereby reducing the number of cash losers. Nevertheless, the Secretary of State for Social Services felt that to pass over the November 1986 uprating would not be consistent with the Government's pledges. He therefore preferred the second option.

The Chancellor of the Exchequer noted that the savings from the first option were likely to be only £150 million, and even that was subject to the vagaries of monthly movements in the RPI. The public expenditure position in 1986-87 was extremely difficult and additional bids from the social security budget alone exceeded £1 billion. If dropping the November 1986 uprating was ruled out on political grounds, there should either be a hybrid solution in which only the pledged benefits were uprated in July 1986; or some of the measures producing savings should be brought forward for implementation in July 1986.

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In discussion, it was argued that the hybrid solution was also unattractive. There would be difficulties in the treatment of people receiving different benefits and it would be impossible to advance the measures producing savings if there were no uprating of the unpledged benefits. It was noted that there were a number of savings which could be brought forward eg the introduction of the new capital disregards and tapers for housing benefit, the abolition of the special addition for central heating, and the taking of students out of SB. A combination of measures of this kind could produce savings in excess of £150 million in 1986-87 though more work would be needed to settle the precise composition of such a package.

Summing up the discussion, the Prime Minister said it was agreed that the pattern of upratings should be July 1986 followed by April 1987 and annual intervals thereafter. The Secretary of State for Social Services should prepare a note setting out the measures which could be brought forward to July 1986 which would achieve savings of £150 million or more in 1986-87.

I am copying this letter to Rachel Lomax (HM Treasury) and Richard Broadbent (Chief Secretary's Office).

ANDREW TURNBULL

S.A. Godber, Esq.,  
Department of Health and Social Security.

*SWT*



cc Mr Turnbull  
Miss Janet Lewis-  
Jones



10 DOWNING STREET

From the Press Secretary

22 May 1985

*Janet*

SOCIAL SECURITY REVIEW

I am most grateful to you for your letter of May 17 for I am concerned about the presentation of the above, as I know you are.

My initial concern is the timing - Monday, June 3 - since I am having my first break this year next week; I shall be in Yorkshire for the whole of the time. This means that I must take away the latest copy so that I can familiarise myself with it. In addition, I would much appreciate your getting over to me here on Friday, May 31, for collection by me that evening, the Q and A brief.

That is enough of the personal stuff.

To return to substance. I think our overall aim should be to secure the widest (and best) possible coverage for the Review. This being so, we have to operate at a variety of levels:

Ministers

I would hope that we could have a background note available for members of the Government, if not on Friday May 31, early on Monday, June 3.

MPs

I hope that members of all the Backbenchers associated with the Lord President's Economic and Social Policy presentation group could have the Ministers' background note early on Monday, if not before. (No doubt you are paying particular attention to your own DHSS Backbenchers.)

Mrs Janet Hewlett Davies  
DHSS



Press Offices

I wonder whether exceptionally there is not something to be said for giving Heads of Information the Ministers' briefing note on Monday morning, with a personal letter from you (or me) saying we think it important they are properly informed of a major policy development.

Press

I have already been the subject of Lobbying by correspondents who fear that there will be no CFRs. You told me on Monday that there would probably be CFRs on Sunday afternoon, with all the hassle that that entails. I think we must give a 24-hour embargo on this subject and the only problem I see about a Sunday afternoon issue is the story which says that the Government was bringing out the Review on a Monday, with CFRs on a Sunday, to stifle Monday morning stories previewing the Review, as it were. I do not take this seriously. But what I think we must take seriously, given the intention to publish on a Monday, is malicious and deliberately inaccurate stories in Monday's papers to condemn the policy statement in advance. You may well feel that things have gone so far down that road as to render any fears redundant.

Radio/TV

I think there is one single point to be made here: there should be maximum advocacy by Ministers at the highest level (with Mr Fowler's Cabinet colleagues weighing in wherever possible). This means that, with all the constraints, Mr Fowler should respond to as many requests as possible. But no doubt you will deploy your team, and especially Mr Newton, to advantage throughout the week.

Lobby

Mr Fowler will have three priorities:

- to get it right in the House;
- to get it right with the media;
- to get it right with his Backbenchers.

Since this is such a political issue, I think he would be well advised to see the Lobby if he thinks he can take the subject, by way of the Lobby, beyond what he would say on the record in an open press conference (which no doubt he intends to do).

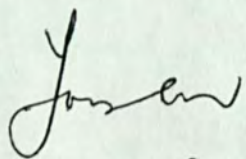
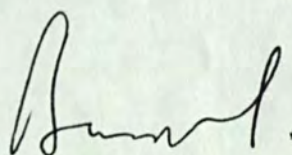


Public Briefing

There is always the problem with major developments of Government policy that the Opposition get out highly prejudicial "facts" and information. Is there any possibility of preparing a neutral account which could be issued to all inquirers, whether by 'phone or letter?

I hope this is helpful. No doubt your Policy Advisers will be liaising with CCO. My concern is with what the Government does. The above sets out my views, with one exception: will you have available for weekly newspapers, through your regional press officers, an article for use under Norman Fowler's signature? I think this would be most helpful if you could so arrange.

Finally, none of the above deals with the substance. (I seldom, if ever, get to grips with substance these days.) I cannot do so until I see the Review and Q and A. I shall, if I can, write to you on substance when I can.

BERNARD INGHAM



SERPS:TRANSITIONAL PENSION PROVISIONS

Pension £ per week

Age	Full SERPS	SERPS Abolished (old scheme)	SERPS Abolished (new scheme)
50	56.80	-	-
49	57.20	49.60	56.30
45	58.50	55.10	50.65
40	60.20	53.40	52.66

	<u>Costs of SERPS</u>	£ billion	
	Full SERPS	SERPS Abolished (old scheme)	SERPS Abolished (new scheme)
2003/04	5.5	4.5	4.6
2013/14	11.2	5.6	6.1
2023/24	17.6	5.2	5.6
2033/34	25.3	3.2	3.4



SECRET



Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
London  
SW1

21 May 1985

*Dear Andrew*

**PUBLIC EXPENDITURE: 1985 SURVEY PROSPECTS**

The Chief Secretary thinks that the Prime Minister would find it useful to have a brief and preliminary appraisal of the prospects for this year's Public Expenditure Survey, as background for Wednesday's discussion of social security upratings.

Most departments have now sent to the Treasury the bulk of the material requested in the PES Guidelines, and Treasury officials have carried out a quick first appraisal of the position. Departments' bids for additional money rise from £4½ billion in 1986-87 to nearly £7 billion in 1988-89. The DHSS, when it has finally settled its social security bid, will certainly be the largest single contributor to these totals, with bids reflecting revised forecasting assumptions (not policy changes) of more than £1 billion in 1986-87.

In addition to this, there is strong pressure (which the Chief Secretary is resisting) in current Ministerial discussions to relax the target and holdback regime applied to local authority current expenditure. This could lead to an additional requirement of upwards of £½ billion a year. For 1986-87 about the same may need to be added for nationalised industries. On the assumption that Ministers take tough decisions to reject or offset discretionary additional bids wherever possible (and do not imagine the problem can be solved by asset sales) total cuts in programmes of perhaps £3 billion a year will need to be found if the Cabinet is to stick to the totals announced by the Chancellor on Budget day, and to retain credible Reserves for contingencies.



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The Chief Secretary believes that it will require very difficult decisions indeed to get back to these expenditure totals. The present analysis suggests, for example, that there will be no scope for additions to capital spending programmes - indeed, some further cuts in capital spending seem inevitable. Without a large contribution from social security, in order to limit the unavoidable increases in this programme flowing from higher inflation in May 1985, there seems little or no prospect of achieving total cuts of the order of magnitude required. The alternatives to such savings on social security current spending would have to be similarly difficult cuts in such areas as housing capital, the roads programme, defence equipment, prison capital and so on.

The Chief Secretary has asked me to emphasise the preliminary and provisional nature of this analysis. He recognises that its conclusions rest on a number of assumptions on which Ministers have yet to take decisions. But enough is already known, in his view, to indicate that the government faces a rough ride if spending is to be held to plan; and that every opportunity for savings must be assiduously pursued.

*Yours ever*

*Richard Broadbent*

R J BROADBENT  
Private Secretary



EX		1986-87		1987-88		1988-89	
		Baseline	DEPT bids	Baseline	DEPT bids	Baseline	DEPT bids
		999,999	999999	999,999	999999	999,999	999999
	Survey baseline and proposed changes						
+	MUD	18,557	394	18,861	564	19,039	875
+	FCO-UDA	1,296	65	1,317	83	1,349	98
+	FCO-OTHER	603	49	619	50	635	71
+	EC	640	55	829	171	850	100
+	IBAP/AFF CAP	1,277	491	1,304	501	1,337	505
+	AFF domestic	713	36	699	47	717	32
+	FORESTRY	53	2	54	2	56	3
+	TRADE/INDUSTRY	1,162	61	980	65	1,007	92
+	ECCD	78	163	-43	138	-44	46
+	ENERGY	296	0	295	0	300	0
+	EMPLOYMENT	3,704	73	3,901	74	3,999	167
+	TRANSPORT	1,955	135	1,996	159	2,046	223
+	DOE-HOUSING	2,424	828	2,526	1113	2,589	900
+	DOE-PSA	-120	14	-128	24	-131	34
+	DOE-OTHER	847	135	860	130	881	128
+	HOME OFFICE	1,061	79	1,104	84	1,130	108
+	LCD	574	60	610	81	625	118
+	DES	3,418	74	3,505	85	3,593	90
+	OAL	332	22	342	27	353	38
+	HEALTH & PSS	14,947	319	15,624	359	16,015	762
+	SOCIAL SEC.	41,547	1209	43,553	1385	44,642	1949
+	CIVIL SUPER.	1,115	72	1,226	75	1,258	135
+	SCOTLAND	4,300	0	4,373	0	4,482	0
+	WALES	1,708	0	1,735	0	1,779	0
+	N. IRELAND	4,464	29	4,603	56	4,717	90
+	CHANCELLOR'S DEPT	1,825	153	1,842	212	1,888	132
+	OTHER DEPTS	365	62	396	67	406	69
	TOTALS (1)	139,060	4580	143,890	5552	147,080	6765

(1) Baseline totals include LA relevant current, NIEFLs, Reserves and special sales of assets

17/5/89





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CEDW

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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 Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

21 May 1985

SOCIAL SECURITY REVIEW: PAYMENT OF MORTGAGE INTEREST

The Building Societies Association had an informal meeting this morning with Tony Newton to discuss recent press reports that the Government were proposing to reduce the amount of help given to owner occupiers under the supplementary benefit scheme. The meeting was arranged at their request and, by mutual agreement, was "off the record".

The Association made it clear that if the Government were to announce a decision in the Green Paper that mortgage interest was no longer to be payable during the first six months of any supplementary benefit claim, they would come out against it very strongly. They will argue that the change would seriously undermine the whole housing market in some areas, especially those of high unemployment.

There is no doubt that the Association could mount an effective campaign on these lines and on the basis of the impact on our policy on owner occupation generally. This will inevitably cause some concern among our supporters.

It was, however, also clear from what the Association said that they would be ready to cooperate with us in examining different ways of tackling the issue, provided we made it plain that we were not announcing a decision but setting out general aims, the detailed achievement of which we were ready to discuss.

I propose to present the issue in this way in the Green Paper. I have in mind a paragraph on the following lines:




"The present guarantee of mortgage interest payments can be seen as giving too favourable treatment to those on supplementary benefit in comparison with the position of other people in society. The Government wish to introduce changes in the system to reduce the discouragement for owner-occupiers to return to work that can apply under the present interest payment commitment. We are aware of arrangements that building societies are already prepared to consider in individual cases to help borrowers with short-term difficulties, and of the introduction of insurance protection against inability to continue mortgage payments, such as may occur through unemployment. Equally, however, the Government recognise the interests of the lending institutions whose policies have been developed within the existing policy rules. The Government intend to discuss with building societies and other interested bodies arrangements whereby less of the burden - particularly for short-term claimants - falls immediately and directly on the social security system."

If we follow this line, I would not expect the Association to come out publicly against what the Green Paper says.

My intention is still to achieve the savings in this area we have discussed. In any event, I accept that I am committed to finding savings of this order. But my objective is to place the onus on the Association to come up with ideas for meeting the target. In fact, the exercise will be unlike traditional social security negotiations and more akin to our approach to the pharmaceutical industry on the selected list.

I am copying this letter to the Prime Minister, Patrick Jenkin, George Younger, Nicholas Edwards, Douglas Hurd and to Sir Robert Armstrong.

*John ...*   
NORMAN FOWLER





Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP  
Secretary of State  
Department of Health and Social Security  
Alexander Fleming House  
Elephant and Castle  
London  
SE1 6BY

21 May 1985

*Dear Secretary of State*

#### SOCIAL SECURITY REVIEWS

I understand from my officials that drafts of several important sections of your Green Paper are not yet available. I do not want to delay publication. But there are a number of points where it is crucial that we get ourselves organised properly to make the Green Paper a success.

I am particularly anxious to see as quickly as possible the revised sections of the Green Paper dealing with our pension proposals. These will have to cover a considerable amount of ground, including the proposed arrangements for compulsory private pensions, the revised proposals for transitional protection for those under 50 and the associated NIC proposals. Much of this material will be new. It is essential that we get it right. That means having a clear and agreed understanding of all the supporting costings and analysis of the economic implications.

I also think it is essential that we agree well in advance of publication the line we propose to take in public about all the major changes proposed in the Green Paper. There are a number of loose ends that need tidying up, including the treatment of invalidity benefit. We cannot put together effective and convincing statements of the case for our proposals until we see drafts of the Green Paper itself. Our officials will also need to agree on the detailed analysis,



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for example of winners and losers, which must underlie effective briefing. I was extremely concerned to hear that there has been no further discussion of these issues at official level since we met earlier this month.

I am copying this letter to the Prime Minister.

*Yours sincerely*

*P. Broadbent*

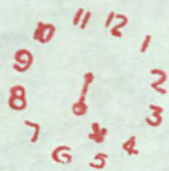
for PETER REES

*[Approved by the Chief Secretary]*

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21 MAY 1985





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D. R.

PRIME MINISTER

### SOCIAL SECURITY UP-RATINGS

April 1987 is the earliest practicable date for implementing the benefit reforms. How do we get from the November 1985 up-rating to April 1987?

Norman Fowler wants two 9-month up-ratings (see Flag A). This saves £150 million in 1986-87 because with a July up-rating the average level of benefits that year is lower than with a November 1986 up-rating. Nigel Lawson wants one 18-month up-rating in April 1987, saving £570 million in 1986-87 (Flag B).

Norman Fowler's option does not save us enough money in 1986-87. We need more because the public expenditure position is so grim and also because politically it is best to get the painful benefit cuts out of the way well before the Election.

Nigel Lawson's option isn't on because deferring the up-rating of the pledged basic pension is politically explosive. Every hypothermia case in the winter of 1986-87 will be blamed on us.

I recommend the following compromise. Agree with Norman Fowler's ingenious proposal for an up-rating in July 1986. But insist that he also implements then some of the nasty measures from the benefit reviews so as to get extra savings. My shopping list would be:

- introduce the Housing Benefit Capital Rule so that anyone with savings of more than £6,000 loses their benefit entirely.

- steepen the Housing Benefit rates taper.

- get rid of some of the SB additional requirements (eg, central heating) and not up-rate some of the others.

The DHSS have not yet come up with costings for these options but we could press him for another £150 million.

*Duty Clerk*  
*PP.*

DAVID WILLETTS

21 May 1985

SECRET





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cc B/yp  
DW  
B

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*

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

21 May 1985

*Dear Andrew,*

SOCIAL SECURITY REVIEW: UPRATING TIMING

In advance of tomorrow's meeting, I attach an agreed note by DHSS and Treasury officials.

A copy goes to Margaret O'Mara (Treasury).

*Yours sincerely*

*Stephen*

S H F Hickey  
Private Secretary



S E C R E T

SOCIAL SECURITY UPDATINGS 1986 AND 1987

NOTE BY TREASURY AND DHSS OFFICIALS

1. This note shows the savings, on current assumptions (see Annex), of uprating social security benefits in -

Option a) November 1985, July 1986, April 1987 and April each year thereafter

Option b) November 1985, April 1987 and April each year thereafter instead of in November each year.

2. The savings are

	1986/87	1987/88	1988/89
			£m
Option (a)	150	300	400
Option (b)	570	300	400

3. The savings result from the seasonal pattern of movements in the RPI. Regardless of the actual annual rate of inflation, there is usually a larger increase in Q2 (April - June) than in any of the other three quarters, because of increases in housing costs and in excise duties in April. The RPI less housing, used for uprating supplementary benefit, shows a similar pattern, though to a lesser extent, reflecting the excise duty rises.

4. The July 1986 uprating would be based on the movement over 8 months which exclude the April increase. Although uprating expenditure would be brought forward from November, the cost between July and November 1986 would, on present assumptions, be more than offset by the saving between November 1986, when an uprating including the Q2 rise would otherwise have occurred, and April 1987.



5. Similarly, compared with November 1985, benefit levels in April 1987 will reflect the movement in the RPI over a 16-month period which contains only one Q2 effect. They will therefore be slightly higher between April and November 1987 than they would have been if uprated in November 1986, but considerably lower between November 1987 and April 1988 than they would have been if uprated in November 1987. The net effect is a substantial saving in 1987-88. This holds true whether or not there is an uprating in July 1986.

6. In subsequent years, the uprating will be based on a full year's RPI movement. But the savings persist because the April uprating will always be from a lower base.

7. The following table shows these effects in relation to the single retirement pension rate, current £35.80.

Uprating Date	November Upratings	Option (a)	Option (b)
November 85	38.05	38.05	38.05
July 86	↓	38.75	↓
November 86	39.70	↓	↓
April 87	↓	39.90	39.90
November 87	41.10	↓	↓
April 88	↓	41.15	41.15

£pw



ANNEX

RPI MOVEMENTS ASSUMED

	<u>Period</u>	<u>Percentage increase</u>	<u>Uprating date (week commencing)</u>
1. November upratings	May 84 - May 85	$6\frac{1}{4}$	25 Nov 85
	May 85 - May 86	$4\frac{1}{2}$	24 Nov 86
	May 86 - May 87	$3\frac{1}{2}$	23 Nov 87
	May 87 - May 88	3	21 Nov 88
2. Option (a)	May 84 - May 85	$6\frac{1}{4}$	25 Nov 85
	May 85 - Jan 86	1.8	28 July 86
	Jan 86 - Sept 86	3.0	6 April 87
	Sept 86 - Sept 87	3.1	4 April 88
3. Option (b)	May 84 - May 85	$6\frac{1}{4}$	25 Nov 85
	May 85 - Sept 86	4.9	6 April 87
	Sept 86 - Sept 87	3.1	4 April 88

Note: All May-May figures are current PESC assumptions.



PRIME MINISTER

SOCIAL SECURITY REVIEWS

The main purpose of the meeting is to settle the pattern of upratings. Mr. Fowler's option saves £150 million in 1986-87, Flag A, and the Chancellor's option saves £570 million, Flag B. The Chancellor's option of going through the seventeen months from November 1985 to April 1987 scarcely looks consistent with Government pledges. But he feels the savings of Mr. Fowler's option are insufficient. He has circulated a note, Flag C, presenting a gloomy preliminary review of this year's survey. David Willetts, Flag D, suggests a compromise in which Mr. Fowler brings forward to July 1986 some of the measures producing savings. Mr. Fowler's minute suggested this, but the costings paper does not provide any figures. David thinks £150 million might be achieved.

The second issue is the finalisation of the Green Paper. Flag E expresses Treasury worries about the late arrival of the document which will contain a number of important details not set out in earlier papers. You should ask Mr. Fowler to let you have the latest draft to look at over the Bank Holiday weekend.

You should confirm with Mr. Fowler that he has all the arrangements for presentation firmly in hand.

Having met the Building Societies, Mr. Fowler is getting cold feet about the proposal to withhold supplementary benefit for mortgage interest for the first six months. His letter to the Chancellor, Flag F, proposes a "greener" presentation of this issue. He promises, however, to achieve the £60 million savings which were expected from this proposal. You should emphasise that there can be no question of sacrificing these savings.

AT

21 May 1985





SECRET

29

NDA

CC DW

187  
24/5

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 Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

20 May 1985

*Nigel*

SOCIAL SECURITY REVIEW: PUBLIC SERVICE PENSIONS

*- file on BUP*  
You wrote to me on 22 April about the implications for the new pension framework for public service pensions.

It did not seem to me that it would be helpful to reply until we had settled the shape of the framework. Now that we have, I am writing to say that I am in general agreement with you and with the line you propose to take on indexation of public service pensions when the Green Paper is published.

You mentioned two other points - the impact of personal pensions on public service schemes and on the Civil Service scheme in particular and part-timers in public service schemes.

On the first point, it will be essential, if we are to carry forward our policy on personal pensions, for them to be available to those working in the public service as well as the private sector. In practice, members of public service schemes are unlikely to see advantage in choosing a personal pension: but in principle they should have the right to do so. I do not think we should seek to draw any distinction for this purpose between funded and unfunded schemes or between contributory and non-contributory schemes. (There are, of course, non-contributory schemes in the private as well as the public sector.) The right to take a personal pension should apply to them all.

I should add, in case you or other colleagues are concerned about the impact on public service schemes, that my intention is that the right to take a personal pension will only operate in respect of pension rights after the starting date of the new legislation. It



E.B.

will not apply to accrued pension rights before that date. I shall leave open in the Green Paper whether the right should apply to pension rights accrued between the starting date of the new legislation and the decision to take out a personal pension or just to pension rights after the decision takes effect. Either way, any impact on public service schemes - assuming there is any impact at all - will be very slow to build up.

On the second point, we have of course taken account of the cost of part-time membership of public service schemes in considering the new pensions framework. As with personal pensions, it would not be politically practicable to deal differently with public and private sector schemes.

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

*You see. Norman*

NORMAN FOWLER



Social Security: Renew Pt 2.

9 10 11  
12 13 14  
15 16 17  
18 19 20  
21 22 23  
24 25 26  
27 28 29  
30 31 32

221





10 DOWNING STREET

- ~~1. JR~~
2. ~~AT~~

I don't think this  
needs any intervention  
from the Policy Unit  
on the P.M. We agreed  
not to bother her with the  
earlier letters.

David Willetts  
23/5/85





(28)

CCDW.  
NORMAN FOWLER

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 Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

20 May 1985

*Nigel*

STUDY OF TAX AND SOCIAL SECURITY SYSTEMS

*FILE ON BIUP*  
I have been considering the approach you suggested in your letter of 23 April on links between the tax and social security systems.

I agree we do not want to raise expectations that we could not fulfil. Equally, though, it would be a mistake not to recognise, in my presentation of the outcome of the social security review, that there is already considerable public interest in this area which we should acknowledge. This has been reflected in the evidence to the Review much of which has been published and in comment in the media and in the House - including our own supporters. The reference in your Budget Speech to your Green Paper on Personal Taxation discussing options which would include "closer integration between the tax and benefit systems" will have raised expectations that the Government is looking seriously at this area.

While I welcome, therefore, the development of even closer links between our Departments, we do need to be sure that we present our general approach in a positive way. When your Green Paper is published we shall need to be able to show that we have covered the ground together. In particular, our officials need to be looking at the four areas we have identified as offering possible scope for closer links. Otherwise, we shall unnecessarily put ourselves on the defensive. I have sought to make sure my Green Paper now reflects this broad approach.

I am copying this letter to the Prime Minister, other members of MISC 111 and to Sir Robert Armstrong.

*John*

NORMAN FOWLER



Social Security: Renew P42

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE  
SOCIAL SECURITY ADMINISTRATION

22 MAY 1975



*file*  
cc: Mr. Turnbull

*Remang*

MR. INGHAM

SOCIAL SECURITY REVIEW: ARRANGEMENTS FOR PRESENTATION

The Prime Minister was asking today about the arrangements being made to put across the results of the Social Security Review. She referred in particular to a good brief for Ministers.

I imagine that a brief for Ministers will only be one element in what will clearly need to be a major exercise of presentation. I think that the Prime Minister would be reassured if you could keep a close eye on what the DHSS are preparing and also keep the Prime Minister informed about the plans.

17 May 1985





10 DOWNING STREET

Prime Minister (i)

Clearly a meeting is needed soon but it must have agreed figures on the options and on the baseline against which comparisons are being made.

I will arrange.

AT  
1515

AT

1730-1815  
Wed 22 May

CR

B/P for this meeting



cc JR A  
26

Prime Minister

## SOCIAL SECURITY REVIEW


Now that Cabinet has approved my proposals for the reform of the Social Security system, we need to decide some crucial issues on timing and implementation. The agreed objective is to introduce legislation in the next session and to bring in the major structural changes from April 1987. My concern now is to settle how to get from here to there.

2. The key to this is to change the uprating date from the end of November to the beginning of April. We need to have an uprating at the time of the change to mitigate the effect of losses. But it would not be possible to complete the changes in time for a November 1986 uprating without a high chance of the system breaking down. Thus, without a change in the uprating cycle, we could not bring in the new system until November 1987. A move to April upratings is also desirable on wider grounds:

- by aligning the tax and benefit years it increases the scope for integration and co-operation between the tax and benefit systems which both Nigel Lawson and I regard as desirable;
- it means that decisions on benefit rates taken in the public spending round can be implemented at the beginning of the financial year and therefore produce full year effects.

3. When we discussed this briefly on Monday you indicated that you felt it would be extremely difficult simply to postpone the November 1986 uprating to April 1987. I agree. While we might be able to claim to have met the letter of our pledge on pensions, we could not claim to have honoured the spirit. There is, however, a way in which we can make the change without that risk and without any additional cost. This can be achieved by bringing forward the 1986 uprating to, say, July. This smaller uprating would then be






followed by a further uprating in April 1987 to coincide with the full implementation of the reforms. From then on we would be on a new annual cycle based on April. Because of the pattern of inflation during the year this process in fact produces some overall savings.

4. This has several beneficial effects. In particular it would:-

- allow us to bring forward some changes from April 1987 to July 1986 and hence reduce the severity of losses from the main changes in April 1987;
- produce some savings from the Review in 1986-87 which we had not previously planned on. It could also give us some extra headroom in 1987-88 to help with the process of change, for instance in providing transitional protection for those on supplementary benefit who would otherwise face cash losses.

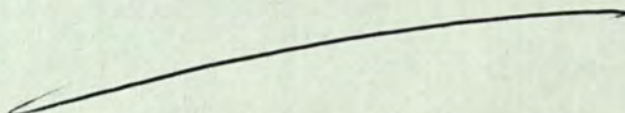
5. I shall be discussing the details of all this with Nigel Lawson. But the immediate issue is what we should say about this in the Green Paper. In my view it has considerable presentational advantages. Not only is it an important structural change and a move towards tax-benefit integration. It will also enable us to show that the implementation of the review will result in earlier upratings and higher benefit levels at crucial periods.

6. I am copying this minute to Nigel Lawson only. It would be helpful if we can have an early meeting to discuss it.



NF

15 May 1985







15 MAY 1985



JOHN DEWITT





PRIME MINISTER

The Defence Secretary telephoned this morning to convey a message about Cabinet's discussion of the Social Security Review. He is at the Scottish Party Conference, and unable to attend.

He wanted you to be aware of his view that the 20% disallowance on housing benefit on the rates was extremely dangerous politically. He recognised that it was part of the Government's campaign to improve accountability of local authorities as regards rates. But it would be widely seen as a tax on every hardship case, imposed by the Government. Public opinion would not see it as something for which local authorities were responsible but as the fault of central government. There would be great scope for the Opposition to exploit the discontent.

C.D.P.

a.s. 84



PRIME MINISTER

cc Lord President  
Secretary of State  
for Social Services

TRM

SOCIAL SECURITY REVIEW

The Lord President, after speaking to Mr Fowler on Tuesday, asked me to prepare a briefing line on the Social Security Review for use after tomorrow's Cabinet.

My guidance to the Lobby has been that Cabinet hopes to complete the review tomorrow but that I cannot absolutely rule out its going to another Cabinet. (I believe presentationally it would be difficult if the exercise were not completed tomorrow.)

On the assumption that the review is completed, Mr Fowler has agreed that I - and his Director of Information - should be authorised to say:

X "The Cabinet today completed its consideration of the Social Security Review. <sup>My</sup> The Secretary of State for Health and Social Security will now finalise the Green Paper which is to be published following the Cabinet's decisions. He hopes to be able to publish it, accompanied by a statement to the Commons, soon after Whitsun." X

[My advice from DHSS is that there is really no possibility of getting the Green Paper out before Whitsun.]

If the review is not completed tomorrow, Mr Fowler has agreed that we should be authorised to say:-

4 "The Cabinet made further good progress today on the Social Security Review but it has decided to have a final discussion next Thursday before going ahead with the publication of a Green Paper.

"[If the facts allow] - Most of (all) the key decisions have been taken and next Thursday's consideration will complete the work.

"It is now hoped to publish the Green Paper with a Parliamentary Statement, early in June."

BERNARD INGHAM  
8 May 1985



8 May 1985

PRIME MINISTER

PENSIONERS' HEATING ADDITIONS

We spend £500 million a year on Supplementary Benefit additional payments. £400 million of this goes on heating additions, of which half goes to pensioners.

The heating addition is paid to all SB pensioner householders (over 90% of pensioners on SB) automatically, all through the year, at a fixed rate. Heating additions are not like SB payments for water rates which meet actual bills. Over-65s get a heating addition of £2.10 per week, and over-85s get £5.20 per week. Married pensioners get the same rate as the single pensioner.

In practice, payments are lower as the £1 "available scale margin" (ASM) is deducted from additional payments to pensioners on the long-term SB rate.

Norman Fowler would get rid of automatic heating additions and the ASM. Instead, he sets a new inclusive scale rate for pensioners. This is higher than the current basic SB rate, but on average pensioners will get less than at present, as the figures presented to MISC 111 show:



	<u>Current</u>	<u>Av. entitle-</u> <u>ment under</u>	<u>Av.</u>
	<u>Scale Rate</u>	<u>Present Scheme</u>	<u>Proposal</u>
			<u>Loss</u>
<u>Single claimant</u>	£	£	£
Pensioner 60-79	35.70	38.15	36.40
Pensioner 80+	35.70	40.40	39.05
<u>Married couple</u>			
Pensioner 60-79	57.10	59.55	58.15
Pensioner 80+	57.10	61.80	60.80

These figures may look grim, but they will not be as bad in practice as the changes will only be implemented at an uprating, so cash losers can be avoided.

There are two distinct political issues:

- pensioners losing from the benefit reforms:
- presentation of the disappearance of heating additions.

It is a brute fact that pensioners lose out from the benefit changes. As the elderly get over half of all benefit expenditure, it would be difficult to attack the DHSS budget without pensioner losers. But:

- Pensioners do well at present. There is an average 25% premium over other groups for pensioners on SB. Remarkably, over one-third of pensioners getting SB also save regularly.



- We keep to your pledges to maintain the value of the basic retirement pension and supplementary pension.
- The Green Paper will avoid giving any figures. It will be open to you to spend more money on transitional help for pensioners when the changes are implemented, if you wish.

The second problem is the disappearance of the heating addition. One solution would be notionally to identify it as a component of the new pensioner scale rate, without actually changing the proposed new total for pensioners. We would need to avoid fixing a new basic rate (less the notional heating addition) lower than the old basic rate, thus breaking your pledge.

There is also the risk that we would next find ourselves having to reinstate heating additions for other groups such as the disabled. Soon we would be back with our 16,000 paragraphs of regulations. But if you are worried about the presentation, this compromise might be a way forward.

*David Willetts*  
DAVID WILLETTS



8 May 1985

PRIME MINISTER

ABOLITION OF SERPS

This is not another long brief on the abolition of SERPS. But we have one last suggestion on Norman Fowler's Cabinet Paper on pensions.

Nowhere in his paper does he say he will oblige existing pension funds, and new funds set up under the compulsory scheme, to give better information to contributors. Members of a pension scheme should be told every year of their accrued rights and of the current transfer value of their pension. Actuaries will say that this is impossible, but they are wrong. The political attraction is simple - a little chit through the post every year telling you the size of your nest egg is one more step to the property-owning democracy.

*David Willetts*

DAVID WILLETTS





24

Ref. A085/1288

PRIME MINISTER

Social Security Review

FLAGS A + B (C(85) 9 and 12)

FLAG C On 2 May (CC(85) 15th Conclusions) Cabinet reached decisions on family support and supplementary benefit. It now needs to make decisions on the rest of the review, including the abolition of the State Earnings Related Pension Scheme (SERPS) on which Mr Fowler has put in a further memorandum (C(85) 12) following your meeting on Monday evening.

## MAIN ISSUES

2. The main issues for the Cabinet are:

a. whether the major proposals are agreed on:

i. housing benefit;ii. pensions.b. whether the remaining lesser proposals are agreed;c. whether the package as a whole is acceptable, in particular the total cost savings, and the overall impact in terms of gainers and losers;d. whether Mr Fowler's proposals for a Green Paper, legislation next Session and implementation from April 1987 are agreed.

--- The proposals are summarised in the Annex to this brief.





### Housing Benefit

3. For housing benefit the proposal is to bring the tests and entitlements for those in and out of work into line (and to have the same tests as for the new supplementary benefit income support scheme) and to withdraw entitlements on a combined taper for rent and rates. MISC 111 discussed at some length the principle of 100 per cent assistance with rent and rates. On rates it concluded that the maximum level of assistance should be restricted initially to 80 per cent so that all ratepayers would have to make a personal contribution to their rates. On rents it considered whether maximum levels of rent should be set above which benefit would not be paid. It concluded that this would be too complicated. The Chancellor of the Exchequer then urged a maximum level of rent assistance of, say, 95 per cent. I understand he is not pursuing this. The proposal is therefore to give 100 per cent support with rents; control of housing benefit rent expenditure will rest on reimbursing directly only 80 per cent of local authorities housing benefit expenditure, on streamlining and strengthening their powers to act on unreasonable rents, and by taking reserve power to impose a rent cap on local authorities which are judged to behave unreasonably. The effect of the proposals is to reduce housing benefit expenditure by £560 million in a full year.

### Pensions

4. The main proposals on pensions is to abolish SERPS. The main argument for doing so is that the cost of providing SERPS pensions in the next century, with its implications for contributions from the then working population and for public expenditure, will be an intolerable burden. There is also a philosophical case for shifting the responsibility for making pension provision (apart from the State basic pension which is unaffected) away from the State to the employer and the individual and for putting it on a funded rather than a





Flag B  
 pay-as-you-go basis. The proposal approved by MISC 111 was to abolish SERPS immediately (while preserving accrued rights) and to substitute non-State second pensions based on a compulsory contribution requirement. However, the Chancellor was concerned about the short-term cost implications of this proposal, and you and other Ministers were concerned at the likely effect on the pension expectations of those nearing retirement. C(85) 12 puts forward revised proposals which meet these concerns. The main features (paragraph 6 of C(85) 12) are:

- a. For men aged 50 or over and women 45 or over, SERPS will continue until their retirement.
- b. For all other employees SERPS will be phased out and a compulsory minimum private pension contribution phased in over the three years 1987-88 to 1989-90. The compulsory contribution will build up to 4 per cent of earnings (shared equally between employer and employee).

This approach will still secure cost reductions in the next century (rising to £22 billion by 2033-34) but will also protect the position of those within 15 years of retirement, and significantly reduce the short-term costs (see paragraph 7 of C(85) 12).

5. The abolition of SERPS is certain to be highly contentious. It will be attacked by those who see it as going back on the all-party agreement of the seventies and as a step back towards greater poverty for the pensioner. Those contracted-out of SERPS will lose the benefit of the contracted-out rebate. More particularly, those in the age groups immediately below 50 (men) or 45 (women) may feel especially aggrieved: those above them will retain full SERPS entitlement; those below them will have time to build up a reasonable pension entitlement by retirement;

---





they will be caught in between. Following your meeting last Monday, Mr Fowler is considering further how their position can be ameliorated.

#### Other Proposals

6. MISC 111 also agreed proposals on unemployment benefit, widows benefit, death and maternity grants, maternity allowance and students (see C(85) 9, paragraph 21, and Annex to this brief). They also agreed to make no change in the scheme of industrial injuries benefits. Savings of £50 million a year and upwards will accrue.

#### The Package; Savings and Impact

7. The proposals taken as a whole amount to a radical and significant restructuring of the social security system. The main resistance will come from those who perceive themselves as losing from the changes (see Annex) including:

changes in supplementary benefit will produce about 2 million losers (and 1½ million gainers);

changes in housing benefit will produce 7 million losers (because of the loss of entitlements to 100 per cent reimbursement of rates; 5 million of the losers will lose less than £2 a week);

abolition of SERPS means that many of those in middle-age are likely to perceive their retirement expectations as reduced;

abolition of death and maternity grants will affect 500,000 or so people a year in each case.

Undoubtedly much will be made of hard cases.





8. The savings likely to be made will be very relevant to whether the controversy is worthwhile. As proposed, the structural changes other than pensions will save £800 million in 1987-88 and £1 billion in 1988-89 and 1989-90. Taking account of the proposal for abolishing SERPS, savings will be £700 million in 1987-88 and 1988-89 and £400 million in 1989-90. Longer term savings accrue from abolishing SERPS: £6 million by 2013-14 and £22 billion by 2033-34. The changes will also save 3,000-4,000 staff and £20 million in administrative costs. During the course of the MISC 111 discussions the Chancellor of the Exchequer and the Chief Secretary, Treasury argued for even greater savings in the early years (at one stage for up to £2 billion) and it is the case that savings not made now may be very difficult to achieve for a number of years. Against this Mr Fowler argued that greater savings should be discussed separately in the public expenditure round and that, in any case, to attempt to achieve too great savings would arouse too great controversy and jeopardise the whole exercise. The Chancellor's present view as you know, is that he is not disposed to press for savings directly from the review greater than those already identified. He may, however, seek to secure Cabinet agreement in terms of making greater savings from Child Benefit than are required to finance Family Credit by eg forgoing future upratings. Last week's meeting agreed that there was no presumption of annual inflation linked upratings for CB. Chancellor wants to go further and seek agreement that after increase Next Steps to £7.00, there should be no further cash increase planned.

9. Mr Fowler proposes that, following Cabinet's decisions, he should publish the proposals in a Green Paper. (A draft of volume one of the Green Paper is attached to C(85) 9). His intention was to publish before Whitsun but, following your meeting last Monday, he is considering whether timing before or after Whitsun would be better. The intention is then to legislate next Session and to implement proposals for April 1987. An earlier implementation date (eg November 1986) would not allow adequate time to prepare instructions and guidance.





Even to meet the April 1987 date legislation next Session is vital and there is already much less time than is desirable to develop and draft considered legislation.

## HANDLING

10. You may like to suggest that the Cabinet should consider the remaining major proposals on housing benefit and pensions, and then the other proposals, the overall package and presentation and next steps in that order. You will wish the Secretary of State for Social Services to introduce each part of the discussion very briefly. The Chancellor of the Exchequer will wish to contribute on pensions and overall savings in particular and the Lord President on presentational and legislative implications. Otherwise you may wish in particular to let those Ministers who have not been on MISC 111 contribute (ie the Lord Chancellor, the Foreign and Commonwealth Secretary, the Secretaries of State for Energy, Defence, Scotland, Wales, Transport and Northern Ireland, the Lord Privy Seal and the Chancellor of the Duchy of Lancaster).

## CONCLUSIONS

11. You will wish the Cabinet to reach conclusions on:

i. the major proposals on:

housing benefits;

pensions.

ii. the other lesser proposals:

← unemployment benefit (higher rates but duration reduced to 26 weeks);

*Ms Forde is getting cold feet on this - see attached note.*





widows' benefit (short-term 26 week allowance replaced by lump sum; subsequent benefits concentrated more on older widows and those with children);

✓ death and maternity grants (to be abolished; better help for those most in need);

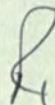
✓ maternity allowance (more flexible, and more relevant to working women);

students (intention in principle to exclude from supplementary and housing benefits).

iii. the acceptability of the package as a whole;

iv. presentation - including in particular the publication of the Green Paper, and public announcement;

v. legislation and implementation.

  
P.P. ROBERT ARMSTRONG

8 May 1985



SUMMARY OF PROPOSALS

ANNEX

Pensions

1. SERPS abolished (existing rights protected) for men under 50 and women under 45
2. Occupational provision to be made compulsory on basis of defined contribution.
3. Encouragement to industry wide schemes and personal pensions.

2. Supplementary Benefit

1. New income support scheme based on age, marital status, client group and family responsibilities. Replaces the present short-term and (higher) long-term scale rates and the extra weekly payments (for heating, diet, laundry etc)
2. New social aid scheme to give discretionary help with extra needs, (births, deaths, financial crisis) and budgetting difficulties.
3. No help with mortgage interest for first 6 months.
4. Higher limit on capital (£6000 instead of £3000) with weekly income assumed and set off against benefit.
5. Higher earnings disregard for long-term unemployed families after 2 years (£15 instead of £5) on an experimental basis.
6. No separate help for residual housing costs or water rates - amount to be allowed for in setting new weekly benefit rates.

Consequences (resources, people)

Resources: PSBR costs of £100 million in 1987/88 rising to £600 million in 1989/90 but savings from SERPS abolition of £1.2 billion in 2003/04 rising to £22 billion in 2033/34.

People : Those now in contracted-out schemes will pay higher contributions and lose some inflation-proofing of their pensions; retirement expectations of those near but below 50/45 potentially reduced.

Consequences (resources, caseload, people)

Resources : reduces overall expenditure by £180m after transitional protection runs out  
 : Saves 2000-3000 DHSS staff (plus 350-450 from YTS expansion and eventual exclusion of students)

Caseload : People entitled fall by 590,000

Gainers 1,243,000 + 550,000 gain £0-£2  
 458,000 gain £2-£5  
 229,000 gain £5+

1,243,000  
 includes 216,000 pensioners  
 651,000 unemployed  
 232,000 lone parents  
 138,000 sick and disabled

Losers 1,942,000 - 773,000 lose £0-£2  
 882,000 lose £2-£5  
 287,000 lose £5+

1,942,000  
 includes 1,098,000 pensioners  
 558,000 unemployed  
 197,000 lone parents  
 49,000 sick and disabled

SECRET

SECRET



3. Housing Benefit

1. Main structure to be fully aligned with new income support scheme replacing supplementary benefit. Secures equitable help for all at or below basic income levels for new income support scheme.

2. Help to be based on combined assessment of rent and rates with a single (70 per cent) taper for withdrawing benefit as net income rises.

3. Maximum help with rents will be 100%, and 80% for rates.

4. Some capital rules to be applied as for the new income support scheme.

5. Benefit subsidy to local authorities by specific grant to be limited to 80 per cent of total benefit cost.

6. A reserve power to be taken to impose controls on individual local authority areas.

Consequences (resources, caseload, people)

Resources: reduces overall expenditure by £560m in first full year (£310m from tenants; £250m from owner occupiers)

Caseload: people entitled fall by 1.8m (about 25%) (0.3m tenants (0.6%); 1.5m owner occupiers. (58%))

Gainers: 810,000

Losers: 7.2m - 5.3m lose £0 - £2  
1.5m " £2 - £5  
0.4m " £5 +

7.2m includes 3,930,000 pensioners  
950,000 earners  
620,000 lone parents  
240,000 sick/disabled  
1,460,000 others (mainly unemployed)

SECRET

SECRET



✓ 4. Death Grant

1. To abolish the universal £30 death grant
2. To meet funeral costs of people who cannot afford them under the discretionary social aid scheme.

Consequences (resources, people)

Resources: overall benefit saving of about £15m a year plus most of £12m grant on administering death grant.

: DHSS staff saving of 500-600

People : about 600,000 no longer qualify for £30 grant  
15,000-20,000 poor families will receive more help under Social aid arrangements than now.

✓ 5. Maternity Grant

1. To abolish the universal £25 grant paid to all expectant mothers.
2. To pay a £75 grant automatically to mothers in families receiving new income support or family credit.
3. To pay up to £75 to other expectant mothers who need help, under the discretionary Social aid scheme.

Resources: overall benefit saving of about £10m a year.

: useful DHSS staff saving

People : about 500,000 expectant mothers no longer qualify for £25.

: about 150,000 poorer expectant mothers receive up to £75, ie gaining up to £50.

*in low income families*



1750.  
50.10.

6. Widows' benefits

1. To abolish widows' allowance (paid for first 26 weeks)
2. To pay all widows under 60 a lump sum ~~£4,000~~ of ~~£750~~ *35.80.*
3. To pay widowed mothers with children widowed mothers allowance immediately, and widows' pension to widows aged 55 and over who have no dependent children.
4. To pay age-related widows pension to widows aged 45 to 54 who have no dependent children.

Consequences (resources, people)

Resources: net savings overall - nil cost year 1 ) with  
 - £15m year 2 ) £750  
 - £50m year 5 ) lump  
 - £100m year 10 ) sum

~~(savings are £15m lower if lump sum set at £4,000 and first year effect is £45m cost)~~

: some savings in DHSS manpower (to be quantified)

People :

<u>Gainers</u>	(all in first 26 weeks)	Total amount
	48,000 widows over 55 and/or with dependent children	+£375
	12,000 widows 50-54 with no child	+£210
<u>Losers</u>	(first 26 weeks)	
	2,000 widows under 45 with no child	-£550
	3,500 widows 45-49 " " "	-£110

(after 26 weeks)

childless widows	under 40	2,000	lose	£35.80	per week
	40-44	30,000	"	£20.25	" "
	45-49	81,000	"	£13.00	" "
	50-54	72,000	"	£7.00	" "

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7. Unemployment Benefit (UB)

1. To propose a new short-term contributory benefit scheme covering first 26 weeks of unemployment. Structure to be based on new income support scheme but with rates set slightly higher.
2. To revise the present contribution tests for determining entitlement and for requalifying.

Consequences (resources, caseload, people)

Note: figures are subject to further working.

Resources: Small benefit saving (£10m to £40m); loss of tax revenue (£95m); possible man-power saving. Expenditure on UB falls by about £550m but Supp Ben expenditure rises by some £500m.

Caseload: 240,000 people will not have to deal with both UB and SB office at the same time.

The numbers on UB will fall by about 300,000; the rise in the number on income support will be rather less.

Gainers:

1st 6 months: 260,000 over 25 (£1 to £1.85)  
140,000 couples, including 80,000  
with children - latter gain  
substantially;

after 6 months: none

Losers:

1st 6 months: 188,000 single under 25 (£5)

after 6 months: 85,000 lose unemployment benefit and fail to qualify for income support because resources too high.

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8. Family Credit

1. New benefit (replaces FIS) designed to improve help to low-income working families with children and to improve employment incentives.
2. Children's rates aligned with new income support scheme, but entitlement to welfare milk and to school meals replaced by £2 a week addition.
3. Payment via the wage packet with the credit off set against tax and national insurance payments.
4. Six-months entitlement based on 13 weeks earnings (instead of 12 months based on 5 weeks in FIS). Tighter administration and less scope for abuse. Income and capital tests substantially as for the new income guarantee, but no account taken of changes in circumstances within the entitlement period.

Consequences (resources, caseload people)

Resources: assuming 60% take up additional net expenditure £67m, after allowing for FIS abolition, transfers in respect of school meals and welfare milk and housing benefit effects. (70% take up requires £100m; 80% £130m.) Can be paid for by abatement of child benefit uprating.  
Addition 500 staff required assuming 60% take up.

Caseload: 330,000 families (FIS 200,000).

Gainers: About 240,000 families with an average gain of £4.40. Nearly 60,000 families with either 3 or more children or 2 older children gain from £5 to £10+ a week.

Losers: About 109,000 families (including 20,000 FIS families who do not qualify for family credit) lose an average of £4.70 a week. Main losers are small families and lone parents

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PRIME MINISTER

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**SOCIAL SECURITY REVIEWS: UNEMPLOYMENT BENEFIT**

I have just received a message from Mr. Fowler's office that he has had second thoughts about the proposal on unemployment benefit. His Cabinet Paper suggested that the overlap between UB and SB should be eliminated and that a higher level of UB should be paid but only for six months. The motive was administrative simplification since the proposal was designed to be neutral in cost terms.

Having looked further at the proposal, Mr. Fowler doubts whether the administrative savings would be significant and is worried about the political impact of a scheme which appears to withdraw a contributory national insurance benefit.

I have asked DHSS to make sure that Mr. King and the Chancellor are aware of Mr. Fowler's change of heart.

AS

8 May 1985



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NBPM

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AT 8/5



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
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From The Secretary of State for Wales

*Oddi wrth Ysgrifennydd Gwladol Cymru*

THE RT HON NICHOLAS EDWARDS MP

SECRET

8<sup>th</sup> May 1985

Copy 11 of 24

*Den Norman*

Thank you for sending me a copy of your letter of 1 May 1985 to Patrick Jenkin in reply to his letter of 26 April. The issues raised are of concern to me and I should like to comment on each of them.

I note what you say on the question of mortgage interest but however small the effect may be both in terms of the individuals concerned and our policies on the extension of home ownership and housing mobility, we would do well not to underestimate the political implications of what is proposed.

Water charges are high in Wales - the third highest in the league table. The cost of water in Wales is also a highly charged political issue and your proposal to increase the extent to which those ratepayers in receipt of supplementary benefit have to meet the charges will not be helpful. While I accept that there has been a policy of pushing up water charges, the fact remains that the main component is the cost of supply and that the primary factors affecting the cost of supply are topography and population density. Your proposal will affect particularly people in rural areas; the two areas above Wales in the league table being East Anglia and South West England.

Both District Councils and Water Authorities will face problems of collecting the additional costs faced by ratepayers. The Welsh Water Authority already has the highest record of default in the country. The effect of the changes you propose would undoubtedly worsen the debt problem.

Finally, I turn to arrangements for reimbursing local authorities for housing benefit expenditure. I agree that at the time of changeover we should continue the same level of central government payments to local authorities. We must recognise, however, that if the element of expenditure to be subsumed within the RSG arrangements is not met by a real increase in the level of resources made available for relevant expenditure and grant, local government will regard it as a totally unjustified additional burden. This will be particularly so in the case of the County Councils who would suffer even though the changes relate only to District Council activities.

*Jen*

*Nick*

Rt Hon Norman Fowler MP  
Department of Health and Social Security  
Alexander Fleming House  
Elephant and Castle  
LONDON  
SE1 6BY





Copies of this letter go to the Prime Minister, other members of the Cabinet, the Chief Whip, the Paymaster General and Sir Robert Armstrong.



Social Services: Review of Social Security  
#2

28 MAY 1985





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TOTAL COPIES ... 28

COPY No. ... 1

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PRIME MINISTER

SOCIAL SECURITY REVIEW

Since I am visiting the United States this week, I shall miss our resumed discussion at Cabinet of social security matters, including future pensions arrangements. I therefore wish to record my strong support for the proposals on pensions which Norman Fowler is bringing forward to Cabinet with the agreement of the Chancellor of the Exchequer. I also support Norman Fowler's proposals on other social security matters, discussed in C(85)9, with which we were unable to deal last week.

(attached)

2 I am copying this minute to Nigel Lawson, Norman Fowler, other Cabinet colleagues, the Paymaster General, the Chief Whip and to Sir Robert Armstrong.

NT

7 May 1985

Department of Trade and Industry

JH2AND

SECRET



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-7 MAY 1985

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10 DOWNING STREET

*From the Private Secretary*

6 May 1985

*Dear Steve,***SOCIAL SECURITY REVIEWS: PENSIONS**

The Prime Minister held a meeting this evening to discuss the future of pension provision. Present were your Secretary of State, the Lord President, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chief Secretary, the Chief Whip, the Minister of State HM Treasury, and the Minister for Social Services. Also present were Mr. Brearley, Mr. Redwood and Mr. Willetts. The meeting had before it your Secretary of State's minute of 6 May; the note by officials attached to your letter to me, also of 6 May; and a note by the Chief Economic Adviser to the Treasury on the economic implications of increasing pension fund income. The Prime Minister expressed her appreciation for the substantial work which officials had put in to the preparation of these papers over the weekend.

The Secretary of State for Social Services said the latest proposal sought to take account of the Chancellor's concerns, both for the public sector accounts and for the impact on other sectors of the switch from a pay-as-you-go SERPS to funded private provision. It also sought to meet the difficulties for those nearing retirement which had been identified at the previous meeting. There had been general agreement that the liabilities of SERPS could not be allowed to carry on accumulating. The choice was either abolition and replacement with alternative provision; or a modified SERPS. The political difficulty of cutting back the benefits under a modified SERPS should not be underestimated. He therefore felt that the way forward was a scheme along the lines proposed in the Cabinet paper but with extended transitional provisions to soften the immediate impact. A further merit of compulsory private provision was that it would encourage the development of personal pensions which could not co-exist with SERPS.

The Chancellor agreed that the scheme now proposed went a substantial way to meet the concerns he had expressed. The short-term costs to the PSBR would be manageable but



he hoped that in the discussions leading up to legislation nothing would be conceded which added to those costs. He also urged that the Government should not give way to pressure from large-scale business with contracted out schemes. The note by officials showed that the costs to such companies were only a fraction of those which the CBI had publicised a few days earlier. The Chancellor did, however, express concern about the impact on transferability and on compliance costs for small businesses. The Secretary of State said that the proposals had to be seen against the background of the measures now being enacted to encourage transferability and give a better deal to early leavers. The legislation on personal pensions would provide a simple way for small employers to contribute to the pensions of their employees.

In discussion it was noted that there was a sharp discontinuity between the pension which would be received by an employee now aged 52 who would remain with SERPS until retirement and that received by someone aged 51 who would contribute for fifteen years to a funded scheme. It was agreed that some disadvantage was the inevitable consequence of moving from a scheme that was over generous to one that was based on realistic assumptions of what could be afforded. In practice many people would contribute more than a minimum 4 per cent or would stay at work slightly longer. Nevertheless, it was agreed that ways should be investigated of smoothing the discontinuity, e.g. by adding a bonus to the SERPS pension of those just below the cut-off.

In further discussion, the Chancellor queried whether public sector employees in unfunded schemes should be allowed to take personal pensions. This could have an adverse effect on the PSBR. Although doubts were expressed about how many public servants would take this option, it was agreed that he should discuss it further with the Secretary of State for Social Services.

Summing up this part of the discussion, the Prime Minister said the meeting agreed that the scheme now before it should be put to Thursday's Cabinet meeting. She invited the Secretary of State for Social Services to circulate a paper to Cabinet setting out its main features.

The Secretary of State for Social Services said he had originally hoped to issue the Green Paper on 22 May. He wished, however, to consider the merits of waiting until Monday 3 June, immediately after the Whitsun Recess. The earlier date would put an end to uncertainty but, with Parliament in recess, it would be more difficult to follow up the initial presentation. Conversely the later date would allow more time to prepare the presentation and would allow the initial statement to be followed up in the House, though at the expense of extending the period of uncertainty. It was agreed that he would consider the pros and cons with the business managers.



I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), Richard Broadbent (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office), Mike Norgrove (Minister of State's Office, HM Treasury), Colin Phillips (Office of the Minister for Social Security) and Mr. Brearley.

*Yours sincerely*

*Andrew Turnbull*

(ANDREW TURNBULL)

*mg*

Steve Godber, Esq.,  
Department of Health and Social Security.





21A

PRIME MINISTER

## SOCIAL SECURITY REVIEW: SERPS

Officials have prepared a separate note on the costs of and practical issues involved in passing out SERPS on the basis we agreed last Wednesday. It might be helpful for colleagues to have my assessment of the position we have now reached.

Cost of SERPS

Projections forward are obviously difficult. But there are some estimates on which we can be virtually certain - notably that the number of pensioners is set to rise substantially. This rise is:

- 1985	9.98 million pensioners
2005	10.1 million pensioners
2015	11.1 million pensioners
2025	12.3 million pensioners
- 2035	12.5 million pensioners.

At the same time projections by the Government Actuary's Department shows that the number of contributors remain about the same. Thus the ratio of contributors to pensioners worsens:

1985	2.3
2015	2.0
2025	1.8

There is no doubt that expenditure on pensions is set to rise significantly. The only question is by how much. The eventual additional cost of SERPS is £23 billion a year - making total pension spending £45 billion a year (on prices upratings) and £66 billion a year (on earnings).



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If we take no action on SERPS the results will be:

- (1) Costs will increase and the contributions of the working population will inevitably increase with them. Taxes will stay up.
- (2) Public spending will be pre-empted - at a time when demands from the elderly will mean more pressure for spending on the health service and personal social services. There will be consequences for all other programmes.
- (3) There will be no improvement in personal occupational pension cover. The trend to more pension benefits provided by the State will continue.

#### Replacement of SERPS

In our recent discussions of the MISC 111 proposal on SERPS, we have identified some problems which need to be overcome, but our objective remains the same. It is to end a system of State provision which will put intolerable burdens on public expenditure and National Insurance in the next century. But there is also the wider objective of giving people a personal stake in the economy on their future through their own pension investment. That is the political prize.

Our concerns have been about the short-term cost of building up new private savings, and the need to prevent those nearing retirement facing a sudden reduction in their pension expectations. I think the transitional arrangements we have now devised meet those concerns. In summary I now propose

- for men now aged 50 and women aged 45 SERPS would continue until their retirement, ie nobody retiring this century would be affected;
- for all other employees SERPS would go over three years from April 1987 and a minimum private contribution requirement would be brought in: 1% each for employers and employees in 1987/88; 1½% in 1988/89; 2% in 1989/90 and beyond;



- National Insurance contributions would be changed to match: those staying fully in SERPS and their employers would each pay an average of 2% more than the rest. For those no longer in SERPS contracting out would be phased out over two years.

The cost implications of this proposal seem to me to be satisfactory:

- we save less in the early years but still achieve almost all the savings originally envisaged when SERPS would have been at its most expensive in the next century;
- the initial impact is less: only an extra £600 million of pension savings in the first year; and just £100 million on the PSBR;
- a net reduction on average of 0.2% in take-home pay and a net increase of only 0.3% in private sector employment costs in the first year;
- even by 1989/90 these net effects are small.

The implications for individuals are also much less worrying. Nobody retiring this century will be affected. As our Gallup Poll showed it is the over-50 age group which is most concerned about pension expectations. For those now just under 50, there will be a reduction in pension expectations if they make only the minimum 4% contribution but they have fifteen years to make additional provision above the minimum if they wish. In general, the position of the younger age groups is satisfactory even at the minimum level. I believe a scheme of this would meet the concern that we should provide an adequate replacement system if SERPS is to go.

The officials' note covers the questions raised at our last meeting about the compulsory arrangements. I would only add the following general points. First, we are not establishing a compulsory scheme as such. We are putting in place a framework of minimum requirements. This will be consistent with our current legislation

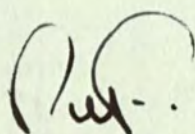


E.F.

on transferability and will not worsen the problems of those changing jobs. I certainly see no need for any complex administrative machinery. Indeed, the new arrangements will make the whole concept of personal pensions much easier to realise. That will in turn ease the problems of small employers who do not wish to set up their own schemes.

Second, I believe the minimum standards we set must be seen to do more than simply keep people off supplementary benefit. We will be expected to show that they provide a reasonable replacement for SERPS. For that reason I would want coverage to be as wide as possible and I would not want to reduce the contribution requirement below 4% - 2% each for employers and employees.

Overall the proposals should be seen in the context of what we are already doing to reform the pension system. In the current Social Security Bill we have already given members of schemes transfer rights; protection for early leavers; and better information about their schemes. We have already announced our intention to develop personal pensions. These steps can be seen as a natural foundation for what I now propose.



6 May 1985

N F





Prime Minister

## DEPARTMENT OF HEALTH &amp; SOCIAL SECURITY

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

Telephone 01-407 5522

*From the Secretary of State for Social Services*

21

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

6 May 1985

*Dear Andrew*

## SOCIAL SECURITY REVIEW: PENSIONS

Further to your letter of 1 May, I attach three notes prepared by officials here following discussions with Treasury and DTI.

The notes are

- Annex 1: a description in more detail of the proposal for a more extended phasing out of SERPS which emerged from the meeting on 1 May.
- Annex 2: tables showing the effects of this proposal on employment costs, the PSBR and take-home pay; and the pensions which people at different ages and earnings levels could expect
- Annex 3: a commentary on the questions listed as (i)-(iv) and (vi) in your letter. The Treasury will be providing a separate note on (v).

I enclose copies of this letter and the notes for others attending tonight's meeting.

S A GODBER  
Private Secretary



## NEW PENSION FRAMEWORK AND TRANSITIONAL PROVISIONS

1. The present structure of SERPS (including provision for contracting-out) will remain unchanged for people retiring before April 2000. No men now over 50 or women now over 45 will lose their pension expectations from SERPS. The combined National Insurance contributions for people in this age group will be 1 per cent higher than now, at 20.45 per cent; but for those who are contracted-out a lower rate will still be payable - 16.45 per cent on all liable earnings. This will be the same rate as for the rest of the workforce, who will no longer be in SERPS, once the new arrangements are fully operational in 1989/90.

2. For people below 50 and 45, SERPS will be phased out, and a new occupational pension framework to replace it will be phased in, during 1987/88 and 1988/89. When fully in place, the new arrangements will require a joint employer/employee contribution to an occupational or personal pension of not less than 4 per cent, of which the employer must meet at least 2 per cent. All employees with earnings above the lower earnings limit for National Insurance contribution liability, except for very new ones, will be covered by this requirement. SERPS will be phased out, and the new arrangements phased in, as follows:

- in 1987/88 the rate of accrual of SERPS will be reduced by a third, and a minimum joint occupational/personal contribution of 2 per cent will be required;
- in 1988/89 the SERPS accrual rate will be reduced by a further third and the minimum joint contribution requirement will go up to 3 per cent;
- from 1989/90 SERPS will go altogether and the full 4 per cent joint contribution will be required.

Pension rights accrued under SERPS will be honoured, with their value preserved in real terms.



3. The upper earnings limit will apply to National Insurance contributions as announced in the Budget, ie to employees, but not employers contributions. The stepped National Insurance contribution rates for low earners announced in the Budget are also continued. The figures assume no upper earnings limit on contributions to the compulsory scheme.



REPLACEMENT OF SERPS BY 3-YEAR PHASED INTRODUCTION OF MINIMUM PRIVATE PENSION CONTRIBUTION; SERPS PRESERVED FOR OLDER WORKERS

A. OVERALL IMPACT ON PUBLIC EXPENDITURE AND PSBR

(£ billion)	1987/88	1988/89	1989/90
<u>Public Expenditure</u>	- 0.3	- 0.5	0 0.5
- savings agreed by MISC 111	- 0.3	- 0.5	- 0.5
- higher public sector employers' NICs	+ 0.1	+ 0.2	+ 0.3
- *higher public sector pension contributions	0	+ 0.1	+ 0.1
Total public expenditure	- 0.2	- 0.2	- 0.1
<u>Revenue</u>			
- lower rate rebates	+ 0.5	+ 0.5	+ 0.5
- tax relief on contributions	- 0.1	- 0.2	- 0.3
- NICs: private sector	0.0	- 0.1	- 0.3
public sector	+ 0.1	+ 0.2	+ 0.3
- higher public sector pension contributions	0	+ 0.1	+ 0.1
Total Revenue	+ 0.5	+ 0.5	+ 0.3
Total PSBR	- 0.7	- 0.7	- 0.4
of which:			
MISC 111	- 0.8	- 1.0	- 1.0
SERPS	+ 0.1	+ 0.3	+ 0.6

\* This assumes that public sector employees not now covered are brought into (new) schemes at the minimum required level.



## B. 'BURDEN' ON ECONOMY

('Burden' is measured as in Chancellor of Exchequer's letter of 22 April 1985)

	1987/88	£ million
Private sector employers		300 loss
All employees		200 loss
Self-employed		No change
PSBR		100 loss
		<hr/>
Total Burden		600 loss

	1988/89	£ million
Private sector employers		300 loss
All employees		400 loss
Self-employed		No change
PSBR		300 loss
		<hr/>
Total Burden		1,000 loss

	1989/90	£ million
Private sector employers		200 loss
All employees		500 loss
Self-employed		No change
PSBR		600 loss
		<hr/>
Total Burden		1,300 loss



## C. EFFECTS ON DIFFERENT SECTORS

(£ billion)	1987/88	1988/89	1989/90
<u>Effects on private sector employers' costs</u>			
Extra NICs	0	- 0.1	- 0.3
Contributions to private schemes	+ 0.3	+ 0.5	+ 0.6
Gross increase in employers' costs	+ 0.3	+ 0.4	+ 0.3
Less tax relief	0	- 0.1	- 0.1
Net increase in employers' costs	+ 0.3	+ 0.3	+ 0.2

Effects on private and public employees

Extra NICs	0	0	0
Contributions to private schemes	+ 0.3	+ 0.5	+ 0.7
Gross increase	+ 0.3	+ 0.5	+ 0.7
Less tax relief	- 0.1	- 0.1	- 0.2
Net increase (ie reduction in take-home pay)	+ 0.2	+ 0.4	+ 0.5

Effect on self-employed

Extra NICs	
Less tax relief	U N C H A N G E D
Net increase	



## D. EFFECTS ON CONTRACTED-IN AND CONTRACTED-OUT

(i) - 1987/88

(£ billion)	<u>Contracted- out</u>	<u>Contracted- in</u>	<u>Total</u>
<u>Effects on private sector employers' costs</u>			
Extra NICs	+ 0.2	- 0.2	0.0
Contributions to private schemes	0.0	+ 0.3	+ 0.3
Gross increase in employers' costs	+ 0.2	+ 0.1	+ 0.3
Less tax relief	0.0	0.0	0.0
Net increase in employers' costs	+ 0.2	+ 0.1	+ 0.3
<u>Effects on private and public employees</u>			
Extra NICs	+ 0.2	- 0.2	0.0
Contributions to private schemes	0.0	+ 0.3	+ 0.3
Gross increase	+ 0.2	+ 0.1	+ 0.3
Less tax relief	0.0	- 0.1	- 0.1
Net increase (ie reduction in take-home pay)	+ 0.2	0.0	+ 0.2



## D. EFFECTS ON CONTRACTED-IN AND CONTRACTED-OUT

(ii) - 1988/89

(£ billion)	<u>Contracted- out</u>	<u>Contracted- in</u>	<u>Total</u>
<u>Effects on private sector employers' costs</u>			
Extra NICs	+ 0.3	- 0.4	- 0.1
Contributions to private schemes	0.0	+ 0.5	+ 0.5
Gross increase in employers' costs	+ 0.3	+ 0.1	+ 0.4
Less tax relief	- 0.1	0.0	- 0.1
Net increase in employers' costs	+ 0.2	+ 0.1	+ 0.3
<u>Effects on private and public employees</u>			
Extra NICs	+ 0.4	- 0.4	0.0
Contributions to private schemes	0.0	+ 0.5	+ 0.5
Gross increase	+ 0.4	+ 0.1	+ 0.5
Less tax relief	0.0	- 0.1	- 0.1
Net increase (ie reduction in take-home pay)	+ 0.4	0.0	+ 0.4



## D. EFFECTS ON CONTRACTED-IN AND CONTRACTED-OUT

(iii) - 1989/90

(£ billion)	<u>Contracted- out</u>	<u>Contracted- in</u>	<u>Total</u>
<u>Effects on private sector employers' costs</u>	+ 0.4	- 0.7	- 0.3
Extra NICs	+ 0.4	- 0.7	- 0.3
Contributions to private schemes	0.0	+ 0.6	+ 0.6
Gross increase in employers' costs	+ 0.4	- 0.1	+ 0.3
Less tax relief	- 0.1	0.0	- 0.1
Net increase in employers' costs	+ 0.3	- 0.1	+ 0.2
 <u>Effects on private and public employees</u>			
Extra NICs	+ 0.6	- 0.6	0.0
Contributions to private schemes	0.0	+ 0.7	+ 0.7
Gross increase	+ 0.6	+ 0.1	+ 0.7
Less tax relief	0.0	- 0.2	- 0.2
Net increase (ie reduction in take-home pay)	+ 0.6	- 0.1	+ 0.5



## E. LONG TERM BENEFIT EXPENDITURE SAVINGS FROM PHASING OUT SERPS

	(1) Cost of full SERPS	(2) Cost of present proposals	(3) Savings from phasing out SERPS (Col 1 - Col 2)	(4) Additional cost of phasing compared with discontinuing SERPS
£ billion 1984/85 prices				
1988/89	0.8	0.8	Nil	Nil
1993/94	1.8	1.8	Nil	0.3
2003/4	5.5	4.3	1.2	1.3
2013/14	11.2	5.3	5.9	1.3
2023/24	17.6	4.8	12.8	0.8
2033/34	25.3	3.0	22.3	0.4



## F. COMPARISONS OF PENSIONS FROM SERPS AND PRESENT PROPOSAL

1	2	3	4	5	6	7	8
Age in 1987/88	Final earnings	Full SERPS	Full pension (preserved rights)	Compulsory pension with rate of return over prices of 3½%	Total pension including SERPS	2½%	Total pension including SERPS

£ per week at 1984/85 prices

## I MAN ON £200 p.w. - 4% contribution

25	354.8	74.4	10.4	55.0	65.4	44.4	54.8
35	308.6	64.7	16.9	32.4	49.3	26.2	43.1
45	268.2	56.1	20.0	15.3	35.3	15.0	35.0
51	254.2	53.3	22.4	10.7	33.1	10.6	33.0
52	250.6	52.5	52.5				
55	233.2	43.9	43.9				Not applicable

## II MAN ON £100 p.w. - 4% contribution

25	177.4	29.3	4.10	27.5	31.6	22.2	26.3
35	154.3	25.5	6.66	16.2	22.9	13.1	19.8
45	134.1	22.1	8.0	7.7	15.7	7.5	15.5
51	127.1	21.0	8.84	5.4	14.2	5.3	14.1
52	125.3	20.7	20.7				
55	116.6	17.3	17.3				Not applicable

## III WOMAN ON £100 p.w. - 4% contribution

25	177.4	29.3	4.1	18.6	22.7	15.1	19.2
35	154.3	25.5	6.66	10.0	16.7	8.5	15.2
46	132.4	21.8	8.00	4.8	12.8	3.4	11.4
47	130.6	21.5	21.5				
55	116.6	12.5	12.5				Not applicable

## IV WOMAN ON £50 p.w. - 4% contribution

25	88.7	6.76	0.95	9.3	10.3	7.6	8.6
35	77.2	5.88	1.53	5.0	6.5	4.3	5.8
46	66.2	5.04	1.84	2.4	4.2	1.7	3.5
47	65.3	4.97	4.97				
55	58.3	2.88	2.88				Not applicable



## ISSUES RAISED AT MEETING ON 1 MAY 1985

Contributions to National Insurance scheme and Compulsory Scheme

1. The assumptions about the structure of contributions are set out in the description of the proposal in Annex 1.
2. The minimum level of contribution to the compulsory scheme has been taken as 4%. The figures in Annex 2 reflect this. But, of the 4%, ½% is required to cover the cost of survivorship (widows') benefits for those under pension age. Only 3½% goes towards the pension payable at retirement.
3. A contribution level of 5% would produce higher pensions and reduce the proportionate cost of administration. But it would add to employers' and employees' costs. A contribution level of 3% would have opposite effects: less cost but lower pensions. However, a 3% contribution would leave substantially more people requiring means-tested help.
4. The effects of different contribution levels on the numbers requiring help under the new income support scheme which will replace supplementary benefit are estimated below:

## NUMBERS RECEIVING SUPPLEMENTARY PENSION

OPTION	SUPPLEMENTARY PENSIONERS IN:		
	1985-86	1994-95	2035-36
1. Full SERPS continued.	1,630,000	970,000	100,000
2. SERPS replaced compulsory contributions of:			
(a) 5%	1,630,000	1,050,000	250,000
(b) 4%	1,630,000	1,115,000	300,000
(c) 3%	1,630,000	1,250,000	500,000

Note: assumes prices upratings of benefits.



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5. The framework in Annex 1 assumes that the upper earnings limit for National Insurance contributions applies, as announced in the Budget, to employees but not employers. The framework also assumes no limit for the new compulsory contributions. This is certainly simpler. But it also takes account of the fact that the great majority of higher earners will already be covered by qualifying pension arrangements so that in practice they will not be affected. On the other hand, introducing a limit (eg at  $1\frac{1}{2}$  times average earnings as for National Insurance contributions) might make the proposal more acceptable to those employers who have criticised the abolition of the UEL for employers' contributions in the Budget.



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ADMINISTRATION OF THE COMPULSORY SCHEME

1. Administration of the compulsory scheme will be kept as simple as possible. The aim will be to use and build on machinery which already exists in the DHSS and Inland Revenue for tax approval of schemes, supervision of those which are contracted-out from SERPS, and the collection and checking of national insurance contributions (NIC). The system will build on the DTI White Paper proposals for investor protection. Officials of DHSS and DTI are exploring how this would work in practice.

Requirements of the scheme

2. All occupational pension schemes have to be scrutinised and approved by the Inland Revenue Superannuation Funds Office before investments and income can be tax-exempt and contributions to them qualify for relief. This scrutiny will be the principal means of ensuring that participating schemes are bona fide.

3. Schemes which are contracted-out from SERPS will satisfy the conditions of the compulsory scheme automatically. Appropriate parts of the present supervisory machinery operated by the Occupational Pensions Board and DHSS' Newcastle Central Office can be kept in place to ensure that they continue to do so. This machinery could also provide a back-up check on new schemes if necessary.

4. Pay-as-you-go public service schemes will be safeguarded and not subjected to onerous checks. All that they will be required to provide are undertakings that scheme benefits correspond with those to be obtained from the compulsory scheme.

5. An essential feature of the scheme is that employees will be able to opt for a personal pension instead of joining an employer's scheme. And employers will be able to meet their obligations by offering employees personal pensions. The minimum total contribution and the employer's share will be the same as for occupational schemes. For employees personal pensions will mean more choice and flexibility. For employers - especially small ones - they will offer a way of satisfying the requirements of the new arrangements without having to set up a scheme of their own.

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6. Industry-wide schemes would be another means of keeping down burdens on employers, particularly small ones. They would cater for frequent job-changers, who are disproportionately represented in industries with low coverage now, e.g. catering and construction.

7. Employers who wish to set up schemes will be able to do so either by establishing their own self-administered trusts or by making arrangements with life offices, friendly societies or other approved providers. The Green Paper will canvass a proposal that a wide range of financial institutions, besides insurers, should be permitted to offer pensions savings schemes. The list might include banks, building societies and unit trusts. Unless such bodies set up insurance company subsidiaries, insurance law will require them to sub-contract risk business (i.e. mainly survivors' benefits and the provision of annuities at retirement). Trustees of self-administered schemes and commercial providers will be required to supply employers with statements from appropriate professionals (e.g. lawyers and actuaries) that all statutory requirements are met. These statements will have to be kept by employers for inspection on demand by DHSS inspectors.

#### Operation

8. Employers will be required to deduct pension contributions from pay and pass them with their own contributions over to schemes. This requirement will extend to personal pensions taken as alternatives to membership of employers' own schemes. The contributions will be recorded on tax deduction documents, which are subject to end-of-year computer reconciliation at DHSS' Newcastle Central Office. The documents will be supported by confirmation from scheme trustees or commercial providers that contributions have been received. Again, this confirmation will be kept available for inspection on demand by DHSS. Computer reconciliation will show if pension contributions have not been paid for particular employees or have been paid at insufficient levels. Queries will be dealt with in just the same way as when these checks show non- or inaccurate payment of NIC - by telephone and written enquiries, and visits by DHSS contribution inspectors. The manpower cost for DHSS has been provisionally estimated to be in the region of 250+ staff.

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Flexibility and transfers

9. Because the new arrangements are based on money purchase principles, they will give people a new flexibility. Employees will be able to decide, according to their circumstances, whether take-home pay or savings are more important to them. Those with heavy commitments - e.g. younger workers with families - may choose to put only the minimum contribution into their occupational or personal pension. As they grow older and their commitments decrease, they may prefer to set aside more of their earnings towards their retirement (following the pattern already set by the self-employed). The new framework will give people the freedom and responsibility to set their own priorities.

10. An essential part of this flexibility is that pension rights should be readily transferable. Neither employers nor employees will welcome a system that leaves people at retirement with small amounts of pension from many different sources.

11. In practice, transferability should not be a problem. An advantage of money purchase arrangements is that they give individuals an identifiable sum of pension savings that they can take with them when they change jobs or switch into a different type of investment. Appropriate controls will ensure that unfair administrative charges do not eat into those savings when they are transferred. And employers could be enabled to transfer into a personal pension the accrued rights of a leaving employee with less than, say, five years' service who does not opt for this himself. The current Social Security Bill will take care of schemes that offer salary-related benefits, by giving leaving employees the right to transfer the actuarial value of their pension rights.

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**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*

6/5/85

Dear ~~Anty~~ Clerk

Herewith numbered and named copies of the officials' notes for tonight's meeting.

I've sent copies for the Chancellor, Chief Secretary and Mr Heslop direct to Rachel Loxax

Yours

Steve Gordon



B 20

PRIME MINISTER

3 May 1985

SERPS AND THE WELFARE REVIEWS

The Welfare Reviews have been billed as the biggest since Beveridge.

They could have addressed 3 problems:

1. Why work?
2. Family poverty, particularly for the working poor.
3. The balance between individual responsibility and the state.

The first problem required either a Benefit/Benefit plus Workfare Scheme - unfortunately blocked, even in subtle versions, by the deliberations of the Jobs Seminars and the exchanges between DEmp and Treasury - or major cuts in SB to the unemployed, judged (rightly) to be unacceptable.

The second problem needed more cash for tax credits or for a better Family Income Scheme paid through the pay packet. The mechanism has survived, but there was not enough cash available to make a big impact - because the savings had to be found first and there were not enough. So tax thresholds remain low and tax bites quickly.

The only possible outcome of any substance from the Reviews is a shift towards more individual responsibility. The only



serious runner is through replacing SERPS with private savings. If this is lost, the Welfare Reviews will be written off as a loss of nerve, the sign that the Government will not back rhetoric with action about family responsibility or long-term public spending pressures.

### SERPS

There is still powerful political support for its replacement. But this alliance will not last for long if leaks and counter-leaks continue and the pressure groups are allowed to build up.

It is vital to deal with the remaining technical problems for colleagues' satisfaction quickly. Norman Fowler's Review generated about 60 papers and 22 meetings on its complexities, and there is no point in recapitulating all that detail. SERPS is the most expensive way imaginable of dealing with residual poverty in old age.

#### Pensions Expenditure at 1984/85 Prices (£bn):

	<u>Basic</u>	<u>SERPS</u>	<u>TOTAL</u>
1988/89	16.4	0.5	16.9 .
1993/94	16.6	1.3 .	17.9 .
2003/04	16.6	4.4	21.0 .
2023/24	20.0	15.7	35.7 .
2033/34	21.9	23.1	45.0 .



Who is in SERPS?

The Government Actuary's 1979 Survey showed:

4.2 million people where employer has no scheme;

2 million waiting to enter their employer's scheme  
(usually after 6-12 months' employment and/or at  
minimum age);

5.15 million who choose not to join, or were ineligible  
to join, their employer's scheme - usually because they  
are part-timers.

In 1979, practically all businesses of 1,000 employees and  
over had a pension scheme, but 39% of their employees were  
not in them. 88% of all businesses with 100-999 employees  
had schemes, but 60% were excluded.

It is mainly small businesses and low-paid industries that  
have no occupational schemes. Agriculture, engineering,  
construction and hotels are the major areas of little  
occupational cover.

A Gallup Poll for the Fowler Review showed the following  
average personal incomes:



	Men	Women
	£	£
Members of occupational schemes	9,800	5,900
Non-Members	7,500	3,800

and showed that non-members were more frequent job-changers than members.

What are the Problems? (Andrew's letter of 1 May)

1. The level of contributions, should it be 3%, 4% or 5%?

We suggest 4% as the lowest credible level.

2. a. Costs to employees. Most currently in SERPS are at earnings levels low enough so their take-home pay will remain the same despite the switch.

- b. Costs to Employers. Overall private sector employers gain.

But employees and employers in present occupational schemes do suffer some losses. Wherever Nigel goes in for tax reform, he "gives" away tax to ease the changeover. (£1 billion give-away for CT changes.) This is worth doing here, and does not have the same economic impact as an increase in Public



Spending. If there cannot be some oiling, then a 2-step transition to new average NICs would help.

3. Coverage. Those awaiting entry to an employer's scheme within a year, or under 25 years old, should be excluded - and those earning less than the LEL. Small employers would use portable pensions. Compulsion should use the same mechanism as NIC investigation.

4. Job Mobility. This is dealt with if:

a. Most small employers, not wanting the trouble of an occupational scheme, contribute to individual personal pensions. These stay with the person throughout his working life, and so he ends up with a single pension. Administration would be handled by the personal pension providers.

It also stops the institutionalised and corporate pension management industry controlling yet more resources in ever larger pots. The reform is not nearly so attractive if it delivers people out of the hands of the state into the black holes of insurance and investment company actuarial calculations and complexities.

b. Norman's legislation goes through giving members of occupational schemes the right to a fair transfer



value. They then take the cash with them to their new employer, and either set up their own portable fund, or put the money into the new employer's occupational scheme.

5. Security. The ideal is identifiable savings for each individual, managed either in an occupational scheme or in a personal pension fund.

These funds cannot be touched if an insurance or investment group goes bust. The individual or company just takes his assets elsewhere to be managed. The idea of greater accountability to individuals (through fair transfers, personal pensions and annual statements in occupational schemes) would be to democratise and control the investment institutions through customer pressures. The new savings will help finance a bigger government asset sales programme.

6. Upper limit. There should be a limit of, say, the UEL for the compulsory scheme.

#### How will people react?

The press has been pro SERPS abolition (FT, Telegraph, Sunday Telegraph, Times, Economist etc). We have to stress:

- a. Basic retirement pension unaffected.



- b. No impact on anyone already retired or retiring before 1987, as it is mainly pensioners who worry about pension changes.

For those aged 55-65, the present compulsory scheme (DHSS, 11 April) envisages exempting those within 5 years of retirement. Going to 10 years would take care of most conceivable worries.

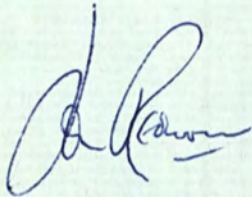
Many other people would welcome trading the empty promise of future prosperity under SERPS for their own personal savings. Norman's Gallup Survey showed that. And all the better-off employees already belong to private schemes.

It is important to remember that:

- a. Poverty is shifting already - away from the old to the unemployed and low-paid family.
- b. The generation retiring in the next century will often have other assets. Many will sell a dear house and buy a cheaper one - another cash pillar for their retirement.
- c. This matches Council house sales and privatisation, shifting the boundaries between state and individual responsibility.



- d. The majority of SERPS members work for employers  
already running occupational schemes.
- e. The reform will be much easier if Nigel oils it with  
some National Insurance reduction.



JOHN REDWOOD



PRIME MINISTER

SOCIAL SECURITY REVIEWS

Monday's Meeting

The paper for this meeting is still being worked on and should be available between 6.00 and 7.00 p.m. on Monday evening. It will attempt to answer the questions set out in my record of the last meeting (Flag A). The Policy Unit note is at Flag B.

This meeting is taking place on a Bank Holiday because:

- (i) Mr. Fowler is extremely anxious to announce the outcome of the reviews before the Whitsun Recess. With each delay the Government's task of presentation gets more difficult, as you yourself experienced at Questions.
- (ii) With three days to go before the Cabinet is supposed to take decisions, the policy on SERPS is far from clear.

How did Government get in this position when it has been looking at the issue of pensions for 18 months? The answer is that the solution now being looked at differs radically from anything previously considered. The idea of a compulsory replacement emerged as a firm proposition only in February and its implications began to be spelt out only ten days ago. The idea of the phased end to SERPS emerged only three days ago. The details of these proposals are important, both for working out the costs to the PSBR, and the impact on the economy.

Despite a great deal of hard work in the past few days, the paper is likely to leave many loose ends. You will need to assess at the meeting whether the proposal before Ministers is sufficiently clear and commends sufficient support for it to be written up and presented to Cabinet on Thursday. If you



are in doubt, you may wish to consider whether to stop and draw breath, in order to allow adequate time for an extremely complex and important proposal to be fully worked out. Failure to discuss on Thursday and hence failure to meet the 22 May deadline for announcing would be embarrassing, but there are risks too in presenting a half-baked proposal.

Keeping the Best of SERPS

SERPS is too expensive and freezes the public/private sector split, so major changes are needed. But SERPS has some advantages which are consistent with Government objectives.

- (i) It provides a fair deal for early leavers;
- (ii) It provides complete transferability which together with (i) is helpful to job mobility;
- (iii) It does not impose excessive administrative burdens on small firms. The contributions are collected with the basic contribution; there is only one set of enforcement officers; the employer does not have to worry about the previous pension history of someone he takes on nor provide information to subsequent employers; and he does not have to negotiate terms with an insurance company.

The replacement compulsory scheme could be worse in all these respects unless care is taken to build in features which maintain the best aspects of SERPS.

AT

3 May 1985



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ECONOMIC IMPLICATIONS OF INCREASING PENSION FUND INCOME

Note by the Chief Economic Adviser

The phased abolition of SERPS and the introduction of compulsory private pension arrangements have three components from an analytical point of view. It is helpful to separate them although in practice they are interdependent:

- i. the implied lower scale of compulsory pension provision;
- ii. the switch from PAYG to a fully funded scheme;
- iii. the privatisation of the scheme.

Reduction in Compulsory Pension Provision

2. The proposed scheme involves a lower scale of compulsory pension provision. The proposed minimum compulsory contribution rate of 4 per cent to private schemes is less than the 8 per cent contribution rate for a new entrant that is estimated to be required if SERPS is to be fully funded. Hence there will be some reductions in future pension income if private contributions are at the minimum level.

3. The argument for reducing the scale of compulsory pension provision under the present unfunded SERPS arrangements is that there are expected to be very high NI contribution rates when SERPS matures. These will have adverse supply side effects because of their impact on incentives and enterprise. If SERPS were replaced by funded schemes there would have to be an increase in contribution rates immediately.

Switch from PAYG to a fully-funded Scheme.

4. The most important macro-economic aspect of the proposal is the change from PAYG to full funding. Such a shift would be important whether the fund is in the



private or public sector. The switch to full funding requires an increase in contributions in the period until SERPS would have matured. A fully funded public sector scheme would mean a lower PSRR; a fully-funded private sector scheme means increased contributions to private pension funds. In either case contributions by companies will increase and the take-home pay of employees will be reduced. This is the inevitable consequence of funding.

5. The effect of the move from PAYG to full-funding is to increase the amount of saving and investment which the economy as a whole undertakes, at the expense of consumption. The result will be a build-up of assets which will provide later generations with the income from which to finance pensions, so easing the burden on future workers. The additional investment is likely to be both domestic and overseas. Interest rates and the exchange rate are likely to be lower and the balance of payments on current account will be improved, and this will be matched by investment abroad.

6. The macro-economic effects of the switch to funding in the private sector are very similar to those of a switch to funding in the public sector. It makes little difference whether contributions are paid by employers and employees to the National Insurance Fund, and the Government uses the surplus on the Fund to reduce gilts sales; or they are paid to private pension funds which invest them in domestic and overseas financial markets. Either way the general level of interest rates and the exchange rate will be reduced although the structure of yields will differ.

7. The switch from PAYG to funding is likely to involve a transitional period of a few years during which output may be adversely affected. Essentially this arises because there tends to be a lag between the initial reduction in consumption that follows an increase in contributions and the subsequent rise in investment and net exports induced by the lower interest rates and exchange rate. But employment costs would be higher and take-home pay lower. This reduction in output is unlikely to be as much as a  $\frac{1}{2}$  per cent at its peak.

8. The transitional impact on output from a move to a private sector funded scheme could be offset by an equivalent increase in the PSRR. This would have the effect of offsetting the higher private sector savings by higher public sector borrowing and effectively undo the switch to funding. Taxes could be reduced on both employers and employees, thus "matching" the increased pension contributions. But, of course, there would be presentational difficulties in explaining a higher PSBR simply because of higher flows to pension funds.



9. Another possibility is that the private sector reduces its other savings and increases its borrowing to offset the effect of higher savings in the pension funds. This is most likely in the case of personal pensions but the scale of this is unlikely to be large, particularly in the short-term.

Privatisation of Pensions

10. In addition to the macro-economic effects of switching to fully funded pensions in the private sector, there are other relevant aspects of privatisation.

11. Financial Markets. The efficiency of financial markets may be affected by the greater proportion of all financial intermediation that is undertaken by pension funds after privatisation. The direction and extent of the effect depends on the efficiency of pension funds compared with other financial intermediaries. We have little evidence on which to base a judgement about this.

12. Individual Choice. Schemes in the private sector could - in certain circumstances - be more responsive to individual needs than public sector schemes. The development of personal pension schemes could increase choice and enable contributors to build up individual property rights. This would, of course, be at the expense of some increase in the risk borne by individuals; the risk spreading inherent in the state scheme and present in many occupational schemes would be impossible. These risks would be large if financial markets were volatile. In present conditions, however, most private pension provision is in the form of occupational schemes, where employees have only limited choice about contribution rates, benefit levels, or the investment of funds.

13. Mobility of Labour. If privatisation were to take the form of more occupational pension schemes, which are less portable than SERPS labour mobility would be reduced. Cross-subsidisation is inherent in occupational pension schemes. This reduces the risk borne by individuals but inevitably it limits the extent to which they can be transferred from one job to another. Early leavers suffer relative to those who remain with a single employer.

14. Administrative Burden. The administrative burden of operating a compulsory private scheme could be severe for small businesses not contracted out. Operating private schemes will be more complicated than SERPS.



Summary

15. The main points can be summarised as follows:

- a. the argument for a reduction in the scale of compulsory pension provision is that, under the existing arrangements, there will be a major rise in contributions with consequential adverse supply side effects, and, under a funded scheme, there would have to be a significant increase in contributions when the funds were set up;
- b. a switch from PAYG to a fully-funded scheme is likely to increase saving and investment and hence provide later generations with more income from which to finance pensions;
- c. there will be a transitional period of a few years during which output will be marginally lower than otherwise; this could be offset in part by higher public sector borrowing but this could be presentationally difficult and would undo the move to funding future obligations;
- d. the bulk of the effects stemming from privatisation are likely to be micro in nature. There may be some improvement in the efficiency of financial markets but we have no basis for believing it is likely to be large. They give more consumer choice but at the cost of increased individual risk. Labour mobility is likely to be damaged as private schemes do not deal as well as SERPS with those who change jobs. And the administrative costs of operating compulsory private pensions could be significant, particularly for ~~these employers with a higher~~ *small businesses not covered out.* ~~proportion of those on low pay.~~

H.M. TREASURY

3rd May, 1985.



RB

INSTITUTE OF DIRECTORS

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*[Handwritten signature]*

SOCIAL SECURITY SPENDING AND THE FOWLER REVIEWS

ERRATUM

"Some copies of SOCIAL SECURITY SPENDING AND THE FOWLER REVIEWS (IOD MAY 1985) contained errors on page 18 of the paper. A substitute page is attached"



	£ million 1985-86
Immediate and short term	
Children and young people	3,318
Supplementary benefit	550
Personal social services	500
	<hr/>
	4,368
Long term	
Child benefit/maternity allowance	(1,600)
Supplementary benefit	(4,700)
Non-contributory benefits	(1,250)
	<hr/>
	(11,918)
	=====

Thus the initial economies discussed in this paper could yield some £4.5bn in the immediate future and the short-term. Long-term economies could add a further £7.5bn, without allowance for the massive economies eventually obtainable from the basic state retirement pension and other contributory benefits (paragraph 45, above)

57. Although we have proposed or would accept limited increases in government spending in a few areas, the main use of the funds released by these economies would be the reduction of taxes. If any significant proportion of the options explained in this discussion paper were implemented, massive tax reductions could follow.



MR ADDISON

Meeting on Monday Evening to discuss Social Security  
Review

Andrew asked me to set up the above which I have done and the following will attend:-

Lord President -  
Chief Whip -  
Secretary of State for Health ✓  
Chancellor of the Exchequer ✓  
Secretary of State for Trade -  
Chief Secretary to the Treasury -  
Antony Newton, Min of State, DHSS -  
~~Barney Heyhoe~~  
~~Peter Gregson~~ CHRIS BAKERLEY.  
David Willetts  
John Redwood.

I am afraid there will be one or two things for you to do tomorrow afternoon - Friday:-

- 1) This is only pencilled into the respective diaries and will need confirming (Andrew will explain why, I do not know!).
- 2) Explain arrangements for receiving papers having found out from Andrew what they are.
- 3) Andrew specifically asked that special arrangements were made for the people attending the meeting to come through the Cabinet Office and not the Front Door here.

CR

1 April 1985



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a MASTER SET

10 DOWNING STREET

*From the Private Secretary*

1 May 1985

SOCIAL SECURITY REVIEWS: PENSIONS

The Prime Minister held a meeting this evening to discuss the future of pension provision. Present were your Secretary of State, the Lord President, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chief Secretary, the Chief Whip, the Minister of State, H M Treasury, and the Minister for Social Services. Also present were Mr Gregson, Mr Redwood and Mr Willetts.

The Secretary of State for Social Services reported on the outcome of further discussions he had had with colleagues. He had sought to devise a scheme which abolished SERPS, replaced it with compulsory private provision, but with a three-year transition period. He circulated tables which showed that this would ease the budgetary problem in 1987/88, and would mitigate the impact on employers and employees. The new proposals excluded the self-employed from the scope of the compulsory scheme. The effect would be to reduce the total burden placed on all sectors by additional contributions to £750 million, compared with £1.9 billion in the proposals considered earlier.

In discussion, it was agreed that abolition of SERPS and compulsory private provision with a phased transition should be presented to Cabinet though more work was needed to develop a number of features of the package. Particular attention should be paid to the impact on those nearing retirement. Their position could be safeguarded by allowing them to remain in SERPS until retirement, while only those below a certain age would be required to switch to compulsory private provision. A decision was needed on how long such a transition would last. Five years might be too short as in that time an employee would not be able to accumulate pension rights in a private scheme that matched those which could be earned under SERPS. It might be necessary to extend the transitional arrangements even further, perhaps to those within ten years of retirement. Such an extended transition would also reduce the initial costs although at the expense of smaller savings in later

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years. One effect of this proposal, however, would be that those below the age for remaining in SERPS would find themselves contributing both to their own pension funds and to the benefits of those who remained in SERPS. This problem was, however, an inevitable feature of a switch from pay-as-you-go to a funded scheme.

More work was called for on a number of issues:

(i) Should the level of contributions to the compulsory scheme be 3, 4 or 5 per cent? A balance had to be struck between a level of contributions which would allow a margin over supplementary benefit in order to make participation in the scheme worthwhile, and not imposing excessive costs on employers.

(ii) If there were an extended phasing out of SERPS, what should be the structure of National Insurance Contributions during the transition?

(iii) What should be the coverage of the new compulsory arrangements? How would participation be enforced? Could the scheme be made to operate successfully among very small scale employers?

(iv) How would the new compulsory scheme be administered? Could arrangements be established between insurance companies and pension funds to ensure transferability so that employees changing jobs frequently did not retire with a string of tiny pensions?

(v) What would the effects be on the investment policies of the institutions of the greatly enhanced inflows they would be receiving?

(vi) Should there be an upper earnings limit for contributions to the compulsory scheme?

The Prime Minister said that the scheme proposed could be presented as adhering to the long-term structure of pension provision in this country under which everyone would receive a basic pension from the State and an occupational pension related to earnings. The change to providing the second pension through the private funded schemes was consistent with this. The Government was winding up SERPS because the liabilities that would be accumulated in the next century could not be met. It was the Government's duty to bring an end to this deception.

Summing up the discussion, the Prime Minister said that Cabinet the next day should consider all aspects of the Social Security reviews other than provision for retirement. Every effort should be made to discuss pensions at Cabinet the following week in order to permit the Green Paper to be published before Whitsun. The tone for the passage on pensions would have to be somewhat "greener" than the rest. A paper should be prepared setting out the implications of abolishing SERPS with transitional arrangements for the introduction of the compulsory private



schemes and an extended phasing out of SERPS. If the work on the paper could be completed in time, Ministers might meet again on Monday evening in order to clear a paper for circulation to Cabinet colleagues on Tuesday. The Secretary of State for Social Services should consider whether the work could be completed to this timetable.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (H M Treasury), John Mogg (Department of Trade and Industry), Richard Broadbent (Chief Secretary's Office, H M Treasury), Murdo Maclean (Chief Whip's Office), Mike Norgrove (Minister of State, H M Treasury), Ed Fields (Minister for Social Security) and Mr Gregson.

Andrew Turnbull

Steve Godber, Esq.,  
Department of Health and Social Security





10 DOWNING STREET

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a MASTER SET

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years. One effect of this proposal, however, would be that those below the age for remaining in SERPS would find themselves contributing both to their own pension funds and to the benefits of those who remained in SERPS. This problem was, however, an inevitable feature of a switch from pay-as-you-go to a funded scheme.

More work was called for on a number of issues:

(i) Should the level of contributions to the compulsory scheme be 3, 4 or 5 per cent? A balance had to be struck between a level of contributions which would allow a margin over supplementary benefit in order to make participation in the scheme worthwhile, and not imposing excessive costs on employers.

(ii) If there were an extended phasing out of SERPS, what should be the structure of National Insurance Contributions during the transition?

(iii) What should be the coverage of the new compulsory arrangements? How would participation be enforced? Could the scheme be made to operate successfully among very small scale employers?

(iv) How would the new compulsory scheme be administered? Could arrangements be established between insurance companies and pension funds to ensure transferability so that employees changing jobs frequently did not retire with a string of tiny pensions?

(v) What would the effects be on the investment policies of the institutions of the greatly enhanced inflows they would be receiving?

(vi) Should there be an upper earnings limit for contributions to the compulsory scheme?

The Prime Minister said that the scheme proposed could be presented as adhering to the long-term structure of pension provision in this country under which everyone would receive a basic pension from the State and an occupational pension related to earnings. The change to providing the second pension through the private funded schemes was consistent with this. The Government was winding up SERPS because the liabilities that would be accumulated in the next century could not be met. It was the Government's duty to bring an end to this deception.

Summing up the discussion, the Prime Minister said that Cabinet the next day should consider all aspects of the Social Security reviews other than provision for retirement. Every effort should be made to discuss pensions at Cabinet the following week in order to permit the Green Paper to be published before Whitsun. The tone for the passage on pensions would have to be somewhat "greener" than the rest. A paper should be prepared setting out the implications of abolishing SERPS with transitional arrangements for the introduction of the compulsory private



A

schemes and an extended phasing out of SERPS. If the work on the paper could be completed in time, Ministers might meet again on Monday evening in order to clear a paper for circulation to Cabinet colleagues on Tuesday. The Secretary of State for Social Services should consider whether the work could be completed to this timetable.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (H M Treasury), John Mogg (Department of Trade and Industry), Richard Broadbent (Chief Secretary's Office, H M Treasury), Murdo Maclean (Chief Whip's Office), Mike Norgrove (Minister of State, H M Treasury), ~~Ed Fields~~ <sup>Ed Field</sup> (Minister for Social Security) and Mr Gregson.

Andrew Turnbull

Steve Godber, Esq.,  
Department of Health and Social Security





K

Ref. A085/1242

PRIME MINISTER  

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Social Security Review

(C(85) 9)

FLAG A 1. The Ministerial Group on Social Security (MISC 111) completed its consideration of the outcome of Mr Fowler's Social Security Review on 1 April after seven meetings. C(85) 9 reports the outcome to Cabinet for its agreement. The Minister for Social Security, Mr Newton, has been invited to attend for this item.

2. In addition to the memorandum, Mr Fowler is providing a presentation for Cabinet colleagues in the Cabinet Room immediately before tomorrow's Cabinet meeting. This will be an occasion for setting the background and explaining the proposals to colleagues. Substantive discussion should be left until the item is reached on the Cabinet agenda.

3. Bearing in mind the other items on the agenda and the time of your departure for the Economic Summit, it is unlikely that the whole package can be dealt with in the Cabinet. There is in any case a difference of view between the Chancellor of the Exchequer and the Secretary of State for Social Services about the abolition of the State Earnings Retired Pension (SERPS) which was discussed at your meeting on Monday evening. You will probably wish to put that proposal on one side until the next Cabinet and deal with as many as possible of the other proposals.





## MAIN ISSUES

4. On the assumption that the pensions proposals are dealt with next week the main issues for the Cabinet are:

a. whether the major proposals are agreed on

i. Family Support

ii. Supplementary benefit and housing benefit

b. whether the remaining, lesser proposals are agreed

c. whether (apart from pensions) the package as a whole is acceptable, in particular the total cost savings and the overall impact in terms of gainers and losers.

d. whether Mr Fowler's proposals for a Green Paper later this month, legislation next session and implementation from April 1987 are agreed, subject to subsequent discussion of action on pensions.

The proposals agreed by MISC 111 are summarised in the Annex to this brief.

Family Support

5. The main proposal on family support is to make a major improvement in the effectiveness of support for families by replacing Family Income Supplement (FIS) with a Family Credit scheme. This will run alongside universal child benefit, be paid through the wage packet, with eligibility assessed on the same lines as supplementary benefit, and comprise a flat amount





plus additions per child. MISC 111 was concerned about the likely level of take-up. It concluded that take-up was unlikely to be much above 70 per cent at which there would be a net cost of £100 million a year.

6. This cost will be met by holding down increases in Child Benefit (CB) though without making any changes in the basis of child benefit entitlement. MISC 111 favoured a CB of £7.00 per week from the present year, with adjustments in FIS to avoid widening the unemployment trap, and limited upratings thereafter (not necessarily every year).

7. MISC 111 also agreed to withdraw benefit in kind (free school meals and free milk), except for formula milk, from those on family credit.

Supplementary Benefit and Housing Benefit

Income Support

8. The existing supplementary benefit (SB) scheme is too complex and over-regulated. Mr Fowler proposes to replace it with a simpler income support scheme, providing assistance at set rates to a limited number of different categories of claimant, and a cash-limited, fallback social aid scheme for emergencies and those with special problems. This is a radical simplification. Changes in the capital disregard and the earnings rule for the long-term unemployed were also agreed by MISC 111. The new scheme will not include extra payments related to a detailed assessment of individual circumstances. Some aspects of this, eg heating allowances, are likely to be controversial.

9. For housing benefit (HB) the proposal is to bring the tests and entitlements for those in and out of work into line (and to have the same tests as for the new supplementary benefit income support scheme) and to withdraw entitlements on a combined taper for rent and rates. MISC 111 discussed at some length the





principle of 100 per cent assistance with rent and rates. On rates it concluded that the maximum level of assistance should be restricted initially to 80 per cent so that all ratepayers would have to make a personal contribution to their rates. On rents it considered whether maximum levels of rent should be set above which benefit would not be paid. It concluded that this would be too complicated. The Chancellor of the Exchequer then urged a maximum level of rent assistance of, say 95 per cent. I understand he is not pursuing this. Control of housing benefit rent expenditure will therefore rest on reimbursing directly only 80 per cent of local authorities housing benefit expenditure, on streamlining and strengthening their powers to act on unreasonable rents, and by taking a reserve power to impose a rent cap on local authorities which are judged to behave unreasonably.

11. The Secretary of State for the Environment may question the proposal not to provide SB recipients with assistance with mortgage interest payments for their first six months out of work (he wrote to Mr Fowler about this on 26 April).

Flag B

Mr Jenkin's concern is that such action will deter first time house buyers and be criticised by the building societies as adding to their "social responsibilities". The argument in favour of the proposal, on the other hand, is that it partially simplifies the unemployment trap and will save £60 million a year. The only logical alternative would be to provide mortgage interest assistance through housing benefit for both those in work and those out of work. This would be much more costly. (Mr Jenkin's letter also raised with Mr Fowler an issue about the level of SB assistance with water rates. I understand that this has been settled between them, in favour of Mr Fowler's approach.)

Mr Fowler  
has replied  
Flag C





### Other Proposals

12. MISC 111 also agreed proposals on unemployment benefit, students and young people, widow benefit, death and maternity grants, and maternity allowance (see C(85) 9, paragraph 21, and Annex to this brief). They also agreed to make no change in the scheme of industrial injuries benefits. Saving of £50 million a year and upwards will accrue.

### The Package: Savings and Impact

13. Even without taking account of action on pensions, the proposals taken as a whole amount to a radical and significant restructuring of the social security system. The main resistance will come from those who perceive themselves as losing from the changes (see Annex) including:

changes in supplementary benefit will produce about 2 million losers (and 1½ million gainers);

changes in housing benefits will produce 7 million losers (because of the loss of entitlements to 100 per cent reimbursement of rates; 5 million of the losers will lose less than £2 a week);

abolition of death and maternity grants will affect 500,000 or so people a year in each case;

Undoubtedly much will be made of hard cases.

14. The savings likely to be made will be very relevant to whether the controversy is worthwhile. As proposed, the structural changes also save £800 million in 1987/88 and £1 billion in 1988/89. They will also save 3,000-4,000 staff and £20 million in administrative costs. During the course of MISC 111 discussions, the Chancellor of the Exchequer and the





Chief Secretary argued for even greater savings in the early years (the Chancellor argued at one stage for up to £2 billion) and it is the case that savings not made now may be very difficult to achieve for a number of years. Against this Mr Fowler argued that greater savings should be discussed separately in the public expenditure round and that, in any case, to attempt to achieve too great savings would arouse too great controversy and jeopardise the whole exercise. The Chancellor's present view, as you know, is that he is not disposed to press for savings greater than those already identified, but that he is concerned that, in PSRB terms, the savings will offset the short term costs of abolishing SERPS.

#### Next Steps

15. Mr Fowler proposes that, following Cabinet's decisions, he should publish the proposals in a Green Paper before Whitsun. (A draft of volume one of the Green Paper is attached to C(85) 9). The intention is then to legislate next session and to implement proposals from April 1987. An earlier implementation (eg November 1986) would not allow adequate time to prepare instructions and guidance. Even to meet the April 1987 date, legislation next session is vital and there is already much less time than is desirable to develop and draft considered legislation.

#### HANDLING

16. You will wish the Secretary of State for Social Services to introduce his memorandum very briefly, given the presentation earlier in the morning. There is potentially a lot to discuss and you may like to suggest that, putting pensions on one side, the Cabinet should consider the major proposals on family support, supplementary benefit and housing benefit, other proposals, the overall package and presentation and next steps in that order. The Chancellor of the Exchequer will wish to





contribute on overall savings in particular and the Lord President on presentational and legislative implications. Otherwise you may wish in particular to let those Ministers who have not been on MISC III contribute (ie the Lord Chancellor, the Foreign and Commonwealth Secretary, the Secretaries of State for Energy, Defence, Scotland, Wales, Transport and Northern Ireland, the Lord Privy Seal, and the Chancellor of the Duchy of Lancaster).

#### CONCLUSIONS

17. You will wish the Cabinet to reach conclusions on:
- a. the major proposals on family support, supplementary and housing benefits;
  - b. the other lesser proposals;
  - c. the acceptability of the package as a whole; subject to subsequent discussion of pensions;
  - d. presentation - including in particular the publication of the Green Paper, and public announcement;
  - e. legislation and implementation.

*Robert Armstrong*

*(agreed by)*

ROBERT ARMSTRONG

*and signed in his absence)*

1 May 1985





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## DEPARTMENT OF HEALTH &amp; SOCIAL SECURITY

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

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Patrick Jenkin MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 LONDON  
 SW1P 3EB

1 May 1985

*Jenkin*      *Patrick*

Thank you for your letter of 26 April which we discussed yesterday. Before turning to the substance of the issues you raised, I feel I should put on record (as I believe you now recognise) that my proposals on the treatment of water rates and mortgage interest were in no sense brought forward at the last minute. They were clearly presented in my first report to MISC 111 at the beginning of February and your officials were made aware of them.

On water rates, I recognise that decisions you make to increase water charges faster than prices will be more difficult to defend if you cannot rely on 3 million supplementary benefit households being fully insulated from the cost. But I believe we were agreed yesterday that to retain water rates as the only individual element in the assessment of income support would be quite unjustified. It would destroy the alignment between income support and housing benefit and would be a first step away from the new simpler structure and back towards the complications we are now trying to dispose of.

My proposal - to move from individual reimbursement of 100 per cent of actual water charges for those on supplementary benefit to the inclusion of the average amount within the new income support scale rates - will, of course, have a transitional effect on individuals as will many other parts of the reform package. But it needs to be kept in proportion. Water charges represent on average less than 5 per cent of the scale rates (leaving aside additional payments for housing costs). Only 11 per cent of those having their water rates paid face charges of more than 50p above the average which will be included in the scale rate. Water rate increases also feed through into the RPI and hence into the uprating of benefits and the impact of the sort of increases you are committed to are equivalent to only 5p a week on average water charges. Finally, I can confirm that our intention would be to use all the resources going into the payment of individual water charges at the time of changeover to increase the scale rate - we would not expect to make savings from the change.



F.R.

As to mortgage interest, I accept that the building societies will be strongly opposed to my proposal that those on income support should not get help with mortgage payments for the first six months (beyond the 30 per cent help they get automatically through MIRAS). Nonetheless, I believe the arguments for the proposal are strong.

At present those in work get no extra help with mortgages even if they are on low incomes whereas those out of work get 100 per cent help. This provides a strong disincentive to the unemployed home owners taking on low paid work and can make unemployment or redundancy unduly attractive to those in lower paid jobs. We should do something to reduce that effect.

The Housing Benefit Review team recognised the inequity of this and considered whether housing benefit might not be extended to mortgages. I have firmly rejected that suggestion: it is not our aim to encourage home-ownership simply to have those buying their houses pass back much of the financial responsibility to the State.

My proposal to place the responsibility for dealing with short-term mortgage problems on the individual and his building society rather than the State is an important but limited step. It would substantially reduce the disincentive problems I have mentioned. It is crucial to my proposals to end the overlap between the new unemployment benefit and supplementary benefit; if mortgage interest is payable for the first six months, then anyone with a mortgage on the short-term unemployment benefit scheme would become eligible for income support as well. The proposal also produces worthwhile savings.

Yet the real impact on individuals and building societies would be limited. There are at present some 87,000 people on supplementary benefit for less than six months who are receiving help with mortgage interest, out of a total case load of 4½ million and one-quarter million getting mortgage interest paid. The change in policy would apply only to new cases arising in 1987.

As far as the building societies and their borrowers are concerned, the effect would be an interruption of mortgage interest payments of, at the maximum, six months. That would add about 5 per cent to the subsequent debt and repayments. In many cases it would be less since 70 per cent of spells of unemployment last less than six months in any event. Alternatively, the individual can insure his mortgage payments against sickness or unemployment for the required period at a cost well below 5 per cent of the payments. Given that the change would represent not a cash loss to the building societies but a cash flow change of well under 1 per cent of their total interest payments, I think the danger of building societies taking action to repossess is slight.

I recognise that there could be some effect on our drive to extend home-ownership. But the purpose of that policy is not just to give people a stake in their own housing but also to encourage them to take responsibility for their own affairs. We should not be encouraging people to take on more than they can handle or to believe that the State will automatically bale them out if they do.

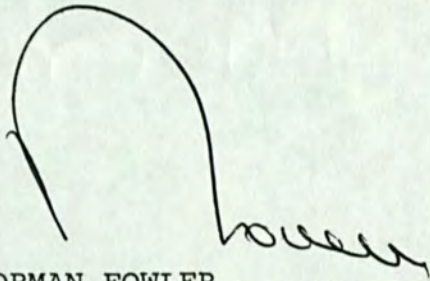


F.R.

Finally, we discussed briefly the proposal to change the arrangements for reimbursing local authorities for housing benefit expenditure. I think we are agreed about the intention: to continue the same level of central government payments to local authorities at the time of changeover; but thereafter to restrict repayment based on actual expenditure to 80 per cent, with the remaining 20 per cent being subsumed within the RSG and controlled by GREAs in order to give authorities an incentive to control expenditure. We agreed that our officials should continue their discussions on this with the Treasury. We also agreed that the Green Paper should make clear our intentions on the principle but promise discussions with local authorities on the detail.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Chief Whip, the Paymaster General and Sir Robert Armstrong.

*Yours etc.*



NORMAN FOWLER



- 1 MAY 1985

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'BURDEN' OF PHASING COMPULSORY PENSION INTRODUCTION OVER 3 YEARS 13

'Burden' is measured as in Chancellor of Exchequer's letter of 22 April 1985.

	1987-8	£million
Private sector employers		150 Loss
All employees		200 Loss
Self-employed		-100 Loss
PSBR		300 Loss
TOTAL BURDEN		<u>750 Loss</u>

	1988-9	£million
Private sector employers		200 Loss
All employees		250 Loss
Self-employed		300 Loss
PSBR		450 Loss
TOTAL BURDEN		<u>1200 Loss</u>

	1989-90	£million
Private sector employers		100 loss
All employees		300 loss
Self-employed		400 loss
PSBR		<u>900 loss</u>
TOTAL BURDEN		<u>1700</u>



OPTION 1: REPLACE SERPS WITH 3 YEAR PHASED MINIMUM PENSION REQUIREMENT  
 2% in 1987/8; 3% in 1988/9; 4% in 1989/90 £ bn.

(£bn)	1987-8	1988-9	1989-90
<u>Effects on private sector employers' costs</u>			
Extra NICs	-0.2	-0.4	-0.8
Contributions to private schemes	+0.35	+0.6	+0.8
Gross increase in employers' costs	+0.15	+0.2	0
Less tax relief	0	0	-0.1
Net increase in employers' costs	+0.15	+0.2	-0.1

<u>Effects on private and public employees</u>			
Extra NICs	-0.1	-0.2	-0.4
Contributions to private schemes	+0.4	+0.6	+0.9
Gross increase	+0.3	+0.4	+0.5
Less tax relief	-0.1	-0.15	-0.2
Net increase (ie reduction in take-home pay)	+0.2	+0.25	+0.3

<u>Effect on self-employed</u>			
Extra NIOs	+0.1	+0.3	+0.5
Less tax relief	0	0	-0.1
Net increase	+0.1	+0.3	+0.4



## S E C R E T

OPTION 1: REPLACE SERPS WITH 3 YEAR PHASED MINIMUM PENSION REQUIREMENT  
2% in 1987/8; 3% in 1988/9; 4% in 1989/90

## A: OVERALL IMPACT

(£bn)	1987/8	1988/9	1989/90
<u>Public Expenditure</u>			
- savings agreed by MISC III	-0.3	-0.5	-0.5
- higher public sector employers' NICs	+0.2	+0.3	+0.4
- higher public sector pension contributions	+0.1	+0.1	+0.1
Total public expenditure	<u>NIL</u>	<u>-0.1</u>	<u>NIL</u>
<u>Revenue</u>			
- lower rate rebates	+0.5	+0.5	+0.5
- tax relief on contributions	-0.1	-0.15	-0.2
- NICs: private sector	-0.2	-0.3	-0.7
public sector	+0.2	+0.3	+0.4
- higher public sector pension contributions	+0.1	+0.1	+0.1
Total Revenue	<u>+0.5</u>	<u>+0.45</u>	<u>+0.1</u>
Total PSER	-0.5	-0.55	-0.1



SECRET

16 1/2% phase  
NICOPTION 1: REPLACE SERPS WITH MINIMUM PENSION  
REQUIREMENT IN APRIL 1987

1987/8 (£bn)	Contracted out	Contracted in	Total
<u>Effects on private sector employers costs</u>			
Extra NICs	+0.2	-0.4	-0.2
Contributions to private schemes	0	+0.35	+0.35
Gross increase in employers costs	+0.2	-0.05	+0.15
Less tax relief	0	0	0
Net increase in employers costs	+0.2	-0.05	+0.15
<i>1/2% of labour costs</i>			
<u>Effects on private and public employees</u>			
Extra NICs			
Contributions to private schemes	0	+0.4	+0.4
Gross increase	+0.2	+0.1	+0.3
Less tax relief	0	-0.1	-0.1
Net increase (ie reduction in take-home pay)	+0.2	0	+0.2



SECRET

16<sup>1/2</sup> phas  
NICOPTION 1: REPLACE SERPS WITH MINIMUM PENSION  
REQUIREMENT IN APRIL 1987

1988/9 (£bn)	Contracted out	Contracted in	Total
<u>Effects on private sector employers costs</u>			
Extra NICs	+0.4	-0.8	-0.4
Contributions to private schemes	0	+0.6	+0.6
Gross increase in employers costs	+0.4	-0.2	+0.2
Less tax relief	0	0	0
Net increase in employers costs	+0.4	-0.2	+0.4
<u>Effects on private and public employees</u>			
Extra NICs	+0.3	-0.5	-0.2
Contributions to private schemes	0	+0.6	+0.6
Gross increase	+0.3	+0.1	+0.4
Less tax relief	0	-0.15	-0.15
Net increase (ie reduction in take-home pay)	+0.3	-0.05	+0.25

1/2 of labour costs



SECRET

16<sup>1/2</sup> phase  
NICOPTION 1: REPLACE SERPS WITH MINIMUM PENSION  
REQUIREMENT IN APRIL 1987

1989/90 (£bn)	Contracted out	Contracted in	Total
<u>Effects on private sector employers costs</u>			
Extra NICs	+0.7	-1.5	-0.8
Contributions to private schemes	0	+0.8	+0.8
Gross increase in employers costs	+0.7	-0.7	0
Less tax relief	+0.1	0	+0.1
Net increase in employers costs	+0.8	-0.7	+0.1
<i>% of labour costs</i>			
<u>Effects on private and public employees</u>			
Extra NICs	+0.5	-0.9	-0.4
Contributions to private schemes	0	+0.9	+0.9
Gross increase	+0.5	0	+0.5
Less tax relief	0	-0.2	-0.2
Net increase (ie reduction in take-home pay)	+0.5	-0.2	+0.3





CDW

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

*From the Secretary of the Cabinet and Head of the Home Civil Service*

Sir Robert Armstrong GCB CVO

Ref. A085/1234

1 May 1985

*Dear Robert*

Social Security Review: Presentation to Ministers  
Before Cabinet on Thursday 2 May

I wrote to you on 19 April about the presentation before Cabinet by the Secretary of State for Social Services on the outcome of the Social Security Review, which was to take place on Thursday 25 April.

That presentation will now take place before Cabinet at 8.45 am on Thursday 2 May in the Cabinet Room. All members of the Cabinet are expected to attend.

I am sending copies of this letter to the Private Secretaries to all members of the Cabinet, the Chief Whip, the Paymaster General and the Minister for Social Services.

(R P Hatfield)  
Private Secretary

R C Stoate Esq



SOCIAL SERVICES: Social

Security Review: Pt 2

51 MAY 1985

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## 10 DOWNING STREET

From the Private Secretary

30 April 1985

Dear Steve,

SOCIAL SECURITY REVIEWS: PENSIONS

The Prime Minister held a meeting yesterday evening to discuss the future of pension provision. Present were your Secretary of State, the Lord President, the Chancellor of the Exchequer, the Chief Secretary, the Chief Whip and the Minister for Social Services. Also present were Mr. Gregson, Mr. Redwood and Mr. Willetts. The meeting had before it a note by officials attached to your letter to me of 26 April setting out agreed costings of the various options, plus an addendum of 29 April; a minute by your Secretary of State of 26 April; and a minute by the Chancellor of 29 April.

The Prime Minister said the meeting had to consider the options for the future of pension provision, and the agenda for this week's meeting of Cabinet. Time for the latter was short as she and other colleagues had to leave at noon for the Economic Summit. In addition to the standard items and the Social Security Reviews, Cabinet would be discussing gas privatisation and the revision of the Legislative Programme.

The Chancellor said the future liability represented by SERPS as presently constituted could not be sustained and had to be ended. His preference was for SERPS to be abolished, with voluntary provision for private pensions. If that could not be achieved, he recommended adoption of a modified SERPS which would reduce its costs by about two-thirds.

He was, however, extremely concerned about a proposal to abolish SERPS and replace it by compulsory pension provision. This had several disadvantages. First, it wiped out the £0.8 billion saving to be achieved by other measures in the Reviews and in 1987-88 produced a small PSBR cost. The Social Security Reviews as a whole would therefore make



no contribution to reducing the pressures on public expenditure and the PSBR. Unlike other measures enlarging the PSBR, this one would not benefit other income groups. Secondly, if the change were made in 1987-88 it would produce adverse effects on the net income of very large numbers of people and companies. While, in the aggregate, employers' net position would be unchanged, those contracted out would lose £0.5 billion at the expense of those contracted in. Employees as a whole would lose £0.3 billion, again with large losses for the contracted out. The loss per week could be as much as £2.65p. The self-employed would lose £0.6 billion in 1987-88 and £0.9 billion in 1988-89. These changes could be extremely unpopular, especially as people would perceive themselves as paying more in return for the same or less. It would be dangerous for the Government to undertake this in pursuit of benefits in the twenty-first century. Modification of SERPS would reduce the liabilities in the next century without incurring these major costs in the immediate future.

Against this it was argued that the Government could not secure support for its proposals, on the backbenches or in the country, if it simply removed SERPS and put nothing in its place. Abolition and replacement by compulsory private provision would achieve a shift from public to private sector provision of pensions. This would give a sense of financial independence to many people and would be a major political prize for which the costs to the PSBR were not out of proportion. With the exception of the self-employed, the pattern of gains and losses was sustainable. Opinion surveys showed that people valued a private pension very highly. In addition, their pension contributions would attract tax relief.

It was further argued that modified SERPS would itself involve many unpopular measures. Women in particular would accumulate much lower pension rights and provision for widows would be reduced. It would expose the Government to an auction of election promises, but still within the same pensions framework. The Opposition would pledge itself to restore the lost benefits and would present the Government in a negative light. Modification of SERPS or abolition without a compulsory replacement would be inconsistent with the "twin pillar" theme of the Green Paper.

It was agreed that the position of the self-employed should be looked at again. They would in any case be paying additional NICs as a result of the abolition of SERPS and for them the burden of compulsory contributions would be too much. Many self-employed people wished to invest their savings in their own businesses, rather than be required,



via the financial institutions, to invest in other people's businesses.

It was suggested that SERPS could be abolished on the understanding that compulsion would only be introduced if take-up of voluntary pension provision proved inadequate. It was felt, however, that voluntary provision would be unlikely to develop in these circumstances.

In discussion it was noted that the addition to private sector savings, which could amount to around £1.9 billion, would make it possible to finance a higher PSBR for a given level of interest rates, though it would be unwise to expand the PSBR before demand for additional Government debt had been demonstrated.

The Secretary of State for Social Services said he was anxious to issue a Green Paper by 22 May at the latest. To delay beyond the Whitsun Recess could cause the Government to lose the initiative. The Green Paper could clash with the statement of next year's uprating. He would very much prefer to consider the Social Security Reviews in their entirety at this week's Cabinet, though he recognised that it might not be possible to complete discussion at one sitting given the other items on the agenda. He was investigating the problems of the timetable should decisions on parts of the Reviews be held over until the following week.

The Chancellor said that, given the importance of the decisions facing Cabinet, colleagues should be aware of the implications for business costs, the take-home pay of employees and the self-employed and for the PSBR, of the proposals which were being put before them.

Summing up the discussion, the Prime Minister said that difference in perception about the political attractions about the various options remained. Nevertheless the Social Security Reviews should be put on the agenda as planned though it was likely that it would not prove possible to complete discussion of all the issues in one sitting. The press should be briefed on this possibility. The presentation of the Social Security Reviews should go ahead as planned at 0845 for half an hour. The standard items would then be considered as quickly as possible. They would be followed by discussion of gas privatisation and revision of the Legislative Programme. Following that, Cabinet should start discussion of the Reviews and make as much progress as it could before she and other colleagues had to leave for Bonn. The Secretary of State for Social Services should investigate the timing constraints on publication and



should agree with the Treasury revised costings for a scheme which excluded the self-employed from compulsory pension provision.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (HM Treasury), Richard Broadbent (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely*  
*Andrew Turnbull*

(ANDREW TURNBULL)

Steve Godber, Esq.,  
Department of Health and Social Security.





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

PRIME MINISTER

**SOCIAL SECURITY REVIEW**

The figures in the note by officials (Mr Godber's letter of 26 April) were not available to MISC 111. It is clearly essential that we take them fully into account before reaching decisions on these important matters.

2. Let me start by narrowing the remaining area of difference between Norman Fowler and myself. Over the whole range of the Social Security Reviews, it concerns solely the question of SERPS. And there is, moreover, agreement that SERPS cannot simply be left as it is: it would impose an intolerable burden of public expenditure and national insurance contributions in the next century

3. The prior question, then, is whether - in the light of the figures - we wish to abolish SERPS in April 1987, with the consequence decided by MISC 111 that there <sup>sh</sup>ould be compulsory private provision (option (1)), or whether we would do better to keep a quasi-SERPS, but in drastically modified form (option (4)), as the Inquiry into Provision for Retirement itself concluded.

4. The attractions of option (1) are clear. It is a much more fundamental and radical course (although, by the same token, much more controversial), and would lead to greater savings in the next century. But the option (4) savings, although smaller, would still be eminently worthwhile, and would in my judgement reduce the cost of SERPS to a level that we would then be able to afford.

5. On the existing basis, the cost of SERPS peaks at £22 billion a year in the 2030s. Modified SERPS reduces this cost to just over a third, so that the peak cost in the 2030s becomes £8 billion. The main differences between SERPS and modified SERPS are set out in an Annex to this minute.





6. So much for the next century. It is important that we have regard to it. But it is also prudent to consider the effects of what we are doing in the present century. And here, <sup>inevitably</sup> ~~initially~~ we find that option (1) is considerably more burdensome than option (4). In the calculations that follow, which are drawn entirely from the agreed note by officials, I focus on 1987-88, since it is both the first year of the new arrangements and the last year of the present Parliament; but the agreed figures show that the position in 1988-89 is even worse, and in general there will be a continuing heavy burden.

7. In 1987-88 then, the changes agreed in MISC 111 (SERPS apart) produce modest but much-needed public expenditure savings of £300 million and a total reduction in the PSBR of £800 million. Option (4) secures these gains. Under option (1), however, the whole of the public expenditure savings is wiped out and replaced by a public expenditure increase of £200 million - a net deterioration of £500 million. As it is, we are going to need all the savings we can get. The PSBR reduction of £800 million is similarly transformed into a PSBR increase of £200 million - a net deterioration of £1,000 million. Looking at the fiscal prospect for 1987-88, I simply do not see how we can safely contemplate a worsening on this scale.

8. But the public expenditure and PSBR position is only part of the 1987-88 picture. Overall the figures show no net increase in private employers' costs. But this masks the fact that there are substantial winners and losers. Contracted-out firms lose over £½ billion; the contracted-in gain the same amount. There will be a net reduction in employees' take-home pay of £300 million, again masking substantial numbers of winners and losers. Finally, option (1) imposes an additional burden on the self-employed of £600 million.

9. All in all then, my considered opinion is that to embark on option (1) in April 1987 would be more than a banana-skin: it would be evidence of an electoral death wish.

10. Finally, it may be helpful to look again at option (2) - the abolition of SERPS in April 1987, but with private provision in its place on a voluntary basis, the proposal that





Norman originally put to MISC 111 and I supported - as compared with options (1) and (4). The figures for 1987-88 can be summarised as follows:-

	<u>£million</u>		
	OPTION 1	OPTION 2	OPTION 4
Private sector employers	no net effect	+700 gain	no effect
All employees	(-300 loss)	+300 gain	no effect
Self-employed	-600 loss	-200 loss	no effect
PSBR	-1000 loss	-800 loss	no effect
TOTAL BURDEN	1900	no net effect	no effect

The contrast between the 3 options is striking and speaks for itself.

11. Although option (2) would clearly be preferable to option (1), I am persuaded that, all things considered (including political considerations not covered in the minute), the best course is option (4).

12. Option (1), by contrast, for all its bold radical appeal, which I fully appreciate, emerges in the figures before us as financially prohibitive and politically disastrous.

13. I am copying this minute to Willie Whitelaw, Norman Fowler, John Wakeham and Sir Robert Armstrong.

*Margaret O'Hara*

N.L.

29 April 1985

*(approved by the Chancellor  
and signed in his absence)*



Extract from Vol 2  
of Draft Green Paper

2.1.44 We have considered whether it might be possible to modify SERPS to meet the arguments against it while avoiding outright abolition. One possibility would be to retain its basic structure, including provision for contracting-out, but to reduce its future costs by (i) basing additional pension rights on a lifetime's average earnings, rather than on the best 20 years; (ii) scaling down the additional pension to give an eighth, rather than a quarter, replacement of earnings above, say £155 a week (the average for a male manual worker); (iii) making contracted-out pension schemes responsible for inflation proofing of guaranteed minimum pensions, up to a maximum of the lower of the retail price index or 5 per cent a year.

2.1.45 This is in many ways an attractive option. It would reduce the cost of SERPS by over £13 billion by 2033/4 and would achieve a greater degree of redistribution than the present scheme. It would also make savings where they can best be made afforded without creating new needs - on the pensions of higher earners.





ce DW 10

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

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

29 April 1985

Dear Andrew

SOCIAL SECURITY REVIEW: PENSION COSTS

*- file on C/UP.*  
Further to my letter of 26 April, I now enclose figures, agreed between DHSS and Treasury officials, showing:

- the impact of Option 1 on contracted-in and contracted-out private sector employers, and on all employees, in 1987/88 and 1988/89;
- samples of the effect of Option 1 on employers and employees at various levels of weekly earnings. (This table was annexed to my Secretary of State's minute of 29 March to the Prime Minister; it is based on current earnings levels.)

All the tables assume minimum private pension contributions of 4 per cent, split equally between employers and employees.

Copies go to Rachel Lomax, Murdo MacLean, Janet Lewis-Jones, Richard Broadbent and Richard Hatfield.

Yours

*S A Godber*

S A Godber  
Private Secretary

SECRET



## SECRET

OPTION 1: REPLACE SERPS WITH MINIMUM PENSION  
REQUIREMENT IN APRIL 1987

1987/8 (£bn)	Contracted out	Contracted in	Total
<u>Effects on private sector employers costs</u>			
Extra NICs	+0.6	-1.3	-0.7
Contributions to private schemes	0.0	+0.7	+0.7
Gross increase in employers costs	+0.6	-0.6	0.0
Less tax relief	0.0	0.0	0.0
Net increase in employers costs	+0.6	-0.6	0.0
<u>Effects on private and public employees</u>			
Extra NICs	+0.5	-0.8	-0.3
Contributions to private schemes	0.0	+0.8	+0.8
Gross increase	+0.5	0.0	+0.5
Less tax relief	0.0	-0.2	-0.2
Net increase (ie reduction in take-home pay)	+0.5	-0.2	+0.3



## SECRET

OPTION 1: REPLACE SERPS WITH MINIMUM PENSION  
REQUIREMENT IN APRIL 1987

1988/9 (£bn)	Contracted out	Contracted in	Total
<u>Effects on private sector employers costs</u>			
Extra NICs	+0.7	-1.5	-0.8
Contributions to private schemes	0.0	+0.8	+0.8
Gross increase in employers costs	+0.7	-0.7	0.0
Less tax relief	-0.1	+0.1	0.0
Net increase in employers costs	+0.6	-0.6	0.0
<u>Effects on private and public employees</u>			
Extra NICs	+0.5	-0.8	-0.3
Contributions to private schemes	0.0	+0.9	+0.9
Gross increase	+0.5	+0.1	+0.6
Less tax relief	0.0	-0.2	-0.2
Net increase (ie reduction in take-home pay)	+0.5	-0.1	+0.4



THE EFFECT OF A MINIMUM PENSION CONTRIBUTION ON EMPLOYERS' AND EMPLOYEES' COSTS

A. WITH A MINIMUM CONTRIBUTION OF 4% OF EARNINGS (2% A SIDE)

1. EMPLOYERS

Weekly earnings £	<u>Contracted-in</u>		<u>Contracted-out (NIC only)</u>	
	1985/86 (NIC)	After change (NIC + pension cont)	1985/86	After change
50	2.50	2.50	1.91	1.50
70	4.90	4.90	3.49	3.50
100	9.00	9.00	6.36	7.00
120	10.80	10.80	7.34	8.40
150	15.68	15.75	10.98	12.75
180	18.81	18.90	12.89	15.30
200	20.90	21.00	14.16	17.00
265	27.69	27.83	18.28	22.53
500	52.25	52.50	42.84	42.50

2. EMPLOYEES

50	2.50	2.50	2.19	1.50
70	4.90	4.90	4.16	3.50
100	9.00	9.00	7.62	7.00
120	10.80	10.80	8.99	8.40
150	13.50	15.00	11.04	12.00
180	16.20	18.00	13.10	14.40
200	18.00	20.00	14.47	16.00
265	23.85	26.50	18.92	21.20
(UEL)				





29 Apr 1995

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PRIME MINISTERSocial Security Reviews: Handling

The outcome of Monday's meeting will affect the agenda for Thursday's Cabinet. The position is complicated by your need to depart at noon and Mr Walker's desire to finalise gas privatisation and what gives way in the legislative programme to accommodate it. (I apologise for having to arrange this meeting so late on Monday evening - during the afternoon Treasury Ministers are involved in the Second Reading of the Finance Bill and the Lord President on Clause 1 of the Abolition Bill in the Lords.)

Monday's Meeting

The first paper sets out the revised figuring for four options:-

- i) Abolition plus a compulsory replacement in April 1987.
- ii) Abolition with no compulsory replacement.
- iii) Deferment of Option 1 to April 1990.
- iv) A modified SERPS with the variables adjusted to make its cost manageable.

The figures show that the effects of Mr. Fowler's option are not as damaging as first thought. This is partly because the Treasury costed a 5% replacement scheme whereas the new figures are based on 4% which DHSS believe will be adequate to float most pensioners off of SB. Time lags have now been built into the figuring which soften the initial impact. The cost to the PSBR in 1987-88 is now only £0.2b. rather than £0.4b. and in 1988-89 there is a small saving. The cost to employers in 1987-88 is now unchanged and that for employees is halved. The aggregate figures do, however, disguise



distributional changes between contracted out and contracted in. Figures for these are still to come. The other worrying feature is the significant extra cost for the self-employed which remains.

Flag B

In the light of this, Mr. Fowler's minute urges sticking to the original course. The Chancellor has yet to decide what he will press for. He may go for modified SERPS on the grounds that Mr. Fowler's option still presents a substantial increase in employment costs in 1987-88 for contracted out employers and for the self-employed. In addition the compulsory scheme will put a much greater administrative burden on small firms which is inconsistent with the Government's deregulation philosophy. Policy Unit (Flag D) recommend a variant of Option 1.

He has now minuted recommending modified SERPS.  
Flag C.

You could open the meeting by asking whether either party wishes to make any qualification to the figuring. You will need to assess the risk of some further snag arising. Mr. Fowler can then develop his case and the Chancellor his. The Lord President and Chief Whip can then give a political assessment of the expected reaction of colleagues and backbenchers.

#### Cabinet on Thursday

Thursday's agenda will depend on the outcome of Monday's meeting. One thing is certain - Cabinet must discuss all or part of the social security reviews on Thursday or the impression of confusion and discord will grow. Cabinet does not have to complete discussion on Thursday. Your enforced departure to Bonn creates the possibility of saying that the Cabinet discussed the reviews, made good progress, but was unable to get through all the issues in the time available and will resume its work the following week.

Monday's meeting could:

- i) Agree to proceed with Mr. Fowler's option. Either no further papers would be circulated to Cabinet or



simply an additional note setting out for colleagues the same figures which are before Monday's meeting. This could be done quickly and permit an attempt to be made to take the reviews in total on Thursday.

- ii) Agreement to present further options for Cabinet to consider e.g. modified SERPS or a compromise such as a phased compulsory scheme. This could require significant drafting and MISC 111 should be reconvened to give colleagues such as Mr. Tebbit and Mr King the opportunity to comment. This would make it impossible to take SERPS at Cabinet on Thursday but would allow all the other items to be taken. Cabinet the following week could then take a supplementary report from MISC 111.

The Rest of the Cabinet Agenda

Time is short on Thursday. At present it is intended that there should be a presentation to the whole Cabinet in the Cabinet Room and not, as originally envisaged, to a separate gathering of the colleagues not on MISC 111. The presentation should be a factual one, lasting not more than half an hour. It would be advisable to insist on the separation between the presentation and the discussion.

You will then need to race through the standard items.

Sir Robert Armstrong's business minute recommends that gas privatisation and the legislative programme should come after the social security reviews. If you are running out of time on Thursday you will need to decide whether to call a halt at some point to the discussion of the social security reviews in order to allow gas to be discussed or whether to allow gas to be pushed out to the following week. Mr. Walker



will argue that the story has broken in the press and he cannot hold the position any longer though some may feel that this has been engineered to put pressure on colleagues.

---

*Duty Clerk  
AP.*

Andrew Turnbull

27 April 1985



SECRET



A8

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

*From the Secretary of State for Social Services*

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

26 April 1985

Dear Andrew

SOCIAL SECURITY REVIEW

I attach a note by officials which sets out the figures requested in your letter of 24 April.

A supplementary note, providing additional information - eg on the effect on contracted-in and contracted-out pension schemes - will follow as soon as possible on Monday.

Copies go to Rachel Lomax, Janet Lewis-Jones, Murdo Maclean and Richard Hatfield.

Yours  
Sincerely

S A Godber  
Private Secretary

SECRET



## SOCIAL SECURITY REVIEW: PENSIONS: NOTE BY OFFICIALS

This note, and the attached tables, set out the costs of four options for changing the State Earnings Related Pension Scheme.

OPTIONS

1. Replace SERPS with new minimum pension requirement in April 1987.
2. End SERPS in 1987 without replacement; private provision on voluntary basis:
  - a) no employer's contribution required to personal pension;
  - b) 2 per cent employers contribution required to personal pension.
3. Defer Option 1 to April 1990.
4. Modify SERPS from April 1987 to reduce emerging benefit costs: base additional pension on lifetime's average earnings and reduce accrual rate on higher earnings. Limit indexation and require contracted-out scheme payment to same limit.

ASSUMPTIONSOption 1National Insurance (NI) contributions

- self-employed to pay full rate of higher contributions which follow from end of SERPS; alternative would be higher Class 1 rates for employees;
- no change in NI fund balance, as calculated on present basis which takes one year with another;
- Treasury supplement kept at expected amount if SERPS had continued - this implies an increase in the proportionate rate of supplement;
- lower and upper earnings limits rise in line with prices until 1987/88 and then linked to earnings;
- reduced rates for low paid of 3, 5 and 7 per cent, as set out in proposals before MISC 111. This maintains broad relativity with post-Budget structure.

Minimum pension requirements

- 4 per cent contribution, of which 2 per cent paid by employer - assume in practice all employers pay only 2 per cent for newly covered workers. This is about the minimum contribution needed to reduce reliance on supplementary pension;



- all employees and self-employed covered except those earning under £35.50 per week - the lower limit for NI contributions - and in their current job for less than six months. Part-timers are included;
- allow for increase in employed workforce in line with Treasury assumptions and linked increase in people already saving through pension schemes;
- average earnings for newly covered employees £105 per week at 1985/86 levels; £125 per week for self-employed.

#### Tax

- assumed contribution of existing tax relief on contributions and pension investments;
- effective rate of relief on contributions:
 

employee 25%	private sector employers 30%)	full effect delayed in line with tax payments
	self-employed 25%)	

#### Receipts

- 90 per cent of minimum pension contributions (for employed and self-employed) paid in year for which due, 10 per cent in following year;
- all NI contributions for employees paid in year for which due; 90 per cent of employer's NIC paid in year due, 10 per cent in following year; 40 per cent self-employed NIC paid in year for which due, 50 per cent following year, 10 per cent in year after.

#### Public sector and personal pensions

- employees not covered now by pension scheme brought in at minimum contributions level.



Option 2

NI contributions and tax as Option 1.

Personal pensions

- a) take-up rising 100,000 a year 1987/88 to 1993/94 if no employer's contribution required (average contribution 4 per cent of earnings);
- b) take-up rising 200,000 a year if employer's contribution of 2 per cent required (employee contribution average 2 per cent - total 4 per cent).

Note

There is no reliable basis for these estimates. They are out of a total field of 7 million. In practice, the different impact of each is likely to be negligible.

Option 3

As Option 1

Option 4

As if SERPS had continued, except for contracted-out NIC rebate staying at present level, instead of falling from 1987. Increase in occupational cover (and so tax relief) expected because of simpler contracting-out test and lower SERPS pensions. To be footnoted: no reliable assumptions about numbers possible, but less than under Option 2.

Note

Options 1 and 2 do not take account of the fact that, as matters now stand, the contracted-out rebate will fall from 1988 as a result of the quinquennial review provided for in the Social Security Pensions Act 1975. The effect will be a reduction in the full Class 1 rates and a rise for the self-employed.



## SECRET

## OPTION 1: REPLACE SERPS WITH MINIMUM PENSION REQUIREMENT IN APRIL 1987

## A: OVERALL IMPACT

(£ bn)	1987/88	1988/89
<u>Public Expenditure</u>		
- savings agreed by MISC 111	-0.3	-0.5
- higher public sector employers' NICs	+0.4	+0.4
- higher public sector pension contributions	+0.1	+0.1
Total public expenditure	<u>+0.2</u>	<u>nil</u>
<u>Revenue</u>		
- lower <u>rate</u> rebates	+0.5	+0.5
- tax relief on contributions	-0.2	-0.3
- NICs: private sector	-0.8	-0.6
public sector	+0.4	+0.4
- higher public sector pension contributions	+0.1	+0.1
Total Revenue	<u>nil</u>	<u>+0.1</u>
Total PSBR	<u>+0.2</u>	-0.1

N.I.C.  
Tax.  
Compulsory Contributions



OPTION 1: REPLACE SERPS WITH MINIMUM PENSION REQUIREMENT  
IN APRIL 1987

B: IMPACT ON PRIVATE SECTOR

(£bn)	1987-88	1988-89
<u>Effects on private sector employers' costs</u>		
Extra NICs	-0.7	-0.8
Contributions to private schemes	+0.7	+0.8
Gross increase in employers' costs	0.0	0.0
Less tax relief	0.0	0.0
Net increase in employers' costs	0.0	0.0
<i>1/2 b.</i>		
<u>Effects on private and public employees</u>		
Extra NICs	-0.3	-0.3
Contributions to private schemes	+0.8	+0.9
Gross increase	+0.5	+0.6
Less tax relief	-0.2	-0.2
Net increase (ie reduction in take-home pay)	+0.3	+0.4
<u>Effect on self-employed</u>		
Extra NICs	+0.2	+0.5
Contributions to private schemes	+0.4	+0.5
Gross increase	+0.6	+1.0
Less tax relief	0.0	-0.1
Net increase	+0.6	+0.9



## SECRET

OPTION 2: END SERPS IN APRIL 1987 - PRIVATE PROVISION ON  
VOLUNTARY BASIS

## A: OVERALL IMPACT

(£bn)	1987/88	1988/89
<u>Public Expenditure</u>		
- savings agreed by MISC 111	-0.3	-0.5
- higher public sector employers' NICs	+0.4	+0.4
Total public expenditure	<u>+0.1</u>	<u>-0.1</u>
<u>Revenue</u>		
- lower rate rebates	+0.5	+0.5
- tax relief on contributions	negligible	negligible
- NICs: private sector	-0.8	-0.6
public sector	+0.4	+0.4
Total Revenue	<u>+0.1</u>	<u>+0.3</u>
Total PSBR	nil	-0.4



OPTION 2: END SERPS IN APRIL 1987 - PRIVATE PROVISION  
ON VOLUNTARY BASIS

B: IMPACT ON PRIVATE SECTOR

(£bn)	1987-88	1988-89
<u>Effects on private sector employers' costs</u>		
Extra NICs	-0.7	-0.8
Contributions to private schemes	negligible	negligible
Gross increase in employers' costs	-0.7	-0.8
Less tax relief	nil	+0.1
Net increase in employers' costs	-0.7	-0.7
<u>Effects on private and public employees</u>		
Extra NICs	-0.3	-0.3
Contributions to private schemes	negligible	+0.1
Gross increase	-0.3	-0.2
Less tax relief	negligible	negligible
Net increase (ie reduction in take-home pay)	-0.3	-0.2
<u>Effect on self-employed</u>		
Extra NICs	+0.2	+0.5
Contributions to private schemes	nil	nil
Gross increase	+0.2	+0.5
Less tax relief	negligible	-0.1
Net increase	+0.2	+0.4



## SECRET

## OPTIONS 3 AND 4

OPTION 3: DEFER OPTION 1 TO APRIL 1990

OPTION 4: MODIFY SERPS FROM APRIL 1987 TO REDUCE EMERGING  
BENEFIT COSTS

(£bn)	1987/88	1988/89
<u>Public Expenditure</u>		
- savings agreed by MISC 111	-0.3	-0.5
<u>Revenue</u>		
- lower rate rebates	+0.5	+0.5
- tax relief on contributions	negligible	negligible
Total Revenue	<u>+0.5</u>	<u>+0.5</u>
Total PSBR	-0.8	-1.0



D

26 April 1985

PRIME MINISTER

STATE EARNINGS-RELATED PENSION SCHEME

MISC 111 decided to abolish SERPS because:

1. No government can seriously say it wants to control long-term public expenditure and preserve SERPS. It will cost an additional £23.1 billion by 2033 (1984-85 prices, Government Actuary's figures). We are not making any provision now for the future cost: it all depends on higher taxes when SERPS matures.
  
2. Paying generous SERPS to high earners is a costly way of helping poor people off Supplementary Pension. And the problem is disappearing anyway without any help from SERPS. The Supplementary Pension is already down to about £1 billion a year. An extra £20 billion pa of contributory benefit is an expensive way of saving, at most, £1 billion of Supplementary Benefit.
  
3. It price protects minimum pensions for all those in occupational pension schemes, despite the great fiscal privileges they already enjoy. Most pensions are therefore ultimately a claim on the state.



4. Substituting a genuine private sector funded scheme for SERPS would link pension payments to the performance of the economy. They would depend on genuine investments in the UK and overseas.
  
5. Abolishing SERPS would be a dramatic boost for wider wealth ownership. It will have far more impact on far more people than privatisation: it matches our home-ownership policy.

#### The Politics of Abolition

Now is the only time to scrap it. Fighting an Election on a pledge to scrap SERPS - or with abolition enacted but not implemented - would mean endless scare stories about higher contributions and cuts in the basic retirement pension, as there is so much public confusion about SERPS. Anyway, abolition is now expected; and press comment has been pretty favourable (see the attached piece from the Telegraph).

The political downside was always recognised in the Fowler Review and the MISC 111 debates. It is not easy to take away an entitlement from people for which they are not paying. But the earlier you do this, the easier it is, as expectations and entitlements have had less time to build up.



The option of keeping SERPS, but at lower cost, is feeble. We lose all the big fundamental arguments for abolition and just look mean-minded.

#### The Chancellor's recent Paper

Nigel's new discoveries are:

- a. the tax loss on savings for new compulsory pensions;
- b. the extra burden on employers if they are all obliged to pay pension contributions in place of SERPS.

In particular, he would be worried if these effects came through suddenly in 1987-88, though the figures now look better than he feared earlier in the week.

Additional pension contributions lose us tax revenue.

Fowler's Review recognised that. There are several ways of tackling the extra PSBR cost:

1. To accept that it doesn't matter, because the new funds will increase the flow of savings. This should lower the rate of interest, and will mean that a higher PSBR can be funded more easily - it is entirely different from a higher PSBR caused by increases in spending.



2. Phase the introduction of the new pension arrangements, to ease the impact in the sensitive years towards the end of the 1980s. Stop any further SERPS entitlements in 1987. Every employer should then be compelled to contribute to the personal pension of any employee who takes out a pension to replace his SERPS provision. (NB, most contracted-in employers have under 100 employees.) This will encourage a gradual build up of private pensions replacing SERPS. Reinforce this with a reserve power to force employers to set up alternative schemes, if enough have not already done so by, say, 1990.
  
3. Find other ways of offsetting the cost of the extra tax relief. For example, the privatisation of BGC, BAA and the Water Authorities, all in the last year of the Parliament, would be greatly helped by a big increase in savings: some would say you will need such extra savings to do it at all. They will serve to lower the PSBR, and they have not yet been fully allowed for in the 1987 figures.

Nigel's second worry is burdens on employers. This is an inevitable consequence of removing something for which you are not currently paying, and replacing it by something which is properly funded and soundly financed. Going for a phased introduction of the new employer's schemes would ease



the burden in the early years, and would leave an element of choice until compulsion was mandatory.

Conclusion

We recommend you:

1. Abolish SERPS in April 1987.
2. Oblige employers to contribute to any employee's personal pension from 1987.
3. Take a reserve power to compel employer pension provision if take-up under 2. is too low, effective 2-3 years later.
4. Offset the reduced tax revenues by higher asset sales (as are curently being planned).

2 and 3 are a sensible compromise between full compulsion in April 1987, and completely optional provision. They could be acceptable to both Norman Fowler and Nigel Lawson.

*dr.*  
JOHN REDWOOD

*David Willetts*  
DAVID WILLETTS



BFT  
B 7

COPY 14 OF 24

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

26 April 1985

Dear Mr Fowler

## REVIEW OF SOCIAL SECURITY

The postponement of the Cabinet discussion of the social security review gives me time to raise with you two issues which were not properly discussed in MISC 111 and on which I find it difficult to accept your proposals.

The proposal to restrict the payment of Supplementary Benefit (SB) towards the cost of mortgage interest was first raised at the third meeting of MISC 111, but was not subsequently discussed. The suggestion then was that assistance might be recovered when the house of the recipient was sold on his death. There are obvious objections to this, and I can understand why you did not pursue it. It was superseded by the proposal for a 6-month waiting period which first came before MISC 111 when you presented your conclusions to the seventh meeting.

In my view this proposal would weaken our drive to make home ownership available to a wider section of the community. The present arrangements are a reassurance to tenants thinking of becoming owners for the first time. To restrict SB as you propose would reduce the number of tenants willing to take the risk. This would not reduce the size of the public sector. Nor would it offer significant savings, since the tenants deterred from owner occupation would continue to be eligible for help with their housing needs.

If the proposal goes ahead the building societies will complain bitterly about being expected to shoulder social housing responsibilities. If insurance were available to cover the mortgage payments no longer met by SB, that would help. However, insurance will not necessarily be available to those most at risk.

My second point is that the proposal to include help with water charges within the basic rate, at a notional average level, instead of paying actual charges as now, would cause severe problems. It would complicate the collection of charges, and increase hardship, particularly in high charge areas. It would also make it presentationally more difficult to raise charges in future because we should no longer be able to say that the poorest families are fully protected. Some families on SB could lose up to £1 a week (on the assumption that a notional figure of £1.14 is included in SB to take account of water charges).



SECRET

COPY 14 OF 24

I believe we should consider both these proposals further before publishing them in the Green Paper. I should be very willing to discuss them with you before Cabinet takes the social security review as a whole.

I am sending copies of this to the Prime Minister, other members of the Cabinet, the Chief Whip, the Paymaster General and Sir Robert Armstrong.

Yours sincerely

Swanderson

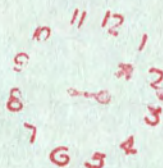
for

PATRICK JENKIN

Agreed by the Secretary of  
State and signed in his absence



26 APR 1985





6  
B

PRIME MINISTER

## SOCIAL SECURITY REVIEW

As you requested, officials from the Departments concerned have now submitted agreed figures on the consequences of abolishing SERPS and replacing it with a new pensions structure.

Implications of the options

The main conclusion that I draw from the figures in the note by officials is that the decision we reached in MISC 111 was clearly the right one.

Nigel Lawson's minute of 23 April expressed concern about the PSBR effects and the extra employment costs which the arrangements on which we agreed in MISC 111 would involve. But we must distinguish between those which stem from abolishing SERPS - whether or not we replace it - and those which would result from requiring occupational or private pension contributions for everyone in work.

We have recognised all along that the end of SERPS would mean higher national insurance (NI) contributions for both employers and employees who are now contracted-out because of the ending of the contracted out rebate. My paper (MISC 111(85)5), which MISC 111 discussed on 13 February, made this clear; it is abolishing SERPS - not replacing it by a compulsory scheme - that accounts for the extra £400 million on public sector employers' NI contributions.

The costs of the new pension arrangements will come from the tax relief on employers' and employees' contributions. While I recognise Nigel's concern about extra tax relief, the agreed note by officials shows that the cost is likely to be £200 million in 1987/88 rather than the £1 billion that the earlier estimates suggested.



E.R.

All of us in MISC 111 recognised that the end of SERPS and its replacement by a compulsory scheme would mean higher employment costs for some people but, as the note by officials shows, the overall effect on private sector employers as a whole is nil. We felt in MISC 111 - as I still do so - that stopping SERPS while we still can, with the huge long term savings that it offers, justified the public sector and other costs. And on a minimum pension requirement for all there was no dissent from your summing up of our discussions on 13 February (MISC 111(85)2nd Meeting) when you said that "..... it would inevitably impose greater cost on the contributors and arouse controversy, but should not be postponed".

#### Why MISC 111 made its choice

We decided to replace SERPS because of its cost and complexity. We decided to replace it by a compulsory framework because it alone would achieve our objectives. In particular:

- it will ensure that everyone in work has an opportunity to build up an occupational or personal pension. It was clear during the debate on Monday, and from what has been said elsewhere, that our supporters attach great importance to what is put in place of SERPS;
- it would give everyone who had a reasonable work record enough income in retirement to lift them off dependence on supplementary benefit. We must avoid being seen as simply leaving people with inadequate provision in old age;
- the switch to funded pension provision would enrich capital markets and carry forward our aim of giving people a more direct stake in the performance of the economy;
- finally, and this is probably the most important point, it will reverse the increasingly dominant role of the State in pension provision which has developed over the last twenty-five years as higher earnings related



E.R.

pensions have been provided through the State scheme. The only effective way of reversing this trend is the route we mapped out in MISC 111.

### The other options

I do not believe that any of the other options is sustainable.

First, abolishing SERPS without putting anything in its place would leave us very vulnerable to the charge that we were simply engaged in an exercise to reduce pension rights. Coverage by occupational pension schemes has been on a virtual plateau since the 1960s. And as you will see from the tax relief figures produced by officials, it has been assumed that growth in coverage would be very slow. If it were faster, the tax relief costs would be higher. Since the loss of SERPS pension rights would not be balanced by a significant growth in private provision, we should be pressed to do more through State provision, both by our supporters and more generally. The end result would be significantly higher expenditure on the basic retirement pension or on supplementary pensions - and most likely on both. If, for example, we had to concede earnings indexation in 1987 on the basic retirement pension it would cost us a compound 1½ per cent extra or £260 million a year. The extra cost would be about £3 billion a year within ten years of 1987 with a corresponding increase in contributions.

We did consider in MISC 111 the possibility of a transitional period before making the arrangements compulsory. But for very good reasons we decided against. The fact is that if we want our proposals to have a positive impact before the next election, we must ensure that those not now building up occupational or personal pensions begin to do so at once. We know from the Gallup Poll survey how much people value their membership of an occupational pension scheme. Once they have begun to build up pension rights they will not wish to lose it. This will be a powerful political argument in our favour.



E.R.

Second, the option of deferring the ending of SERPS until the next Parliament would leave us in an extremely exposed position. As with the voluntary approach, all the emphasis in the meantime would be on the loss of pension rights without any recognition of the value of the new proposals. Once people are members of a scheme, or have taken out personal pensions, they will see the attraction of our policy. But if the new structure were not in place, we should face a barrage of expensive pension promises of the sort we have already seen from Michael Meacher, with nothing to set against them. It is not a platform on which I could recommend fighting. Moreover, the cost of SERPS would continue to grow and could be as much as 50 per cent higher if implementation had to be delayed until, say, 1990.

The third approach, which we considered but rejected in MISC 111, is to modify rather than abolish or replace SERPS. Having looked at this again, it seems to me clear that, although it will provide long term savings, it gives us the worst of both worlds. In particular:

- we should be continuing the complexities of a two-tier system and contracting-out;
- there would still be little incentive for employers to set up new schemes as is reflected in the figures on tax relief in the note by officials;
- most important of all, we should be missing the opportunity - probably the last opportunity - of giving everyone the chance of a private pension. We should have accepted for good the dominance of the State scheme - and we would have undermined one of the main thrusts of the whole review.



E.R.

SECRET

I am copying this to Willie Whitelaw, Nigel Lawson, John Wakeham  
and Sir Robert Armstrong.

26 April 1985

N F





10 DOWNING STREET

*From the Private Secretary*

24 April 1985

Social Security Reviews

The Prime Minister has seen the Chancellor's minute of 23 April. She understands that the figures presented in the minute were not agreed between departments. In the light of this it was decided to postpone Cabinet discussion by a week.

The Prime Minister has asked that officials in DHSS and the Treasury, in association with the Cabinet Office, should agree figures on the consequences of abolishing SERPS and replacing it with compulsory provision for retirement; and that a note setting this out, together with possible bases on which SERPS could be abolished, should reach her by close of play on Friday. I will seek to arrange a meeting to discuss this early next week.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Steve Godber, Esq.,  
Department of Health and Social Security.



cc TF  
          

PRESS GUIDANCE

The Social Security Review will not (repeat not) be considered by Cabinet tomorrow (Thursday, April 25). It has been taken off the agenda this afternoon and all members of Cabinet will be aware by tonight.

[NOT FOR USE: The reason is the need to look more carefully at the effect of the proposed abolition of SERPS.]

We have not so far disclosed this to the press and we should not do so unless asked. If asked, the line to take is as follows:

Q: Is it true that the Social Security Review will not be considered, as you have been confirming, at Cabinet tomorrow?

A: Yes.

Q: Why?

A: The Secretary of State for Social Services, in consultation with his colleagues immediately concerned, has decided that more work is necessary before collective consideration in Cabinet. He would feel happier if one or two loose ends were tied up more tightly and this requires further work.

Q: So there is a big row about the Social Security Review in advance of its coming to Cabinet?

A: No there is not a big row. It is hoped that the issue will come to Cabinet tomorrow week - ie May 2.



Q: Does this mean that the whole timetable is now in jeopardy or wrecked?

A: No. We have been saying for a week that the earliest we thought the Review could be published would be mid-May, and the general hope has always been to get it out next month.

Q: Was the Prime Minister a party to the decision not to discuss it in Cabinet?

A: Yes of course she was. She has chaired the ad hoc Committee considering the Review and she readily agreed to the Secretary of State's request.

Q: Does the postponing of the Cabinet's discussion arise from the intervention of Ministers not involved in the discussion of the Review to date?

A: No, absolutely and categorically not.

Q: What is the hold up about?

A: As we said earlier, it's about tying up a few loose ends. You shouldn't assume that it's about a particular issue.

Q: Is it about SERPS? *Rents/Rates?*

A: See last answer.



CONFIDENTIAL



*For information* (2)

*File*

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

*From the Secretary of the Cabinet and Head of the Home Civil Service*

Sir Robert Armstrong GCB CVO

PS(85) 10

24 April 1985

Dear Private Secretary,

C(85) 9: Social Security Review

I have been asked to remind those who received a copy of the memorandum by the Secretary of State for Social Services, C(85) 9, that both the memorandum itself and the Green Paper which was attached as an annex are designated CMO. They should therefore be handled with great care and treated on a strictly need to know basis.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, the Chief Whip, the Attorney General and the Paymaster General.

Yours sincerely

(Signed) ROSALIND MULLIGAN  
Assistant Private Secretary

CONFIDENTIAL



PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

i) Social Security Reviews

<sup>Chancellor</sup>  
The ~~Prime Minister~~ will no doubt want to talk about the issues raised in his minute (Flag A).

- On what basis should SERPS be abolished? You will want to impress upon him your strongly held view that there must be a compulsory replacement.
- If there is a compulsory replacement, should enactment of abolition of SERPS and its implementation straddle the Election? What are the politics of this?
- How can the economic consequences of a large rise in compulsory savings be handled?

The objective is to bring this back to Cabinet next Thursday. DHSS and the Treasury are seeking to agree figures and set out the choices. They hope to complete this by close on Friday so that there can be a discussion of a small group before Cabinet early next week. I suggest inviting the Lord President, the Chancellor, the Secretary of State for Social Services, the Secretary of State for Trade and Industry and the Chief Whip.

ii) Late Payment of VAT

You expressed concern about this. The attached note (Flag B) sets out the issues. Not only did the Chancellor announce this in the Budget but there has been very extensive consultation which has led to modification of the original proposals.



iii) Tax Treatment of Donations to Charities

Sir Emmanuel Kaye has been pressing for changes to the tax rules under which a close company's covenanted payments to charity are apportioned to the company's shareholders. This particular case is now subject to judicial review and is therefore sub judice. The Chancellor argues against making any changes to the rules at present. (Flag C).

iv) Tax Treatment of the Arts and Heritage

Lord Gowrie raised this with you. He has now agreed with the Chief Secretary that there should be a review of the arrangements for acceptance in lieu of capital transfer tax. In return Lord Gowrie has agreed not to press for any further taxation changes for the heritage. (Flag D).

v) National Insurance Contributions

The Chancellor has produced a note (Flag E) explaining the new basis for NICs. He argues that constituting NICs on a threshold basis would be too expensive (paragraph 13) and marginal relief would be too complicated. He also argues that the new system gives substantial benefits to the lower paid (paragraphs 9 - 12), while the three separate steps are an improvement on the one big step (paragraphs 3 - 7).

Mr. King has also provided a note (Flag F) which indicates that there are a substantial number of employees with earnings close to the lower earnings limit. The data suggests some bunching just below the limit and a fall-off in numbers just above. This and other evidence points to some modest distortion of employment patterns by the limit.



vi) Local Government Finance

The Chancellor may express caution about promising too much too soon from the Review of Local Government Finance. In particular he may express doubts about whether the poll tax will stay the course.

vii) Washington Meetings

The Chancellor can report on the outcome of the meetings last week and their implications for next week's Economic Summit.

(viii) *Privy Councillorship for Treasury Ministers*  
*You may wish to explain your decision to be Chancellor.*

*AT*

Andrew Turnbull

24 April 1985



SECRET



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

Prime Minister ① 4A ce J.R.  
ce C. [unclear]

The Chancellor hopes you will be able to look at this before tomorrow's meeting. There is something fishy about these figures. How is PSBR higher, profits lower, self-employed and employed with lower net income. How come everyone is worse off. The Chancellor is breaking higher contributions although they've a tax rate than an increase in savings.

PRIME MINISTER

SOCIAL SECURITY REVIEWS

We are to discuss at this week's Cabinet Norman Fowler's memorandum summarising the outcome of his review of social security. Some of Norman's proposals are very far reaching and will take many years to have their full effect. In the long term they are well worth while. But we clearly cannot take decisions of such importance without carefully considering their financial implications for both public and private sectors over the lifetime of this Parliament. I am only now able to start to put together the overall picture. The details of some of the proposals are not yet firm and we do not have definitive costings in a number of areas. But the broad picture is fairly clear and I thought it right to let you have my initial assessment of the likely total impact of what is proposed, before our meeting tomorrow.

AT 23/4

2. The total savings agreed by MISC 111 are summarised below. These are all savings to the PSBR, but only about half of them will be reflected in lower public expenditure. The remainder - including virtually all the savings in housing benefit - are lower rate rebates and will be reflected in higher public sector revenues.

	1987/88	1988/89	£m
Supplementary Benefit	130	290	
Housing Benefit	620	640	
Other	50	70	
<b>Total:</b>	<b>800</b>	<b>1,000</b>	





3. To this should be added the effect of replacing SERPS. In the very long run, as you know, the abolition of SERPS may allow us to realise very substantial savings in public expenditure, perhaps of the order of £½ billion by the mid 1990s and may be as much as £22 billion by the 2030s (at today's prices). For the remainder of this decade, however, the replacement of SERPS by compulsory private sector provision is likely to add to both public expenditure and the PSBR. The switch from SERPS ("a Pay As You Go" scheme) to fully funded private sector schemes will generate income to meet maturing pension liabilities in the next century. But the immediate consequence will be a sharp increase in the burden of pension contributions from both public and private sectors.

4. The costings (which are not final) have been done on the assumption (implicit in Norman Fowler's proposal) that existing contracted in and contracted out class 1 National Insurance contribution rates are unified on a basis which is broadly neutral to the Fund. This implies an increase in the rate paid by contracted out employers and employees, and a reduction in the rate paid by those who are contracted in. Employees will benefit somewhat at the expense of employers, because of the removal of the contracted out rebate, two thirds of which was paid to employers. We have not yet discussed the question of the self employed, but the abolition of earnings related benefits will mean that the actuarial justification for a much lower rate for them will largely disappear, so contributions paid by the self employed ought to rise, perhaps by as much as £0.3 billion.

5. On these assumptions, public sector employers' NIC's may rise by some £½ billion, since the public sector has a relatively high proportion of contracted out employees, whose contribution rates will rise. This will add to both public expenditure and





revenue. Also on the revenue side, there may be a slight fall in total private sector NI contributions, of around £0.2 billion. We have not yet discussed the question of tax relief, but if present arrangements were to apply to compulsory private contributions, the cost might be around £1 billion a year. The net effect on the PSBR is therefore likely to be a loss of something of the order of £1¼ billion.

6. Taken together with Norman's other proposals the overall effect may be to increase the PSBR by around £½ billion in 1987-88 and perhaps £¼ billion in 1988-89. In summary, the overall picture looks as follows:-

(£ bn)	1987/88	1988/89
<b><u>Public Expenditure</u></b>		
- savings agreed by MISC 111 <sup>1</sup>	-0.3	-0.5
- higher public sector employers NICs	+0.5	+0.5
Total public expenditure	+0.2*	-*
<b><u>Revenue</u></b>		
- lower rate rebates	+0.5	+0.5
- tax relief on contributions	-1.0	-1.0
- NICs: private sector	-0.2	-0.2
public sector	+0.5	+0.5
Total Revenue	-0.2	-0.2
Total PSBR	+0.4	+0.2

\*Bringing part-timers into the public service pension schemes, if that proves necessary, could add a further £200 million to public expenditure, or £100 million to the PSBR. The change in the PSBR will depend on how far higher public sector costs are absorbed or passed on in higher nationalised industry prices.



SECRET



The effect on private sector employment costs

7. The replacement of SERPS by a compulsory private sector scheme will add substantially to private sector employment costs, for employers, employees and the self-employed. Contracted in employers and employees will pay lower employers' National Insurance contributions but this will be substantially offset by contributions under the compulsory private sector scheme even after taking account of tax relief. Contracted out employers and their employees on the other hand will pay higher National Insurance contributions, though they will be unaffected by the introduction of the compulsory private sector scheme. The self-employed will pay higher NICs, and some of them will also have to make contributions under the compulsory scheme.

8. The gross increase in contributions to compulsory private schemes may be nearly £3 billion. If current tax arrangements are extended to cover these contributions, the public sector will effectively meet a third of this, in the form of additional tax relief.

9. The following table summarises the possible impact on private sector employers costs and net take-home pay in 1987/88:





1987-88

(£bn)	Contracted out	Contracted in	Total
<b><u>Effects on private sector employers costs</u></b>			
Extra NICs	+0.8	-1.0	-0.2
Compulsory contributions to private schemes	-	+1.2	+1.2
Gross increase in employers costs	+0.8	+0.2	+1.0
Tax relief	n.a.	n.a.	-0.5
Net increase in employers costs	n.a.	n.a.	+0.5
<b><u>Effects on private and public employees</u></b>			
Extra NICs	+0.6	-0.9	-0.3
Compulsory contributions to private schemes	-	+1.2	+1.2
Gross increase	+0.6	+0.3	+0.9
Tax Relief	-	-0.3	-0.3
Net increase (ie reduction in take home pay)	+0.6	-	+0.6
<b><u>Effect on self-employed</u></b>			
Extra NICs			+0.3
Compulsory contributions to private schemes			+0.5
Tax Relief			-0.2
Net increase			+0.6



SECRET



10. The conclusion I draw from these figures is that we must think very carefully before insisting on compulsory private provision for pensions. We can expect a significant rise in voluntary private provision when SERPS is abolished, and over time this will increase both employment costs and (if we decide to continue present arrangements) the cost of allowing tax relief on pension contributions. But the cost will inevitably be much greater especially in the short term if private provision is made compulsory.

11. If we go ahead on the basis Norman is proposing and replace SERPS from April 1987, we will add to our problems in what may prove to be the last financial year before the General Election. As you know, the fiscal position in 1987/88 is already looking very tight. These changes will make it worse and impose severe additional burdens on employers, which we will find very difficult to relieve within the existing strategy.

12. I therefore think we have to consider two further options. The first is to abolish SERPS, but leave it to people to choose their own level of provision for retirement, at least initially. If, in the event, the growth of private provision is too low, and threatens overdependence on the supplementary benefit system, we can introduce compulsion at a later date. The second is to postpone the abolition of SERPS until after the next General Election, a course with a number of obvious political attractions.

13. I am copying this minute to Willie Whitelaw and Norman Fowler.

N.L.

N.L.

23 April 1985



23 April 1985

PRIME MINISTER

BENEFITS

Tactics

You are meeting Norman Fowler, Nigel Lawson and Viscount Whitelaw tomorrow to agree how to handle the Cabinet discussion of benefits. Some Cabinet colleagues who have not taken part in MISC 111 may be worried that the proposals are too tough. Nigel Lawson might suggest that he balances this by arguing that the proposals are too soft. Our view is that it is best if the MISC 111 team presents a united front.

Green or White Paper?

Norman Fowler describes his Report as a Green Paper, presumably to keep open a line of retreat if everything goes badly wrong. But there are good arguments for making it White. That is the honest thing to do, as the DHSS will be introducing legislation early in the autumn to implement the supposedly Green proposals. Moreover, we had open consultations last year, as the Reviews took oral evidence. We don't need a second round. If the Chancellor raises the question, we therefore recommend that the Report should be a White Paper, though with Green edges for those proposals on



which we have not already consulted (eg Unemployment Benefit for only 6 months).

### Timing of Uprating

There are tricky political and practical questions here which need to be thought through. Norman Fowler won't have his structural changes in place for November 1986. The staff will not be trained. Trying to implement the changes then would risk the same administrative nightmare as we saw with the unification of Housing Benefit. But November 1987 is leaving it rather late. April 1987 is the earliest practicable date. And if we missed the November 1986 uprating, it would be easier to avoid cash losers from the reforms, as benefits recipients would be due to have an increase of 7% or 8%. The Treasury have also spotted that this would save them about £600 million in 1986-87.

The obvious argument against this is that the uprating of all benefits would be deferred from November 1986 to April 1987; and that this might be presented as breaking your pledge on price protecting the retirement pension, even though it would be given full price protection over the 18-month period.

Both Norman Fowler and Nigel Lawson may push this option.



## Presentation

You could also discuss the main positive themes.

Norman Fowler will save £1 billion by 1988 (and that ignores extra savings by holding Child Benefit). These savings are essential. The abolition of SERPS will save us up to £20 billion a year by the next century. But part of the appeal of the changes is that there are other good arguments in support of them, independent of expenditure pressures.

The abolition of SERPS gets rid of a commitment which future governments were anyway unlikely to meet because of the burden on future taxpayers. It is a relic of the era when governments wrote paper promises and hoped they would not be around to pick up the bill. It leaves out the 2.5 million self-employed, who have always had to make their own flexible arrangements. The elaborate negative means test (giving more money to high earners) is exactly the sort of thing which governments should not get involved in. Much better to provide the basic pension and get individuals to top up with private provision. That, after all, was the logic of the original Beveridge national minimum.

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The next biggest change is the reduction of maximum rate rebates to 80%. This helps with the problem of local authority accountability: the people who vote don't pay, and those who pay don't vote.



The toughening up of Supplementary Benefit for young people should encourage them to go out and take jobs. The Family Credit is an attractive positive measure to help poor working families and enable them to accept low wages.

*David Willetts*  
DAVID WILLETTS





*D/P will Pa  
response*

*cc DW*  
*NBAM*

4

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

23 April 1985

The Rt. Hon. Norman Fowler MP  
Secretary of State for Social Services

*Norman Fowler*

**STUDY OF TAX AND SOCIAL SECURITY SYSTEMS**

I am sorry not to have replied before to your letter of 4 March.

I entirely agree with you that we need to take full advantage of the opportunities which may exist for closer co-operation between the tax and social security systems where these would result in greater efficiency, improved operations and better service to the public. The four areas which you identify in particular - assessment of title, payment of benefit, taxation of benefits and collection of revenue - represent a very useful categorisation of areas where we should look for closer links.

However, I am not convinced that it would be right to set up a study group as you propose, and in particular I suspect it would be unwise to announce that such a study was in progress. It would lead to unwarranted public expectations of the scope of the exercise and create demands for publication of the conclusions. As I see it, what we have in mind is essentially a further development of the kind of close co-operation in the development of working methods which already exists between your department, the Treasury and the Inland Revenue. This will be important in the run up to my own Green Paper on Personal Taxation, but will need to continue as a regular feature of relations between the Inland Revenue and DHSS over the next few years, as computerisation of both systems advances and as you prepare for implementation of your Social Security Reviews.

I hope you will think this a sensible way of taking the necessary work forward. If we can agree on this, it would follow that your own Green Paper should not announce any formal study of links between the social security and tax systems, but should say that full account will be taken of opportunities for greater links between the two systems. My officials have suggested to yours a form of words.

I am copying this letter to the Prime Minister and to other members of MISC 111.

NIGEL LAWSON

*Nigel Lawson*

*on backup*



MISC III : SOCIAL SERVICES  
P+Z.

24 APR 1985





## Opposition Day

[10TH ALLOTTED DAY]

### The Welfare State

3.35 pm

**Mr. Michael Meacher** (Oldham, West): I beg to move,

That this House calls upon the Government to withdraw its plans to abolish the State Earnings Related Pension Scheme and its proposals to cut back other key benefits as part of its callous dismantling of the welfare state designed to provide even bigger tax handouts for the rich.

**Mr. Deputy Speaker (Mr. Harold Walker)**: Order. I have to tell the House that I have selected the amendment in the name of the Prime Minister.

**Mr. Meacher**: The motion sets out the demand that we place before the House on behalf of 10 million pensioners, 3.5 million unemployed, 3 million disabled persons and millions of others who may suffer sickness, bereavement or other misfortune.

The welfare state, while it needs genuine reform and improvement, remains for the British people the ideal of dignity and security against want in the face of economic and other adversity over which the individual has no control. It is against the destruction of that ideal, the intensification of the means-test state without dignity and the dismantled security that we raise our voice today.

In reply to our motion the Government's amendment is astonishing, not only in its unbounded smugness, but in being demonstrably inaccurate and false from start to finish. It begins by noting

"the Government's commitment to improving the . . . Health care systems in this country as shown by increased spending on the National Health Service".

I have news for the Government. Spending is going down, and that is official. Sir Kenneth Stowe, the permanent Secretary at the DHSS, confirmed last week to the Select Committee that current expenditure on the NHS in the last year fell.

The Government's amendment continues its self-congratulation by noting

"increased benefit levels for pensioners and others".

The truth is that by ending the earnings link in the uprating of pensions the Government have lowered the pension for a married couple by £5 a week, every week, below what it would have been if Labour's formula had been continued.

The Government's amendment then refers to their "reducing the burden of taxation and National Insurance contributions".

That is a rum one. In fact, under this Government, the rate of national insurance contribution has increased by 50 per cent. and the burden of taxation has increased by the equivalent of about 9p in the pound on average for the whole population, except those earnings over £20,000 a year.

The Government's amendment, obviously unable to find anything to say about the Government's social security and health policies that is both positive and truthful, falls back on the Goebbels lie by referring to "the Opposition's plans to end mortgage tax relief".

As I made unequivocally clear at the time, and since, the paper that I presented last week was a discussion document

and not a Labour party policy document. It is only malicious and fabricated press reporting that has implied otherwise. For the Prime Minister to reiterate such scurrilous misrepresentation is despicable, and it demeans her office.

It ill becomes the Tory Government to raise hackles about mortgage tax relief when, in the so-called Fowler reviews, they are about to abolish not only housing benefit for almost everyone in employment but all supplementary benefit mortgage payments for the poorest families struggling to buy a home. There could be no better proof that the Tory party was founded by the rich, of the rich and for the rich.

**Mrs. Elaine Kellett-Bowman** (Lancaster): Is the hon. Gentleman aware that many low wage earners in my constituency are buying their houses with mortgages? What can possibly be scurrilous about the Prime Minister drawing attention to the hon. Gentleman's outrageous suggestions even though he did not particularly want them published?

**Mr. Meacher**: I made it absolutely clear that we would continue with a system of housing aid, both for those in rented accommodation and for owner-occupiers struggling to buy a house. The only difference between our two parties is that the Labour party would aim to improve the level of housing aid for the poorest families, while the Tory party is apparently determined to abolish supplementary benefit mortgage aid.

**Mr. Tony Marlow** (Northampton, North): The House would not want the hon. Gentleman to be misrepresented. He has a wonderful opportunity to set the record entirely right. Can he tell the House that under no circumstances whatever would a Labour Government tamper with mortgage interest relief, particularly for those on above average incomes?

**Mr. Meacher**: That is a remarkable statement. The hon. Gentleman has some gall in raising that point when we know that because of the recent, 4 per cent. rise in interest rates monthly payments for those with a £30,000 mortgage increased by £57.60 a month. If the hon. Gentleman wants to assist owner-occupiers he should have a word with the Government Front Bench and the Chancellor of the Exchequer. I have made it absolutely clear that we would continue the system of housing aid both for those in rented accommodation and for owner-occupiers.

**The Secretary of State for Social Services (Mr. Norman Fowler)**: I am not sure that the hon. Gentleman has entirely answered the point made by my hon. Friend the Member for Northampton, North (Mr. Marlow). What precisely was the status of the considered report which the hon. Gentleman put forward? What is the hon. Gentleman's personal position? Does he actually support the proposals that he put forward a week ago?

**Mr. Meacher**: The status of the document has been made absolutely clear, as the right hon. Gentleman would know if he had listened to what I have said, as opposed to listening to what has been said by certain members of the press, who have been determined to misrepresent my statement because of their hostility to the Labour party. —That is scarcely new. I have made it absolutely clear



[Mr. Meacher]

that it was a Green Paper, a discussion document, for serious discussion of a serious issue. I put the document in that vein, and I hope that it will be treated in that vein.

**Mr. Frank Field** (Birkenhead): Does my hon. Friend realise that there is considerable support from the Labour party for the ideas that he outlines in that discussion document?

**Mr. Meacher:** I believe that that is so. I believe that, when people know the purpose of that document, which is to take 8 million people who have been reduced to means tested poverty out of that degrading system, and realise all its implications—anyone is free to see that document, and I hope that it will be treated seriously—they will take a different view. I believe that electorally it has substantial vote winning potential.

**Mr. John Butterfill** (Bournemouth, West) *rose*—

**Mr. Ralph Howell** (Norfolk, North) *rose*—

**Mr. Meacher:** I shall not give way, except to the right hon. Gentleman.

**Mr. Fowler:** Does that mean that the hon. Gentleman stands by the proposals that he made a week ago? From what he has just said, he does.

**Mr. Meacher:** The Secretary of State should listen to my words. I should like to know whether he intends to abolish supplementary benefit mortgage payments for the poorest families struggling to buy houses and who are on supplementary benefit. That is a rather important question for millions of people who may otherwise lose their homes.

**Mr. Dave Nellist** (Coventry, South-East): Will my hon. Friend give way?

**Mr. Meacher:** I shall not give way, as I would rather get on.

**Mr. Nellist** *rose*—

**Mr. Deputy Speaker:** Order. The hon. Member for Oldham, West (Mr. Meacher) has said that he will not give way. I hope that the hon. Member for Coventry, South-East (Mr. Nellist) heard that.

**Mr. Meacher:** The Government have sought to justify this attack on the welfare state on the ground that the social security budget is growing out of control. It is growing, but not because of higher benefits—quite the reverse—but because the Government's other policies are forcing huge numbers of people into dependency. There are now more than 8 million people in supplementary benefit poverty in Britain, which is double the number in 1979. Nearly half of the increase in costs comes from the trebling of unemployment. Huge cuts in housing investment have greatly increased homelessness.

**Mr. Butterfill:** Will the hon. Gentleman give way?

**Mr. Meacher:** I shall not give way at the moment. Homelessness has swelled the budget for board and lodging payments. Supplementary benefit board and lodging payments have also been used improperly, and on a substantial scale, to finance an explosion of private sector homes for the elderly. The administration of all these and other claims has added a further £250 million to the budget.

The real answer to the growing social security budget is not to cut benefits. Indeed, the hon. Member for Derbyshire, West (Mr. Parris) could not even live for a week on supplementary benefit, and that is before it is cut even further. The real answer is to change the Government's policies which cause the poverty in the first place and which are multiplying the number in poverty every year. Nor need there be a lack of funding for the welfare state if the Government were so minded. Public expenditure constraints did not prevent the Government from finding another £2.5 billion with which to fight the miners, from finding £3 billion for the Falklands, or from finding another £12 billion over this decade for the defence budget, for Trident. It is all a matter of priorities—

**Mr. Charles Kennedy** (Ross, Cromarty and Skye): Will the hon. Gentleman give way?

**Mr. Meacher:** For this Government, perhaps for more than any other Tory Government, the welfare state and the abolition of poverty always come near the bottom of their list of priorities. Nor, contrary to the Government's constant propaganda, is Britain even a high social spender. Indeed, according to a parliamentary answer on 19 November 1984, it is, with the exception of Greece, by far the lowest social spender on health care and social security in the whole of the EC. Moreover, a recent OECD report also shows that the growth rate in welfare spending overall in this country has been one of the lowest of all the 24 countries that make up the OECD.

The real motivation behind the Fowler reviews is the obsession with redistribution from poor to rich, which is the indelible hallmark of the Tory hard Right gathered round the Prime Minister. Two months ago I asked the Library to calculate the total value of the social security cuts since 1979. I have its letter with me. It estimated the value at £8,200 million. In addition, by taxing unemployment benefit for the first time, the Government have clawed back another £2,700 million from the unemployed since 1982. Therefore, since 1979 social security has been cut altogether by no less than a staggering £10,900 million—enough to provide every pensioner with an extra £22 a week every week this year and to provide every unemployed family with an extra £62 a week every week this year.

The money did not go to the pensioners or the unemployed. It went to the rich. In every Tory Budget since 1979 the higher rate tax band has been raised disproportionately, capital gains tax and capital transfer tax have been eased and the investment income surcharge, a tax exclusively on those with Stock Exchange holdings in excess of £100,000, has been reduced and has now been abolished.

Using the Chancellor's Budget statement Red Books—any hon. Member can do the same exercise as I have done—it is clear that the cumulative value of the tax handouts, almost exclusively concentrated on the richest 5 per cent. of the population, can be calculated at £12.9 billion. The closeness of that figure to the total of social security cuts is no accident. Pensioners, the unemployed, the sick, widows and the disabled, all the have nots, have been squeezed to provide further enrichment, on a truly massive scale, for the haves, who were already rich. It is a despicable philosophy, of which the Conservative party should be ashamed.

**Mr. Kennedy:** There will be much sympathy among the poorest groups in society for the hon. Gentleman's attack on the Government in that respect. Will he clarify a point on the question of finance, as he is arguing that money is available to alleviate poverty? Why was the shadow Chancellor of the Exchequer unable to come out with a costed, agreed programme on behalf of the Labour party at the time of the Budget, and why did the hon. Gentleman not provide a costed programme when he launched his semi-official document last week? How much would his programme cost?

**Mr. Meacher:** My right hon. Friend the Member for Birmingham, Sparkbrook (Mr. Hattersley) produced a far more detailed alternative Budget than is traditional. It was provided in very considerable detail indeed, and the hon. Gentleman might care to study it. I wonder whether he has even read it. As for my statement, I presented as a consultative document a 50-page paper, and detailed costings will certainly be presented. If the hon. Gentleman wants independent costings, he can find them this week in *The Economist*. The costings are not entirely accurate, but they are approximately right—a subject to which I shall return.

The Prime Minister, far from being ashamed, is no more capable of shame than she is of compassion. That is why this anti-welfare state drive of robbing the poor to pay the rich is now being brought to a climax. The Treasury wants £3 billion to £4 billion of tax cuts out of these reviews, and it will get them. The Secretary of State has been about as effective in defending the welfare state as General Custer was in his last stand. The Chancellor wants £4 billion to dole out as tax reliefs in the run-up to the next election. That is the whole purpose of the Fowler reviews, and the Secretary of State has been a pushover in letting the Chancellor have exactly what he wants.

The reviews were fixed from the word go. Three of the four major reviews were chaired by Government Ministers. So much for independence. The fourth was led by the chairman of the London Brick Company—presumably chosen because of his intimate knowledge of housing benefit. Of the so-called two independent members of the review into children and young persons benefits, Mr. Parry Rogers, of the Institute of Directors, was forced to declare an interest when the institute gave evidence recommending the abolition of child benefit. The other, Mrs. Barbara Shenfield, just happened to have contributed to an Adam Smith Institute pamphlet opposing the welfare state. The Institute of Directors features again in providing one of the two so-called independents on the supplementary benefit review—presumably chosen because of his vast experience of poverty.

So much for independent reviews. They were packed with Tory members. The nil extra cost constraint imposed by the Treasury enforced a pure cost cutting exercise and the short time scale precluded serious analysis.

We do not know how hard the Secretary of State fought in the Cabinet committee, but we know that he has lost every battle down the line. The leaks that I have established from journalists are undoubtedly authentic—[HON. MEMBERS: "Oh."] The Secretary of State is entitled to deny any of the points that I am about to make, and I look forward to hearing whether he denies any of them. From these leaks it is clear that the state earnings related pension scheme, which would have doubled pensions in real terms by 1998, is to be abolished, with the result that

at least 2 million pensioners will remain in means-tested poverty. All the supplementary benefit additional payment for diet and heating are to be abolished, including the £5 heating allowance for the over-85s, and all the supplementary benefit single payments for clothing and furniture are to be ended. Housing benefit, which has already been cut by this Government by £200 million, is now to be cut by up to a further £2,000 million, which will literally double the rents of hundreds of thousands of occupational pensioners and low-paid families.

Supplementary benefit mortgage interest payments are to be abolished for the poorest families struggling to buy a house, which can only have the effect of forcing thousands of unemployed claimants and one-parent families out of their homes and on to the streets. There can be no other consequence of that action. Unemployment benefit, which has already been taxed by the Government, and where the earnings-related supplement has already been abolished, at an average loss to the unemployed of £16 a week, is now to be reduced from 12 to six months, although 1.25 million claimants have already been deprived of it because they have been unemployed for more than a year.

Sixteen to 18-year-olds are now to be denied supplementary benefit in order to conscript them on to youth training schemes, even though the employers are opposed to the idea because they do not want to train reluctant trainees. The death grant is to be axed, the maternity grant is to be axed—except for the very poorest—and the maternity allowance is to be means-tested for the first time. Family income supplement is to be ended and replaced by family credits, which will reduce the benefit for many families by up to £10 a week and transfer the benefit from the wife to the husband.

This is not a review of the welfare state. It is a massacre of the welfare state. It represents the ending of the principle of entitlement, it represents an intensification of poverty on an unprecedented scale, and it represents a deterioration back to the means-test state of the 1930s. This is not a new Beveridge. These reviews represent the revival of the mass unemployment, mass poverty and mass dependence on means-tested benefits from which the Beveridge report was intended to rescue this country. It is not a radical reconstruction of the welfare state that is about to be carried through by the Government. It is a radical dismantling of the welfare state. It is the new poor law.

Nowhere is that more unmistakable than in the Government's plan to axe the state earnings related pension scheme, and nowhere is it more dishonest or cynical. On 20 May 1983, conveniently just a few days before the last general election, the Prime Minister gave a solemn and binding pledge in a letter to my hon. Friend the Member for Pontypridd (Mr. John), when she said:

"Nor are there any plans to change the earnings-related component of the state pension."

That pledge is now being betrayed.

No less binding, however, was the pledge given by the Secretary of State, when he said:

"My aim in setting up an inquiry is not to call into question the fundamental pensions structure that was established in the 1970s with all-party agreement, and to which I was a party." —[*Official Report*, 23 November 1983; Vol. 49, c. 360.]

I am glad to see that the right hon. Gentleman nods his assent. How he can renege on such a clear and unequivocal promise without resigning, I do not know.



[Mr. Meacher]

The arguments that the Government have given for the abolition of the scheme simply do not hold water. They claim that the scheme cannot be afforded because of the growing number of pensions. The truth is that that number will fall steadily over the years into the next century. The worker-pensioner ratio will improve over the next 30 years. The Government's independent adviser, the Social Security Advisory Committee, recently said:

"At this distance in time we do not think there can be solid grounds for altering the scheme now for fear of all the worst outcomes occurring steadily for 40 years."

The scheme could only not be afforded if economic stagnation continued uninterrupted for the next 40 years. Perhaps, for all I know, that, privately, is the expectation in the minds of some Ministers. It is not consistent for the Secretary of State, when he is trying to convince the nation of the burden of pensions, to assume, as he did in his recent paper "Population, pension costs and pensioners' incomes", an economic growth rate of 1.5 per cent. a year, while at the same time — the Chancellor of the Exchequer, when he wants to preen himself, as he so often does, on the Government's economic success, speaks, as he did on 31 January and in the Budget debate, of growth "continuing at 3 per cent. a year".—[Official Report, 31 January 1985; Vol. 72, c. 499.]

That is simply not consistent.

The truth is that the Government want to destroy Labour's state earnings related pension scheme—which I repeat, is the best deal that pensioners have ever had — because of the Prime Minister's obsession with increasing the private sector and limiting the role of the state. As the hon. Member for Brentwood and Ongar (Mr. McCrindle)—I am glad that he is present—has rightly pointed out, those on low incomes, who predominate in the state earnings related pension scheme, are precisely those who are least able to make adequate provision for themselves in the private sector. Indeed, I go further than the hon. Gentleman. The state earnings related pension scheme came into being in the 1970s precisely because of the failure of the private sector in the 1950s and the 1960s to provide pensions above the poverty line for over half the population.

This act of ideological vandalism against the state earnings related pension scheme ignores the fact that the state pension scheme is inherently better than any private scheme could ever be, because only the state, unlike any private scheme, can give a proper copper-bottomed guarantee against inflation. Only the state scheme, and no private scheme, can ensure that job mobility is not impeded and that insuperable problems of pension transferability do not arise.

Anyone who destroys the earnings related pension scheme is the enemy of the pensioner. I vow that the Labour party will fight to preserve that scheme and will take that fight to the country. If the Tory wreckers do destroy it, I give this pledge: because the scheme is the best yet devised for the low-paid, for women and widows, and for guaranteeing protection against inflation, the Labour party will restore it as one of our foremost priorities on winning the next election.

**Mr. Tim Yeo (Suffolk, South):** As the scheme, unlike private schemes, is not a funded scheme, will the hon. Gentleman tell the House and country whether he proposes to meet its colossal costs after the year 2000 by raising

income tax to 50p in the pound, by doubling the rate of national insurance contributions, or by raising VAT to 25 per cent.?

**Mr. Meacher:** The best calculation that the Government Actuary can make—I recommend that the hon. Gentleman should look at this independent source—is that there might be an increase in the level of employers' and employees' contributions to 16 to 20 per cent. The present level is 17.6 per cent. In other words, there will be a small difference between even the maximum increase in the level of contributions and that which exists now. It is perfectly affordable.

The real issue is whether Britain has a Government who can ensure an adequate level of economic growth, not continuing economic stagnation, and the expenditure of £20 billion a year on keeping 3.5 million people unemployed. If we can change the Government, there is no reason why we cannot afford the scheme.

What we are seeing in the Fowler reviews is the ugly face of welfare capitalism. It is camouflaged by the right hon. Gentleman's claim that his objectives, as he will no doubt say again today, are the targeting of aid, simplification and improving work incentives. Each of those conceals a different reality.

"Targeting" is a Tory code word for more means testing and for taking more money from the not quite so poor working class to give it to the very poor in the working class, while the rich on £40,000 a year sweep up the increased tax handouts.

"Simplification" is a euphemism for more cuts and more rough justice. It does not even overcome the fundamental drawbacks of means-tested benefits which the Secretary of State identified in a letter to the Child Poverty Action Group on 30 May 1984 as being "complicated to legislate for, administer and understand, and generally the most expensive benefits in terms of manpower needed to administer them."

"Improving work incentives" is Fowler-speak for saying that the poor need the spur of their poverty in order to escape it, while for the rich it is the rate for the job and no amount of handout is too much.

Like the rampaging Federation of Conservative Students, these reviews are stained with the goose-step of the new Right. For them—they are well represented in the higher reaches of the Tory party and Parliament—the only acceptable recipients of welfare are the destitute and the deranged and even the most meagre of state benefits fosters irresponsibility. For them to be unemployed is to be workshy. For them, child benefit encourages feckless breeding, and teenage benefits erode traditional parental controls. It is an ugly philosophy, put forward by an increasingly authoritarian party. It is a callous and compassionless view of society which is rejected by the great majority of the British people.

The Labour party has a different philosophy of care and compassion, of dignity and security against want without stigma. For the pensioners we would restore the link with earnings which the Government so meanly took away—

**Mr. Patrick Nicholls (Teignbridge) rose—**

**Mr. Meacher:** No, I shall not give way.

We would preserve and strengthen the state earnings related pension scheme to ensure that the lower paid get the best possible deal in retirement, which otherwise they will not get. For families, we would retain and improve

child benefit as the single most important protection against family poverty and against the poverty trap. For the growing army, brought below the state poverty line by Tory policies—it is a growing army of 8 million—we would seek to bring to an end the present degrading supplementary benefit system whereby millions of claimants are herded into offices every week to be dealt with by overworked and underpaid staff in a bureaucratic system fraught with complexity, delays and frustrations on all sides.

For both tenants and owner-occupiers struggling to buy their houses we would consolidate the provision of housing aid, not decimate it as the Government are planning to do. For the disabled, a vital but all too often forgotten group, a new component is needed—a disability costs allowance—to compensate for the extra costs of living arising from disability. But it will inevitably be expensive and its implementation, as for other objectives, must depend on our economic success in reducing the over-swollen army of the unemployed, which is our highest priority.

None of that will be brought about by a Government who regard the welfare state with disdain, or by a Prime Minister who has made it clear that she regards claimants as scroungers and the unemployed as workshy. That is why the Tory dismantling of the welfare state has now become not just a major political issue, but a fundamental reason why the Labour party, which believes in the welfare state, will be returned to power at the next election.

4.9 pm

**The Secretary of State for Social Services (Mr. Norman Fowler):** I beg to move, to leave out from "House" to the end of the Question and to add instead thereof:

"notes the Government's commitment to improving the Social Security and Health care systems in this country as shown by increased spending on the National Health Service and increased benefit levels for pensioners and others; supports the Government's aim of reducing the burden of taxation and National Insurance contributions especially for the lower paid; notes the Opposition's plans to end mortgage tax relief and increase income tax and National Insurance contributions; and congratulates the Government on having set in hand the most thorough review of the Social Security system for 40 years."

One of the endearing features of the hon. Member for Oldham, West (Mr. Meacher) is that the weaker his case, the more strident he becomes. There is one difference about his speech today. Normally, he sets up a smoke-screen to disguise the fact that the Opposition have no policy. Today, he has set up a smoke-screen to disguise the fact that the Opposition have found a policy, and that is the policy that he put forward last Monday. I shall come to it in a moment.

First, I shall set out the facts of the Government's policies? On social security, we are paying higher pensions to more pensioners than ever before. We have increased benefits for the long-term sick and disabled by 30 per cent. We have raised child benefit and one-parent benefit to the highest real value. In the Health Service, more patients are being treated than at any stage in its history. The hospital building programme has been restored after the Labour Government's savage cuts in the capital programme. New forms of treatment are being made available.

Today, I am publishing a report that shows that the cost of heart transplants, for example, are lower and the

benefits greater than had previously seemed likely. I shall be seeking expert advice on how the Health Service should approach the issue of expanding transplantation in the light of that report.

In terms of cash provided, the Government are spending over £40 billion on social security; over £17 billion a year on the National Health Service and, with local government, some £3 billion on personal social services. In addition, the increased efficiency of the National Health Service is now releasing substantial extra resources for patient care. Last year, health authorities in England, by managing their activities more effectively, were able to release £100 million for developing patient services. I have approved plans for health authorities for the coming year which will release a further £150 million for patient services.

My Department alone uses over 40 per cent. of total public spending. Against that background, it is ludicrous for the hon. Gentleman to charge that in some way the Government are presiding over the dismantling of the welfare state. We are committing record resources to the welfare state, but, what is more, we are seeking to ensure that those resources are used to more effect than ever before.

The Government are prepared to have their achievements in office and their policy proposals compared with the previous Labour Government's record and with the plans which are now coming forward from the Labour party.

**Mr. Jack Dormand (Easington):** I am grateful to the Secretary of State for giving way so early in his speech. As the picture that he has painted is so different from our experiences in our constituencies, despite what he has said, does he feel that there are any weaknesses or deficiencies in the National Health Service, and, if so, what are they?

**Mr. Fowler:** All Governments face incredible problems in the Health Service. Unlike the hon. Member for Oldham, West, it has never been part of my case to pretend that by waving a financial wand all the problems of the Health Service—new forms of treatment, waiting lists and hospital building—magically will be resolved at once.

The Government are now putting to effect more resources than ever before. We are also seeking to ensure that the Health Service uses those resources to better effect. It is a question of the practical policies needed to fulfil the ideals that the hon. Member for Easington (Mr. Dormand) and I share.

The same charges were made in 1982, 1983 and 1984, in the Opposition's almost annual debate on the dismantling of the welfare state. Until now, the only distinction of the hon. Member for Oldham, West is the rather unlikely one of sounding even more hysterical than the hon. Member for Crewe and Nantwich (Mrs. Dunwoody). Now, for the first time, the Opposition have put forward their policies. For the first time, we are dealing not just with generalities from the Opposition—the hon. Gentleman has set out the policies that he would like to see a Labour Government adopt. Last Monday an official statement said:

"Michael Meacher 'Shadow Secretary of State for Health and Social Security' produced his 'considered response' to the Government's review of social security and published two chapters of a full scale book which he intends to publish."



[Mr. Fowler]

Nothing that I say should be taken as dissuading the hon. Gentleman from following his published plans. To be fair, the press has been rather hard on the hon. Gentleman, because it takes considerable character to produce the kind of report that he published last Monday. The hon. Gentleman has exposed, clearly and frankly, the ambitions and aspirations of a future Labour Government. The direction of their policy is now clear, and, to put it in language that the hon. Gentleman has used time and time before, he has lifted the veil on Labour's secret manifesto. He has set out what Labour would do in power, in contrast to the evasive generalities with which we have had to deal until now.

In the light of that, let me take the hon. Gentleman's comparison. Let us compare what the Government are doing with what the hon. Gentleman wants to do. The Government take the view that control of public spending is essential on economic and social grounds. Economic collapse and high inflation affect most the weakest in our society. If one needs any proof and establishment of that, one has only to return to the period between 1974 and 1979 when prices increased by 110 per cent. That was disastrous news for thousands of pensioners.

The hon. Gentleman has set out a plan for social security which he estimates would cost £7 billion a year. Even on the information that he has provided, it is clear that the cost would be at least twice that—an addition of well over £15 billion to public spending. His plan for the disability costs allowance, which he repeated again in his speech, would cost upwards of £4 billion. His plan to give an educational maintenance allowance to all those aged over 16 still at school would cost up to £1 billion. His income maintenance benefit could involve spending billions of pounds—£2 billion extra on benefits for the unemployed and £1 billion more for single parents. Even on the hon. Gentleman's own costings, the inevitable consequence of his policies would be a massive increase in income tax and national insurance contributions.

**Mr. Meacher:** I am sure that it gives the right hon. Gentleman great pleasure to indulge in references to handouts from Conservative Central Office, but I assure him that most people are likely to take a great deal more seriously the kinds of independent costings made by *The Economist*, which is in no way a Left magazine. Its view is that the total costings would be under £7 billion, of which £4 billion would be accounted for by the abolition, under the consultative document—as a Green Paper proposal—of the married man's tax allowance and the switching of that into a substantial increase in child benefit.

The disability costs allowance, which we have costed very carefully at between £1.5 billion and £2 billion, is indeed a big extension of the social security system, and I have made it absolutely clear that it could be achieved only if we were to make substantial inroads into the £20 billion that the Government are now spending on keeping 3.5 million people unemployed.

The remainder of the package—about £1 billion—is easily accounted for by the fact that tax reliefs given to the rich over the past six years are estimated now to have an annual running cost of £3 billion. All that I was modestly suggesting was that we take back, for the purpose of the proposals, one third of that amount.

**Mr. Fowler:** The public will decide which of the figures is correct. As the hon. Gentleman well knows, the report in *The Economist*, to which he refers, takes his own estimates of the figures and makes that quite clear. If the hon. Gentleman's plans are put into the Library, I shall be content to give detailed costings of them. It is clear from the press, from politicians and from all kinds of other commentators that the hon. Gentleman has not done the work on the costings that needs to be done. When he has done that work, he will find that the figure is over £15 billion.

The hon. Gentleman's plan has been attacked in relation to its effect on mortgage tax relief, and rightly so. Let us not beat about the bush. The hon. Gentleman wants to reduce mortgage tax relief. That is what my hon. Friends said, and they are right. In his consultative document—to which, presumably, at least the hon. Gentleman is committed—he favours a housing allowance. He repeated that this afternoon in the debate. A cash benefit would be payable towards housing costs, whether rented or owner-occupied, and whether the claimant was in or out of work. The level of benefit would relate directly to income, but only those on over one and a half times average earnings would receive less assistance from housing allowance than they do now from mortgage interest tax relief. In other words, the hon. Gentleman has confirmed today that all those on over one and a half times average earnings will be worse off under his plan. [Interruption.] I understand that the hon. Gentleman is standing by the proposals, but the official Opposition are trying to distance themselves from them. I think that the time has come to ask what are the Opposition's policies.

**Mr. Meacher:** Will the right hon. Gentleman tell the House whether he defends a system under which those on £30,000 a year receive according to a parliamentary answer, £32 a week in mortgage interest tax relief, while those on £5,000 a year get only £7 a week? Does he or does he not believe that that is right?

**Mr. Fowler:** I believe that the present mortgage tax relief system is broadly right, and I am entirely frank about that. It seems to be common ground now that the hon. Gentleman has confirmed that he is seeking to reduce the amount of tax relief going to all those earning over one and a half times average earnings. That is the message that should go out from the debate this afternoon.

**Mr. Archy Kirkwood** (Roxburgh and Berwickshire): I do not wish to interrupt the right hon. Gentleman's sport in baiting the official Opposition, but it would be helpful to other Opposition Members if he would address himself to the question whether he is considering the abolition of the state earnings related pension scheme.

**Mr. Fowler:** If the hon. Member for Roxburgh and Berwickshire (Mr. Kirkwood) will wait for a few seconds, I shall be dealing directly with the social security review.

If the hon. Member for Oldham, West wants to have a serious debate about social security, it is important for us to know what he is proposing. He says in his report that he wishes to end the upper earnings limit on national insurance contributions and to bring in higher rates of contribution for high earners. That would mean extra contributions, probably averaging between £20 and £30 a week, for about 3 million people. As I have said, his costings are hopelessly optimistic. To carry out his

proposals would mean an increase in the basic rate of income tax of as much as 15p in the pound. It is no good the hon. Gentleman seeking to deny it. He must face the full impact of his proposals. He cannot put up a series of ideas without any thought for the cost, as I am sure his shadow Cabinet colleagues will agree.

**Mr. Dennis Canavan** (Falkirk, West): Will the right hon. Gentleman give way?

**Mr. Fowler:** I should like to continue, if I may.

I am asked about our policy. It is to control public spending and to bring down inflation. It is to encourage industrial investment. [Interruption.] Compared with inflation of 110 per cent. between 1974 and 1979, the Government's achievement on inflation stands very good comparison with that of the previous Labour Government.

**Mr. Canavan:** Will the right hon. Gentleman give way?

**Mr. Fowler:** Not for the moment.

The Government's policy is to encourage industrial recovery and to create new wealth, which is essential in dealing with our social programmes. It is to reduce the tax burden, and in particular the tax burden on the lower paid. It is to encourage home ownership with tax relief on mortgages.

**Mr. Meacher:** Will the right hon. Gentleman give way?

**Mr. Fowler:** Not for the moment.

It is to continue with our policy of committing resources to our social programme and to ensure that the money is being used to best effect.

As for social security, the most significant aspect is the new agreement which now exists between the parties, as I understand it, that there is a need for reform. There is no point in the hon. Member for Oldham, West publishing a book if he does not feel that there is any need for change. It is precisely for that reason that the Government set up their review of social security. Since then there has been an unprecedented debate on the future of social security. We have received about 4,500 pieces of evidence.

**Mr. Nellist:** Will the right hon. Gentleman give way?

**Mr. Fowler:** No, I will not give way. The Member for Oldham, West would not give way, so I do not see why I should.

On the question of personal pensions alone, we have distributed over 30,000 consultation documents. We have held almost 20 public hearings of evidence, in which 70 organisations took part.

**Mr. Nellist:** Will the right hon. Gentleman give way?

**Mr. Fowler:** No, I will not.

**Mr. Nellist** *rose*—

**Mr. Deputy Speaker** (Sir Paul Dean): Order. The hon. Gentleman must not persist when the Secretary of State has made it clear that he is not giving way.

**Mr. Fowler:** I have given way several times previously, and the hon. Member for Coventry, South-East (Mr. Nellist) is the last person in this House to whom I am prepared to give way.

Let me be clear—

**Mr. Nellist** *rose*—

**Mr. Fowler:** I shall not give way. [HON. MEMBERS: "Why?"] Because of the various actions that the hon. Gentleman has taken.

Let me be clear that, despite all the predictions and forecasts that have been made about the outcome of the social security review, the Government have not yet reached conclusions. When decisions are made—

**Mr. Nellist:** Will the right hon. Gentleman give way?

**Mr. Fowler:**—they will be published and there will be a proper opportunity for public consideration.

I recognise that scarcely a day goes by without someone suggesting a new change in social security that I have in mind. Some of those so-called disclosures have a rather curious ring—

**Mr. Nellist:** Will the right hon. Gentleman give way?

**Mr. Fowler:** The hon. Member for Oldham, West quoted in his speech one report—

**Mr. Nellist:** Will the right hon. Gentleman give way?

**Mr. Fowler:** I shall not give way.

The hon. Member for Oldham, West quoted one report in *The Guardian* in which he suggested that the Government were going to save more in one area of housing benefit than we spend on housing benefit. If the hon. Gentleman looks at the report, he will see that what is being suggested is that we are going to end housing benefit for all those over supplementary benefit. That is the gist of the report. The *Daily Telegraph* suggested that I was going to abolish the state earnings related pension scheme. Only a few weeks earlier, on 28 February, the same paper carried a report that the Government were expected to stand firm on their commitment to the state earnings related pension scheme.

**Mr. Nellist:** Will the right hon. Gentleman give way?

**Mr. Deputy Speaker:** Order. I have already said to the hon. Gentleman that he must not persist if the Secretary of State is not giving way, and it is clear that he is not.

**Mr. Fowler:** In a spirit of enormous generosity, I shall give way to the hon. Gentleman.

**Mr. Nellist:** It works if one persists, Mr. Deputy Speaker.

Is it not the height of irony, if not hypocrisy, for the Secretary of State to defend with pride the reduction of inflation under this Government when the price that has been paid is 5 million people without work, 6 million people living in damp houses, 8 million people living on poverty wages, 9.7 million people who cannot afford a week's holiday away from home and an estimated 15 million people living on or below supplementary benefit levels? Is not the real message that the Secretary of State is giving today that, in his Government's understanding, the poor are not yet poor enough for unemployment to fall and the rich are not yet rich enough for investment to take place?

**Mr. Fowler:** I know that the hon. Gentleman has been having some reselection problems in his constituency, but that is going a little far.

It is unlikely that we shall reach a consensus during the debate, but I shall do my best. Surely the hon. Gentleman will accept that the control and reduction of inflation makes sense from not just an economic but a social and industrial point of view. The fact is that if inflation is out



[Mr. Fowler]

of control, the people who suffer most are those on fixed incomes, pensioners and those who are most in need. That is why I say, and that is why the Government say, that it is essential, on economic and industrial and social grounds, to control inflation. As far as the Government and I are concerned, we stand entirely by that policy.

The response to the stories that have been circulated must be to wait and see. Let me be absolutely clear. The Government are looking at all the options in terms of social security reform. The Government are reviewing the entire social security system. We are considering all the options in child benefit and supplementary benefit. We are also considering all the options in retirement pensions. That is what the review is about. There is no point in carrying out such a review if I am not prepared to consider all the options that are put to me.

The Government are carrying out a review that should have been carried out years ago. It should have been conducted long before now, 40 years after Beveridge.

"It is absurd for the hon. Gentleman to believe that he can try to tie my hands as to what I should consider."—[Official Report, 8 November 1984; Vol. 67, c. 231.]

I used those words in the debate on 8 November, and I stand by them.

What is significant is that there is now a consensus that change is needed. There is a consensus for three main reasons. The first is the sheer scale of the social security system. By any standards, it is an enormous undertaking, now consuming nearly one third of all public spending and also involving my Department in dealing with well over three quarters of the population as either contributors or beneficiaries. We have a total of some 30 different benefits with their own rules of entitlement and payment. That, I suspect, is why policy reviews in the past have been narrowly focused on one benefit or one small part of the machine. The aim in our review has been to pull all the strands together into a consistent plan. It has demonstrated that there is, it seems to me, a consensus on one point—that virtually everybody regards the present system as too complicated and too difficult for people to understand and for the staff to work. Indeed, the complexity is such that parts of the social security system—here I agree with what the hon. Member for Oldham West said—

**Mr. Canavan:** Will the right hon. Gentleman give way?

**Mr. David Winnick (Walsall, North):** Will the right hon. Gentleman give way?

**Mr. Fowler:** Let me finish the sentence.

Parts of the social security system are in danger of becoming impossible to operate.

I give way to the hon. Member for Walsall, North (Mr. Winnick).

**Mr. Winnick:** The Secretary of State was not willing to comment on the state earnings related pension scheme other than to tell us about the review. Is it not a fact that, according to a reply that I received from the Parliamentary Under-Secretary, in 10 years' time someone on average earnings will receive an additional £31, and someone on three quarters of average earnings will receive an additional £21? Are not those significant sums? They demonstrate what my hon. Friend the Member for Oldham, West (Mr. Meacher) was saying—that if the

scheme is allowed to continue, a large number of people will be able to live in retirement without poverty. Is not that all the more reason why the scheme should remain in existence?

**Mr. Fowler:** I shall have to ask the hon. Gentleman to wait and see the proposals. Of course, I am conscious of the points that he puts forward as well as of the need to prevent people in old age sinking into poverty. None of us wants that. However, in this debate I cannot pre-empt the proposals that I shall make.

**Mr. Kennedy:** I appreciate what the Secretary of State says about not pre-empting the outcome of the review. In November, the right hon. Gentleman said in the House that he did not intend

"to call into question the fundamental pensions structure that was established in the 1970's with all-party agreement, and to which I was a party."—[Official Report, 23 November 1983; Vol. 49, c. 360.]

Does that statement still have the categoric ring that it had when the right hon. Gentleman delivered it in November, or is it now open to doubt?

**Mr. Fowler:** I think that the hon. Gentleman is getting his years wrong. He will have to judge all the statements that I and any of my right hon. Friends have made against the criterion of what is proposed. It is ludicrous to try to seek this afternoon to define what that is because the hon. Gentleman cannot see the whole picture.

Much of the complication in the social security system flows from the piecemeal development and augmentation of the system over the past 40 years. If we are going to get rid of as much of the complication as possible, we shall have to decide what is really needed now. That means a reshaping of the system, not a tinkering at the edges. For the review to be a real review, it had to look at all the options—and that is what we have done. There is no point in having a review if every part of the existing structure is regarded as sacrosanct. I am prepared to be held to my commitment to meet social need; I am not prepared to be a prisoner of the existing structure.

**Mr. Robert McCrindle (Brentwood and Ongar):** Will the Secretary of State give way?

**Mr. Fowler:** Secondly, when we talk about need, we should be absolutely clear what we mean. Beveridge was talking about poverty against a very different background. There have been enormous increases in the material prosperity of this country since then. There has been a real increase in GDP per head of about 115 per cent. since 1948. That growth in general prosperity has been reflected in the level of all the main social security benefits.

**Mr. Nellist:** What about the last six years?

**Mr. Fowler:** The basic rate of supplementary benefit has more than doubled since that time and long-term benefits, especially pensions, have improved substantially more.

**Mr. Canavan:** Will the right hon. Gentleman give way?

**Mr. Fowler:** No, I shall not give way.

Nevertheless, no one can doubt that need exists in this country, and one of our aims must be to target the help available more effectively to meet that need. There are also changes in balance between different groups within the population in need. For example, I think that few

would disagree with my diagnosis that one of the areas which today gives most concern is the position of poor families with children—working families and unemployed families. I think that even the Opposition will agree with me about that.

Thirdly, social security is not somehow isolated from the rest of Government policy. In approaching our review of social security I have sought to avoid the straitjacket of focusing only on the social security system. I have been concerned with how social security relates not just to our social policy and objectives, but to our economic objectives and employment policies. I do not define social objectives merely as greater spending on social security or higher rates of unemployment benefit. I am much more concerned to see people taken off social security benefits and able to support themselves through productive employment.

**Mr. Canavan:** The Government have to find the jobs first.

**Mr. Fowler:** Yes. Our social policy objectives are the same as our overall policy—to achieve a stronger economy and to tackle unemployment.

**Mr. McCrindle rose—**

**Mr. Fowler:** The review, therefore, has a number of different objectives—to simplify the elaborate tangle of benefits and entitlements which have built up in the past 40 years, to ensure that the new structure meets today's needs, and to achieve the right relationship between our objectives for social security and our economic and employment policies.

**Mr. Canavan:** Will the right hon. Gentleman give way?

**Mr. Fowler:** No, I shall not give way.

For the past 40 years we have reacted to the emergence of various needs, adding to or subtracting from the system until it is difficult to see what the system seeks to achieve. I want a simpler system which is easier for people to understand, a better administered system with more use of computers rather than the filing cabinets to which the hon. Member for Oldham, West referred, a system which places more trust and responsibility with the individual rather than the all-providing state and which places the fewest possible obstacles in the way of employment and economic activity.

The Government have shown their commitment to the welfare state, but we want a modern welfare state. We want a modern social security system which uses today's methods to meet today's needs and a modern Health Service which uses its resources to maximum effect to meet the varying needs. That is the kind of welfare state that we want, and our proposals will be directed to that end.

4.44 pm

**Mrs. Renée Short (Wolverhampton, North-East):** The Secretary of State ended with a splendid peroration, but he did not say how he expected to achieve the golden age that he described. We have to contend with the situation as it is now.

Let us cast our minds back to the words of the Conservative party in the general election of 1979—the black day that marked Britain's decline from a caring society seeking to overcome many of the problems that

faced us then to the present level of despair and the ever-increasing problems that we now experience. I wonder whether the Secretary of State remembers the commitments that his party made at that time. It promised to rebuild our economy—ha, ha!—and to reunite a divided and disillusioned people. In fact, the Government have created more divisions in society than any of us can remember in our entire political lives. Even their most ardent supporters, if there are any left, cannot claim that they have achieved that commitment. Lord Stockton himself said in another place five months ago

"it breaks my heart to see what is happening in our country today."—[Official Report, House of Lords, 13 November 1984; Vol. 457, c. 240.]

I am sure that that sentiment is echoed in the hearts and minds of the overwhelming majority of people today.

As my hon. Friend the Member for Oldham, West (Mr. Meacher) said, there is enormous wealth for the minority while the majority of families suffer massive, degrading and soul-destroying unemployment, with all the physical and psychological ills that stem from it. When my constituents ask why we are in such a hell of a mess when the Tories promised so much in 1979 and again in 1983, I cannot explain the reasons. We all remember the Prime Minister's cynicism on the steps of No. 10, and I make no apology for reminding the House of it because it will never be forgotten. Then we had North sea oil, which was supposed to be such a splendid stroke of good fortune to revitalise the economy, to allow us to invest in new products and industries and to improve massively the standard of living of our people. Yet rotten housing remains the lot of thousands of families. That is certainly true in the west midlands. Thousands are still homeless and millions are out of work. The young are condemned to despair and the rest now realise what a massive confidence trick the Prime Minister perpetrated on them and what massive damage she has done to the country in the past five and a half years.

I also cannot explain to my constituents the utter folly of it all. They ask how anyone can claim that there is no money to invest in new jobs or to pull down the ancient, boarded-up houses in my constituency and build new ones. Three and three quarter million homes are still unfit or seriously affected by dry rot, but fewer than 40,000 new local authority homes were started last year. That is a wretched total. Yet there is massive unemployment among building workers, whose skills remain unused while building firms try desperately to find work and to re-employ their former work force. My constituents point out that the Prime Minister found £38 million for the Falklands affair, and I have to agree, but I cannot explain why she was able to find money for that purpose but not for the decent homes and jobs that my constituents and others throughout the country so desperately need.

When my doctors tell me that we cannot afford to appoint the surgeons and nurses needed for the Health Service and the staff needed to care for the elderly, I have to agree that it is appalling that those skills are being wasted, but I also point out that the people who complain of these things have the power to get rid of the Conservatives in the next general election. I hope that they will all take my good advice.

It is clear, in spite of what the Secretary of State said, that the NHS needs more resources. The Government's policy of high unemployment and growing poverty places ever-increasing demands on the NHS. The privatisation of



[Mrs. Renée Short]

catering and cleaning is a massive irrelevancy. It creates unemployment among hospital staff—among ancillary workers, many of whom have given unstinting service to the hospital service over many years—in order to enable the Government's pals in private firms to make a profit. Private firms can only make their profits by using the minimum number of staff and providing a restricted service for a reduced number of hours. That is what is happening to services in the hospitals. Private firms could not make their profits otherwise.

Who would have imagined that we would see the day when trained doctors and nurses would be unemployed? That day has arrived. The Secretary of State should pay some attention to that problem, but he has not even mentioned it. Who would ever have thought that thousands of kidney, heart and cancer patients would die each year because of a lack of facilities for adequate care and treatment? Is the Prime Minister concerned about the fact that the rate of death from cervical and breast cancer is rising in this country, while in America, Canada and Sweden the rates are falling dramatically because the Governments of those countries are determined to support a proper, national well-resourced service.

The Prime Minister does not trust the NHS. She does not permit it to deal with her own health problems, when they arise. However, she should visit some of the NHS hospitals, including some of the teaching hospitals. I know that the staff would very much like her to see the conditions in which they have to work, and the extent to which they suffer from overwork. The Prime Minister should see the Victorian hospitals with their unending corridors. She should see the huge Victorian wards that provide no privacy for patients or doctors. Any hospital in the country could tell the right hon. Lady that although the Select Committee recommended that more patients should be treated by fully trained doctors, consultants—although they are being trained—are not being appointed. If that situation could be improved, there could be better care for patients, better diagnoses and probably shorter stays in hospital. Those improvements could well save money and enable better use to be made of existing resources.

The Prime Minister prefers to turn to private hospitals for her own care, but it must have been embarrassing for her when the press uncovered the dreadful story of how the equipment for the latest treatment on her eye had to be borrowed from an NHS hospital. One might have expected the right hon. Lady to declare an allegiance to the NHS from that point on.

New technology in the NHS needs resources. Caring for the increasing number of elderly patients in more congenial conditions, preferably at home, or in the community, and caring for mentally ill and handicapped patients in the community rather than in massive hospitals, also requires resources.

The NHS has suffered as a result of the Chancellor's public expenditure cuts. If it is simply to respond to the technological and demographic pressures alone, it requires a growth in funding of at least 1.5 per cent. each year. Yet the health authorities have had to find £48 million from a reduced budget in order to meet part of a pay settlement that the Government refused to meet. Levels of staffing have been cut or frozen, and nurses sacked.

**Mr. Roy Galley** (Halifax): Will the hon. Lady give way?

**Mrs. Short:** The Royal College of Nursing has drawn attention to the inadequate number of nurses in the wards in many areas, which places a strain on the remaining staff, and can be dangerous for the patients.

**Mr. Galley:** The hon. Lady claims that numbers of staff have been cut. How can she say that, when during the last six years more than 40,000 extra nurses and more than 5,000 extra doctors and dentists have been provided? The hon. Lady claims that resources are inadequate. As she knows, the Select Committee last year investigated the matter and found that the NHS had received extra resources of 17 per cent., which at least kept pace with changing demand. The hon. Lady was a party to the production of the Select Committee's document. She accepted the fact that there had been a growth in available resources.

**Mrs. Short:** Nonetheless, nurses and doctors are unemployed. Consultants tell one that they are understaffed and that they have long waiting lists. The hon. Member for Halifax (Mr. Galley) is a valued member of the Select Committee, and I enjoy his company. However, there still remains the fact that disadvantaged patients are suffering. Elderly people are waiting not weeks but years for, for example, hip replacement operations. Despite the fact that resources have been allocated to the NHS, these problems remain.

We cannot gloss over the facts. Staff are being sacked, wards are being closed and as a result waiting lists are lengthening. The Government are obsessed with reducing taxation for the well off. The Prime Minister's values and social beliefs are those that determine Government policy. In her view, there are masses of people who are scroungers who enjoy living on Government handouts. She wishes to reduce social security benefits and to introduce means tests for many more people. The right hon. Lady even believes that it might be possible to introduce a means test for maternity benefits. That is one of the latest ideas. The Select Committee made it clear that expectant mothers in the poorer sections of the community—those living in the inner cities—require more rather than less support. Better diet and proper rest and care would reduce the perinatal mortality rate of such mothers. The overall rate has fallen, and we are pleased about that, but in some of the industrial areas the perinatal mortality rate is still too high. Many general practitioners tell me that they are in despair about how to reduce the rate.

**Mr. Galley:** Will the hon. Lady give way?

**Mrs. Short:** I have to believe the letters that I receive from general practitioners working in cities such as Manchester and Liverpool, where conditions are very difficult. Those doctors are not receiving any support in the form of more staff, partners, nurses or community social workers. The situation is bound to affect patient care.

The Opposition believe firmly in the abolition of poverty. The Government, on the contrary, are creating ever larger areas of poverty and acute distress. They are placing a dreadful burden on our people. The Government insist on managing poverty. Our intention is to eliminate it.

4.58 pm

**Mr. Robert McCrindle** (Brentwood and Ongar): It was correct and timely for the Government to engage in a wide-ranging review of social security, the results of which we look forward to seeing soon. For far too long, like Topsy, our social security system has grown. We have a massively complicated system and cannot always be sure that benefits are directed to those in greatest need. I hope that when the review is enacted in legislation there will be evidence of some streamlining and updating. At the risk of upsetting the hon. Member for Oldham, West (Mr. Meacher), might I add that I hope that benefits will be targeted at those in greatest need.

Ever since I came to the House there has been a debate across the Floor of the Chamber between those who believe in the universality of benefits and those who, like me, recognise the limits of what we can expect from the taxpayer to finance benefits. I have always taken the view that some selectivity or targeting of benefits to those in greatest need should be the order of the day.

If economies can be identified during the reviews, that is all to the good. I am even prepared to accept, as a starting point, the requirement that the reviews should result in no extra cost to the Exchequer. There is a good deal of misdirected benefit in the present system, just as there are many people in considerable need who do not receive the assistance which we all want to extend to them.

I accept that in our present economic circumstances there should be no major increase in the amount of money that we devote to social security, but I hope that I should not be alone in not being happy if the reviews were an attempt massively to save on the present outlay, at the risk of reducing the amount of benefits targeted at those in greatest need.

The language which the Labour party has employed in these matters in the past few weeks has been excessive to the point at which its credibility, and especially that of its spokesman, has been brought into severe doubt. The Labour party has failed to cost its proposals, in so far as they can be called proposals. Television viewers will have noticed the Opposition spokesman's remarkably slippery performance on "Newsnight" on Friday evening, and again today he was unable to tell us what it would cost to introduce the no doubt desirable benefits which Labour proposes. The hon. Gentleman's failure to do that must lead us to question his credibility. Although I shall have some critical questions to direct to my right hon. and hon. Friends on the Front Bench, the motion employs extravagant terms and will, I hope, be treated with contempt.

**Mr. Frank Field:** The hon. Gentleman always listens carefully to these debates, but he is being unfair to my hon. Friend the Member for Oldham, West (Mr. Meacher). My hon. Friend costed his proposals today. The Secretary of State also costed them and reached a figure double that quoted by my hon. Friend. Although there is dispute as to their cost, it is unfair to say that my hon. Friend's proposals have not been costed.

**Mr. McCrindle:** I heard my right hon. Friend the Secretary of State, and I heard the hon. Member for Oldham, West on Friday evening and again today. I accept that he has moved since Friday, when he gave no estimate, but that which he gave today was immediately questioned by this side of the House and does not begin to persuade me that I should pay attention to what he says.

Although this is a debate between the two sides of the House, there is a need for debate within the political parties on the future of social security. If my line is not completely acceptable to some of my right hon. and hon. Friends, I hope it will be accepted that only by exploring different means of achieving the same ends will we be able to target benefits more cost effectively. I must await the final reports, and a good deal of what I shall say is based upon press reports. I have no alternative, as I am not privy to information about the authenticity of those reports.

I am worried about reports on the state earnings related pension scheme, which have been widespread in the past few days. On the basis of the wish being the father to the thought, the Treasury might assiduously have been peddling to newspapers likely to take its line the thought that there will be a winding up or a substantial revision of the state earnings related pension scheme. For the sake of this debate, I must assume that there is a prospect of some change. I shall react when the proposals are known fully, but there are a few facts of which it would be appropriate for me to remind my right hon. and hon. Friends.

Before they moved on to higher things, my right hon. Friend the Secretary of State and my right hon. and learned Friend the Minister for Health were, like me, responsible during the passage of what is now the Social Security Pensions Act 1975 for saying that we all wanted to end what was called pensioning—the tendency for the Labour party to accentuate state pensions when in office, only to find that trend reversed when the Conservatives were in office, when there was emphasis on the desirability of occupational pension schemes. Many of us, including my right hon. Friend and my right hon. and learned Friend, were aware of the damage that that was doing, not least to the future of occupational pension schemes, with which, as the House knows, I have a long association.

If there is material alteration of the state earnings related pension scheme, the effect on the development of good occupational pension schemes cannot be advantageous. The two systems have co-existed for some 10 years and it would be unfortunate if we were forced to return to pensioning, of which there was a good deal of evidence in the speeches of my right hon. Friend the Secretary of State and of the hon. Member for Oldham, West.

People in the state earnings related pension scheme are for the most part lower-paid. I have long professional and political experience of these matters, and such people are the least likely to make pension provision for themselves through private schemes. The pensions industry, to which my right hon. Friend and I look for a massive upsurge of development when decisions on a personal portable pension are announced, is not equipped or especially keen to attract pensions business from such people.

If SERPS is wound up, and if the encouragement which will no doubt be given is not taken up by those who are principally concerned, I fear that those people will reach retirement age having made no additional provision, as a result of which they will be forced on to supplementary benefit. Before the Government put the final seal of approval on the SERPS proposals, they should make quite sure that that fact has been taken into account and that supplementary benefit is costed just as carefully as the amount necessary to keep SERPS in existence into the 21st century.

I appreciate the point about the burden on the future working population, but I wonder whether it has not been



[Mr. McCrindle]

projected—perhaps because of an inspired leak from the Treasury—on the basis of the worst possible scenario, with virtually no growth anticipated in the economy. SERPS is not a state charity, which recent press reports may have led some people to believe. What comes out of SERPS is related to what the contributors put in. The economics of SERPS must be immune to population statistics and the projected problems of 20 to 40 years hence.

If the Government decide to take the action which has been widely suggested, I should require much more information about the costing on which such a decision is based. Am I correct in saying that SERPS is effectively a self-financing scheme? How likely is it that personal pensions will be taken up by those manual workers who for the most part are not attractive to pensions interests? Would it not be grossly unfair to give continuing tax concessions to those in occupational pension schemes—which I welcome—and to continue the index-linking of pensions in the public sector at the same time as removing the only basis upon the people to whom I have referred can build up their basic old-age pensions? The Government must address their mind carefully to these questions before any decision is taken to introduce a move in the direction which has been suggested.

The hon. Member for Oldham, West was anxious to tell us — it seems that he knew more about the Government's plans than even the Government did—that child benefit now paid to the woman would in future be paid to the man. I have no idea how accurate that is, but one of the advantages of the existing system is that, regardless of the circumstances, the woman can at least rely on a basic income. A fairly strong case would have to be argued before any change took place.

As one who has supported disproportionate benefit to one-parent families, I am beginning to wonder whether residual poverty in 1985 does not exist within families irrespective of whether they are one-parent. To that extent, when the review emerges, I hope to see a reassessment of where we pay the disproportionate benefit. We cannot continue to assume that the deserving cases of 1970 to 1980 will necessarily be the deserving cases as we move into the 1990s.

I have long taken the view that to pay out paltry sums in death grant and maternity allowance to everyone, irrespective of need, is an insult to the great majority of us who do not require them, and a disservice to those who require them at a considerably higher level. There is a case for abolishing these as specific grants and for merging them into supplementary benefit. If that were possible, I hope that the amounts paid would be considerably higher than at present and that they would go only to those with a considerable need.

**Mr. Frank Field:** Is the hon. Gentleman aware that if his proposal were implemented, and these grants made part of the supplementary benefit scheme, the poor in work would be prevented from claiming?

**Mr. McCrindle:** Such facts must be taken into account. However, the hon. Gentleman will be aware that the supplementary benefit scheme is said to be under consideration in the light of family income supplement. There have been reports that FIS might be merged with supplementary benefit. I am not opposed to that idea, and

I say that as a long-term supporter of FIS. If that happened, the problem to which the hon. Gentleman drew my attention would, to say the least, be minimised.

There has been much difficulty with heating allowances, particularly in the last two or three years when there has been a three-tier system. It is my hope that the system of heating allowances will be scrapped, absorbed yet again into the supplementary benefit system and payable to those old-age pensioners who already qualify for supplementary benefit.

I am not persuaded that the housing benefits scheme meets the needs of those whom it was intended to assist. Therefore, I am prepared to concede that there is scope for considerable rationalisation. Beyond that I would not wish to go today, but those of us who are interested in these matters will look closely at any proposed changes in housing benefits. For the moment, I concede that this is a far from perfect system and that there may well be an argument for changing its direction.

I am with the Government over a pretty wide area of the revision of benefits. I am with them in their aim for greater simplification. I am with them as they seek to achieve economy while targeting the benefits to those who need them most. But I hope I shall be forgiven for urging caution over the state earnings related pension scheme, because the Government might succeed merely in transferring the problem to supplementary benefit, and that surely cannot be their aim.

5.18 pm

**Mr. Donald Stewart** (Western Isles): I am glad to follow the hon. Member for Brentwood and Ongar (Mr. McCrindle), not least because of his expertise in pensions and other aspects of the welfare state. The hon. Gentleman made some points with which I disagree, but on the whole he delivered a well-argued and well-informed speech which was different from many of those we hear from the Conservative Benches, which merely say "Amen" to the case advanced by the Government.

The hon. Member for Brentwood and Ongar said that there was a limit on the extent to which funds could be allocated. We must all have regard to that, but many Conservative Members do not accept any limitation on defence expenditure. We are all aware of the astronomical sums spent on Trident, and the abolition of Trident could to a considerable extent alleviate the problems faced by the Secretary of State for Social Services. The right hon. Gentleman spoke with horror of suggestions that taxation might increase. That took some nerve, bearing in mind that he belongs to a party which, since it came to power, has clamped 15 per cent. on practically every transaction.

Over 40 years ago the Beveridge report foresaw a time when poverty in the United Kingdom would cease to exist. All the major causes of poverty—old age, unemployment, disablement and sickness—were taken care of by a scheme of national insurance with a safety net of national assistance. Although the foundations of the welfare state were laid shortly afterwards, Beveridge's recommendations were never fully implemented. The rot set in right away with the post-war Labour Government. Beveridge had proposed a single rate for retirement pensions, unemployment and sickness benefits of 27 per cent. of average earnings for a single person and 45 per cent. for a couple. These figures would, Beveridge stated, guarantee the minimum income needed for subsistence. However, when the scheme was introduced in 1948,

retirement pensions were set at 18.9 per cent. of average earnings for a single person, and 30.5 per cent. for a couple. Flat rate unemployment benefit and sickness benefit were set at much the same rates—a far cry from those originally proposed by Beveridge.

Any review of the social security system should begin with the acknowledgement that the existing system has never attained the objectives set by its founder. The hon. Member for Wolverhampton, North-East (Mrs. Short) referred to the Secretary of State's peroration. I am afraid that the decoded message of his speech means farewell to the welfare state.

In theory, the welfare state has looked after its recipients from the cradle to the grave. A quick look at what has happened to the two benefits at each end of the life cycle reveals the ineffectiveness of the system in doing that. I am referring to the maternity grant and the death grant, to which the hon. Member for Brentwood and Ongar referred. The former has remained at £25 for many years, and should be pitched at a higher level, and the death grant of £30 is a poor joke in the worst possible taste. It has not been increased since 1967. Its declining value has been recognised by successive Governments, but none have sought to increase the level of the grant. It should now be around £350 to cover the average cost of a funeral.

I take issue with the hon. Member for Brentwood and Ongar, who thought that the maternity grant and the death grant should be abolished. When we talk about abolishing such benefits, we should bear in mind that insurance contributions are based on people receiving such benefit. It would be wrong for the benefits to disappear while the level of national insurance contributions is maintained.

These are far from being the only benefits that are inadequate or have been under attack in recent years. The effects of inflation and the failures of Governments have resulted in a serious erosion of most of the benefits and has brought about a situation in which, far from the supplementary benefit system being a safety net for a relatively small number of people, has become a necessity for 4.5 million people, of whom three quarters are in Scotland. These are the 1983 figures, and no doubt the position has worsened in the meantime.

Between 1979 and 1983, more than £2,000 million was cut by the Government from the social security budget. Last year benefits rose between 4.7 and 5.1 per cent., but the real increases received by many people did not even reach the level necessary to keep benefits in line with inflation. This was because of new regulations which came into force; for example, the changes in "available scale margin", which did many pensioners out of £1 a week for their heating allowance.

Since then we have seen a large increase in dental charges, and a massive increase in prescription charges. The changes in the regulations covering board and lodging payments, which are especially damaging in Scotland, will mean an average loss of £13 a week for thousands of unemployed persons in lodgings. Many of them have no homes to which to return and will end up homeless.

In Scotland, apart from the housing welfare organisations, which one would expect to be concerned about this, the Churches and the Royal Society for the Prevention of Cruelty to Children have expressed grave disquiet, and no wonder, for Government policies will deliberately put people on to the streets. We have now learnt that eight out of the 21 DHSS resettlement and re-establishment centres are to close within three years,

including the only one in Scotland, at Bishopbriggs near Glasgow. The Glasgow resettlement unit caters for homeless men and is a vital lifeline for those who find themselves in that unfortunate position. It is typical of the Government to make cuts which affect the weakest and most vulnerable in our society.

When one looks at the situation in the wider context, the extent to which benefits have been eroded can be clearly seen. Three decades ago our welfare system was the envy of the world. Today, our levels of spending on both health and social security are far lower than those of most other Western nations. Let us consider unemployment benefit as an example. The United Nations Economic Commission for Europe carried out a study which showed that in 1972 unemployment benefit stood at 75 per cent. of earnings, but by 1982 it had dropped to 47 per cent. Most other European countries, by comparison, have improved on the 1972 position—West Germany from 70 to 75 per cent., France from 85 to 90 per cent., the Netherlands from 85 to 89.5 per cent. and Sweden from 77.3 to 80.2 per cent.

On health care as well, our record is poor and getting steadily worse. Although the NHS is often in the vanguard of the development of modern medicine, it is near the bottom of the league when it comes to applying and supplying established technology. Taking the treatment of kidney failure, the insertion of cardiac pacemakers or coronary bypass operations as examples, we are well behind other European countries.

The most important reason for this failure is a simple lack of money for the NHS. In the financial year 1980-81, in Scotland, 6.8 per cent. of GDP was spent on health services. This compares with 8 per cent. in West Germany and France, 8.4 per cent. in Ireland and the Netherlands, and 9.6 per cent. in the United States and Canada. The average in the EEC is 7.8 per cent.

**Mr. Galley:** Will the right hon. Gentleman clarify why this argument is of any relevance? If administrative costs for health care in France, for example, are much higher than they are in this country, percentages of GDP are irrelevant to the argument.

**Mr. Stewart:** When the Prime Minister talks to the House twice a week on the subject of unemployment, she suggests that it is acceptable in the United Kingdom because, she alleges, other countries in Europe are suffering in the same way. That is not quite true. There are countries with unemployment which is infinitesimal compared to unemployment in the United Kingdom. If it is in order for the Prime Minister to measure us against other European countries, it is in order for me to do so as well.

The health service in Scotland has failed to come up to expectations in recent years. In its first 25 years the NHS in Scotland saw expenditure increase by between 4 to 5 per cent. a year. Since 1973 the average increase has been 1 per cent. in real terms. This is less than half the amount required to maintain standards. No wonder private health care is booming, and no doubt that is what the Government are trying to encourage. The underlying aim is to turn the NHS into a second-class service, and eventually it will be only for those who cannot afford to pay for the best treatment. So far, the Government have been thwarted and forced to back down.

Scotland has a bad and shameful record of poor health, deprivation and poverty, and that shame should be borne



[Mr. Stewart]

equally by those in government at Westminster and by those Scots who should know better than to let their countrymen suffer in regional poverty. It is estimated that over 1.5 million Scots are living in poverty or on the margins of poverty. Scotland has so many poor because of the failure of Westminster Governments and because we have not yet secured our own independent Parliament.

The social security review is likely to lead to a further erosion of benefit. I believe that that is what it is intended to achieve. The outlook for the poor of Scotland and the United Kingdom is bleak while they are subjected to these plans.

5.29 pm

**Mr. Roy Galley (Halifax):** Labour contributions have shown how easy it is to misrepresent and exaggerate by using statistics selectively. It was especially disappointing to hear the hon. Member for Wolverhampton, North-East (Mrs. Short) talk about perinatal mortality rates and give the impression that they are terrible. The hon. Lady knows that there are record low levels of perinatal mortality and that during the past five or six years great strides have been made. Not even the hon. Lady has a magic wand to create perfection and a nil rate of perinatal mortality.

My right hon. Friend the Secretary of State referred to the effective management of NHS resources. It is true that no ministerial team in the history of the Health Service has done more to give value for money to the patient than the current Secretary of State and his team. However, I urge my right hon. Friend to show greater vigour in some of the policies that he is implementing, especially the competitive tendering exercise within the NHS. It is estimated that this year £9.4 million has been saved from the competitive tendering exercise that has been carried out so far, consisting of £8.2 million from contracts awarded to private companies and £1.2 million from contracts awarded in house. Those savings must be offset against redundancy payments which are associated with that contracting out.

Although one accepts that the policy is just getting into its stride—the circular setting out that policy was issued in 1983—these savings for the benefit of patients are peanuts. With a total budget for these ancillary services of more than £850 million, much larger savings—at least £100 million a year—should be available for patients. The number of private contracts in the laundry sector has fallen from 11.7 per cent. of total contracts in 1981-82 to 9.2 per cent. of total contracts in 1983-84. We need more oomph behind the policy of competitive tendering.

There is growing concern that some health authorities may be seeking to frustrate the policy, putting the interests of staff before those of patients. Authorities are accountable to my right hon. Friend the Secretary of State for their stewardship, but I should be happier if there were more external audits to ensure that contracts were awarded fairly.

Great progress has been made with the appointment of general managers. It is right, however, to express concern about the pace of change and to define the criteria by which the new general management style is to be judged. Personnel changes involve a mammoth management task for the Health Service, but it is about time NHS

management board appointments were completed. There are still two vacancies, and only the chairman comes from outside the DHSS and the NHS.

**Mrs. Renée Short:** We told the hon. Gentleman what would happen.

**Mr. Galley:** I am trying to be constructive, not destructive like the hon. Lady. The quality of board members is high, but we need to appoint speedily outsiders who will bring fresh ideas to the management of the Health Service.

Many regional and district general managers are in place and the terms seem to be set to make appointments at unit levels. Considerable costs, according to the terms that have been negotiated might be involved. It is legitimate to put to my right hon. Friend the Secretary of State our concern that those enhanced payments should be justified, and be seen to be justified, by results. There should be clearly defined productivity indices by which Parliament and Ministers can judge the effectiveness of general management policy, of which I am an enthusiastic supporter.

Another major challenge faced by the Health Service involves the care of priority groups, especially the elderly, and the availability of community care. No one should underestimate the Health Service's achievement in coping during the past 10 years with a 75 per cent. increase in geriatric outpatient attendances, a 70 per cent. increase in inpatient attendances and a more than 90 per cent. increase in day patient attendances. The pressure on that service is continuing, with annual increases of between 7 and 9 per cent. in each of those categories. At the same time, district nursing personnel have been increased to cope with the 1.5 million elderly people treated by nurses in the community. There has been a vast expansion within the Health Service. The average length of stay for geriatric patients has continued to fall. The average stay is now 57 days compared with 100 days in 1973 and 62 days in 1982. That is a significant and welcome improvement.

It is better for most patients to remain in their homes as long as possible and to spend as little time in the hospital as possible. Adequate community facilities must be available. Bed turnover cannot be the only criterion of success. There is a genuine concern in a minority of cases about elderly people being sent home too soon. I hope that consultants will be encouraged to maintain a flexible attitude, taking full account of individual circumstances. I hope that there will be ever closer liaison between hospitals and social services to ensure that there is adequate home care, including an extension of hospital care in terms of hospital staff visiting geriatric patients in their homes for some weeks after those patients have been in hospital. My constituency and many other parts of the country provide such care.

Community services are vital. It is especially noteworthy that since 1979 community facilities for the elderly have expanded rapidly. A record number of home helps—more than 30,000—a record number of day centre places and a record number of meals—more than 42 million—have been provided for the elderly. Expenditure on services for the elderly is at a record level. In 1983-84 such expenditure increased by between 4 and 5 per cent. All this has been achieved within the context of increasing real expenditure on personal social services of between 12 and 14 per cent. during the past six years. That is an improvement of about 2 per cent. per annum.

**Mrs. Margaret Beckett (Derby, South):** Has the hon. Gentleman noticed that it has been shown recently in several cases that expenditure on social services has been increasing because many Labour councillors have refused to obey the request by the Secretary of State for the Environment to cut those services? If one removes from the analysis the expenditure of those rate-breaking councils, the figures are appalling.

**Mr. Galley:** The hon. Lady is quite off beat. That is not true. Rate capping is happening this year for the first time. Every time the subject is raised, the Opposition try to blame every conceivable difficulty in local government on the Government's rate capping proposals. Consistently since 1979 expenditure and provision of care in personal social services have increased. The Opposition seek to mislead the public with a plethora of inaccuracies, misinformation, selected statistics, isolated cases of error and scare tactics. They are Meacherisms. The hon. Member for Oldham, West (Mr. Meacher) used the term "scurrilous misrepresentation". That is what we have seen from the Opposition today. We have had scare tactics and false information.

**Mr. Richard Tracey (Surbiton):** There are not so many of them—only four.

**Mr. Galley:** There are not so many of them.

As more resources and better equipment are being provided for the NHS, as there are considerably more staff now than before and as more patients are being treated, all the evidence is that the NHS is sound. Over the past five or six years we have increased expenditure by nearly 20 per cent. in real terms and there has been better management, which means that an effective response is being made to the growing challenge represented by more people asking for services. On any objective criterion there has been no dismantling of the welfare state. The figures for the number of people being treated and the expenditure incurred show that.

Rising expenditure and the provision of more care facilities in the personal social services mean that those services are sound. Despite the Opposition's attempts to mislead us into believing that we are spending less on social security, it can be shown that if one leaves aside the effect of increased unemployment, the amount spent on social security is still rising. The Labour party accuses us of a lack of compassion, but over the past five years about 200,000 more people have received attendance allowance, about 200,000 more have received invalidity benefit and about 200,000 more people have received mobility allowance. That is not a dismantling of the welfare state.

Any fool can run a national sickness service which judges its success by the number of sick people in its beds. Any fool can damn a service by quoting isolated cases and figures. Any fool can demand more if he does not know how he is to pay for it. The hon. Member for Oldham, West constantly demands more. We have spent more and more on the Health Service, on social services and on social security and we have spent it more effectively, yet the hon. Gentleman still demands more and more. Now we are beginning to see the price that we will be asked to pay. The demand for more comes with a price tag.

It is well-known Opposition policy to abandon our independent nuclear deterrent, and the Trident programme. Every Opposition spokesman claims that the savings made by abandoning Trident will fund their

extravagant programmes. The hon. Member for Oldham, West now claims that the savings from Trident will go towards his expanded Health Service programme. He is, of course, putting aside the Healey speech of 1977 which argued—and there are many Labour party supporters who secretly hold this view—that unless we defend ourselves properly, there will be no hospitals, schools, health centres or doctors, but only a heap of cinders.

The hon. Member for Oldham, West wishes to scrap mortgage tax relief in order to fund his profligate proposals. The Labour leadership may disown him, but as long as the hon. Gentleman is on the Labour Front Bench no home owner can rest easy. It must not escape the attention of hon. Members that the hon. Gentleman wishes to put a tax on sugar in order to fund more NHS expenditure. That would mean the loss of a considerable number of jobs in my constituency and elsewhere. Now we know that he will have to increase income tax, too, in order to fund his extravagant plans.

The fact is that the welfare state is being enhanced. But the facts do not seem to play much of a part in the Opposition's thinking. It would seem that the Labour party and the alliance are off their corporate rockers.

5.43 pm

**Mr. Charles Kennedy (Ross, Cromarty and Skye):** The hon. Member for Halifax (Mr. Galley) will perhaps forgive me—and I think that the rest of the House will be grateful to me—if I do not pursue his line of argument. At least, I think that there was a discernible line of argument, at any rate at the end of his speech.

**Mr. Galley:** Will the hon. Gentleman give way?

**Mr. Kennedy:** No. The discernible thread made itself known when the hon. Gentleman seemed to say that the plan of the hon. Member for Oldham, West (Mr. Meacher) to tax sugar would somehow reduce Halifax to cinders. However, I shall concentrate on some of the areas covered in the constructive speech of the hon. Member for Brentwood and Ongar (Mr. McCrindle) and on the social security reviews in particular.

The Secretary of State's speech will have done little to quell the anxiety doubtless building up about the reviews and the way in which they have been structured and conducted. For example, last summer I was invited to give oral evidence, as I believe the hon. Member for Birkenhead (Mr. Field) was, to one of the reviews on young people.

**Mr. Frank Field:** I was invited, but the meeting was not held.

**Mr. Kennedy:** That may illustrate the very problem that I have in mind. The committee to which I gave evidence was chaired by the then Minister for Social Security, who has now moved to the Northern Ireland Office. Such a far-ranging and profound review—apparently the most fundamental for 40 years—is not well served by changing the personnel half way through. However much we may disagree with the political views of the personnel involved, I should have thought that consistency was to be welcomed. I mean no disrespect to the present Minister for Social Security. Thus, the hon. Member for Birkenhead made a good point.

Moreover, the revenue neutral basis on which the reviews must be conducted also gives cause for concern. No proper examination is being made of the hidden



[Mr. Kennedy]

welfare state benefits which fall under various tax concessions. That is neither even-handed nor consistent. Indeed, it is particularly curious, given that in the Budget the Chancellor of the Exchequer promised us a Green Paper on the possible integration of tax and benefits. Apparently the possibility has already been precluded of any searching examination being made of the status of pension funds and of other allowances which at present give the better off substantial benefits. In any proper review, all of those things should be considered.

In conducting these reviews, the Government have made much of simplification. We would all welcome such simplification, and the Secretary of State is right to acknowledge the consensus that exists on that issue. We would particularly welcome simplification if it led to a higher level of take up for some of the very necessary benefits, such as family income supplement. I think that the last set of figures that I saw showed that the take up of FIS was barely 50 per cent. However, I appreciate that the figures involved are sometimes small for the amounts concerned. We would welcome greater simplification if it were aimed at pumping more resources towards those who need them.

The Secretary of State's speech was significant in revealing that the reviews were clearly a device by which the DHSS could buy some time from the Treasury. The latter has clearly been insisting on major cuts in the social security system. It is bogus to argue, as Ministers do, about the proportion of gross national product currently occupied by social security expenditure, when one reason for the increase in expenditure has been the rise in poverty due to mass unemployment. That is the result of the Government's economic policies. Those on benefits are now to suffer a further cruel blow, because the Government say that as far as possible we must reduce that very dependence which the Government have engendered by their policies.

The short-term relief, or stay of execution, which the Secretary of State was apparently able to buy from the Chancellor of the Exchequer by initiating this series of wide-ranging reviews will turn into long-term losses for the welfare state. There has clearly been a lack of consultation and co-operation throughout between the Treasury and the DHSS. That was shown, for example, in the deliberations of what I might call the Meacher committee into the whole question of the poverty and unemployment traps.

The Inland Revenue, when giving evidence, said that the type of computerisation which could be introduced to integrate tax and benefits, which we on this Bench wish to see, would have to be of a certain type when in place in a few years' time, or it would not be possible to alter it, radically or in the direction in which a future Government might wish to alter it. The evidence that we are getting shows that the Government are not pursuing that line. That is a clear example of that lack of consultation and co-operation between the two Departments involved, and that is greatly to be regretted.

The state earnings related pension scheme is referred to in the official Opposition motion. I said that there was little in the remarks of the Secretary of State to quell the anxieties that exist. There is no doubt that a legitimate debate could be undertaken into the whole question of SERPS. I listened with interest this morning to some

remarks made on the radio by Professor David Donnison, who used to chair the Supplementary Benefits Commission. It cannot be fair—if this is what the Government are intending—to move towards a system by which, for example, the better off, such as retired civil servants, will be guaranteed 50 per cent. pensions, whereas the worse off—those who are poorer because they are at the lower end of the earnings scale even when employed prior to retirement—will remain in a state of poverty compared with others, through the abolition of SERPS.

Not only did Professor Donnison make that point, but he quoted the Social Security Advisory Committee in his support, and the Minister may wish to comment on the remarks of that committee on this score. Does he think that SERPS will run into severe problems of funding in future, although that problem need not arise for another half century? His view on that must have an impact on the political decision which will have to be made.

Other points can be made in the opposite direction. In other words, these issues go across the political spectrum and are not common to one political ideology. For example, a case could be made for saying that, in its operation, SERPS has regressive features. Arguments could be made pointing to the need—which we on this Bench would support—for further restructuring of national insurance contributions.

What must be a source of anxiety—I am thinking particularly of last week's Report Committee stage of the Social Security Bill—is that the private sector, in terms of portable pensions, is not in a position adequately to take the slack which would inevitably result from a straightforward abolition of SERPS without its place being taken by what would need to constitute almost a bridging mechanism between the more private and portable pension society towards which the Government wish to aim and what we have at present, which is a reliance by about 10 million people at the poorer end of the income scale on some form of state earnings-related pension.

The Secretary of State acknowledged, when responding in his opening remarks to an intervention from me, the importance of the all-party consensus which surrounded SERPS. I appreciate the caveat which the Secretary of State gave about final decisions not yet having been taken. However, if there is to be change, whatever the direction of that change it is crucial that the Government, so far as humanly and politically possible, maintain that all-party consensus.

In any change affecting pensions in the longer term, the Government should take with them not just the House but the country and, in particular, those who will be ever more dependent upon pensions provided by the state. It is difficult to form a conclusion this afternoon, given the fact that the Secretary of State went to some lengths to say that no conclusion had been reached within the Department to finalise the issue. My hon. Friends and I must therefore reserve judgment on that subject.

We are told that the hon. Member for Oldham, West has been much maligned and misrepresented. Despite the fierceness of the exchanges earlier across the Dispatch Box, it must be worrying for the hon. Gentleman to find on this occasion, despite the ferocity of his attack on the Government—I say this from press reports, and I base my analysis on the writings of reputable journalists, and not the scurrilous ones—that he probably got a warmer

reception from the Secretary of State today than he got from his leader and fellow colleagues in the shadow Cabinet when he floated his ideas last week.

**Mr. Meacher:** The hon. Gentleman is wrong.

**Mr. Kennedy:** It is all very well for the hon. Gentleman to say that I am wrong—

**Mr. Meacher:** The hon. Gentleman should not believe everything that he reads in the newspapers.

**Mr. Kennedy:** If the hon. Gentleman is arguing that we should not believe what we read, he is giving the Secretary of State a handy weapon for defending the Government's position over the welfare state.

**Mr. Meacher:** The hon. Gentleman must be more selective.

**Mr. Kennedy:** That is an interesting analysis indeed of this debate.

I have more than a suspicion that the hon. Member for Oldham, West was, as it were, cut loose by some of his senior colleagues to wallow at the Dispatch Box in the uncosted nightmare of his welfare state. I suspect that we shall have severe disagreements with the Government when they come forward with their review of social security. In the meantime, to try to pre-empt what is being done by the Government and come forward with wild and uncosted alternatives is pointless.

The hon. Member for Oldham, West said that his suggestions had been carefully costed. That was a remarkable statement for him to make, given that the leader of his party spoke in Bristol last week about care in the community, but resolutely refused to make any spending commitments. That is at the heart of what the official Opposition are up to just now, but they are playing into the hands of the Government. In the absence of constructive suggestions, the Government will find it easier to sustain whatever policy they finally decide on for fundamentally restructuring the welfare state. I fear—I hope that I shall be proved wrong—that the Government will damage irreparably the principles and practices of the welfare state. Therefore the way in which some Labour Members are behaving over this entire matter is at best politically naive and at worst politically cynical.

Grave concern must be expressed over the way in which the reviews have been established, the manner in which they have been conducted and the apparent loggerhead situation that exists between the DHSS and Treasury Ministers. I have grave doubt whether the result of all that can be the sincere, far-reaching and radical re-examination which the Secretary of State wants to achieve.

A radical review is necessary if the system is to be made more simple, if more people are to be helped and if we are to remove some of the complexities of the current nightmare of means-tested benefits. Those aims must be achieved if we are to alleviate poverty in Britain. However, I cannot see that being the outcome, and my hon. Friends and I will vote against the Government tonight in view of their record thus far and their approach to the welfare state.

We need to distance ourselves from the reaction and criticism of the Labour party. I do not believe that a mediocre, Maginot line of defence necessarily provides the best means of defence for the poor people of this country. Therefore, my right hon. and hon. Friends and I will continue to advance these arguments throughout the

course of the wide-ranging debate which will follow the Government's announcements on SERPS, the welfare state and social security generally.

6 pm

**Sir Brandon Rhys Williams (Kensington):** Although this is not a very well attended debate, it is an extremely important one, because it provides the last opportunity for the House to deal with the issues relating to the fundamental reform of the welfare state that are to be discussed in the forthcoming Green Paper. It is therefore particularly appropriate to deal with general principles.

If I may comment in particular on the place of the welfare state in the functioning of the economy, we have to deal with the redistribution of income in such a way as not to damage the creation of wealth overall. As a society, we need to make the best of our economic opportunities. We must not devise a scheme for the redistribution of income which inhibits wealth creation either by taking too much from earnings, thereby breaking the back of the system, or by distributing too much and undermining the natural personal efforts of the individual to work and his will to save.

It is a fallacy to suggest that in some way the redistribution of income costs the Exchequer money. If redistribution has genuinely taken place, it does not cost the Treasury anything: the Treasury, on the national insurance scheme has merely acted as an agent. Those who receive the benefits spend the money. It is the side effects of redistributing income which can damage the economy. Many hon. Members believe that the way in which we are redistributing income now is having a damaging effect upon the will to work and the will to save. If we weaken the functioning of the economy as a whole, we shall, over time, undermine the social services and lower the general standards of living of the population, because we shall all go down together and impoverish the whole community.

I believe that there is a maximum that can be allocated to the functions which can be supported through the redistribution of income. Income tax and national insurance contributions combined, should not exceed 40 per cent. of an individual's income. However, because of the expectations of a modern European society it would be difficult to operate an acceptable system if the combined rate of income tax and national insurance contributions were very much less than 40 per cent. If we try to force down the figure, we shall encounter disappointment and resentment.

On top of the 40 per cent. that it is reasonable to expect the individual to contribute at the margin, I believe that an employer's contribution of 10 per cent. is appropriate as deferred pay and as a means of building up savings to provide for workers in their retirement. If we are to make the best use of the resources available for redistribution—I am referring to resources in cash, not to services supplied in kind—the redistribution must be planned on the basis of a thorough and factual analysis of household needs, or, as was mentioned by my hon. Friend the Member for Brentwood and Ongar (Mr. McCrindle) on the basis of a re-analysis. We are dealing with out-of-date ideas.

Many of us are aware of the fact that there is real poverty, not only in large families but in many smaller families. We need to do more for families and to examine whether too much help is being given in other areas where opportunities are being exploited which the system ought



[Sir Brandon Rhys Williams]

to abolish. We do not know what it costs to raise children in families of different sizes. We ought to be provided with that data, and I hope that the Government will make a special effort to carry out the necessary research. The family expenditure survey is not sufficient.

We also need to analyse the real costs of pensioners living at home, or in institutions, or on their own. We want old people to be independent, but I do not believe that a sufficiently serious comparison has been made of the household costs of pensioners or of the cost to their families if they are unable to be independent and live on their own.

The system for the redistribution of income should also encourage the full take-up of entitlement. We cannot say that a satisfactory system exists if half of those who are entitled to benefit decline to draw their entitlement because of resentment, lack of comprehension, or for reasons of pride or fear of disclosure. A system must be introduced which encourages the full take-up of entitlement. It is worth reflecting that family allowances—and now child benefit have a high rate of take-up, whereas selective benefits invariably lag far behind. This provides a lesson which must not be forgotten. As I have often said, the redistribution of income must be comprehensible, easily administered and not humiliating to the claimant; and it must not discourage people from saving.

I believe that entitlement should be based upon citizenship or it should be derived from the record of contributions. We should aim to reduce to the barest minimum the number of people who are obliged to claim on grounds of need. I should like therefore, to spend a little time upon the contributory principle. Many people believe that it is important to rely upon this principle. The reason why the dreadful old national insurance system has lasted so long is that it is felt that there is value in the contributory principle. Although national insurance has become obsolete and incomprehensible, people nevertheless want to hold on to the contributory principle. Therefore, national insurance has not been allowed to die. However, we know that it is a sham. A sham is not a good thing in public life. We ought, therefore, to get rid of national insurance and put something else in its place.

Let us examine the contributory principle in so far as it affects the current account and separate it from the contributory principle in so far as it affects the capital account. Contributions which enable us to run a system in which total destitution does not exist are one thing, whereas contributions which allow personal nest eggs or retirement benefits to be built up are quite different. The current account and the capital account ought to be kept strictly separate when we are dealing with the contributory principle.

As for the revenue account, it is some years since we accepted that the national insurance fund cannot cope on the basis of flat rate contributions. We switched to earnings related contributions for flat rate benefits. I believe that that principle is here to stay, so we must make the most of it. We should recognise that we have blundered into a system which will remain in existence. We should, therefore, ensure that it is comprehensible and seen to be right.

In so far as we are obliged to pay for that flat rate benefits by earnings related taxation, we have to recognise

that we are relying upon a deeper concept of the obligations and entitlements of citizens than can be founded on actuarial principles. Earnings related contributions and flat rate benefits have no direct relationship with each other; yet somehow we feel that this is the right foundation for the redistribution of income. In effect income tax is not just one more source of revenue for general purposes for the Exchequer; it has become a personal contribution by which each citizen clears his debt to a generous civilised society, which gives him a basic income guarantee, and establishes his claim to benefit from his membership in the same way as every other citizen.

I believe that we should not abolish national insurance contributions, but, rather, abolish the income tax and call it a contribution. I believe that that should be the foundation of a new self-balancing and self-contained national insurance fund which would draw its revenue from earnings related contributions and pay flat rate benefits in exchange.

On the capital account, the contributory principle should be funded on strictly actuarial and comprehensible principles. This is a topical subject because it has been so confidently predicted that the Government will abolish the state earnings related pension scheme. I have already said in the House that that scheme should go. Retirement benefits and personal savings plans should be founded on arithmetical calculations and the state earnings related pension scheme is not. There should be no built-in transfer of resources such as is inherent in final salary schemes which all too often have the effect of transferring money from the low to the better paid, as I have said before.

In the state earnings related pension scheme, which is funded not on lifetime contributions but on a selection of the best 20 years we are draft from arithmetic and have, unfortunately, also committed ourselves to paying pensions which our children will undoubtedly be unwilling to fund. It is only a matter of time before the House has to abandon the state earnings related pension scheme in its present form because the resources will not be available to meet the commitment. If we do not recognise that this year in five or 10 years' time, we shall recognise it in the end. The longer we leave the reform of the system, the more difficult it will be in the end to extricate ourselves from promises that ought not to have been made. Therefore the system should be abolished.

**Mrs. Beckett:** We have, on occasions, debated this matter before with the hon. Gentleman, but I want to draw to his attention the correspondence between his words on the cost and direction of the state earnings related pension scheme and those uttered in 1954 by the Phillips committee, looking ahead 30 years. It said that the retirement age for men should be raised to 68 and for women to 63 and that there should be no increase in the real value of pensions because the country could not afford it. If that committee had been listened to then, as the hon. Gentleman is hoping to be listened to now, the pension today would be £15.

**Sir Brandon Rhys Williams:** I recognise that in making forecasts about population, unemployment, the growth of the national product and other economic circumstances over long spans of time, it is easy to be wrong. I should love to think that I am wrong in predicting that the growth of the British economy over the next 40

or 80 years will be such that we shall not be able to handle the commitments that we are making to ourselves in this particular pension scheme. But it is wrong to make forecasts based on nothing except hope. If we build our pension expectations on hope rather than the reality of the economy, there is a likelihood that we shall be disappointed. A state scheme should not be founded on estimates which could all too easily be proved to be wrong.

If we abolish the scheme, we must look at the gaps that might be left when it has gone. The Government should encourage savings by all legitimate means. Therefore, I was extremely relieved when the Chancellor committed himself in the Budget to the principle of "save now, pay tax later." All occupational pension schemes in Britain have been built up on the expectation of that tax background and it ought not to be changed for individual personal pension entitlements. Moreover, it should be made available not just to occupational pension funds on an approved list but to every citizen for all classes of saving, including personal pension schemes, nest egg schemes, life insurance and house purchase finance.

I know that what I am saying is radical, but I believe the options should be offered as an alternative which people embarking on long-term financial undertakings such as house purchase or life insurance should be able to consider. They might not want to use that basis, but I can see no good reason why the principle of "save now, pay tax later" should be confined to approved occupational pension schemes. It should be made available to everyone, subject to some safeguards. It should be used as the incentive to encourage the build up of personal capital along the lines suggested by my right hon. Friend the Prime Minister when she makes it a target that every man should be a capitalist. I hasten to say, because I know that the hon. Member for Derby, South (Mrs. Beckett) would not like it if I did not, that I want every woman to be a capitalist, too.

**Mr. McCrindle:** I am following my hon. Friend's arguments closely and I agree that there should be maximum encouragement through tax concessions to persuade people to prepare for their retirement, but if we follow through my hon. Friend's suggestion—that the state earnings related pension scheme should be wound up for the reasons that he has stated—does he agree that there would then be maximum encouragement but no compulsion in attracting the people at present covered by the state earnings related pension scheme to a private pension scheme? Is my hon. Friend about to tell us how he would take care of the situation to which I made reference in my speech of the substantial number of people who, no matter what encouragement they are given, decide for one reason or another not to prepare for their retirement, thereby building up a responsibility on the part of society under our present supplementary benefit system?

**Sir Brandon Rhys Williams:** I am grateful to my hon. Friend for his intervention, because it enables me to tread safely on the ground that I have prepared for myself. We should encourage people to build up nest eggs for family or business needs which are not necessarily available for use only in retirement. How then do we ensure that people's retirement is properly catered for and that they do not fall into the temptation of using their nest egg for some other purpose before they reach the time when they

desperately need it, when they are no longer able to work? We should not allow the nest egg to be used before retirement age if it is derived from the employer's contributions. The employer's contributions should become a money-purchase fund, put into trust for retirement as a form of deferred pay. I have already suggested in the House that the employer's contribution should be set at 10 per cent. on top of all wages, so that the entire employed population should receive 10 per cent. on top of their wages from their employers in the form of deferred pay. It is really the national insurance contribution which the employer is already making, but instead of letting it lapse by going straight into the fund and being lost, it should be retained as an individual entitlement built up on proper money-purchase principles and indexed in an appropriate way. I hope that I shall have time to deal with that. The employer's contribution should usually be available only for retirement and the trustees of the schemes should release the money earlier only in exceptional circumstances, such as invalidity and so on.

The private occupational schemes must be run on lines which conform with public opinion. If we are to abandon the idea of a state minimum scheme, the private schemes must operate on a unisex basis and give fair treatment to the early leaver, including his existing accrued entitlements. In regard to this I do not want to go over suggestions that I have made before, except to say that by differential tax treatment of the income from the fund in the occupational pension trust so as to favour that part of the fund which is allocated to individuals rather than the unallocated account, we can put the occupational pension schemes in a position, without any element of retrospection, where they would wish to give his full accrued entitlements to the early leaver.

There must also be adequate recognition of the claims of mothers—or, indeed, of parents of either sex—who withdraw from work to be remunerated in cash in order to raise their family. I recognise that the 20-year rule in the existing state earnings related pension scheme was introduced to help women who did not have a full record of contributions; but it was the wrong way to approach it. It might be worth exploring the idea that the parent who is able to draw child benefit should also be entitled to establish a claim to pension rights on that account—in other words, a motherhood pension credit.

The House has argued for many years the difference between indexation related to the retail prices index or the alternative based on wage rates. At one time we gave pensioners the option of whichever was the best system for them. Neither was right. In future the pensioner's entitlement must be based on the real development of the economy—the actual capital market. I should like savings which are allocated to individuals to fructify in real terms in line with the general development of the wealth of the community. In other words, pensions should be funded on a spread of real assets. In that way, if there is growth in the economy, the pensioners will participate in it. If we go through bad times economically, the pensioners will be on the same footing as the rest of society.

Many employers cannot afford to run their own pension schemes. If we abolish the present state scheme, there will also still be a need to cope with casual and part-time workers and others who need to belong to an earnings related scheme just like everyone else, even if they have low incomes, but which can cater for their particular



[Sir Brandon Rhys Williams]

working habits. There should therefore be a Post Office scheme which gives indexation by reference to the yield, from time to time, of Government indexed stocks. Employers who take on casual workers even for short periods at low wages should still be obliged to make a 10 per cent. contribution to a Post Office fund on behalf of each worker. The money can then build up on the basis that it has been invested, perhaps notionally, in Government indexed stocks. Private schemes should guarantee at least to do the same.

I want to deal briefly with householders' costs, household subsidies, mortgage interest relief, which has been made topical by the hon. Member for Oldham, West (Mr. Meacher), and the reform of local authority finance. Local authority finance is all part of the scene and should not be regarded as a separate matter. In seeking for a reform of the rates, we have considered local income taxes, local VAT, a poll tax or lightening the burdens on local authorities by taking them back on to the central Government budget. None of those has proved to be satisfactory. We have talked about rates for years without coming to any conclusion. Rates are an intolerable burden in my constituency, and something must be done as a matter of urgency.

Mortgage interest relief is a random benefit. I am glad that it was the hon. Member for Oldham, West who put his foot on the mine and exploded a volume of abuse and public reaction. If it had not been him, it might have been me who made the recommendation, because the way in which we help householders is in some respects wasteful and in others insufficiently helpful.

There is certainly room for reform of the system for the support for house purchase.

**Mr. Winnick** *rose*—

**Sir Brandon Rhys Williams:** I have spoken for so long that unless the hon. Gentleman is determined to press me, I should like to finish my remarks.

**Mr. Winnick:** The hon. Gentleman has raised a point that I should like him to clarify.

**Sir Brandon Rhys Williams:** When I have finished, the hon. Gentleman may think that I have dealt with it.

Housing subsidies have a low take-up, and that is most unsatisfactory. Supplementary benefit rent allowances are also unsatisfactory and uneven. I am sure that in some parts of the country they tend to increase rents for low-grade accommodation. Rate support grant is the most uneven and unpredictable of all the forms of subsidy that we pay to householders. Let us be under no illusion: rate support grant is a form of household benefit which reaches householders by indirect and incomprehensible means. The key to the reform of local authority finance is to put householders in a better position to meet their essential outgoings.

We look forward to the Green Paper proposals. I am confident that my right hon. Friend will approach them in a generous, sensible and responsible spirit.

**Mr. Winnick** *rose*—

**Sir Brandon Rhys Williams:** As I shall not be detaining the House for much longer, perhaps the hon. Gentleman and I might meet afterwards to discuss these points.

I hope that my right hon. Friend will take account of the effects of taxation as well as the benefit system. My only fear is that his proposals will not be sufficiently radical, comprehensible and firmly based on moral principles. If he listens to what has been said on both sides of the House today, he will be helped in the preparation of his Green Paper, which will be widely read, and with great interest.

6.23 pm

**Mr. Frank Field** (Birkenhead): It is usually a pleasure to follow the hon. Member for Kensington (Sir B. Rhys Williams). I am sure that he will understand if I do not pick up all the themes that he illustrated. I disagree with one of the main thrusts of his argument—what should be done about the state earnings related pension scheme. I think it is the first time that there has been such a disagreement when I have followed him.

What linked the hon. Gentleman's contributions to those of both Front Benches was that he applied a broad brush to a large canvas. I wish to paint a much smaller picture, but first let me make a couple of introductory remarks. The proposals that my hon. Friend the Member for Oldham, West (Mr. Meacher) outlined to the press recently have come in for what some people have taken as an attack. I should like to use the opportunity to put my views on record. If there is any criticism of his proposals, it must be that they are not sufficiently radical and not that they were too radical. Conservative members will be misreading the feeling on the Opposition Benches if they do not grasp the fact that Labour Members wish a future Labour Government to have an attack on poverty as their number one priority. If we are serious about that, and about delivering money to those at the bottom of our society, the programme will be costly. We must study those costs carefully and set out how they will be met.

My hon. Friend's proposals were modest. He supported them by limiting the amount of relief going to those buying their own homes. I am one of those Members who wish to see an extension of home ownership on a scale which is not perhaps supported by all Opposition Members. But it is crucial that we consider not only mortgage interest tax relief but the other 100 or so major tax benefits which cramp any Government's style when they try to achieve their objectives.

One of the main reasons why the Government failed this year, as they did last year and the year before, to deliver on their central election pledge—to cut taxation—is that before the Chancellor rises to deliver his Budget statement he has already forfeited the right to levy taxation on over 50 per cent. of personal income; that income has been exempted by one or other of what should be called "tax benefits."

If there is to be scope for the proposals that I should like to see brought into operation—taking people out of tax and cutting the rates of tax, as well as building a welfare state which acts as a floor upon which people can build by their own efforts rather than a ceiling which traps them into poverty—the crucial issue of tax benefits must be faced squarely.

If the Labour party is to become an alternative, radical Government, it must consider applying a policy of cash ceilings on these tax benefits. Only this policy will give the Government room to manoeuvre. It would enable them to raise some benefits, take some people out of tax and cut tax rates. I agree that that would be an approach different

from that of previous Labour Governments. It would be a libertarian approach. It would be one which wishes to see people have more money in their wage packets and for them to choose what they do with it, rather than today's paternalistic state whose people receive relief and support only if they spend their taxed income in a way in which the Government approve and support by way of tax benefits.

**Mr. Winnick:** My hon. Friend and I may agree or disagree, but I believe that the bulk of tax relief on mortgage interest is justified. Every help should be given to people who are buying their own homes. Does my hon. Friend agree that it is interesting to note that time and again, as they did tonight, Tory Members speak against subsidising the better off, but they are not critical of giving tax relief, without any qualification, to those earning £30,000 and more a year? Is there not an inconsistency and deep hypocrisy in that attitude?

**Mr. Field:** There is a consistency and hypocrisy. One of the good things in the debate has been the efforts—if I can use the phrase in the House—which has been made to rubbish the proposals of my hon. Friend the Member for Oldham, West. I hope that the exercise continues, because I want my constituents to hear what may be on offer to them if we are successful in achieving the election of a future Labour Government. The electoral mine of which the hon. Member for Kensington spoke might be one upon which the Government step rather than my hon. Friend. One of our problems in the past has been to convince voters that we have a programme which will work and will deliver resources and cash to those at the bottom end of the scale.

Again, with reference to my hon. Friend's intervention, I, too, am not in favour of abolishing mortgage interest relief. My proposal is that the cash ceilings, which we have seen applied so ruthlessly to the traditional welfare state, should be applied to those who, in the welfare state, gain tax benefits.

The Library very kindly did some work for me on four of the major non-personal tax benefits and looked at the extra revenue we would have gained if a cash ceiling to those benefits had been applied at the beginning of the previous Labour Government. Had it been applied, we would have had an additional £17.5 billion to distribute in ways that this Chamber may wish to debate.

On the one hand, we lament the failure of this House to control Government expenditure; yet, on the other hand, many of us seem unwilling to come to grips with controlling the Government's tax expenditure. If we are serious, we need to begin a debate about those tax benefits which, as I said earlier, exempt over 50 per cent. of all personal income from tax.

At the beginning of his contribution, the Secretary of State was rightly asked whether he intended to stand by the very clear commitment that he gave to the House not to disrupt current pensions proposals. We learnt from the Secretary of State's reply that there is a new definition of a political commitment. One give a political commitment and holds to it until one has established reviews. Should those reviews produce proposals—which one has engineered anyway—to abolish a commitment, one has to allow that commitment to be sidestepped.

I wish to concentrate on my concern over what is to happen to the state earnings related pension scheme. In

doing so, I disagree with the hon. Member for Kensington but agree with the hon. Member for Brentwood and Ongar (Mr. McCrindle). I do so because one of the aims of the reviews is supposed to be to give us a more simplified welfare state. There appears to be a possibility that the Government, to save some revenue at some time in the next century, may be prepared to cave in to pressure to abolish the state earnings related pension scheme. The advantages of the scheme are important, and I shall remind the House of them.

If the scheme comes to fruition it will be the first scheme to be put on the statute book since Beveridge which offers the hope of breaking the link between poverty and old age. It may not do it as successfully as was hoped by some of those who promoted the scheme in 1975, but it will certainly do it on a scale the like of which has not been seen before. If the Government's aim is to simplify the welfare state and to cut down the numbers claiming means-tested assistance, whether by means of supplementary benefit or, if they have been floated off it, housing benefit, it will be a major error of judgment to overturn the all-party agreement on pensions proposals for the sake of a very small gain in terms of public expenditure in the distant future.

The second advantage of the scheme—I was so surprised that the hon. Member for Brentwood and Ongar did not make the point that I now wonder whether I fully understand the scheme—is that it sets a minimum standard for the private schemes. In other words, an employer can contract out his employees into private arrangements only if he is offering proposals which are better and more generous than the state minimum scheme. Therefore, one is losing, without any extra civil servants or any bureaucracy whatever, that regulation of the private schemes which has been so beneficial up to now. It has set a minimum floor, and the private schemes, to attract customers, have had to offer something better. I always thought that Conservatives, as a matter of philosophy, were willing to undertake that sort of competition with the state scheme. Now perhaps competition appears to be tough that the only way to compete is to abolish the state scheme.

The third big advantage of the state scheme is that it offers the best deal to the lowest paid. That aspect was touched on in a number of contributions by Conservative Members. It offers a deal to the low-paid that they are unlikely to get in the private sector, for the very simple reason that much of the private sector is not interested in those on low earnings.

Because the scheme is so advantageous to the low-paid, and because most women are low paid, it offers the best prospects that women have ever had from any pension scheme, whether private or public. Therefore, if the Government abolish the scheme, they will not simply be taking away the potential pension from the lowest paid; they will be seen to be making a major attack on the future living standards of women.

The fourth reason why the scheme should be supported is the one that I touched on at the beginning—that it allows us to simplify the welfare state. It guarantees people basic pensions which will take them above the eligibility level for means-tested assistance. How much simpler it would be to float people off poverty by this scheme than by the proposals hinted at by the Government. If the Government's proposals go through, we shall see the first moves towards dismantling the welfare state.



[Mr. Field]

Some of my hon. Friends, in their eagerness to defend the interests of their constituents and to promote our cause, have sometimes talked about the Government dismantling the social security system. I do not honestly believe that one can make that charge stick at present. There have been cuts, and I shall deal with them in a moment. Those individual cuts have been catastrophic for individual claimants but Opposition Members cannot claim with any seriousness that we have yet seen the dismantling of our social security welfare state. But the leaks of the past 10 days or so concern proposals which, if put into practice, would make that charge stick.

It is because I want to warn the Government about the moves which may be made, but also to support them when they have managed to resist Treasury attacks, that I say how pleased I am to read that it appears that the Government have been successful in defending the child benefit scheme. If that is correct, they are to be congratulated. I suppose that it is a sign of the times in which we live that Opposition Members can stand up and say that the Government's defence of a basic measure, such as child benefit, calls for congratulations. Be that as it may, it is important to list the advantages. It is the most effective benefit that we have for tackling family poverty. It is the only benefit that we have for maintaining tax equity between those with children and those without children. It is the most effective way of giving people an incentive to work. It is, as we know—thanks largely to the campaign led by the hon. Member for Kensington—a benefit which is paid to women, and it is a crucial benefit to them.

I should like to underline one of the points made by my hon. Friend the Member for Oldham, West concerning the charge that we are beginning to stick on the Government. I want to play my part in getting that charge to stick, because I believe it will have an effect on the result of the next general election.

In his opening remarks, my hon. Friend looked, on the one hand, at the tax cuts that have benefited those at the top end of the incomes scale and, on the other hand, at the cuts that have been made in social security so far in this Parliament and in previous Parliaments. As the Minister of State knows, the major cuts have been in breaking the link between earnings and pensions and what are called the long term benefits.

I ask the House to recall the 1979 Budget. The surtax payers, as they used to be called, gained £1.6 billion in that Budget. They constituted less than 6 per cent. of all taxpayers. They will go on gaining those tax concessions until we elect a Government who will reverse that 1979 Budget. We are now in the sixth year of tax cuts to the rich, and that gives a total of almost £8 billion. The Library note, prepared some time ago for my hon. Friend the Member for Oldham, West, refers to the cuts in social security since 1979, which equal a little over £8 billion. Therefore, one sees the direction of redistribution under the Government. There have been cuts in the benefits to which many of our constituents were entitled under the previous Labour Government to finance the tax cuts to the richest in our society.

The Minister of State may not like it when the main Opposition spokesman, in opening a debate, never fails to mention those tax cuts to the rich. I reassure him that many of us in the Opposition are doing our best to make the

charge stick, that there have been cuts in benefit and that those cuts have almost exclusively financed the tax cuts to the very rich.

**Mr. Butterfill:** Will the hon. Gentleman explain how he can talk about cuts when in fact there has been an increase of £8.5 billion in expenditure on social security under this Government, which is a 28 per cent. real increase?

**Mr. Field:** I am happy to do so. The hon. Gentleman should ask the Library for a copy of the note that I prepared for my hon. Friend the Member for Oldham, West, published on 6 February this year. In that note, the cuts are set out in detail. It is as well to remember that there are now many more old people claiming old-age pensions, and the Government have done their part to increase the number of unemployed. This is why it is not impossible for the total social security budget to increase. Yet at the same time, and in the way I explained earlier, the Government have made cuts in provisions, such as the earnings-related supplement.

It is a paradox that the hon. Member for Halifax (Mr. Galley) seemed unable to explain. If we look at the figures, we see that the amount spent on health has increased under the Government, yet when I and other Opposition Members and, I guess, many Conservative Members, go to our constituencies and see what has happened, we are faced with a catalogue of cuts. It is a paradox that Conservative Members have to explain not only to us but more importantly to the electorate. At the same time they need to try to explain away how they have benefits in order to ensure that the very rich in our society, those who are most privileged, can pick up a cool £8 billion since the Government were returned to power in 1979.

6.42 pm

**Mr. Patrick Nicholls** (Teignbridge): I shall talk about the retirement pension, but one remark by the right hon. Member for Western Isles (Mr. Stewart) should not be allowed to go without comment.

The right hon. Gentleman was comparing at length the deficiencies, as he saw them, in the health services provided in various European countries and the way in which he thought it was being provided in this country. One can make a simplistic point that one never spends enough on the Health Service. I doubt that there is anyone in the House who would disagree with the proposition that one can always spend more on the NHS, and spend it usefully, wisely and correctly.

The reason for that is that there has been a complete transformation—a revolution, even—in the various types of medical aid that one can usefully give. The founding fathers of the NHS did not have to consider the sort of things on which we can now usefully spend money, such as transplant surgery and open heart surgery—a whole range of techniques which, when the NHS was founded, would have appeared to be out of science fiction. Unless one does one's forbears the courtesy of looking at the facts as they must have seemed to them, it is incredible that it was thought that once the NHS was established, there would be a reduction in cost through the years. It was thought that once the health of the nation was placed on a sensible and positive footing, the costs would decrease. Of course, that has not happened because the more one

spends on medical research, the more things there are that can be genuinely done for the citizen, and so more money should be spent.

The right hon. Member for Western Isles did not address himself to that possibility. However, he quoted highly selectively the statistics that he had managed to get hold of. If he had really wanted to help the House on how our NHS compares with the provision in European countries, he might have drawn to our attention a publication called "Cost and Containment in Health Care", which was produced last year by Professor Abel-Smith. Unless I am doing him an injustice, I would guess that the professor is no particular friend of the Conservative party. Certainly in the past he has been an adviser to two Secretaries of State for Social Services, both Labour. Yet his conclusion, perhaps sorrowful, in that publication was that if one ignores the rhetoric that we hear about increased waiting lists, cuts in NHS, savage reductions and so on, looks at the reality and compares the provision that we make with that on the Continent, in so far as there has been any reining in on the increases made, the Government's record is a great deal better than that of any of our competitors. That is why, when one starts comparing our Health Service with that on the Continent, one must go beyond the rhetoric and look at what has actually been done.

**Mr. Laurie Pavitt** (Brent, South): Like the hon. Gentleman, I am a devotee of Abel-Smith. While the hon. Gentleman is referring to that document, will he quote the per capita index that Abel-Smith gave, starting with 580 in the United States, going down through the industrialised countries of Europe and finishing with the British contribution of 230?

**Mr. Nicholls:** If we were both armed with the text, I am sure that we could have a medieval debate in which we would go through each point in our respective cases. What the hon. Gentleman says is true, but we cannot follow that line and still conclude the debate at 10 o'clock. We must consider other matters as well such as the expectations and standard of living of any given country. Such things have to go into the equation as well.

I was picking up the point made by the right hon. Member for Western Isles, when he said that it was true, as if it were written in tablets of stone, that our services did not compare well with those on the Continent. The only point that I was making was that when one talks about cuts and reductions, the fact is that a left of Centre academic with impeccable credentials has said, whatever else one might say about the Conservative Government and how frightful they may be, that that specific point was not true.

**Mrs. Kellett-Bowman:** I do not wish to enter into any individual medieval joust with my hon. Friend, but does he not agree that if the figures were for state spending in the United States as opposed to the vast amounts spent privately there, we would come out a great deal better?

**Mr. Nicholls:** My hon. Friend makes a fair point. No one would deny that. Usually, when I have spoken in a debate that has not been as elegant and well mannered as this, and have mentioned those figures and the fact that there was a publication called "Cost and Containment in Health Care"; when I have made that central proposition and said that that was the conclusion that the author

reached, I have been howled at and there have been shouts of "Adam Smith group" and so on. When it is then found that that was the conclusion of a Left-wing academic, some people have looked puzzled. I shall finish on a point that I had not intended to make. Sometimes one can be rather too simplistic. I say with great deference to the right hon. Member for Western Isles, with all his experience, that his speech was an example of how simplistic one can get.

It is not surprising that I wish to talk about retirement pensions as a greater than average number of my constituents live on retirement pensions. I wish to consider the effect on retirement pensioners of what the Conservative party has done and has on offer and of the alternative offered by the Labour party.

I always find distasteful and ridiculous any claim that one party or the other lacks compassion for retirement pensioners. I do not believe that that is true of the Conservative party and I would never make the mistake of suggesting that the Opposition are lacking in care or compassion for the elderly. It is in no way inconsistent or pejorative to say that although the Labour Government cared desperately and genuinely about proper services for the elderly—there was no doubt as to their aspirations and the genuineness of their compassion—the record shows that their efforts to provide care for those sections of society who desperately needed it proved in the end to be inept. There is no need to dwell on the fact that for two years running the Labour Government were so strapped for cash that they could not even afford the Christmas bonus or the fact that people who had put something by during their working lives to provide a little jam in their twilight years found their savings wrecked by inflation.

The tragedy of the Labour Government's attempts to care for the elderly was summed up in their attempt to link pensions with earnings. No one would deny that that was a noble aspiration, but for three of the five years in which the link was in operation the Labour Government had to fiddle the figures to provide pension increases below those required by their legislation. With the charity of hindsight, and given that we are now in Government, one can sympathise with the dilemma in which the Labour Government found themselves. That dilemma was most graphically illustrated when the then Secretary of State, Mr. David Ennals, was chided for fiddling around looking for ways to get out of implementing the Labour Government's legislation and commented in relation to earnings figures:

"There is a statutory obligation to take these figures . . . into account, which was done, but no statutory obligation to get it right".

**Mr. Frank Field:** Does the hon. Gentleman accept that many Opposition Members would not seek to defend all the actions of the Labour Government, especially the manoeuvrings on pensions? Will he also accept, however, that pension levels were higher as a result of the formula laid down by the Labour Government—so much so that the Conservatives have found it necessary to abolish the formula and especially the link between pensions and earnings?

**Mr. Nicholls:** I in no way wish to attack any Opposition Member for the difficulties that the Labour Government encountered in this area. I do not know whether I am in a minority on this, but I have never found it necessary to attack Socialism, which I abhor, by



[Mr. Nicholls]

suggesting that there is a lack of compassion in that system. I would say many other things with which the hon. Member for Birkenhead (Mr. Field) would no doubt disagree, but I would not go so far as that. I was merely pointing out that the dilemma arose because the Labour Government's economic policies made the care that they sought to provide an impossibility.

The present Government made a pledge to keep retirement pensions in line with inflation. I shall be commenting on that as a mean level of achievement, but at least that promise, which did not raise great expectations, was kept. In the end, one cannot divorce compassion from the social and economic policies which make it possible in practice. Even if we can show that our fiscal policies have allowed us to make better provisions for care than those that the Labour Government achieved, we still need to go further. Just because we are better in one sense does not mean that that is the final word.

I am concerned about the way in which we sometimes present what we have been able to do for pensioners. The undertaking that we gave was relatively modest, but we stood by it and we have managed to keep pensions just ahead of inflation. In short, we have kept faith with the pensioners. That is true in as much as we said what we intended to do and we carried out our promise to the letter. My postbag, however, which is my most valuable instrument in assessing what is going on out there, shows that a significant minority of pensioners do not believe that the Government have kept faith with them. Why do they make that judgment?

**Mr. Winnick:** Because it is right.

**Mr. Nicholls:** The hon. Gentleman made no attempt to intervene when I was pointing out as compassionately as possible that the Labour Government's record on care for the elderly, however good its aims and motives, did not stand up in practice—so it ill behoves him to make that comment now.

Why do some pensioners believe that we have not kept faith with them? Answering that question may have unhappy consequences for some Opposition Members in marginal seats, but it is worth examining for a moment why, although we have carried out our promise to the letter, pensioners are still unhappy. I suspect that it is partly because many of today's pensioners do not know what it was like to be a pensioner under the Labour Government. People now in their early sixties and some even in their early seventies did not experience the wrecking effect on pensions of inflation of 20 per cent. and above, nor did they experience the disillusion of being promised that pensions would rise with earnings only to find the Government who made that promise using devious tactics to get around their own legislation. Most people who are still working and earning are not seized of the realities of living on a retirement pension. It is only when they find themselves living on a pension that they appreciate those realities.

**Mrs. Beckett:** The hon. Gentleman mentions manoeuvring and wonders why the pensioners in his constituency are discontented. He may have forgotten or perhaps not even noticed that the Government have twice changed the method of calculation, at a cost to the pensioners on each occasion, as well as delaying payment,

sometimes for one week and sometimes for two, which on at least one occasion cost pensioner couples £12.30. Perhaps the pensioners in the hon. Gentleman's constituency remember that.

**Mr. Nicholls:** I am not sure that that is the best argument for the hon. Lady to advance. If she wishes to compare the historic and the forecasting methods of calculation she must bear in mind that the basis was originally changed because the Labour Government were strapped for cash. If she does not wish to take my word for it, Barbara Castle's diaries may refresh her memory. The motive for the change on that occasion was scarcely an honourable one. If the hon. Lady is suggesting that there has been chicanery, she should be looking in the mirror of her own party rather than accusing us of devious behaviour.

If I am right on the first point—and the support that I am receiving from my hon. Friends suggests that I am—a second point follows. We talk about keeping pensions in line with the cost of living, but what is important is the ingredients in the cost of living index. An elderly person may find that the price of biscuits at the local supermarket has risen from 22p to 30p. He will not be consoled by being told that if he had bought a Japanese video recorder instead he would have found that the price had fallen. The things that pensioners of necessity buy are very often the items on the up side of the index, not the down side.

If we cannot find the answer to that problem, what consolation will there be? If we continue to say that we have kept faith with the pensioners and intend to carry on without any change, it is conceivable that we shall lose office. The mere fact that we were right and that the pensioner's assumptions were wrong will be small consolation; and if the pensioners are misled by the blandishments to which they will be subjected at the next election about all the treats in store for them—free television licences or perhaps even free televisions, massive increases in pensions, and so on—they will subsequently suffer, too.

As the hon. Member for Oldham, West has been told time and again, it is no good promising those on benefit marvellous treats and goodies if no attempt is made to cost the treats. I often read *Tribune* for light relief. On 16 July 1982, the author of an article said:

"A major concern . . . must be the failure to cost adequately or to make a priority of the social programme." Those words may strike a chord in the mind of the hon. Member for Oldham, West. They were written by his wife.

Something must be done. What is the essence of the problem? The retirement pension for a single person is £35.80 a week. For a married couple it is £57.30. We have kept faith. We have run the nation's finances in such a way as to make decent pensions a reality. Even so, no one can say that £35.80 for a single person or £57.30 for a married couple is a princely sum. I doubt whether any of my hon. Friends would be satisfied for ever and a day if their parents were living on £57.30 a week.

It ill behoves the Opposition to criticise us on that score. The pensions may be modest but they are genuine pensions, in that they can be afforded. However, we cannot be complacent about them. We must face the fact that, for our parents and for others, living on that amount of money is not an attractive prospect.

If something must be done, where is the inspiration to come from? Clearly, it will not come from the Opposition. We saw their track record in office, although I acknowledge that their aspirations were admirable. However, with perhaps the single exception of the hon. Member for Birkenhead, the Opposition are doing no constructive thinking. They are suggesting the old remedies that failed before.

A long time ago, the hon. Member for Birkenhead gave me a valuable lesson when we were both addressing a grammar school in Dorset. Imitation is the sincerest form of flattery, and I hope that I learnt something on that occasion. But when even the hon. Gentleman—with all his moderation and independence of mind—talks about making cuts so that money can be given to the rich, one begins to despair about what may be in store for the Labour party. It has never realised or acknowledged that there is no question of money being given to the rich. It is the rich, or those who pass for rich, who earn the money in the first place and can pay the taxes that make pensions and benefits a living reality.

We have heard the hon. Member for Birkenhead musing on the possibility that mortgage interest relief might have to be cut, even though the Opposition believe in it. Let us consider the reality. One can have interest relief on a maximum mortgage of £30,000. In London, many couples, earning less than hon. Members earn, have to scrape together the money to buy a house costing perhaps £50,000, and £50,000 will not purchase an especially desirable residence in London. That couple will get no income tax relief on £20,000 of the £50,000. The hon. Gentleman does not use the same apocalyptic terms as his hon. Friends would use, but he muses about putting the squeeze on such couples. He must face the fact that if he did so, couples whose ability to afford private occupation is marginal would decide that it was not worth it.

My hon. Friend the Member for Derbyshire, South (Mrs. Currie) was wrong to beckon the hon. Gentleman to come and join us. For all his moderation, he makes the fundamental error of not realising that every benefit he wishes to pay, and every good deed he wishes to do, will in the end have to be financed by someone else. If the Opposition cannot provide the answers, where shall we find them? Perhaps because it is a Monday and the dinner hour is approaching, none of my hon. Friends of what one might call the corpulent tendency is present. No one has waddled into the Chamber in order to tell us that the charter for jobs, if extended, will provide the answer to all our ills.

**Mr. Richard Holt** (Langbaourgh) *rose*—

**Mr. Nicholls:** Those remarks were not intended to apply to my hon. Friend the Member for Langbaourgh (Mr. Holt).

The former grandees of our party can give us no help in this area. However, something can be done. We need to recognise that we cannot for ever repeat that we have kept faith with the pensioners and that we intend to keep benefits in line with inflation, and assume that that is enough. We must at least recognise that something else is called for.

The Government believe, and I share their belief, that their economic policies will in the end bring about a real increase in national wealth. That will bring down unemployment in real terms, so that more people will pay

more tax. Money, having fructified in the pockets of the people, will then be available in taxation. The time is bound to come when national resources will be more plentiful. The Government should assure us that, when that happens, the improvement of retirement pensions in real terms will be a high priority. That could be done—taking an analogy from tax thresholds—by increasing the old-age pension progressively beyond the rate of inflation. Alternatively, we could study the ingredients of the cost of living index and include in it some recognition of what retired people have to spend their money on.

Tonight I ask only for a recognition of the fact that, while the Government are quite right to call attention to what they have achieved for the retired and to the ineptness of the Opposition's attempts to do something similar, something more still needs to be done. The retirement pensioner needs to be assured that at some time in the future, when the resources are available, he will be a priority. That is a realistic demand. It is well within the ambit of Government policy. I hope that my hon. Friend will be able to give me some assurance on that point tonight.

7.9 pm

**Mr. Laurie Pavitt** (Brent, South): Most of the debate has concentrated on social security and social benefits, and it will not surprise the House if I consider what the Opposition regard as the jewel in the crown of the welfare state—the National Health Service.

The fluency of the hon. Member for Teignbridge (Mr. Nicholls) and his comments on the NHS tempt me to follow him. I thought that I was the only hon. Member to have read Brian Abel-Smith's excellent dissertation comparing health care in Europe. I find that the hon. Gentleman shares the honour with me, and I hope that many more of his hon. Friends have read it. I shall resist the temptation to talk on that subject because of his warning that if we were to enter into such a debate we should be here until midnight and the debate might be like those medieval ones on how many angels dance on the head of a pin.

Health provision in the United States is private, but 10.5 per cent. of gross national product is spent on it. The comparable figures are 8.5 per cent. for Canada and 6 per cent. for the United Kingdom.

I charge the Government with dismantling the NHS by degrees. A fundamental principle has been ignored since 1977. Between 1953 and 1977 there was consensus under such people as Iain Macleod, who was the most intelligent Tory Health Minister that we have ever had. The most basic principle was that health care should be free at the time of need and paid for at the time of health. That basic concept has been eroded. Whereas 85 per cent. of the Health Service's resources come from taxation and the average family man with two children pays £1.40 each week for prescriptions, irrespective of whether he has them, now only the sick pay twice.

I accuse the Prime Minister of giving an insincere performance on television at the Tory party conference in 1983. Cancer cases face the impact of financial stringency because of the great advances in chemotherapy. At the 1983 Tory party conference the Prime Minister showed a great deal of sympathy for a widow who had to pay large prescription charges, but prescription charges for women who have had mastectomies are diabolical. The loss of a breast is a traumatic experience, but, with chemotherapy,



[Mr. Laurie Pavitt]

a young woman who has had a mastectomy pays £2 every three weeks for medicines. That is not the worst thing that the Government have done. From 1971 to 1979, prescription charges were 20p—they are now £2. Worst affected are the chronically sick on permanent medication. On 1 April the annual season ticket was increased to £30.50. People such as those who have had a coronary thrombosis must take tablets for the rest of their lives and pay the £1.40 which they pay as taxpayers, and for the rest of their lives the price of the season ticket too.

There are eight scheduled diseases which the British Medical Association accepts as chronic diseases meriting exemption from prescription charges. There are only 21,000 cases of breast cancer requiring chemotherapy. Exempting women who have had a breast removed from paying £2 every three weeks or £30.50 for a season ticket will not make a large inroad into resources. The Minister knows, as he recently gave me the relevant figures in an Adjournment debate, that it is quite possible to persuade the BMA to accept breast cancer as the ninth scheduled disease.

When discussing the NHS, the House tends to think of hospitalisation. The Secretary of State and the Minister for Health spend most of their time talking about hospitals. Hospitals absorb the greater part of NHS expenditure, but eyes, teeth and medicines are also important. We have gone back to 1950 in our treatment of the loss of sight and back to Woolworths to buy spectacles. The Government are right to ensure that an ophthalmic prescription must be provided, but that is only half of the story, as there is much skill in fitting the right glasses.

The Royal National Institute for the Blind and the National League of the Blind and Disabled have campaigned for people with low visual acuity. People with cataracts, who need four or five changes of glasses, face swingeing increases. The price of a complicated lens has increased from £20 to £60 as from 1 April. The Government's recent legislation on ophthalmic services is part of the dismantling process. Old-age pensioners will have to pay for optical services unless they are on supplementary benefit. Such people and the under-16s are to return to a system which I thought we had got rid of with the Geddes axe in the 1930s, as they will get their spectacles on vouchers. It is insulting to people's dignity to have vouchers. Nobody else has such a system—France and Germany have a reimbursement system.

The increase in dental charges has made nonsense of the principle of free care at the time of use. Because dentists are paid by item of service, people in some parts of the country are told that if work is done on the NHS the dentist cannot do a good job. A constituent came to my surgery on Saturday morning and asked me what to do because he had been told that he required a complicated set of dentures which would cost £56 on the NHS, but that if the dentist did the work privately, the job would be done well and cost £190. There are areas such as Leicester where people cannot get NHS dentistry. When talking of the dismantling of the NHS, that is it.

The Government are implementing the Griffiths report too quickly and without sufficient consultation. It is a major reorganisation. We had the 1974 reorganisation, which was such a disaster that the right hon. Member for Wanstead and Woodford (Mr. Jenkin) had to reorganise it again in 1982.

Morale throughout the hospital service was shattered. For example, senior nursing officers did not know whether they had a job. Just as morale is being restored, the Griffiths report is being implemented, under which managers will be appointed. Many of them know nothing about the Health Service. When the great supremo himself was appointed, he gave a press conference at which he said, "Everyone belongs to BUPA anyway." He was nudged by a civil servant and then said, "I meant that only my friends belong to BUPA," or words to that effect. In fact, only 3 per cent. of the population contribute to private medicine insurance schemes. He also said, "I know nothing about the NHS, but I am a good learner." I wish someone would appoint me to a £70,000 a year job, because I am also a good learner and would be only too willing to accept the challenge.

In 55 AD, Petronius Arbiter said:

"it seemed that every time we were beginning to form into teams we would be reorganised. I was to learn later in life that we tend to meet any new situation by reorganising; and a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency and demoralisation." Review boards can do precisely that. It can seem as though they are doing something, when in fact they are creating even more confusion.

The NHS is now being undermined as a result of closure by amputation. I pay credit to the Secretary of State and the Minister for Health, who have fought a good battle for the Health Service against all the monetarist pressures within the Cabinet. If only housing had done so well. However, they failed, because in a monetarist economy there is never enough money, but at least they held their corner.

No Prime Minister will enter a general election without saying, "The Health Service is safe in our hands and we will do more for it." By the same token, no Government will ever say, "We are closing hospitals." I am convinced that, if asked, every hon. Member will say, "But many wards and hospitals have been closed in my constituency. While there may not have been complete closures, there have been effective closures by hiving off bits and pieces, and eventually nothing will be left."

In my own constituency, the district general hospital in Willesden which once had 130 beds now has only 38 geriatric beds. The Wembley district hospital contained a number of specialties, but about three months ago all the acute beds were closed.

**Mr. Holt:** I have far more knowledge of Wembley hospital than has the hon. Gentleman. Does he accept that the building of Northwick park hospital, with all its modern facilities and excellence, has made Wembley hospital obsolete? The two ladies, who are long since dead, who provided the money for Wembley hospital—the Misses Copland—would have been delighted to know that their hospital had become redundant and unnecessary.

**Mr. Pavitt:** The hon. Gentleman used to serve on the borough council in my area, which he knows well.

**Mr. Holt:** The hospital to which the hon. Gentleman referred was in the ward that I represented for 10 years.

**Mr. Pavitt:** Exactly, and the hon. Gentleman will know that the general practitioners of Wembley tried to get together to save the parts that were to be hived off and that their request was refused by the Brent district health

authority. He will also be aware that the doctors wanted to meet at Wembley, but that the district health authority forbade them to hold their meeting on NHS premises.

For many years, the Central Middlesex has been one of the prime district hospitals in the country. When I served on the board, many overseas deputations came to see what a wonderful hospital it was. It then had 750 beds, but that figure has now declined to 450. That hospital pioneered neuro-scientific services. It was the only such service in that part of the country. Those services have now been transferred to Charing Cross, and consequently services which were pioneered in my area have been lost and a department closed.

I have had extensive discussions with the North-West Thames regional health authority about its plans to close acute beds. It is to be done entirely on a statistical basis, with no regard for the needs of the area or the demographic considerations of inner city areas. The decisions are being based purely on the number of beds and specialties required for a given population. I am fighting for Central Middlesex hospital because at this rate there will be no district general hospital in the London borough of Brent come the next decade. The area has 250,000 inhabitants, yet the number of beds in that hospital has been reduced from 750 to 450. Many inhabitants must therefore attend Northwick park or Hammersmith to get the services they require.

The Royal Throat, Nose and Ear hospital is pre-eminent for the services that it offers to the deaf. The Golden Square hospital is part of that complex, yet the Bloomsbury health district has decided that it should close. I am glad that the Parliamentary Under-Secretary of State for Health and Social Security is present. When this proposal comes before the Ministry, I hope that it will be realised that demographic change means that there is a greater need than ever for services for the deaf. The elderly and others who suffer from deafness should not be forced to stay at home and be lonely, simply because they cannot hear others. The closure of Golden Square will be a calamity. As well as serving the Bloomsbury area, it is part of the Throat, Nose and Ear hospital and its beds, consultancy services and outpatients clinic are of vital importance to that part of London.

It is often said that Westminster hospital is the House of Commons hospital. Dozens of hon. Members must owe their lives, or the lives of their wives and families, to the services provided at Westminster hospital. The cardiac surgery department is due to close, and Lord only knows why. There are 10,000 people on the waiting list for bypass cardiac surgery, yet at Guy's hospital that department was scheduled for closure for four months until a millionaire came along and rescued it.

**The Parliamentary Under-Secretary of State for Health and Social Security (Mr. John Patten):** I apologise to the hon. Gentleman, but I entered the Chamber about a third of the way through his speech. When I saw his name on the annunciator, I knew that it was more than likely that he would be talking about health matters and felt that it was important for a Health Minister to be present.

If the hon. Gentleman is so concerned about the welfare of patients treated at Guy's hospital, I hope that he will encourage the local district health authority to put out its

services to competitive tender, because by refusing to do so at present it is throwing away the chance of saving more than £1 million a year.

**Mr. Pavitt:** I shall reply to that point in my own fashion and in my own time, but privatisation is another way in which the Health Service is being undermined and dismantled.

As well as being a teaching hospital, Guy's at present offers a comprehensive service. However, other specialties are threatened, because the only way to increase the number of scanners and other items which such a hospital requires is to take the money from another department.

**Mr. Butterfill:** The hon. Gentleman mentioned cardiac surgery. Will he accept that what he describes as cuts under the Government is an increase in the number of operations by over 300 per cent. during the lifetime of this Government? He may call that cuts, but I do not.

**Mr. Pavitt:** I have discussed that point with the Secretary of State. I cannot understand how productivity related to the number of people who are ill and have to be served and the increase in the number of operations that have to be performed shows that there is a good Health Service. There is a good illness service. The hon. Gentleman is right in saying that there has been an increase in the number of operations, but there are a number of good reasons for that, not least the new ways in which operations, such as hip operations can be done. An increasing number of hip operations are performed, for which I am grateful, but there is still a long waiting list. That is unnecessary, because putting only a little more money into the orthopaedic departments would help solve the problem.

I predict that services will continue to be amputated from Westminster. There used to be a Professor Trevor-Roper, who was a world expert in ophthalmics, working at Westminster hospital, but when he retired the ophthalmics department ended. When the consultant in cardiac operations retired three years ago, he was not replaced, and the department was run down. It is what in housing we would call blight.

The greatest oncology surgeon in the world is Professor Harold Ellis. When he goes in about four years' time, I wonder whether that department at Westminster will close. In five or six years' time we may have a geriatric hospital down the road, with all services concentrated at Charing Cross, the Royal Marsden, and Guy's.

On a number of occasions I have had to listen to the Secretary of State making great claims and saying that we have never had it so good and that there is now £17 million more available than there was under the Labour Government. I find these figures difficult to follow because at the same time as more resources are being spent, about 3,000 doctors and 10,000 nurses are on the dole. The last figure that I had from the Secretary of State for Employment showed that 8,900 nurses were unemployed. That was two years ago, but unfortunately I cannot get an accurate figure now. I used to ask for the figure every six months, but on the last occasion on which I asked I was told that the means of collecting the statistics had been changed, so that the figure was no longer available. At the rate at which the figure was rising, I estimate that more than 10,000 nurses are now unemployed.



[Mr. Pavitt]

When I was a child, which was a long time ago, there used to be a magic show in London called Maskalyne and Devants. At one moment one saw it, at the next one did not. The statistics put out by the Government Front Bench on the NHS are somewhat similar. The Government juggle the selective figures so quickly that I cannot pin down any Minister. I feel that I am back again in the theatre of magic.

About five factors show that the amount which the Government claim they are putting into the Health Service is unreal. They are, the inflation allowance, demographic change, technological change, redistribution and different services. I have a complete brief with which I could weary the House, but I shall not do so. It shows that the Conservative claims of more and more resources being provided are not revealing the truth.

When all those factors are taken into account, Government expenditure on the NHS looks different from ministerial claims. Out of the 17 per cent. increase claimed by the Government in the five years since 1979, resources have had to increase by 6 to 6.5 per cent. to maintain the level of services. Thus, health authority budgets were cut by 2 to 2.5 per cent. over the five-year period. The real growth in resources in family practitioner services was only 9 per cent., not 17 per cent. I know that the Minister is a student of these matters, and if he wants me to give him the facts and figures, I shall be happy to do so.

The Royal College of Nursing is not the most Left-wing and Socialist of bodies in the National Health Service, and it has agreed to monitor what is happening through privatisation in the National Health Service. Nurses find that when cleaning is not done, they have to do it. Therefore, the Royal College of Nursing is doing what the Government should be doing and ensuring that sanitary arrangements are correct. When there are incontinent elderly people in hospitals, the laundry cannot just be put out. In renal failure, let us compare the figures for patient care. For every 1 million of population in France, 272 people are under treatment, in Greece 269, in Spain 242, in Italy 227 and in Britain 127.

In spite of the disastrous impact of the Government, the NHS remains the greatest part of the welfare state, and it needs to be preserved. There has been destruction of staff morale and erosion, although there has not been a frontal attack. The NHS will be safe only in the hands of the Labour Government when they are elected after the next general election.

7.36 pm

**Mr. John Butterfill** (Bournemouth, West): Although I accept the sincerity of Labour Members who talk about the need to maintain the state earnings related pension, we are doing something amoral by maintaining such a scheme when it is not actuarially funded. We are asking future generations of our children and grandchildren to pick up the bill for the pensions that this generation will receive. That is something that no hon. Member would do to his family. He would not expect his children to look after him and to hand to them a mortgaged future. However, we are asking future generations to guarantee that this generation will have complete protection, to be paid for by them. That is why I call it amoral, and I believe it to be amoral.

**Ms. Clare Short** (Birmingham, Ladywood): Does the hon. Gentleman mean immoral?

**Mr. Butterfill:** No, I mean amoral. There is a difference. Immorality is quite different, and perhaps the hon. Lady would care to go the Library afterwards to pursue the point.

**Mr. Winnick:** I do not understand the logic of the hon. Gentleman's argument that it is a sin for one generation to protect the interests of the previous generation. Will not the present generation be protected? Is not that the hallmark of a civilised state? We pay our contributions with the knowledge that not only our parents but ourselves when we retire will not have to live in the poverty in which so many now live. Is that not an important factor to be borne in mind?

**Mr. Butterfill:** I did not expect the hon. Gentleman to understand my argument. Perhaps it was a little difficult for him to follow. I shall state it again. We are asking future generations to maintain us. We are imposing a limitless charge on their future earnings. That is amoral.

**Ms. Clare Short:** Will the hon. Gentleman give way?

**Mr. Butterfill:** I should like to continue.

**Ms. Short:** On the question of amorality.

**Mr. Butterfill:** I should be fascinated to hear what the hon. Lady has to say. I shall give way.

**Ms. Short:** My understanding is that to be moral is to do something that we would all argue is right and decent; to be immoral is the opposite—to behave wrongly and harmfully—and to be amoral is to be neither moral nor immoral. To be amoral is to be neutral morally. Why does the hon. Gentleman use the word "amoral" about something that he clearly thinks is deplorable? The hon. Gentleman is using words wrongly.

**Mr. Butterfill:** My understanding differs from that of the hon. Lady. My understanding is that immorality relates to amoral sexual behaviour and amorality relates to something that is not moral. No doubt, we can satisfy our curiosity on this point later in the Library. We are digressing from the main subject.

It was interesting to note the wording of the Opposition motion in referring to the "dismantling of the welfare state".

That is a somewhat extravagant turn of phrase, but we have become used to extravagant turns of phrase from the Opposition when we deal with the welfare state and the NHS. The hon. Member for Oldham, West (Mr. Meacher) manages to take extravagance almost to an art form.

I understand the reluctance of the hon. Member for Brent, South (Mr. Pavitt) to become involved with figures, because he is confused by figures. He suggests that we confuse figures. It might be of advantage to cite a few figures, because there are absolute figures and there can be no argument about what they are. Since the Conservative party came to power, expenditure on social services has increased by a gross figure of £9.5 billion, and a net figure of £8.5 billion. I shall explain later how this difference arises. In real terms, after allowing for inflation, that is an increase of 28 per cent. I do not understand how there can be any dispute about that or how it can be fudged. It is an increase in numbers and in percentage terms.

Many Opposition Members say, "All of that expenditure is to pay for the unemployed." That argument does not stand up to the facts. About £3.25 billion of that

sum is spent on the unemployed—about one third of the total increase. I do not believe that any hon. Member would not wish that money to be spent on the unemployed. It means that the overwhelming majority of the increase has been spent on real improvements in social services brought about by this Government.

**Mrs. Beckett:** Perhaps the hon. Gentleman would bear in mind also the vastly increased numbers of pensioners. The majority of the increase to which he referred has not gone on improved benefits.

**Mr. Butterfill:** I should like to correct the hon. Lady. About £1 billion of the increase has gone on pensions, £2.5 billion on benefits, £1 billion on sickness and disability benefits in the long term, £500 million on single parents and, regrettably, £250 million on administration. Only £1 billion of the increase has gone on pensioners.

**Mrs. Beckett:** The hon. Gentleman said that the majority had gone on improvements.

**Mr. Butterfill:** The majority has; it has not all gone on the increased number of pensioners. We have increased pensions above the level of inflation by more than 6 per cent. There has been not just a money increase but a real increase. That goes beyond the guarantee that we gave as a manifesto commitment to maintain pensions in line with inflation. Once again, the hon. Member for Derby, South (Mrs. Beckett) has not cited statistics correctly. Total expenditure on social services amounts to more than £100 million a day and 77,500 staff are employed. [Interruption.] I am glad that it is recognised that the statistics are accurate.

**Mr. Winnick:** I think that the hon. Gentleman has been conscripted by the Whips.

**Mr. Butterfill:** The hon. Gentleman is wrong. It was a personal decision to speak today. The hon. Gentleman flatters me by suggesting that I was conscripted by the Whips. I am delighted to think that that could be so in the future.

The Government have instituted a large number of inquiries into the structure of the enormous machine of state that is the welfare service. There were inquiries in November 1983 on targets; in February 1984 on housing benefits; and in April 1984 on supplementary benefits and families with children—inquiries on a scale not seen previously. It is disgraceful that such inquiries had not been conducted previously in view of the overwhelming part played by social security benefits in the total expenditure. I am delighted that the Government are conducting these reviews. I look forward with great interest to reading the Green Paper.

I am not completely satisfied about what will happen in certain respects. As the hon. Member for Brent, South knows, I am not entirely happy with what happens with regard to some disabled people, especially the blind. I believe that the review that is being conducted should examine disability in a broad way, because some people with specific disabilities—notable the blind—do not seem to benefit from our system. The majority of blind people do not qualify for mobility or attendance allowances. They do not qualify for most of the allowances that are available under our present system, unless they suffer from a second disability. I believe that my right hon. Friend the Secretary of State should consider those

anomalies during his review and ensure that, in future, the criteria for benefit do not leave out certain groups who, on any criteria, should qualify for benefit.

Hon. Members listened with great interest to what the hon. Member for Oldham, West said about the Labour party's proposals. I do not wish to detain the House by going through each proposal in detail because that has already been done by many hon. Members. In every case the hon. Gentleman's proposed "improvements" would be made completely without a means test. Labour Members seem to have a pathological antipathy to the words "means test" and suffer a gut reaction every time those words are used. I can understand the historical reasons behind that gut reaction, but they should not prevail today. I do not believe that the circumstances that provoked the initial reaction are applicable in a modern society.

**Mr. Winnick:** Will the hon. Gentleman give way?

**Mr. Butterfill:** If I may develop the argument a little further, the hon. Gentleman will perhaps understand my point. I have given way to him once already. I shall give way later if the hon. Gentleman is not satisfied with what I have to say.

This nation spends an enormous amount on social security and on the welfare services. Indeed, it spends an unprecedented amount in actual money and in real terms. But we do not always tackle certain areas of poverty and deprivation. Despite all the money that we raise and distribute, there are some people who we apparently cannot reach and who remain deprived. Areas with which I have been associated in London have substantial pockets of deprivation of which I, and all hon. Members, should be ashamed.

Why are those people not getting the money that they need? One reason is that we spend a lot of time raising large sums of money in taxation and then redistributing that money to the very people who paid the taxes. Not enough of the money reaches those in need. The whole principle of universal benefits, regardless of need, is extraordinary, and I am surprised that Opposition Members should advocate it. It means that they would give benefits to the rich as well as to the poor. As I said some weeks ago, it is extraordinary that Members of Parliament, or their wives, should expect to receive child benefit. It is patently clear that no Member of Parliament needs to receive child benefit, given the sort of income that he or she receives. Therefore, it is extraordinary that we should continue to pay universal benefits to millions of people who do not need them, at great administrative cost. We should be able to devise some way of arranging the benefits system so that the money goes to those most in need, not indiscriminately to everyone.

**Mr. Winnick:** Surely the logic of the hon. Gentleman's position is clear. He must be arguing that tax relief on mortgage interest should be given only to those in need, although that would not be quite my position. Does he argue that those in receipt of more than, say, £25,000 a year should not get tax relief?

**Mr. Butterfill:** The hon. Gentleman is being illogical. In the case of mortgage interest tax relief, we are talking not about giving someone money but taking less of his own money from him. However, in the case of the benefits system, we are talking about giving some people money and giving others, who do not need it, money, too. That



[Mr. Butterfill]

is much less logical. The man who receives mortgage interest tax relief, about whom the hon. Gentleman complains, will also receive all the universal payments that the Labour party and the hon. Member for Oldham, West have been advocating. In the Labour party's terms, that must be adding insult to injury.

**Ms. Clare Short:** Perhaps I should tell the hon. Gentleman that I have been to the Library and looked up "amoral" in "Chambers Twentieth Century Dictionary." Amoral means

"non-moral outside the domain of morality."

I think that the hon. Gentleman meant to use the word "immoral" earlier.

One facet of means testing that we find objectionable is that people are put through the humiliation of having to declare their income and of having to appeal for something because they are poor. We also question its efficiency. It is enormously inefficient to have a system that requires people to apply time and again, as their circumstances change, and to give all the details of their family's income in order to claim a benefit. It is more administratively efficient to have a tax system that applies across the board, with benefits such as child benefit going to every child in the country. Such a system saves money.

**Mr. Butterfill rose—**

**Mr. Holt:** Perhaps my hon. Friend will allow me to intervene on that point.

**Mr. Butterfill:** Well—

**Mr. Holt:** Will my hon. Friend give way on that point?

**Mr. Deputy Speaker (Mr. Harold Walker):** Order. We cannot have interventions on interventions.

**Mr. Butterfill rose—**

**Mr. Holt:** Will my hon. Friend—

**Mr. Deputy Speaker:** The hon. Member for Bournemouth, West (Mr. Butterfill) should deal first with the intervention that is before the House.

**Mr. Butterfill:** I am obliged to the hon. Member for Birmingham, Ladywood (Ms. Short) for consulting "Chambers Twentieth Century Dictionary." If "amoral" mean "non-moral," it has the sense that I thought it had. But perhaps the hon. Lady and I would differ about what we mean by "non-moral." However, I profoundly disagree with the substance of her intervention. I do not believe that it is necessary to have a system of degrading inquisitions in order to decide who should receive benefits. It should not be beyond our wit to devise a system that does not involve such inquisitions but which nevertheless directs benefits to those who need them most and which does not give them to the rich. I think for example, of those who obtain substantial tax relief on their mortgage interest, or indeed of Members of Parliament.

Benefits should be directed towards those who need them. But all the proposals of the hon. Member for Oldham, West specifically rule out the possibility of any form of means test. They all suggested that there should be another grand round of universal benefits. That is where the Labour party has got things totally wrong. Although Labour Members are well meaning, and although no one doubts their sincerity, they would create the conditions that would always doom their policies to failure.

**Mr. Holt:** The harps always come out when people talk about means testing, but no one seems to quarrel about the means testing of those with children in higher and further education. Those children's grants are severely truncated if their parents have earned money. Young people are subjected to the results of means testing. There is apparently nothing amoral or immoral about asking someone how high his earnings are but only about asking how low they are.

**Mr. Butterfill:** I am grateful to my hon. Friend for making that point, but I think that I have already made my position clear.

Once again the Opposition seem to have spun an enormous web of mystique around the NHS. They have tried to claim that we have cut expenditure on it. To support that, they talk about a hospital or ward that has closed here or there, but they do not consider the entire picture. Indeed, it was pointed out to the hon. Member for Brent, South that in his constituency a massive new hospital has been built. I am grateful to my hon. Friend the Member for Langbaugh (Mr. Holt) for pointing that out. The building of that hospital far outweighs the closure of the hospital that he complained about.

We should consider what is being spent on the NHS. Indeed, the figures are well known to Opposition Members and some have even quoted them. Expenditure has increased from £7.75 billion when the Conservative party came into office to £17.5 billion in the current year. By no stretch of the imagination—and Labour Members have certainly stretched theirs this afternoon—can that be called a cut. Of course, one can fiddle about at the edges and find the odd instance of a ward or hospital being closed whilst at the same time forgetting that something has opened in its place. But that increase in expenditure is massive.

I know that Opposition Members do not like statistics, but I should point out that the number of inpatients has increased by 650,000 since the Conservative party came to office. The number of outpatients has increased, too, by 2.5 million. I do not believe that more people have suddenly become ill in the past five or six years. The point is that we are providing a much higher level of service. In the one year, 1982-83, the number of outpatients increased by 300,000—more than the previous Labour Administration managed to achieve in their entire period in office. Thus, I find the attack by Labour Members on the Government's record in relation to the National Health Service extraordinary.

The hon. Member for Brent, South said that the number of heart operations was being reduced. In fact, the number of operations for bypass surgery since the Conservative party came to power has increased by 300 per cent. The hon. Gentleman acknowledged that a substantial increase had taken place in the number of hip transplants. Many new techniques have been developed in recent years, and therefore it is difficult to make a comparison between figures in relation to those developments and what occurred previously.

The hon. Member for Brent, South also complained about the length of waiting lists. In fact, under Conservative rule waiting lists have fallen substantially. There were 752,000 people waiting for operations when the previous Labour Government left power, compared with 508,000 when they came to office, showing that waiting lists increased under them.

Waiting lists are at their present levels because of disruptions by NHS employees. Those disruptions have interrupted the downward trend of waiting lists. That downward trend has been the pattern under Conservative rule, in marked contrast to the way in which waiting lists increased by 50 per cent. under the Labour Government.

**Mr. John Powley (Norwich, South):** Does my hon. Friend recall how Labour Members and some of the trade unionists whom they claim to represent supported steps which prevented patients from reaching hospitals to be treated, particularly during the winter of discontent? That shows the contempt that Opposition Members have for the treatment of patients and the degree of concern that they say they have for the NHS.

**Mr. Butterfill:** I am grateful to my hon. Friend for reminding the House of that.

**Ms. Clare Short:** Why is the hon. Gentleman grateful for being reminded of that?

**Mr. Butterfill:** Because it needs to be pointed out. When Labour Members accuse us of not caring about waiting lists, an accusation which they regularly make, they neglect to point out that a major cause of the length of waiting lists has been industrial action which the Labour party supports. They also neglect to point out that waiting lists increased by 50 per cent. under the Labour Government, whereas they have fallen under Conservative rule.

**Ms. Short:** I do not believe that.

**Mr. Butterfill:** The hon. Lady may not believe what I say, but I have given the facts. She may care to check them in the Library.

**Ms. Short:** I shall, in the way that I checked the hon. Gentleman's definition of "amoral."

**Mr. Butterfill:** I am sure, when she is checking, the hon. Lady will find—

**Mr. Deputy Speaker:** Order. We are having too many sedentary interventions. Sedentary interventions are to be deprecated at any time.

**Mr. Winnick:** On a point of order, Mr. Deputy Speaker. The hon. Member for Bournemouth, West (Mr. Butterfill) has been addressing the House for half an hour. He is, of course, entitled to do so. Perhaps he will make it clear whether it is his intention to speak for another half an hour, in which case those of us who are waiting to take part in the debate will not bother to continue to wait in the hope of being called to speak.

**Mr. Deputy Speaker:** That is not a point of order. Mr. Butterfill.

**Mr. Butterfill:** It was not my original intention to speak for this length of time. Regrettably, I have been asked to give way on so many occasions that my speech has taken longer than I had anticipated. I shall, in deference to other hon. Members, conclude my remarks shortly.

Developments have taken place in many complex treatments, such as laser eye surgery, which is extremely expensive, and did not exist previously. Improvements have taken place in almost every sphere of health. The number of infant deaths, for example, has come down by a third since we came to power. All these developments reflect entirely new standards of health care.

Other hon. Members have already referred to increases in manpower in the NHS while we have been in office. The number of doctors has increased by 11 per cent. and dentists by 15 per cent. Such statistics can hardly be called cuts. I do not know what warped imaginations Opposition Members have if they can describe such developments as cuts.

I see improvements occurring in my constituency. We in Bournemouth have waited a long time—longer than my constituents would have wished—for a new hospital. However, we are now getting a major extension of hospital services in the town, with the construction of an enormous new general hospital costing millions of pounds.

That reflects the restoration of the capital investment programme in the NHS—a programme that was severely slashed by the Labour Government. That is the most significant element in Conservative policies, because, without capital expenditure, none of the other services can be operated. As the hon. Member for Ladywood is interested in statistics, she will be pleased to hear that there has been a 23.5 per cent. increase in real terms in capital expenditure under the Conservative Government. I am sure that she will enjoy checking that fact when the debate is over.

We have nothing to be ashamed of in relation to the NHS. Indeed, the Conservative Government have the most impressive record of any post-war Administration, and they are to be congratulated.

8.7 pm

**Mr. Archy Kirkwood (Roxburgh and Berwickshire):** I listened with interest to the remarks of the hon. Member for Bournemouth, West (Mr. Butterfill). I was particularly interested in his opening remarks, when he went at length into what the Government had done for social security benefits and then went on to make his own special case. I do not complain about that because he is well known for his concern for the needs of the blind, but we can all argue special cases.

I agree with the hon. Member for Birkenhead (Mr. Field) that the Government cannot be accused at this stage of the game of decimating the social security system. However, for those who are in desperate need and have experienced some of the damaging cuts that have individually been implemented by the Government, it is a tragedy, and I include the blind within that number.

That is why I say that the hon. Member for Bournemouth, West cannot have it both ways. He cannot, on the one hand, say that all is well when, on the other, as he knows—my constituency postbag certainly proves it—many people are suffering a very deprived standard of living.

**Mr. Butterfill rose—**

**Mr. Kirkwood:** I shall not give way because I intend to complete my remarks within about 10 minutes.

This is a useful debate. When, initially, I learnt of the subject matter of the debate, I thought that it was somewhat barmy because we would not be able to achieve much. After all, we are looking forward to the Green Paper that is to be published at the end of May or the beginning of June.

I have changed my mind, however, because the debate has probably taken place in a calmer atmosphere than will



[Mr. Kirkwood]

be the case when we debate that Green Paper. If our worst suspicions, resulting from leaks that have appeared in the press, are fulfilled hon. Members' tempers on that occasions will be difficult to contain.

I agree with hon. Members who have said that the system of social security benefits is not perfect. For that reason I welcome the Government decision to examine the system again root and branch. However, I am suspicious of the Government's motivation. The impetus for this reform has, I believe, come not from any need to minister to the deprivations experienced by the poor but, rather, to control the amount of money spent on social security.

Social security spending must increase because of the demographic changes that are facing the nation. It also has to increase as an inevitable consequence of the Government's policy which has driven more and more people into the hands of the social security system. It is very misleading to treat transfer payments as though they were public expenditure. We have referred to the £40 billion in the social security budget. However, transfer payments are not the same as expenditure on goods and services. They should be regarded as reducing the net yield of tax line tax expenditures — allowances, mortgage interest relief, and so on.

I believe that personal taxation, employers' national insurance contributions and the benefit system need to be integrated. We on these Benches have advanced that argument for a very long time. It is a great shame that while considering housing benefit, earnings related pensions and family income supplement the Government have not taken the opportunity to consider the tax benefits that accrue to the pension system, mortgages and the married man's allowance. The success of an integrated, fundamental review would have been greater if all of these options had been considered simultaneously.

The Green Paper that is to be published later this year could have been a valuable addition to the review system. If the four reviews were to report in advance of the Green Paper on the integration of the tax system it would not necessarily be the most constructive way to proceed. I am desperately worried that the Fowler inquiries will not propose the wide-ranging reforms that are necessary but, according to the leaks in the newspapers, will promise only piecemeal and cost-cutting changes. The Select Committee on the Treasury and Civil Service, which was chaired by the hon. Member for Oldham, West (Mr. Meacher) and published its report in 1983, came to the conclusion that adjustments to the present system would achieve little and that fundamental reform was absolutely necessary.

Every hon. Member has commented on the proposals of the hon. Member for Oldham, West. Although interesting, I believe that they are idealistic and have not been adequately costed, and they contradict the findings of the sub-committee of the Select Committee on the Treasury and Civil Service. He advocates a progressive income tax rate within the main range of earnings around average earnings. That proposal would need to be carefully examined.

The biggest shortcoming is that there is to be no increase in the basic retirement pension, apart from a universal heating allowance. Therefore the elderly would be worse off if supplementary pension as well as supplementary benefit were to be abolished. We on these

Benches believe that the whole panoply of the state earnings related pension scheme faces problems. The most worrying is that it provides an insufficient answer.

For decades to come many old people will have little or no state earnings related pension entitlement. An increase of about 25 per cent. is needed on the basic pension. Supplementary pension and housing benefit costs would fall if the basic pension were to be increased by 25 per cent. However, most of the costs would be met by the abolition of contracting out and by halting state earnings related pensions at the present level of entitlement. The Liberal party gave evidence to the Fowler commission along those lines and set out possible alternatives to the state earnings related pension. However, something along those lines could be considered only if all the money saved were used to increase basic pensions. We also believe that legislation would be required to oblige employers to contribute up to a certain level to the personal pension plans for their employees who do not have occupational schemes or who opt not to join them. That has to be considered in the context of a first step towards a complete reform of the tax benefits system.

I support what was said by the hon. Member for Birkenhead (Mr. Field) about child benefit. This would be a useful first step towards a tax credits scheme. We believe that child benefit must be left intact and that it should be increased at a faster rate than inflation. Our objective is a tax credit for every individual, with more credits for the elderly and fewer for children, with an intermediate level of claim for young people between the ages of 16 and 18. I support the proposal to establish an educational allowance as a step towards this. This was one of the proposals of the hon. Member for Oldham, West. Within the tax credits scheme there would be an additional credit for sickness and invalidity and there would be extra credits to meet the cost of disablement.

We believe that universal credits would be too expensive if they were high enough to cover all housing costs. Therefore it would be essential to be able to withdraw credits. Interim measures would be needed before moving into a fully fledged system in order to reform existing benefits such as family income supplement. In the alliance budget proposals of this spring a courageous and properly costed system was outlined which would increase family income supplement in what we consider to be a sensible way. It would provide much needed relief for low-paid families. We must ameliorate the worst effects of the poverty trap. I accept that marginal rates of 70 per cent. to sometimes as high as 85 per cent. on increased earnings for the low paid would be inevitable under any system at acceptable levels of income tax. Ultimately housing finance will have to be reformed and the inflated price of property will have to be reduced. However, mortgage interest tax relief must be retained, but could be restricted to those who are taxed at 30 per cent. and not given to those who pay at the higher rates.

The introduction of these benefits leaves a great deal to be desired. The four reviews are at an advanced stage. If there is to be a tax benefit review later in the year, I believe that the evidence should be published. The Green Paper should not be published at this stage. The evidence should be summarised. There ought to be a proper national debate and a thorough-going reform of the taxation system should then be brought forward. Without this, the possibility of creating a new Beveridge, which I believe to be absolutely necessary, will be very remote.

8.18 pm

**Mr. Richard Tracey** (Surbiton): There has been some discussion during the debate about the meaning of the words "amoral" and "immoral". I do not wish to become involved in that debate, although I believe that one or other of those words could be applied to the Opposition motion. I was shocked by its blatant propaganda, and I continue to be shocked by the blatant presentation of that propaganda. I was surprised, too, by the brass neck of the hon. Member for Oldham, West (Mr. Meacher) in wishing to draw attention to himself when it was quite obvious from the response of his hon. Friends this afternoon that they are not very pleased with some of his ideas about the welfare state and the policy of the Labour party.

Frankly, we know what the Opposition are up to. Not too long ago I read a statement by one of the leading lights of the Labour party which said that probably one of the finest things that the party could concentrate on before the next general election was the NHS and the welfare state. It was felt that the most capital could be made out of that. It is clear that there has been a cynical manipulation of statistics in an attempt to smear the Government. That is a callous campaign, which inspires unnecessary fears, particularly among old people about the sort of treatment they will get from doctors and hospitals in an emergency. We have heard it all this afternoon — the fevered imagination, the fairy tales and the grossly inflated local examples, all of which when looked at in a national context are complete nonsense. I have come to recognise the Labour party's propaganda about the NHS as the big lie strategy.

It has been well rehearsed this afternoon that in 1985-86 the Government are proposing to spend £17,500 million on the NHS. That is an increase in real terms of 20 per cent. on what the previous Labour Government were spending when they left office. The statistics are there to be read. The Labour Government were spending £7,750 million. There is no question about that, just as there is no question, as my hon. Friend the Member for Bournemouth, West (Mr. Butterfill) pointed out, that in one year alone the Government have brought about a situation in which the NHS has treated 300,000 more inpatients than under the Labour Government's whole term in office. I cannot see how such statistics, and the many others which are on the record, can be questioned by the Labour party in its cynical campaigns.

In the same way, the Labour party from time to time homes in on waiting lists. It tells us that waiting lists have grown under this Government. But again, as my hon. Friend the Member for Bournemouth, West pointed out, it does not admit that during its period in office from 1974 to 1979 the waiting lists grew. I suspect that that was the Labour Government's own fault, not the result of industrial action. Up to 750,000 people were awaiting treatment in hospital. Those are just a few of the examples that have been well rehearsed during the debate.

What particularly bothers me, apart from that callous disregard of the feelings of old people and those who may become sick, is that that sort of thing is picked up by some people in the media and used because it is sensational copy. Let me single out one BBC television programme which has been mentioned once or twice in the House over the past two weeks. BBC2 made a programme on the children's heart unit at Guy's hospital. I was appalled to see that at the beginning of that programme a caption was

put on the screen saying that the problems had been brought about by Government cuts in specialised nursing services. No attempt was made by the producer of that programme to ask the district health authority what it had been doing about its budgets or what kind of contribution it might have been able to make by greater efficiency to improve the services of that hospital to prevent the problems that were being outlined on our television screens for 40 minutes. That is the sort of thing which causes alarm and great worry among our people.

I am well aware that other hon. Members wish to build on the case that my hon. Friends have been making this afternoon. We have heard these inflated statistics from the hon. Member for Oldham, West and from his hon. Friends. Let me remind them of something which the right hon. Member for Manchester, Gorton (Mr. Kaufman) said after the catastrophic results which his party suffered at the election. He said that the public could not be entirely conned in the way that the Labour party had hoped. He said that the public could not grasp the enormity of the programme which the Labour party claimed would be put before them if it won the election. In the first year alone it would have cost £45,000 million extra. From where was that to be found? Was it to be found from taxation or national insurance? The British public will not be conned by such nonsense. Nor indeed will they be conned by the sort of talk that we have been hearing today about the Government dismantling the NHS and the welfare state.

It is easy to build up expectations, as the Labour party is obviously trying to do, but it is far more difficult to deliver those expectations. I can say with complete confidence that the hon. Member for Oldham, West has delivered the next general election victory to the Conservative party, which we would have won anyway. His statements last week, from which the Leader of the Labour party has so assiduously tried to dissociate himself, are some of the most damaging things that have been said during this Parliament. When I worked as a commentator in the broadcasting world, we would try to spot the moment when a politician would so grievously put his foot in it that he would lose the next election for his party. Last week was that moment for the hon. Member for Oldham, West and the Labour party.

8.27 pm

**Mr. David Winnick** (Walsall, North): I think that I can say with confidence that the House is not likely to be conned by the nonsensical remarks of the hon. Member for Surbiton (Mr. Tracey). If he thinks that the campaign of innuendoes, lies and McCarthyism will win the Tory party the next election, he will be proved wrong.

There is no love, and never has been, by the Conservative party, especially among what could now be described as the "drys", for the welfare state. It is interesting that in today's *Daily Telegraph*, which presumably reflects the views of the drys more than the wets in the Conservative party, we are told:

"However, ministerial nerves seem stronger on the question of the State Earnings Related Pension."

It goes on to say:

"The provision of an income for retirement is best dealt with through the private sector."

There is no doubt in the mind of the *Daily Telegraph* that the state earnings related pensions scheme should be abolished.

The Prime Minister has repeatedly referred to the United States as the ideal place where there is no



[Mr. David Winnick]

'Socialism'. What she really means is that there is no welfare state there with anywhere near the same provisions as Britain. That is why she holds the United States up in such glowing light. Can there be the slightest doubt in the House of the right hon. Lady's distaste, perhaps even contempt, for state provision except for the very poorest? If ever there was a Tory Member with very little sympathy for state provision, it is the Prime Minister. Every Conservative knows that to be the case.

Between the Labour and Conservative parties there is what can only be described as a philosophical difference in attitude and ideas on state provision in welfare and pension entitlement. The Labour party's attitude was illustrated during 1945-50 and when it was last in office. The Labour party believes that the state has a duty to try to provide benefits and that people should not have to rely on the private sector.

Today, the Secretary of State argued a poor case. He knew that it was when he referred to the large sums being spent on social security. As he knows well—who better—that is due largely to the return of mass unemployment. I have always argued that, however important the social and welfare reforms carried out in the immediate post-war years, the most important was the maintenance of full employment in peacetime. It helped to ensure that the kind of poverty and destitution known before the war were not repeated after 1945.

All the evidence that we now have from our constituencies shows that poverty has returned with a vengeance. I receive—I am sure that I am not the only Member—many letters from constituents on matters affecting social security. I have received more during the past two or three years from people who have to try to manage with their families on the lowest possible income. Of course, some of my constituents come to see me at my surgeries over their problems.

It is interesting to remember that the hon. Member for Derbyshire, West (Mr. Parris) spent a week in front of the television cameras trying to live on supplementary benefit. I watched the programme with interest. At the end of the week the hon. Gentleman was honest enough to admit that he could not manage. He tried to live for a week as we know on the lowest income provided by the state. There are occasions when it seems that the hon. Gentleman is still trying to recover from the experience.

Millions of people however have to go through that experience not for one week, one month or even one year. They have to live on such levels year in and year out. They have to live in such poverty because they are unemployed or disabled or both, or because they have to rely upon the present state basic pension and supplementary benefit. If it were difficult for the hon. Gentleman to try to live that type of life for one week, how much more difficult is it for our fellow citizens who have to endure such hardship and acute poverty for years? If they are of employment age, they can look forward only to retiring on the basic pension. We have a Government who have no intention of reversing the tide of mass unemployment. Ministers no longer refer to the concept of full employment. They do not even pretend that they intend to see the end of mass unemployment.

We are debating the dismantling of the welfare state. No Government, not even this one, would try to abolish it in one go. They have too much electoral sense. That is

why, for example, they refer to maintaining the National Health Service. The Government, and the Secretary of State—I am not being personal—as a member of the Cabinet, are trying to undermine as much of the National Health Service and the welfare provisions as possible.

This month, for example, we have seen substantial increases in dental charges. That is of course in addition to the other dental increases which have occurred between 1979 and 1984. New regulations restrict the supply of National Health Service glasses to children under 16 and families in receipt of supplementary benefit or family income supplement. Everyone else has to obtain his glasses in the private sector. That includes many pensioners who do not receive supplementary benefit.

The cost of prescriptions when the Conservative party took office was 20p. Since then, they have increased continually, and a prescription now costs £2 per item. The increase has been 1,000 per cent. since 1979. That is what I mean by saying that welfare provisions have been eroded by a Government who have never believed in the welfare state.

The reviews which have been set up by the Secretary of State are meant only to find ways of pushing through what the Treasury wants—large social security savings. I refer again to the leader in today's *Daily Telegraph* which states

"The Social Security Secretary Mr. Norman Fowler has argued that reform must ensure that money goes to those who need it but that there must be no reduction in the amount spent. The Treasury is insisting on savings."

I am not sure though that the right hon. Gentleman has defended welfare and social services in the Cabinet as much as he should. We often gain the impression that although he may have put up an initial fight against the Treasury, at the end, perhaps because he does not want to find himself on the Back Benches, he is willing to go ahead with what the Treasury wants. Perhaps he is right from the point of view of his career.

**Mr. Fowler:** That is cheap.

**Mr. Winnick:** I do not believe that it is cheap. The right hon. Gentleman is aware that he has a leader who has no sympathy for the welfare state. If he makes a stand on all those issues against the Treasury he is unlikely to advance his career. I believe that my points are valid.

**Mr. Timothy Wood (Stevenage):** Is it not absurd that there is an overlap of several hundred thousand families in the welfare state at the moment who pay tax and receive benefits? Does the hon. Gentleman not think that it is high time that we had reviews to resolve some of the present anomalies?

**Mr. Winnick:** As I have argued in interventions, it is remarkable that those who argue constantly the same point that the hon. Gentleman has made, defend the present arrangements for tax relief on mortgages? I take the view—I have made my position clear elsewhere and in interventions today—that it is right that those people who are buying a house should receive assistance. I am in favour of home ownership, as are all my right hon. and hon. Friends. We always have been, or otherwise we should not have introduced the option mortgage scheme in the 1960s which undoubtedly made it much easier for people on lower incomes to buy their own homes. If we were against owner occupation why would we have introduced the option mortgage scheme?

I do not find it easy to understand the hon. Gentleman arguing for means testing and the rest. The same hon. Gentleman would argue that it is right for someone earning £30,000 or more—perhaps himself—to receive benefit by way of mortgage tax relief. A Conservative Member said today that that was not so. It only meant that someone was paying less tax. That argument does not stand up, because if that person did not receive tax relief on his mortgage, or did not have a mortgage, he would have to pay his full share of tax. He is clearly being subsidised because he pays less tax. It is odd that Conservative Members—including the Government Front Bench—who are always on about means-tested benefits, consider it right that those with the highest incomes should receive open-ended assistance from the state to buy their own houses.

The reviews have led to various leaks. It would be interesting to know whether any of them are correct. Will basic unemployment benefit be reduced? Will it be paid for six months only and not 12 months? Will heating additions be abolished? We have been arguing throughout the winter that there should be an increase in heating additions, and that it is wrong that so many people on low incomes should receive no assistance with their heating bills, or, if they do, that it is small and inadequate. Will housing benefit be reduced? That would mean a large number of people paying far more in rents and rates. We are worried by one of the leaks which suggests that it will be recommended that unemployed house owners receiving supplementary benefits will no longer receive assistance in paying their mortgages or the interest on those mortgage payments. As my hon. Friend the Member for Oldham, West (Mr. Meacher) said in opening the debate, in that event they would be thrown out on the streets. These are matters of great concern.

I am convinced that the state earnings related pension scheme provides a means of ensuring that if one retires having made no private provision, one will not live in the kind of poverty in which so many pensioners are now having to live.

When the Secretary of State was speaking, I drew attention to an answer that I received from one of his junior Ministers. It was to the effect that if someone has been in the scheme from the beginning, in 10 years' time, in 1995, such a person, on average earnings, will receive an additional £31; someone on three quarters average earnings will receive an additional £21; and someone on half average earnings will receive an additional £11.90. At the beginning of the next century, the people in the three categories that I have mentioned will receive £36.50, £25.20 and £14 respectively in addition to the basic pension. Those are significant sums.

The people to whom we are referring in the state scheme will know that when they retire, although they will not be living a life of luxury or anything near it, they will not have to live on the same pittance that retired people now have. That is why we must be concerned about the constant rumours and leaks to the effect that there will be a recommendation that the state earnings related pension scheme should be abolished. If our fears are proved correct and that is to be the recommendation, and if the Cabinet agrees to it, how many Conservative Members will defend the scheme? One or two hon. Members who have spoken in the debate have said that they do not believe in the scheme. We know the views of the *Daily Telegraph*, or of the person who writes that newspaper's leader. Will

Conservative Members betray their constituents who are in the scheme and who have paid into it over a considerable period? Will they betray those constituents by taking away the pension entitlements that many people of working age look forward to receiving in due course?

Since the Government have been in office, very large sums have been given to the richest and the most prosperous. Such people have done very well out of the Government and have every reason to be grateful to the right hon. Lady's Administration. But for many others the Government have been a curse. Large numbers of people, including my constituents, have been denied their right to earn their living. Large numbers of people, including my constituents, and many others throughout the country, are living in poverty and near poverty because of measures taken by the Government.

When Conservatives ask what the Labour party has done for pensioners, I wonder how many pensioners today would be only too pleased to have the same progress that was made when the Labour party was in office? They will remember that the Labour Government tied the state pension to earnings or prices, whichever were the greater.

It is understandable that there is such a feeling of bitter resentment on the part of so many people who have been the victims of the Government's policies and of the contempt that the Government have shown for them. It has been a Government for the rich and the most prosperous. It has been a Government that has shown utter contempt and indifference for the people who are most in need, the people who need the welfare state and for whom it was first established. When the Labour party is returned to office it will make good the damage that has been done by the Conservative Government. We shall return to the provisions established in the 1945 Parliament.

8.45 pm

**Mrs. Edwina Currie (Derbyshire, South):** The debate started by being entertaining, when we had the hon. Member for Oldham, West (Mr. Meacher) behaving like a little boy hurt, with a look on his face which Conservative Members will cherish for a long time. He was having a go at the press and accusing all and sundry of malice aforethought and so on, as if any of the things that he said in *The Guardian* in recent weeks have mattered. It would have been nice to hear from him and his hon. Friends on the Opposition Front Bench whether he and they still agree with his comments in what he calls his "New Income Protection Plan", and whether he still stands by any of the things that he said to the newspapers. His role as a sacrificial lamb has been highly entertaining—novel, but, I suspect, highly misleading.

If the Labour party really thinks that those on £15,000 a year are rich, or think themselves as rich, it is totally out of touch with the way in which this country has been changing in recent years. If it thinks that the country would vote for Labour housing policies such as the abolition of mortgage tax relief for owner-occupiers, or for such housing policies as building acres more of windswept council estates of which we see only too many in our cities, or of tower blocks which are never repaired because Labour councillors are too busy spending the money on women's committees and sending people to Greenham Common, it has another think coming.

Ninety per cent. of those of working age have said that they want to own their own homes. That is exactly what Conservative policy has been, and it has helped us to win



[Mrs. Edwina Currie]

two elections. People do not wish to be dependent upon the welfare state for the provision of their accommodation, and that is the way that they will continue to vote in future.

**Mr. Robert Hughes** (Aberdeen, North): Will the hon. Lady give way?

**Mrs. Currie:** I do not have time to do so.

The Labour motion seeks to identify an attack on the welfare state by the Government. It is interesting that the motion does not mention the National Health Service.

**Several Hon. Members** rose—

**Mrs. Currie:** Hon. Members who are seeking to intervene have not been here for most of the debate. As time is now short, and other hon. Members wish to be called, I think that it is inappropriate to allow interventions.

It is interesting that the Opposition motion does not mention the National Health Service, because there has been a substantial increase in resources and a substantial improvement in results, to which several of my hon. Friends have drawn attention. I should like to mention the capital schemes, the building of new hospitals and new units which have proceeded apace under the Conservative Government. In England alone, 50 major hospital schemes have been started on site since 1979. They are schemes costing over £5 million each. At present there are 152 hospital schemes of more than £2 million each being planned, designed or constructed in England alone, costing more than £1 billion. The buildings for 23 schemes are expected to be completed in 1985. I say to Labour Members who represent London seats—for example, the hon. Member for Brent, South (Mr. Pavitt)—that much of that building is going on in other parts of the country, such as the Trent region, which covers my own constituency. Indeed, in Trent and in the Southern Derbyshire health authority there has been a substantial increase in the number of people on the payroll, and we have vacancies for nurses. Anyone in the south of England looking for a nursing job is very welcome in my constituency, where we have a substantial number of vacancies. The hon. Member for Derby, South (Mrs. Beckett) whose constituency is in the same district health authority, can confirm that. Indeed, she is nodding her head in confirmation.

In my area there has been a rapid drop in waiting lists—at last, I have to say, because our waiting lists have been among the worst in the country.

The hon. Member for Oldham, West said that the welfare state was near the bottom of the Government's priorities. That does not accord with the facts. Social security is the largest single Government programme. It accounts for 30 per cent. of all public expenditure, with total cost of £40 billion, and rising. It is the only Government Department in that position. The rate of growth has doubled inside five years and that makes the Labour motion absolute nonsense. [Interruption.] It is not just a matter of unemployment; it is also a matter of increasing benefits to pensioners, the sick and the disabled and a large number of other people. It also, to a substantial degree, makes nonsense of any priorities, such as defence and overseas aid which other Departments may wish to claim, as well as all the other things on which we should like to spend our money.

I have sat through many social security debates since I came into this House and I am glad to see my hon. Friend the Member for Braintree (Mr. Newton) in his place, because I should like to suggest that we could do with some new scientific laws. Sir Isaac Newton was a Member of this House many years ago, and my learned Friend the hon. Member for Braintree is by no means a lesser Newton. We should propose a new set of Newton's laws. I suggest that they be called Newton's four laws of action and reaction for social security.

Law No. 1 should be: "Whatever the social problem, a benefit will be devised"—even when it might be much better to leave well alone.

Law No. 2 should be: "Whatever the benefit, somebody will abuse it". If we need any evidence, look at the debates that we have had on board and lodging allowance, on housing benefit, and even at the rapid increase in the number of people claiming invalidity benefit, even though there seems to be no evidence that morbidity in that age group has increased.

The third law should be that the cost of the benefit will escalate. The escalation will be in direct proportion to the surprise of the Ministers concerned. The fourth law should be that no benefit can be cut, ever. That is not what we want, but in practice it is exactly what happens. Perhaps one can have a corollary—that whatever the Minister does to try to improve matters, somebody will not like it.

The motion mentions the state earnings related pension scheme. It is probably as good an example as any. The hon. Member for Derby, South mentioned the Phillips committee, but in 1954 there were fewer than 7 million pensioners. Now there are 9.25 million, and by the time I am touching 80, which is the point at which SERPS becomes fully operational, there will be 12.5 million pensioners, and the number of contributors, in comparison to the number of claimants, will be 1.8:1. At that stage the social security budget for SERPS alone will have to be increased by approximately one third. On the best assumptions, the contribution rate will have to rise to 20 per cent., and on the worst assumptions it could be 26 per cent. or more. In other words, our grandchildren will be paying at least a quarter of their income on top of income tax to pay for our pensions. The question that we have to answer is this: do we really want to commit the state to that level of investment on one item alone, pensions? What about investment in industry? What about investment in education? What about training?

I am deeply worried, not just at the effects of encouraging people to rely entirely on the state instead of planning for their own future. We should be concerned not just at the sheer expense of providing all and sundry with whatever benefits they ask for and increases above inflation to boot. We should be concerned at the damaging effects on our future growth and strength of diverting such a large percentage of our resources into that activity. There are always more ways, and better ways, frequently, of spending the money. Some of the thrust of Government policy has to be the continuing and steady encouragement of industrial and commercial development so that somebody will generate the surplus income in future to pay for all the benefits, for the Health Service and for the public services which we all so glibly want and for which we all seem so deeply reluctant to work and pay.

One man's priority is another man's extravagance. If we too readily invent benefits, add to them and increase them, the day will come when we beggar the nation, and then it will be too late.

8.52 pm

**Dr. Roger Thomas** (Carmarthen): For a moment, I should like to follow the hon. Member for Derbyshire, South (Mrs. Currie) into physics. She quoted to us the four laws of Newton. I am afraid that when she speaks she reminds me of Charles's law, in that a given mass of gas increases directly with the absolute temperature.

The hon. Lady mentioned nurses in her constituency. I should like to tell her about nurses in my constituency. Eight nurses qualified at the local district general hospital. Not one of those eight could be offered a permanent post, yet we all know that when nurses qualify they are expected to serve a so-called six-month probationary period. Without having served that probationary period, those nurses cannot hope to get a permanent job elsewhere until they satisfy the nursing authorities that they are proficient at their work.

For about 31 years, the welfare state has been in the hands of Governments who respected it. From 1948 to 1979, those Governments adhered to the principles of the welfare state, and through those Governments it commanded a great deal of cross-party support. The people were particularly proud of it.

Tonight, we have heard statistics about waiting lists and the increase in inpatients over the past five or six years. I remind the House that one can cook inpatient waiting lists and outpatient lists as well as unemployment figures. Let us consider an ear, nose and throat waiting list in any hospital. For example, 350 children might be waiting for tonsil and adenoid operations. One may search down that list and decide to write to the parents. By the time the letters arrive so many of the children have been totally cured of the condition for which they were originally to have the operation, that, at a stroke, the number can be reduced to a figure well below 350.

There are long waiting lists of patients for cataract operations. But some of those patients waiting for operations will never be contacted, because they are not on this earth to be contacted. Thus, again, one can eliminate or reduce waiting lists as one wishes.

We know that there are practically no domiciliary midwifery cases. All infants are now born in hospital. That is another reason why, over the past few years, there has been a steady increase in the number of cases receiving inpatient treatment.

I can assure the House that the morale of the medical profession has never been so low for a considerable number of years. It is low not only among ancillary staff who were badgered into submission when they tried to strike for better conditions in 1982, but among nursing staff, consultants and general practitioners.

The general practitioners, first hit by the deputising service fiasco, then by the limited list fiasco, are now in an uncertain position. Since the visit of the Minister for Health to the Harrow private clinic, we do not know what to expect with regard to general practice. We are now keenly waiting for the so-called Green Paper on primary medical care, although so many things in that Green Paper have already been leaked.

Apparently, it is being considered down at the Elephant and Castle whether we shall have a salaried service within

the NHS. Alternatives that are being considered are that doctors will no longer be paid for items of service. And so it goes on. At the moment, there is a gradual demoralisation among general practitioners. Who knows what they will get in return for the apparent bonus of being able to advertise their services. I should have thought that it went very much against the Hippocratic oath. If doctors were allowed to advertise their services, it would lead to utter chaos in the GP service and primary medical care.

Among consultants, too, morale is at a low ebb. Consultants will confirm that the increase in administration means that they spend less and less time in the operating theatre or on surgical rounds and more and more time attending committees which do not achieve any improvement at the sharp end of the service. The Government said that the limited list would save £75 million per year, which could then be used at the sharp end of the National Health Service, but there is no more reason for us to believe Ministers now than there was to believe that the National Health Service was safe in the hands of the Prime Minister, as she claimed at the general election.

I recently asked the Secretary of State how many geriatric beds are available in this country now compared with 1979. There has been an increase of 0.002 per cent. in England and 0.005 per cent. in Wales, but demographic changes mean that there are now far more people over the age of 65 and hundreds of thousands over the age of 75 who need to go into hospitals of that kind when they are ill. Medical practitioners cannot get patients into hospitals because the hospitals are full of chronically sick people, often chronic orthopaedic patients who cannot be taken out into the community.

We heard a great deal from the Government about community care, but it was just another gimmick—just another way of getting care on the cheap—and it has not worked. Nursing staff and community nurses are now discovering that it is impossible to provide in the home the nursing services that were previously provided in the hospitals.

The catalogue goes on and on. If this is not demolition of the Health Service, it is certainly utter demoralisation. Ministers complacently tell us that more is being spent here, there and everywhere. Anyone who wants to know how much more is really being spent should visit the hospitals and talk to the staff who care for the sick and for those unable to fend for themselves. That is where the truth is to be found, not in statistics from the Elephant and Castle. Thirty-five years after the inception of the National Health Service there is discontent, misery and demoralisation, and it is time that that was put right.

9.1 pm

**Mr. Tony Favell** (Stockport): For too long, in my view, we have distributed social benefits without proper thought not just for the taxpayer, who has to provide them and who is often no better off than the recipient, but for the long-term effect on the recipients themselves. I was therefore delighted to hear my right hon. Friend the Secretary of State say today that the review would ensure that social security was not divorced from the rest of Government policy, especially employment policy. The reduction of unemployment is the major task facing the Government, but I believe that in some ways the present social security system exacerbates the problem. Indeed, I



[Mr. Tony Favell]

believe that in some respects it positively harms the long-term employment prospects of the recipient. I shall give just two examples.

A 16-year-old leaving school in July is entitled to £17.30 per week supplementary benefit in September if he has not found work, and even if he has not tried to find work and is not prepared to undertake youth training. That cannot possibly be in the long-term interests of the school leaver. We must do everything in our power to encourage school leavers to take training. We all appreciate the value of education because we have the knowledge and experience to realise how well our education and training has served us, but young people of 16 often do not appreciate the importance of education and training, and I believe that offering supplementary benefit to them as soon as they leave school discourages them from taking the training that is so vital in the job market today.

It is true that many of the young unemployed live in areas of high unemployment, but nothing is for ever. History repeats itself. The unemployment of the 1920s and 1930s went away. Last week the Prime Minister told us that 300,000 new jobs had been created in the past 18 months. The 16 to 18-year-olds will not stay the same age for ever. They may lose their chance of education and training. By not encouraging them now to take the training that is so necessary we shall condemn them, in the long term, to the scrap heap. I urge my right hon. Friend seriously to consider giving every possible encouragement to those young people to train now.

Rate rebates offer another example of how social security works to discourage employment. One household in three in Britain now receives rate rebates through the housing benefit system. The proportion is even higher in parts of the country where unemployment is highest. In Liverpool, half the ratepayers now receive rate rebates. In Sheffield and Manchester the percentage is about 42 or 43 per cent. Only about a quarter of the electors in Liverpool, Manchester or Sheffield pay full rates. In those areas there are no longer any votes in saving money. Votes are to be gained only by spending money. Votes are attracted by vastly increased and expensive services in areas that are ravaged by unemployment.

What is the effect of high spending in such cities? High spending results in fewer jobs. Those who are in employment and pay full rates leave for less highly rated areas. Stockport is fortunate. In Manchester the rates are 50 per cent. higher than in Stockport. There is in consequence a massive exodus from Manchester to Stockport, not only of domestic ratepayers, but of commerce and industry. Businesses are driven away from Manchester and investment discouraged. Housing benefit and high rates exacerbate the problem of unemployment. Our once-great northern industrial cities are in a downward spiral.

**Mr. Kevin Barron** (Rother Valley): Will the hon. Gentleman give way?

**Mr. Favell:** I do not have time. Unless local authorities are encouraged to reduce rate levels, that spiral will become an uncontrollable spin. I urge my right hon. Friend to take advantage of the reviews to deal with the problem.

9.8 pm

**Mrs. Margaret Beckett** (Derby, South): I wish to begin by quoting some words of the hon. Member for Brent, North (Dr. Boyson), written before he became a Minister in the Department of Health and Social Security. The hon. Gentleman was, of course, in the Department when the decision to institute the reviews was taken. In 1978—no doubt the Prime Minister read these words—he wrote:

"Conservatives must actively work for the welfare state to wither away as personal freedom and independent provision take its place."

That work is what we are debating tonight. We are talking not about certainties or the matters on which the Prime Minister loves to tell us that there is no alternative, but about choices. The record shows us what choices the Government have made. Their social security budget, and the way in which they have changed it in recent years, casts a light on the choices that we may expect them to make through the social security reviews, and the reasons for those choices.

In his pertinent speech, my hon. Friend the Member for Oldham, West (Mr. Meacher) made clear the extent and nature of the choices that the Government have had, and he contrasted the savings that have been made in every Social Security Bill that the Government have presented to the House since 1979—they now total £11 billion—with tax handouts to the wealthiest, which have been given in every Budget—and now total £13 billion.

One of the most frightening features of these debates for the prospect of peace and harmony is the gulf of understanding and experience which opens between the two sides of the House. I sometimes wonder whether Conservative Members know what their Government's record is, or whether they understand the reality of life for those on pensions or benefits. They will not know if they listen to the Secretary of State. It has been a feature of several recent Question Times that Conservative Members have risen, one after the other, to say that, although they do not question the Government's wonderful record as they have done great things for the NHS, could the Secretary of State explain why a ward or hospital in their constituency is closing and could he tell them how to reassure their pensioners. Our clear message to them and the country is that the Government's arguments and figures on the whole of the welfare state are as phoney as their arguments and figures on the NHS, which even Tory Back Benchers are beginning to see through.

Tory Back Benchers are beginning to see through the arguments and figures partly because of the many benefits that the Government have abolished, such as industrial injury benefit, the earnings related supplements to unemployment and sickness benefits and the child addition to benefits, and partly because of the many benefits that the Government have reduced—for example, the 5 per cent. abatement of unemployment, sickness and invalidity benefits. Recently, the invalidity benefit abatement has been restored, only to be offset by other changes in invalidity benefit which mean that, once again, the Government are making a net saving in social security expenditure at the expense of some of the most vulnerable in our society.

Once again there is late payment of pensions and of invalidity benefits this year so that the Government can save money at the expense of those groups. Lest hon. Members still doubt—there seems to be some lack of

understanding of the Government's cuts in social security spending—I shall quote what the Secretary of State said on 13 October 1983. He said, with approval:

"We should remember we have already done a great deal to contain expenditure by abolishing earnings related supplement, by making unemployment benefit taxable and by withdrawing it from better off occupational pensioners."

When it suits them, the Government claim credit for their social security reductions.

The decision in 1980 to cut the link between pensions and benefits and earnings as opposed to the link between pensions and benefits and prices—that vital principle established by the Labour Government which increases the value of pensions and benefits as earnings increase—has most eroded the provision of the welfare state. It means that pensions and benefits at best stand still against prices but are frozen so that people dependent on them are less and less well off compared with those in work. For the benefit of Conservative Members who seem to have a different experience of the scheme, I should like to highlight a few of the facts about it as many of them seem to imagine that it is over-generous. That misunderstanding appears to fuel the pressure on and from the Government to cut social security still further through their reviews.

A survey carried out in 1983 showed that 3 million people cannot afford to heat even their living area properly, that at least 5 million regularly left out a major item of food, such as a joint, that 500,000 children do not get three meals a day because they do not have the money, that about 6 million people who depend on benefit lack a major piece of clothing, such as a warm waterproof coat, that more than 3 million lack items such as carpets, fridges or washing machines, that 3 million cannot afford birthday or Christmas celebrations, and that 10 million could not pay for even one week's holiday.

Hon. Members have talked about the social security scheme. I wonder whether the hon. Member for Stockport (Mr. Favell) is aware that all entitlement to one single penny of housing benefit ceases well below average earnings for those who are on average rents.

The rise in housing benefit has resulted from the rise in rents, which have been forced up by the Government. I wonder how many Conservative Members fully realise that apart from having his housing costs met, a single householder under 60 gets £28.05 a week to meet the rest of his needs and that a couple get £45.55. All hon. Members will be aware that there is no meals allowance in this House, but I understand that in another place the meals allowance is about £40 a day—over £10 more than a single householder under 60 is expected to live on for a week.

Someone on supplementary benefit is allowed to earn £4 a week or, since the changes the Government made in 1981, to receive £4 a week in cash or kind. Once he receives more, he loses every penny over that value—a 100 per cent. deduction. I referred earlier to a gulf in experience. The contrast between what I have just said and capital transfer tax might be illuminating to Conservative Members. Instead of a 100 per cent. deduction over the threshold, the tax on gifts starts to apply at 15 per cent. In addition, there is a difference between the thresholds. Instead of £4 a week, that tax, even at 15 per cent., begins to bite only when gifts have amounted to £68,000. I calculate that to be about 300 years' worth of supplementary benefit exemption.

The average cost of private health insurance, even as a supplement to the NHS, for a two-child family with a non-working wife is at present about £12 or £15 a week. The average cost of an occupational pension for such a family is about £10 a week. Those who have such supplementary health and pension provision—I suspect that many Conservative Members and their constituents have—might in future try to remember that what they spend on supplementing what the state provides in pension and health care is what people on supplementary benefit must live on.

Those Conservative Members or their constituents with children boarding at public school will be paying an average of £160 per child per week—seven times as much in school fees alone as someone in receipt of supplementary benefit must live on. That is the gulf which exists between the experience of different groups in our society, and that is why the Opposition sometimes get excited when we listen to Conservative Members telling us how over-generous they consider the scheme to be.

**Mr. Nicholls:** As school fees are not tax deductible, such people will have paid sums in taxation which make benefits a reality. Does the hon. Lady realise that the ability of people to pay after taxation is concomitant with paying the tax which makes those benefits possible?

**Mrs. Beckett:** This is not the occasion to debate public school provision, although I am quite willing to enter into such a debate. However, most of our senior public schools are charities and receive tax and rate relief because they were founded to educate the poor. I am referring to the difference in levels of expenditure and income. I wonder whether the hon. Gentleman knew what the supplementary benefit level was. If he did, he was probably in a minority among his colleagues.

Those who have never wanted and those who never expect to want in future are very quick to talk about the burden of the welfare state, just as those who have never been seriously ill and think that it is because they are virtuous rather than fortunate seem to despise the NHS.

The Government's main charge over recent weeks, and the charge they intend to try to sustain in the reviews, is that the burden of expenditure overall on social security is too great, is rising and must be cut. The Government have already cut it not just by the detailed changes that they have made in benefit, but by the major change in linking pension and benefit increases only to prices. By that change, they have not only withheld benefits from those in need but destroyed the basis of their own case.

It is often quoted that a pensioner couple has had £5 a week withheld from them by this change. It is less often quoted that someone receiving invalidity benefit has lost £7.35 a week by the Government breaking the link between the benefit and prices, and by the other changes. The Social Security Bill will make another net saving at the expense of pensioners.

When we hear claims from the Government about the extravagance of the social security budget and the state earnings related pension scheme, it is hardly ever quoted that benefits linked only to inflation are basically standing still. The Child Poverty Action Group, in its excellent book, "The DHSS in Crisis", which is meant to be read in the context of the Government's reviews, pointed out that although the bill for social security is likely to rise



[Mrs. Beckett]

because of demographic changes and changes in prices, as a percentage of GDP, the bill will fall over the next few years.

Similarly, the Government say that they are worried about the cost of SERPS in the next 20 to 30 years. However, because the basic pension is linked only with prices, those who retire this year or in the next 10 years will see the value of their total pension, including the earnings related element, so eroded that in 10 or 20 years—the period of time about which the Government claim to be concerned—it will fall back to the relative value of the pension today. Therefore, if the Government abolish the earnings related element, the total pension will be worth far less than it is today, and the pensioners of 10 or 20 years' time will suffer.

Earlier, the hon. Member for Suffolk, South (Mr. Yeo) referred to a terrible thing—the calculation that total national insurance contributions might rise to about 21.6 per cent. of GDP if we maintained SERPS. He wondered how that could be afforded. I am sorry to have to say in his absence that the hon. Gentleman was clearly not aware that this is compared directly with a value of 17.6 per cent. for the same figures today; and therefore it could be argued that we can cope with such an increase.

Clearly, the hon. Member for Suffolk, South was even less aware—and I sometimes wonder whether the Secretary of State is aware—that if the basic pension remains linked only with prices, in the 10 or 20 years' time about which the Government are having nightmares, the national insurance contribution will be not 21.6 per cent. in total, but less than 10.3 per cent. because the value of the total pension is so eroded by the link of the basic pension only with prices. The value of the pension and of the national insurance contribution needed to sustain the pension will significantly fall. That destroys everything that the Government are saying about the need to abandon, abolish or weaken SERPS. The Government have already weakened it so much that their fears are ill-founded.

I am sorry that the hon. Member for Bournemouth, West (Mr. Butterfill) is not here, because I do not like commenting on his remarks in his absence. Much has been said about the amorality or immorality of SERPS, so I shall leave Conservative Members with a final thought about the comparisons of costs. It is true that we are talking about putting a lot of money into SERPS and the basic state scheme. It is true that we are putting thousands of millions of pounds into state pensions. Indeed, we are putting in as much this year and last year as we spent on alcohol. That puts into context the Government's remarks about the extravagance of our devotion to the state pension scheme.

The Government say that everything has changed since 1975. The hon. Member for Derbyshire, South (Mrs. Currie) has clearly been taken in by this fiction. The number of pensioners has not changed since 1975. I should have thought that a little simple arithmetic would show any hon. Member that the number of 10 million pensioners was due to increase to 12 million. That was known in 1975 when the state earnings related plan was revised. The prediction about the number of contributions has not changed significantly. There are some marginal differences, but well within any possible margins of error.

What has changed since 1975 is the priority that the Government are prepared to give to ensure dignity and

freedom from want in retirement. The Prime Minister likes to talk about people taking more responsibility and providing for themselves in old age. Her lack of understanding of the practicalities involved in people trying to provide for themselves in old age has been evident for at least 10 years. I recall listening to the right hon. Lady during the debate on the Finance Bill 1974 when she was a shadow Treasury Minister, although not shadow Chancellor. The House was debating the level of exemption and capital transfer tax for gifts given to a child on the occasion of his or her marriage. The Labour Government proposed that the exemption levels should be set at £2,000, which, I understand, is now worth about £5,300. The right hon. Lady said that that was not enough. There was a certain amount of hilarity among the Labour Members present who asked her how many members of the public she thought could give their children wedding presents to the value of even £2,000. The right hon. Lady said that they could not give such presents, because they did not save.

Such people do not save because they cannot save, because during their lives they never earn sufficient to save enough to think of giving children presents worth thousands of pounds when they marry. Those people certainly never earn enough during their lives to save to cover the cost of their retirement. Any justification for arguing that people should save to cover the costs of their retirement disappears when simultaneously the Government do everything that they can to reduce or hold down wages.

The record of the Government, who have had more money every month from the North sea than the Labour Government had during their five year in office, is one of meanness and mismanagement in social security. The Government's record makes us fear for the future. We wonder what they will do in their social security reviews. The Secretary of State made a great point of telling us that all the anxiety and complaints were misplaced because he had to be prepared to consider any proposal if he wanted to review the pension and benefit system. The right hon. Gentleman did not say that he meant that he was prepared to look at anything, except increased costs in the service, improving the service so that it might give more to claimants and interaction between the pension and benefits system and the taxation system. His colleagues will not permit him to do so.

For the welfare state we pay when and as much as we can so that we can draw on it as of right when we are in need. The hon. Member for Bournemouth, West asked why the Labour party was so antagonistic to means-tested benefits. He asked why our hackles rise when means-tested benefits are mentioned. Our hackles rise then for the same reason as they rise when we hear the Prime Minister talk about Victorian values and hear the Secretary of State in various speeches on different occasions pushing voluntary organisations forward, demanding that they play a greater role in social services and education and talking about a greater role for the private sector in health care.

On all those matters our hackles rise for the same reason. By and large it is among Opposition Members that there are to be found those whose parents and grandparents remember the means test. It is Opposition Members who remember the bitterness that lasted generations from the days of services being provided through charity and of the concept of the deserving and undeserving poor. Those who were prepared to smarm their way round those in authority

—in a manner that seems to returning to fashion in the Conservative party—found themselves better off than those who tried to maintain some independence.

The days when those who were wealthy and who chose to do so provided education and hospitals out of the kindness of their hearts are days that Opposition Members remember perhaps without the generosity that Conservative Members might wish for. We remember charity schools and hospitals, and so we are wedded to the concept of a welfare state that provides services as of right, and for which the community as a whole pays—services that most of us on this side of the House could never hope to provide for ourselves.

The welfare state and the NHS can be summarised very simply by saying that they are Socialism in action. That is, of course, what the Prime Minister so much dislikes about them. The creation of the welfare state is the greatest pride and achievement of the Labour party and the Labour movement—[*Interruption.*] Conservative Members who sneer and snigger should remember that it is also something in which the British people take great pride. Since the Conservative party came to power in 1979, it has tampered with the welfare state and damaged and weakened it. Before the Government finally make their decisions and publish their reviews, the purpose of this debate is to warn them that if they now seek to destroy the welfare state, the British people and not just the Labour party will destroy this Government and their party with them.

9.32 pm

**The Minister for Social Security (Mr. Tony Newton):** The debate has been something of a classic of its kind in that it was widely heralded in the press, and trailed on the radio by the hon. Member for Oldham, West (Mr. Meacher) this morning as a slashing attack and an all-out assault that would save the nation from disaster. When he came to the House early this afternoon, attended by a group of supporters who would have comfortably filled a minibus, he made a speech based on assorted press cuttings while denouncing the press as biased and unreliable. Only two of the official Opposition Members then in the House showed any inclination to speak in the debate and, as far as we could judge, all the other Opposition Members spoke because a panic-stricken Whip had fled from the Chamber and had gone rushing round the House.

**Mr. Meacher:** The hon. Gentleman must be able to do better than that.

**Mr. Newton:** I may well do better than that, but the hon. Gentleman will have to do better than that, too, if he wants to carry his party with him. Of course, we all know that the motive behind the debate was not to illuminate the Government's work or plans but to cast back into the shadows the work of the hon. Member for Oldham, West as shadow Secretary of State. Until last week I had never thought of the Leader of the Opposition as being closely paralleled by the Duke of Wellington. But it suddenly came into my mind that it is said that when looking at his own soldiers, the Duke of Wellington thought:

"I don't know what effect these men will have upon the enemy, but, by God, they frighten me."

Now I know how the Leader of the Opposition felt last week when he contemplated the hon. Member for Oldham, West and his paper.

**Mr. Walter Harrison (Wakefield):** The Duke of Wellington won and my right hon. Friend the Member for Islwyn (Mr. Kinnock) will win too—and I am referring to the next general election.

**Mr. Newton:** The monument to the hon. Member for Oldham, West is likely to be a new posting before long.

Taking the debate at its face value, I will deal with at least some of the allegations that have been made about the Government and the welfare state. Although most of the debate, understandably—in view of the way in which the hon. Member for Oldham, West opened it—has concentrated on social security, which was the subject of most of the publicity that surrounded the debate, it is only fair to those who referred to the NHS to place on record some of the facts and figures about what has happened in the service in the last four or five years.

There are now 57,000 more nurses and midwives than there were; over 5,000 more hospital doctors and dentists; 2,500 more family doctors; and over 13,000 more radiologists, laboratory technicians and other professional staff. [*Interruption.*] Opposition Members may not like listening to these figures, but it is time again to put them firmly on the record.

In 1983, by comparison with 1978, the NHS in England was treating about 650,000 more inpatients and over 2.5 million more outpatients; it was providing almost 3.5 million more courses of dental treatment; and there were over 650,000 more visits by health visitors and home nurses to elderly and sick people at home. The hon. Member for Wolverhampton, North-East (Mrs. Short), who is not in her place, would be interested to know that it had succeeded in reducing the degree of perinatal mortality by about one third in just five years.

That is the record not of a Government who are dismantling anything but of a Government who are steadily building a better health for the nation.

**Mr. Pavitt:** In regard to the statistics of hospital inpatients and outpatients, does the Minister recall that the present Prime Minister said in 1978 that there were 250,000 unnecessary deaths from emphysema, lung cancer and chronic bronchitis? That figure is now 100,000, mainly because the Government have run away from doing something about cigarette smoking. Will the hon. Gentleman take responsibility for that increase?

**Mr. Newton:** The hon. Gentleman knows that statistics such as those have no validity unless they are related to the overall morbidity and mortality statistics and reflect the extent to which people live longer and reach the stage when they may suffer the consequences of those types of disease. The hon. Gentleman knows that he oversimplifies the point.

My hon. Friends and I do not pretend that there are not still many problems to be overcome in the NHS. It is, however, foolish nonsense for anybody contemplating the statistics to suggest that the Government are dismantling the welfare state. Some of the figures that have been quoted about the NHS have concentrated completely on revenue spending. The Labour record on cutting the NHS hospital capital building programme was appalling. If ever there was a dismantling of the hospital service in the sense of failing to put new capital investment into it, that occurred in response to IMF demands in 1976 and the penalties that were then inflicted on this country and its health service for the profligacy of Labour Members in the



[Mr. Newton]

previous two years. That was when the future of the National Health Service was being dismantled. It is in the restoration and growth of the capital programme that the foundations are being laid for still more of the improvements of the kind to which I have referred in the last few minutes.

I turn from the National Health Service to the main thrust of the debate on social security. One of my hon. Friends has already referred to the increase of £8.5 billion, or nearly 30 per cent. in real terms, in the social security budget during the years from 1979-80 to 1984-85. This is not mainly or solely due to unemployment. Well over half—nearly £5 billion—is the result of this Government meeting the needs of many hundreds of thousands of additional retirement and invalidity pensioners and of claimants to mobility and attendance allowance. It is also because the Government have kept faith with their promise to protect the value of the retirement pension. While prices have risen by about 77 per cent., the pension has risen by nearly 84 per cent. Pensioners have enjoyed a real increase in their standard of living. This has more than fulfilled the promise made by the Government.

Nor are retirement pensioners alone in their position having been improved. For the sick and disabled, the real value of the mobility allowance has been increased. It has been made tax free. We have ended the so-called invalidity trap which, to the shame of the Opposition, kept so many tens of thousands of the long-term sick and disabled trapped within the lower rate of supplementary benefit instead of enjoying the higher, long-term rate. We have heard nothing about that today. However, that trap was ended by this Government and has benefited 70,000 invalidity pensioners.

Last November, the Government replaced two old benefits by the new severe disablement allowance which, when it is fully built up, is expected to result in 20,000 more people benefiting than benefited under the previous system, and it will end—I am sorry that the hon. Member for Barking (Ms Richardson) is not here, because I am sure that it is a point she would have appreciated—the discrimination against disabled married women which the Labour Government left behind.

For war pensioners the Government have introduced, in parallel with the mobility allowance for civilian pensioners, a generous new mobility supplement to replace the old vehicle scheme. Pensions for war widows have been fully exempted from tax. Last November higher allowances for all war widows over 65 were introduced.

The hon. Member for Derby, South (Mrs. Beckett) referred to the Social Security Bill which was debated last week. She mentioned almost everything except that last week the Government invited the House to approve the final removal of the married women's half test—another discriminatory measure. This proposal will bring another £25 million of benefit in the early stages to about 25,000 married women who were previously discriminated against under the social security system.

As with the National Health Service, those are not the facts and figures of a Government whose Ministers do not care or of a Government who are dismantling the welfare state or damaging the social security system. They are welcome, sensible improvements to the social security system. They are made possible by welcome, sensible

changes in other ways which have enabled us to concentrate our resources more effectively upon those most in need.

Although I shall try to be fair to every Opposition Member, hard though it is at times to be fair, I shall be especially fair to the hon. Member for Birkenhead (Mr. Field). He very frankly said—I think I took down his words accurately and hope that I am not misrepresenting him—that it was not possible for Opposition Members to claim with any seriousness that there has been any dismantling of the welfare state. He is right about that and I am grateful to him for the fair-mindedness with which he put that point.

**Mr. Frank Field:** The hon. Gentleman's writing must have let him down. I said that we could not claim that there had been a dismantling of the social security system. What worried me is the proposals which have been discussed in the press as likely to come from the social security reviews. I hope that the hon. Gentleman will take this opportunity to say, for example, that the state earnings related pensions scheme will not be abolished.

**Mr. Newton:** I was just about to deal with the reviews. The charge in the motion, as the hon. Gentleman readily recognised, and has fairly recognised again in the past few moments, is nothing that has happened at all. The record clearly does not begin to sustain for a moment the charge of dismantling the welfare state or the social security system in particular. The charge relates to nothing except what the hon. Member for Oldham, West says that he has read in the papers about the proposed outcome of the social security review.

I cannot respond tonight to either the questions posed by the hon. Member for Birkenhead or to some of the points raised by hon. Members on both sides of the House about the outcome of the social security review, for the good reason, as my right hon. Friend the Secretary of State made clear, that the Government have not yet made their final decision on the outcome of the social security review. [Interruption.] We believe in collective decision-making and consulting our colleagues.

**Mr. Michael Cocks (Bristol, South):** Who was consulted on the employment of the hon. Member for Suffolk, Coastal (Mr. Gummer)?

**Mr. Newton:** Obviously not the Labour Chief Whip; nor, as a matter of fact, was I.

Even if I am not in a position tonight to say anything more about the outcome of the reviews, I can tell the House that the social security review was not set up to dismantle the social security system, but with exactly the opposite purpose—to try to make sure that in a world in which resources will never be as large as any or all of us would like, what the Government, or any Government, can make available for social security spending meets the needs of today and tomorrow instead of being so ruthlessly concentrated, as in the Opposition's minds, on the needs of yesterday.

As my right hon. Friend has emphasised time and again, we are seeking to bring about a use of whatever resources are available for the social security system in a way which is most effectively aimed at the least well-off in our community, and a use of resources, however large they may be, within a system which is simpler and easier for people to understand. In view of the strictures of the

hon. Member for Oldham, West on the supplementary benefit system, it is hard to see that he can object to that objective.

We are also seeking to ensure that our social security system is effectively related to wider policies of the Government and wider policies which any sensible Government would need to have to restrain inflation, to generate economic growth and thus to make sure that we have the resources on which any social security system must in the end depend.

As my right hon. Friend made clear, the review has had a significant independent input. It has been based on probably more open public consultation than any comparable exercise in history, including not only the widespread receipt of evidence from those who chose to give it, but public hearings for those who wished to put their views in person. We are now considering the conclusions from all that work and will put them before the House as soon as possible.

I wish that the same could be said for the conclusions, if that is what they are, of the hon. Member for Oldham, West. I say, "if that is what they are" because we repeatedly failed to get any serious answers from him in the course of his speech about precisely what the status of those proposals is or even what they mean. I should like to ask a few questions of the hon. Gentleman. How many people did he consult in drawing up his proposals? No one has yet emerged in the papers who has been consulted in any way, right up to the top of the hon. Gentleman's own party. How much evidence did he receive? How many public hearings did he have? How many members of the public said, "We must have an end to mortgage tax relief"?

**Mr. Meacher:** How many people came to the hon. Gentleman's reviews and asked for an end to supplementary benefit mortgage payments for the poorest people? If those are removed, as is confidently predicted, how does he justify the fact that unemployed claimants and single-parent families will be left without a house and thrown on to the streets because they will no longer be able to meet their mortgage payments?

**Mr. Newton:** The only confident predictions that have been made tonight about the outcome of the reviews have been made by the hon. Gentleman on the basis of the odd press cutting that he seems to have seen. I do not propose to comment further on such speculation and rumour.

I should like to know from the hon. Gentleman what he has done to cost his proposals, because that too, is a mystery. It is not clear whether they are costed on his authority or that of *The Economist*, because I rather understood him to say, when he was asked about the cost of his proposals, that we should look at *The Economist*. He was conveying the impression that a great independent exercise undertaken by that prestigious magazine would illuminate the matter for us. When I looked at *The Economist*, it was clear that it had used the figures which the hon. Gentleman gave it. They are not even the ones which he got out of his computer, because they have not been in the computer yet. As far as I can see, they are merely his jottings on the back of an envelope.

As my right hon. Friend said, we reckon that the cost of the hon. Gentleman's proposals is at least twice what he suggested. It seems to me that it is at least £15 billion.

**Mr. Fowler:** At least.

**Mr. Newton:** At least, as my right hon. Friend emphasises. That is what will be required to pay for what the hon. Gentleman has proposed.

I should like to ask the hon. Gentleman one or two detailed questions about the proposals. As I understand it, he proposes a large increase in child benefit, to be paid for by abolishing the married man's tax allowance. That amounts to a substantial increase in taxation to finance a significant increase in social security benefits. Does the hon. Gentleman intend to have with that a drastic lowering of tax thresholds and the bringing into taxation of another 1 million people who are not currently in taxation? Has he thought about that?

I considered some of the alternative ways of financing the other proposals which the hon. Gentleman has listed in his document. I see the suggestion that we might have a combined rate of national insurance and taxation on "all personal income". I do not know how carefully that has been considered. If it means what it says, it means the ending of personal allowances, the bringing of 12 million more people into taxation, and presumably seeking to collect income tax on every tiny morsel of part-time income. Does the hon. Gentleman mean that? I do not believe that he knows what he means. If it does not mean that, what does it mean? It cannot mean anything else.

If the hon. Gentleman does not know the answer to that, let us return to the proposal about which he seems to have the answer and about which the rest of us are still mystified. I quote from the paragraph on housing allowance in his paper:

"The level of benefit would relate directly to income, but only those on one and a half times average earnings would receive less assistance from housing allowance than they do now from mortgage interest tax allowance."

That is no slip of the tongue; it is in the roneed version of the document. It can mean only two things. One is that mortgage interest tax relief is to be abolished. The other is that people earning more than one and a half times average earnings—a minimum of nearly 2 million people—will get less help with their housing costs; in other words, they will not only lose their mortgage income tax relief, but will not be compensated in any way for that.

What I and my hon. Friends want to know—and, above all, what at least 2 million people in the country want to know—is whether that is what the hon. Member proposes to do. Will he tell us? There is only one conclusion to be drawn: that there is a clear-cut threat to a large number of people, running to millions, that they will have their housing assistance savagely cut in a form which will make nonsense of all the recent lip service about encouraging owner-occupation.

**Mr. Meacher:** That is pretty rum, coming from a Government who have produced the highest level of mortgage interest ever in this country and the lowest level of housing starts since the war, and who in the past few months have produced an increase in mortgage interest, as a result of a hike in interest rates, of £57.60 a month for those with a £30,000 mortgage. Perhaps the Minister would like to explain how that is helping owner-occupiers.

**Mr. Newton:** We now have a little more illumination on the hon. Gentleman's approach.

**Mr. Harrison:** On a point of order, Mr. Deputy Speaker. I thought that this was a National Health Service debate, not a housing debate. We were talking about the destruction of certain services. I did not know that the Department of the



[Mr. Harrison]

Environment was entering into the discussion. I thought that my hon. Friend the Member for Oldham, West (Mr. Meacher) was dealing with the health services and the social services. I did not know that the Minister spoke for the Department of the Environment—

**Mr. Deputy Speaker (Sir Paul Dean):** Order. It is a very wide-ranging debate.

**Mr. Newton:** It seems to range wider by the moment. The right hon. Member for Wakefield (Mr. Harrison) has raised another interesting question. Did the hon. Member for Oldham, West consult the shadow spokesman for the Environment? [Interruption.] I said "The right hon. Member for Wakefield," for whom I have the highest regard. If so, the shadow spokesman for the Environment was the luckiest bloke in the House.

We now have some further illumination of the hon. Gentleman's answer to the problem. He is to withdraw mortgage interest tax relief. He is to reduce the housing help to everybody earning above one and a half times average earnings. His apparent answer is to increase expenditure by £15 billion, thus driving up interest rates even further. Then he is to take away the assistance by reason of what he has to pay in interest charges. [HON. MEMBERS: "Rubbish."] If that is rubbish, it has not been denied. I have given the hon. Gentleman enough opportunities to deny it.

The position is this, and the whole House knows it. If there is a serious threat to the welfare state, it comes not from the Government—either now or in the future. It comes from the policies put forward by the hon. Gentleman and his hon. Friends in terms of a renewed surge of inflation, which would hit every pensioner and every less well-off person harder than anything else. It comes from the threat of higher taxation at every level, which the hon. Gentleman has not denied, the consequences of which will be to raise even further the unhappy total of the unemployed. It is a threat to home ownership, and to all the wishes of people to exercise their own choices with their own money. That is the threat that we face. It is the threat of the hon. Gentleman's proposals. There is no threat from the Government's social security proposals.

*Question put.* That the original words stand part of the Question:—

*The House divided:* Ayes 167, Noes 276.

Division No. 188]

[10.00 pm

AYES

Abse, Leo	Boyes, Roland
Anderson, Donald	Bray, Dr Jeremy
Archer, Rt Hon Peter	Brown, Gordon (D'fmline E)
Ashley, Rt Hon Jack	Brown, Hugh D. (Provan)
Ashton, Joe	Brown, Ron (E'burgh, Leith)
Atkinson, N. (Tottenham)	Buchan, Norman
Bagier, Gordon A. T.	Caborn, Richard
Banks, Tony (Newham NW)	Callaghan, Jim (Heyw'd & M)
Barnett, Guy	Campbell, Ian
Barron, Kevin	Campbell-Savours, Dale
Beckett, Mrs Margaret	Canavan, Dennis
Bell, Stuart	Carter-Jones, Lewis
Benn, Tony	Clark, Dr David (S Shields)
Bennett, A. (Dent'n & Red'sh)	Clarke, Thomas
Birmingham, Gerald	Clwyd, Mrs Ann
Bidwell, Sydney	Cocks, Rt Hon M. (Bristol S.)
Blair, Anthony	Cohen, Harry
Boothroyd, Miss Betty	Concannon, Rt Hon J. D.

Conlan, Bernard	McTaggart, Robert
Cook, Robin F. (Livingston)	McWilliam, John
Corbett, Robin	Madden, Max
Cowans, Harry	Marek, Dr John
Craig, J. M.	Marshall, David (Shettleston)
Crowther, Stan	Mason, Rt Hon Roy
Cunliffe, Lawrence	Maxton, John
Cunningham, Dr John	Maynard, Miss Joan
Davies, Rt Hon Denzil (L'III)	Meacher, Michael
Davis, Terry (B'ham, H'ge H'I)	Michie, William
Deakins, Eric	Mikardo, Ian
Dewar, Donald	Mitchell, Austin (G't Grimsby)
Dixon, Donald	Morris, Rt Hon A. (W'shawe)
Dobson, Frank	Morris, Rt Hon J. (Aberavon)
Dormand, Jack	Nellist, David
Dubs, Alfred	Oakes, Rt Hon Gordon
Dunwoody, Hon Mrs G.	O'Brien, William
Eadie, Alex	O'Neill, Martin
Ellis, Raymond	Park, George
Evans, John (St. Helens N)	Patchett, Terry
Ewing, Harry	Pavitt, Laurie
Faulds, Andrew	Pendry, Tom
Field, Frank (Birkenhead)	Pike, Peter
Fields, T. (L'pool Broad Gn)	Powell, Raymond (Ogmore)
Flannery, Martin	Prescott, John
Foot, Rt Hon Michael	Randall, Stuart
Forrester, John	Redmond, M.
Foster, Derek	Rees, Rt Hon M. (Leeds S)
Foulkes, George	Richardson, Ms Jo
Fraser, J. (Norwood)	Roberts, Allan (Bootle)
George, Bruce	Roberts, Ernest (Hackney N)
Gilbert, Rt Hon Dr John	Robinson, G. (Coventry NW)
Godman, Dr Norman	Rooker, J. W.
Golding, John	Rowlands, Ted
Gould, Bryan	Ryman, John
Gourlay, Harry	Sedgemore, Brian
Hamilton, James (M'well N)	Sheerman, Barry
Hamilton, W. W. (Central Fife)	Sheldon, Rt Hon R.
Harman, Ms Harriet	Short, Ms Clare (Ladywood)
Harrison, Rt Hon Walter	Short, Mrs R. (W'hamp'tn NE)
Hart, Rt Hon Dame Judith	Silkin, Rt Hon J.
Healey, Rt Hon Denis	Skinner, Dennis
Heffer, Eric S.	Smith, C. (Isl'ton S & F'bury)
Hogg, N. (C'nauld & Kilsyth)	Snape, Peter
Holland, Stuart (Vauxhall)	Soley, Clive
Home Robertson, John	Spearing, Nigel
Hoyle, Douglas	Stott, Roger
Hughes, Robert (Aberdeen N)	Strang, Gavin
Hughes, Roy (Newport East)	Thomas, Dafydd (Merioneth)
Hughes, Sean (Knowsley S)	Thomas, Dr R. (Carmarthen)
Hughes, Simon (Southwark)	Thompson, J. (Wansbeck)
John, Brynmor	Thorne, Stan (Preston)
Jones, Barry (Alyn & Deeside)	Tinn, James
Kaufman, Rt Hon Gerald	Torney, Tom
Kilroy-Silk, Robert	Wardell, Gareth (Gower)
Lambie, David	Wareing, Robert
Leadbitter, Ted	Weetch, Ken
Leighton, Ronald	Welsh, Michael
Lewis, Ron (Carlisle)	White, James
Lewis, Terence (Worsley)	Wigley, Dafydd
Litherland, Robert	Williams, Rt Hon A.
Lloyd, Tony (Stretford)	Winnick, David
Loyden, Edward	Young, David (Bolton SE)
McCartney, Hugh	
McDonald, Dr Oonagh	
McKelvey, William	
Mackenzie, Rt Hon Gregor	
McNamara, Kevin	

Tellers for the Ayes:  
Mr. Frank Haynes and  
Mr. Allen MacKay.

NOES

Adley, Robert	Atkins, Robert (South Ribble)
Aitken, Jonathan	Baker, Nicholas (N Dorset)
Alexander, Richard	Baldry, Tony
Alison, Rt Hon Michael	Batiste, Spencer
Amery, Rt Hon Julian	Beaumont-Dark, Anthony
Angram, Michael	Bellingham, Henry
Arnold, Tom	Bendall, Vivian
Ashby, David	Benyon, William
Aspinwall, Jack	Best, Keith
Atkins, Rt Hon Sir H.	Biffen, Rt Hon John

Blackburn, John	Gow, Ian
Blaker, Rt Hon Sir Peter	Gower, Sir Raymond
Body, Richard	Greenway, Harry
Bonsor, Sir Nicholas	Gregory, Conal
Boscawen, Hon Robert	Griffiths, E. (B'y St Edm'ds)
Bottomley, Peter	Griffiths, Peter (Portsm'th N)
Bottomley, Mrs Virginia	Grist, Ian
Bowden, A. (Brighton K'to'n)	Ground, Patrick
Bowden, Gerald (Dulwich)	Grylls, Michael
Boyson, Dr Rhodes	Gummer, John Selwyn
Bright, Graham	Hanley, Jeremy
Brinton, Tim	Hannam, John
Brittan, Rt Hon Leon	Hargreaves, Kenneth
Brooke, Hon Peter	Harris, David
Browne, John	Harvey, Robert
Bruinvels, Peter	Haselhurst, Alan
Bryan, Sir Paul	Havers, Rt Hon Sir Michael
Buchanan-Smith, Rt Hon A.	Hayes, J.
Budgen, Nick	Hayhoe, Barney
Bulmer, Esmond	Hayward, Robert
Burt, Alistair	Heddle, John
Butcher, John	Hickmet, Richard
Butterfill, John	Hicks, Robert
Carlisle, John (N Luton)	Higgins, Rt Hon Terence L.
Carlisle, Kenneth (Lincoln)	Hogg, Hon Douglas (Gr'th'm)
Carlisle, Rt Hon M. (W'ton S)	Holland, Sir Philip (Gedling)
Cash, William	Holt, Richard
Channon, Rt Hon Paul	Hordern, Peter
Chapman, Sydney	Howard, Michael
Chope, Christopher	Howarth, Alan (Strat'd-on-A)
Churchill, W. S.	Howell, Rt Hon D. (G'ldford)
Clark, Hon A. (Plym'th S'n)	Hubbard-Miles, Peter
Clark, Dr Michael (Rochford)	Hunt, John (Ravensbourne)
Clark, Sir W. (Croydon S)	Hunter, Andrew
Clarke, Rt Hon K. (Rushcliffe)	Irving, Charles
Cockram, Eric	Jackson, Robert
Colvin, Michael	Jones, Robert (W Herts)
Coombs, Simon	Joseph, Rt Hon Sir Keith
Cope, John	Kellett-Bowman, Mrs Elaine
Cormack, Patrick	Kershaw, Sir Anthony
Couchman, James	King, Roger (B'ham N'field)
Cranborne, Viscount	King, Rt Hon Tom
Critchley, Julian	Knight, Gregory (Derby N)
Crouche, David	Knowles, Michael
Currie, Mrs Edwina	Knox, David
Dickens, Geoffrey	Lamont, Norman
Dicks, Terry	Lang, Ian
Dorrell, Stephen	Latham, Michael
Douglas-Hamilton, Lord J.	Lawler, Geoffrey
Dover, Den	Lawrence, Ivan
Dunn, Robert	Lee, John (Pendle)
Durant, Tony	Leigh, Edward (Gainsbor'gh)
Dykes, Hugh	Lennox-Boyd, Hon Mark
Edwards, Rt Hon N. (P'broke)	Lester, Jim
Eggar, Tim	Lightbown, David
Emery, Sir Peter	Lilley, Peter
Evennett, David	Lloyd, Ian (Havant)
Eyre, Sir Reginald	Lloyd, Peter, (Fareham)
Fallon, Michael	McCrintle, Robert
Farr, Sir John	Macfarlane, Neil
Favell, Anthony	MacKay, John (Argyll & Bute)
Fenner, Mrs Peggy	McQuarrie, Albert
Fletcher, Alexander	Madel, David
Fookes, Miss Janet	Major, John
Forman, Nigel	Malone, Gerald
Forsyth, Michael (Stirling)	Marland, Paul
Forth, Eric	Mather, Carol
Fowler, Rt Hon Norman	Mawhinney, Dr Brian
Fox, Marcus	Maxwell-Hyslop, Robin
Fraser, Peter (Angus East)	Merchant, Piers
Freeman, Roger	Meyer, Sir Anthony
Fry, Peter	Mills, Sir Peter (West Devon)
Gale, Roger	Miscampbell, Norman
Galley, Roy	Mitchell, David (NW Hants)
Gardiner, George (Reigate)	Moate, Roger
Gardner, Sir Edward (Fylde)	Molyneux, Rt Hon James
Glyn, Dr Alan	Morrison, Hon C. (Devizes)
Goodhart, Sir Philip	Nelson, Anthony
Goodlad, Alastair	Newton, Tony
Gorst, John	

Nicholls, Patrick	Stewart, Allan (Eastwood)
Normanton, Tom	Stewart, Andrew (Sherwood)
Norris, Steven	Stewart, Ian (N Hertf'dshire)
Ottaway, Richard	Stradling, Thomas, J.
Parkinson, Rt Hon Cecil	Sumberg, David
Parris, Matthew	Taylor, John (Solihull)
Patten, Christopher (Bath)	Taylor, Teddy (S'end E)
Patten, J. (Oxf W & Abdgn)	Tebbit, Rt Hon Norman
Peacock, Mrs Elizabeth	Terlezki, Stefan
Percival, Rt Hon Sir Ian	Thatcher, Rt Hon Mrs M.
Porter, Barry	Thomas, Rt Hon Peter
Powell, Rt Hon J. E. (S Down)	Thompson, Donald (Calder V)
Powley, John	Thompson, Patrick (N'ich N)
Price, Sir David	Thorne, Neil (Ilford S)
Prior, Rt Hon James	Thornton, Malcolm
Raffan, Keith	Thurnham, Peter
Rathbone, Tim	Townend, John (Bridlington)
Rhys Williams, Sir Brandon	Tracey, Richard
Ridley, Rt Hon Nicholas	Twinn, Dr Ian
Roberts, Wyn (Conwy)	van Straubenzee, Sir W.
Robinson, Mark (N'port W)	Vaughan, Sir Gerard
Roe, Mrs Marion	Viggers, Peter
Rossi, Sir Hugh	Waddington, David
Rost, Peter	Wakeham, Rt Hon John
Rowe, Andrew	Waldegrave, Hon William
Rumbold, Mrs Angela	Walden, George
Ryder, Richard	Walker, Bill (T'side N)
Sainsbury, Hon Timothy	Walker, Rt Hon P. (W'cester)
St. John-Stewas, Rt Hon N.	Waller, Gary
Sayed, Jonathan	Walters, Dennis
Shaw, Giles (Pudsey)	Wardle, C. (Bexhill)
Shaw, Sir Michael (Scarb')	Warren, Kenneth
Shepherd, Colin (Hereford)	Watson, John
Shepherd, Richard (Aldridge)	Watts, John
Silvester, Fred	Wells, Bowen (Hertford)
Sims, Roger	Wells, Sir John (Maidstone)
Skeet, T. H. H.	Wheeler, John
Smith, Tim (Beaconsfield)	Whitney, Raymond
Soames, Hon Nicholas	Wiggin, Jerry
Speed, Keith	Winterton, Mrs Ann
Speller, Tony	Winterton, Nicholas
Spencer, Derek	Wolfson, Mark
Spicer, Jim (W Dorset)	Wood, Timothy
Spicer, Michael (S Worcs)	Woodcock, Michael
Squire, Robin	Yeo, Tim
Stanbrook, Ivor	Young, Sir George (Acton)
Steen, Anthony	
Stern, Michael	
Stevens, Lewis (Nuneaton)	
Stevens, Martin (Fulham)	

Tellers for the Noes:  
Mr. Tristan Garel-Jones and  
Mr. Michael Neubert.

*Question accordingly negated.*

*Question.* That the proposed words be there added, put forthwith pursuant to Standing Order No. 33 (Questions on amendments):—

*The House divided:* Ayes 274, Noes 184.

Division No. 189]

[10.14 pm

AYES

Adley, Robert	Biffen, Rt Hon John
Aitken, Jonathan	Blackburn, John
Alexander, Richard	Blaker, Rt Hon Sir Peter
Alison, Rt Hon Michael	Body, Richard
Amery, Rt Hon Julian	Bonsor, Sir Nicholas
Angram, Michael	Boscawen, Hon Robert
Arnold, Tom	Bottomley, Peter
Ashby, David	Bottomley, Mrs Virginia
Aspinwall, Jack	Bowden, A. (Brighton K'to'n)
Atkins, Rt Hon Sir H.	Bowden, Gerald (Dulwich)
Atkins, Robert (South Ribble)	Boyson, Dr Rhodes
Baker, Nicholas (N Dorset)	Bright, Graham
Baldry, Tony	Brinton, Tim
Batiste, Spencer	Brittan, Rt Hon Leon
Beaumont-Dark, Anthony	Brooke, Hon Peter
Bellingham, Henry	Browne, John
Bendall, Vivian	Bruinvels, Peter
Benyon, William	Bryan, Sir Paul
Best, Keith	Buchanan-Smith, Rt Hon A.



- Budgen, Nick  
 Bulmer, Esmond  
 Burt, Alistair  
 Butcher, John  
 Butterfill, John  
 Carlisle, John (*N Luton*)  
 Carlisle, Kenneth (*Lincoln*)  
 Carlisle, Rt Hon M. (*W'ton S*)  
 Cash, William  
 Channon, Rt Hon Paul  
 Chapman, Sydney  
 Chope, Christopher  
 Churchill, W. S.  
 Clark, Hon A. (*Plym'th S'n*)  
 Clark, Dr Michael (*Rochford*)  
 Clark, Sir W. (*Croydon S*)  
 Clarke, Rt Hon K. (*Rushcliffe*)  
 Cockeram, Eric  
 Colvin, Michael  
 Coombs, Simon  
 Cope, John  
 Cormack, Patrick  
 Couchman, James  
 Cranborne, Viscount  
 Critchley, Julian  
 Crouch, David  
 Currie, Mrs Edwina  
 Dickens, Geoffrey  
 Dicks, Terry  
 Dorrell, Stephen  
 Douglas-Hamilton, Lord J.  
 Dover, Den  
 Dunn, Robert  
 Dykes, Hugh  
 Edwards, Rt Hon N. (*P'broke*)  
 Eggar, Tim  
 Emery, Sir Peter  
 Evennett, David  
 Eyre, Sir Reginald  
 Fallon, Michael  
 Farr, Sir John  
 Favell, Anthony  
 Fenner, Mrs Peggy  
 Fletcher, Alexander  
 Fookes, Miss Janet  
 Forman, Nigel  
 Forsyth, Michael (*Stirling*)  
 Forth, Eric  
 Fowler, Rt Hon Norman  
 Fox, Marcus  
 Fraser, Peter (*Angus East*)  
 Freeman, Roger  
 Fry, Peter  
 Gale, Roger  
 Galley, Roy  
 Gardiner, George (*Reigate*)  
 Gardner, Sir Edward (*Fylde*)  
 Garel-Jones, Tristan  
 Glyn, Dr Alan  
 Goodlad, Alastair  
 Gorst, John  
 Gow, Ian  
 Gower, Sir Raymond  
 Greenway, Harry  
 Gregory, Conal  
 Griffiths, E. (*B'y St Edm'ds*)  
 Griffiths, Peter (*Portsm'th N*)  
 Grist, Ian  
 Ground, Patrick  
 Grylls, Michael  
 Gummer, John Selwyn  
 Hanley, Jeremy  
 Hannam, John  
 Hargreaves, Kenneth  
 Harris, David  
 Harvey, Robert  
 Haselhurst, Alan  
 Havers, Rt Hon Sir Michael  
 Hayes, J.  
 Hayhoe, Barney  
 Hayward, Robert  
 Heddle, John  
 Hickmet, Richard  
 Hicks, Robert  
 Higgins, Rt Hon Terence L.  
 Hogg, Hon Douglas (*Gr'th'm*)  
 Holland, Sir Philip (*Gedling*)  
 Holt, Richard  
 Hordern, Peter  
 Howard, Michael  
 Howarth, Alan (*Stratf'd-on-A*)  
 Howell, Rt Hon D. (*G'ldford*)  
 Hubbard-Miles, Peter  
 Hunt, John (*Ravensbourne*)  
 Hunter, Andrew  
 Irving, Charles  
 Jackson, Robert  
 Jones, Robert (*W Herts*)  
 Joseph, Rt Hon Sir Keith  
 Kellett-Bowman, Mrs Elaine  
 Kershaw, Sir Anthony  
 King, Roger (*B'ham N'field*)  
 King, Rt Hon Tom  
 Knight, Gregory (*Derby N*)  
 Knowles, Michael  
 Knox, David  
 Lamont, Norman  
 Latham, Michael  
 Lawler, Geoffrey  
 Lawrence, Ivan  
 Lawson, Rt Hon Nigel  
 Lee, John (*Pendle*)  
 Leigh, Edward (*Gainsbor'gh*)  
 Lennox-Boyd, Hon Mark  
 Lester, Jim  
 Lightbown, David  
 Lilley, Peter  
 Lloyd, Ian (*Havant*)  
 Lloyd, Peter, (*Fareham*)  
 McCrindle, Robert  
 Macfarlane, Neil  
 MacKay, John (*Argyll & Bute*)  
 McQuarrie, Albert  
 Madel, David  
 Major, John  
 Malone, Gerald  
 Marland, Paul  
 Mather, Carol  
 Mawhinney, Dr Brian  
 Maxwell-Hyslop, Robin  
 Merchant, Piers  
 Meyer, Sir Anthony  
 Mills, Sir Peter (*West Devon*)  
 Miscampbell, Norman  
 Mitchell, David (*NW Hants*)  
 Moate, Roger  
 Molyneaux, Rt Hon James  
 Morrison, Hon C. (*Devizes*)  
 Nelson, Anthony  
 Neubert, Michael  
 Newton, Tony  
 Nicholls, Patrick  
 Normanton, Tom  
 Norris, Steven  
 Ottaway, Richard  
 Parkinson, Rt Hon Cecil  
 Parris, Matthew  
 Patten, Christopher (*Bath*)  
 Patten, J. (*Oxf W & Abdgn*)  
 Peacock, Mrs Elizabeth  
 Percival, Rt Hon Sir Ian  
 Porter, Barry  
 Powell, Rt Hon J. E. (*S Down*)  
 Powley, John  
 Price, Sir David  
 Raffan, Keith  
 Rathbone, Tim  
 Rhys Williams, Sir Brandon  
 Ridley, Rt Hon Nicholas  
 Roberts, Wyn (*Conwy*)  
 Robinson, Mark (*N'port W*)  
 Roe, Mrs Marion  
 Rossi, Sir Hugh  
 Rost, Peter  
 Rowe, Andrew  
 Rumbold, Mrs Angela  
 Ryder, Richard  
 Sainsbury, Hon Timothy  
 St. John-Stevas, Rt Hon N.  
 Sayeed, Jonathan  
 Shaw, Giles (*Pudsey*)  
 Shaw, Sir Michael (*Scarb'*)  
 Shepherd, Colin (*Hereford*)  
 Shepherd, Richard (*Aldridge*)  
 Silvester, Fred  
 Sims, Roger  
 Skeet, T. H. H.  
 Smith, Tim (*Beaconsfield*)  
 Soames, Hon Nicholas  
 Speed, Keith  
 Speller, Tony  
 Spencer, Derek  
 Spicer, Jim (*W Dorset*)  
 Spicer, Michael (*S Worcs*)  
 Squire, Robin  
 Stanbrook, Ivor  
 Steen, Anthony  
 Stern, Michael  
 Stevens, Lewis (*Nuneaton*)  
 Stevens, Martin (*Fulham*)  
 Stewart, Allan (*Eastwood*)  
 Stewart, Andrew (*Sherwood*)  
 Stewart, Ian (*N Hertf'dshire*)  
 Stradling Thomas, J.  
 Sumberg, David  
 Taylor, John (*Solihull*)  
 Taylor, Teddy (*S'end E*)  
 Tebbit, Rt Hon Norman  
 Terlezki, Stefan  
 Thatcher, Rt Hon Mrs M.  
 Thomas, Rt Hon Peter  
 Thompson, Donald (*Calder V*)  
 Thompson, Patrick (*N'ich N*)  
 Thorne, Neil (*Ilford S*)  
 Thornton, Malcolm  
 Thurnham, Peter  
 Townend, John (*Bridlington*)  
 Tracey, Richard  
 Twinn, Dr Ian  
 van Straubenzee, Sir W.  
 Vaughan, Sir Gerard  
 Viggers, Peter  
 Waddington, David  
 Wakeham, Rt Hon John  
 Waldegrave, Hon William  
 Walden, George  
 Walker, Bill (*T'side N*)  
 Walker, Rt Hon P. (*W'cester*)  
 Waller, Gary  
 Walters, Dennis  
 Wardle, C. (*Bexhill*)  
 Warren, Kenneth  
 Watson, John  
 Watts, John  
 Wells, Bowen (*Hertford*)  
 Wells, Sir John (*Maidstone*)  
 Wheeler, John  
 Whitney, Raymond  
 Wiggin, Jerry  
 Winterton, Mrs Ann  
 Winterton, Nicholas  
 Wolfson, Mark  
 Wood, Timothy  
 Woodcock, Michael  
 Yeo, Tim  
 Young, Sir George (*Acton*)  
 Tellers for the Ayes:  
 Mr. Ian Lang and  
 Mr. Tony Durant.

## NOES

- Abse, Leo  
 Alton, David  
 Anderson, Donald  
 Archer, Rt Hon Peter  
 Ashley, Rt Hon Jack  
 Ashton, Joe  
 Atkinson, N. (*Tottenham*)  
 Bagier, Gordon A. T.  
 Banks, Tony (*Newham NW*)  
 Barnett, Guy  
 Barron, Kevin  
 Beckett, Mrs Margaret  
 Beith, A. J.  
 Bell, Stuart  
 Benn, Tony  
 Bennett, A. (*Dent'n & Red'sh*)  
 Birmingham, Gerald  
 Bidwell, Sydney  
 Blair, Anthony  
 Boothroyd, Miss Betty  
 Boyes, Roland  
 Bray, Dr Jeremy  
 Brown, Gordon (*D'f'mline E*)  
 Brown, Hugh D. (*Provan*)  
 Brown, Ron (*E'burgh, Leith*)  
 Buchan, Norman  
 Caborn, Richard  
 Callaghan, Jim (*Heyw'd & M*)  
 Campbell, Ian  
 Campbell-Savours, Dale  
 Canavan, Dennis  
 Carlile, Alexander (*Montg'y*)  
 Carter-Jones, Lewis  
 Cartwright, John  
 Clark, Dr David (*S Shields*)  
 Clarke, Thomas  
 Clwyd, Mrs Ann  
 Cocks, Rt Hon M. (*Bristol S.*)  
 Cohen, Harry  
 Concannon, Rt Hon J. D.  
 Cook, Robin F. (*Livingston*)  
 Corbett, Robin  
 Cowans, Harry  
 Craigen, J. M.  
 Crowther, Stan  
 Cunliffe, Lawrence  
 Cunningham, Dr John  
 Davies, Rt Hon Denzil (*L'III*)  
 Davis, Terry (*B'ham, H'ge H'I*)  
 Deakins, Eric  
 Dewart, Donald  
 Dixon, Donald  
 Dobson, Frank  
 Dorman, Jack  
 Dubs, Alfred  
 Dunwoody, Hon Mrs G.  
 Eadie, Alex  
 Ellis, Raymond  
 Evans, John (*St. Helens N*)  
 Ewing, Harry  
 Faulds, Andrew  
 Field, Frank (*Birkenhead*)  
 Fields, T. (*L'pool Broad Gn*)  
 Flannery, Martin  
 Foot, Rt Hon Michael  
 Forrester, John  
 Foster, Derek  
 Foulkes, George  
 Fraser, J. (*Norwood*)  
 Freud, Clement  
 George, Bruce  
 Gilbert, Rt Hon Dr John  
 Godman, Dr Norman  
 Golding, John  
 Gould, Bryan  
 Gourlay, Harry



LOMBARD STREET

22/4/85

By Christopher Fildes

# A CASE FOR STRANGULATION

PENSIONS are like babies. By the time you realise what they are going to cost, it is a little late to try something else. I had to learn this. Norman Fowler seems to have worked it out for himself.

For me, illumination came ten years ago, at the trustees' meeting of a pension fund which endured my advice on investments. The actuary was reporting. He certified that the fund was well able to meet all its obligations, and he assumed a rate of return of 7 p.c. and a rate of inflation of 5 p.c. Were there, asked the chairman, any questions?

"Just one," I said: "I see from the evening paper that the rate of inflation is rather more than 24 p.c. Does that make any difference to what we have been told?" The actuary looked at me stonily: "Oh, if that's the rate, this fund is bust."

Now that fact has come into line with his certificate, the laugh is with the actuary and the questions pass to Norman Fowler. He fears, as my colleague Frances Williams has disclosed, that the State Earnings Related Pension Scheme will be equally bust, or rather equally costly — a sort of actuarial Concorde still on its proving flight. There is only one way in which he could be proved right, and by then it would be too late to shoot the Concorde down.

Mr Fowler knows that the cost of earnings-related pensions has something in common with the length of a piece of string. His instinct is, like a young Hercules, to strangle SERPS now. I share this.

Private earnings-related schemes after all, are extensively funded by those who drop out of them. SERPS has no such resources. It is a Pick Your Own Scheme, where you can relate your pension to your 20 best earning years. The pension is then index-linked. It has the feeling of an unlimited

blank cheque drawn on the Bank of Posternity.

But the better argument for strangling SERPS is not actuarial but economic. SERPS is an idea whose time has gone. It is a product of the pensions consensus of the 1970s, and is now defended as such.

That consensus reflects the corporatist thinking of the time. It was the hey day of big government, big unions, big employers, who between them would manage the individual and provide for him so long as he stayed in line. We do not now look to such thinking for enterprise, for growth, or even for employment.

The corporatist consensus left the self-employed out, as members of the awkward squad, and, no doubt, dodgers. For them, high social-security contributions, restricted benefits, and of course, no SERPS. Today the self-employed, 2.5 million of them, are the principal customers of the private pensions companies.

Their's is the consumers privi-

lege of trying to choose what they want, rather than taking what they are given.

If SERPS goes, that privilege (and responsibility) will extend to another 11 million people, and why should it have been thought that each of those 11 million would want, or should have, the same kind of pension arrangements? They no longer live in a world where they can all expect to sit on their chair for forty years and hang their hat on a pension — and why should they?

The patterns and the durations of their working lives will vary, far more than the corporatist consensus assumed. Their resources will vary, their needs will vary, their preferences will vary, and of course their health will vary. Their ideas will vary and so will their plans.

The man who looks forward to slamming the office door and growing roses in Bournemouth needs his conventional pension. Not the man who looks forward to buying

his part of the business and taking it with him. He, indeed, might want to use some of his pension funding to finance that ambition, and, subject to safeguards, he should.

We still assume (or rather, our tax system assumes) that our savings should be for our homes and for our old age, rather than for our work. That, again, is not the way to enterprise or employment.

If the millions now in SERPS gain the privilege of choice, on what terms will it reach those in occupational pension schemes?

Mr Fowler has told them that they will have the right to opt for their own personal pension arrangements. What he has yet to do is to require employers to contribute to those arrangements as they do to their own funds. There has been great talk of voluntary codes of conduct. If SERPS goes and choice comes, such assurances will not be enough.

The pension companies, judging by their shares at the end of last week, might be expecting the millenium. They prefer not to see it that way.

They have appreciated the peace of the consensus, and have no wish to find themselves on the battlefield again. They see SERPS as the standard by which occupational schemes are measured, and they wonder what standards will be put in its place.

They know some of the technical difficulties involved in ending SERPS — does it simply mean closing the scheme to new entrants? Or will SERPS benefits join the other futile little bits of frozen pension entitlements which most of us carry around?

No-one says that ending SERPS will be easy. Keeping it going could be harder, but with luck, we shall not find out.







For Cabinet folder  
 on 25/4/85  
 on AT's instructions

3

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

22 April 1985

The Rt Hon Norman Fowler MP  
 Secretary of State for Social Services  
 Department of Health and Social Security  
 Alexander Fleming House  
 Elephant & Castle  
 LONDON SE1

*Norman*

**SOCIAL SECURITY REVIEW - PUBLIC SERVICE PENSIONS**

*- At 1 at flap*  
 Your recent minute to the Prime Minister about your proposals for a new framework for occupational and personal pensions indicated that you would discuss separately with Treasury Ministers the implications of these proposals for the indexation of public sector pensions. While I am sure it would be wrong to include any specific reference to this in your Green Paper, the proposal that occupational and personal pension arrangements should, in respect of future benefit rights, have to provide as a minimum for the annual indexation of benefits in payment up to a maximum of 5 per cent, is likely to raise questions about our future policy on the existing indexation arrangements in public service and sector schemes.

Our present policy was set out in the 1983 Manifesto which said that "public sector pensioners will also be protected on the basis of realistic pension contributions". We discussed this in Cabinet on 15 September 1983, following which an Official Group was set up to look at this and other allied matters. We discussed their work in E(PSP) on 24 July last, and concluded, as I reported in my minute to the Prime Minister of 27 July, that the ways forward identified by officials were unattractive, and that the matter should be reviewed again following the outcome of your Inquiry into Provision for Retirement.

My view is that if the question of indexation of public service pensions is raised following publication of your Green Paper, we should take the line that your proposals have no necessary relevance. We would base this on the fact that our proposals for the future related to a minimum requirement for indexation, with nothing stopping those concerned doing better if they so wish; and that accrued rights under the present state earnings-related pension schemes (SERPS) will be honoured. If pressed, we should continue to rest on the Manifesto statement though indicating that the possibility of changes is not closed off, certainly on the contribution side.





If you agree we could report it to Cabinet at the same time as we consider your Green Paper, on 25 April; and my officials could circulate for agreement with officials in interested Departments a form of words to be used when questions arise.

More generally I agree that if the framework you are to propose in your Green Paper is introduced, public service schemes must fit in with it. There are two particular points I should mention here. First, in most cases the schemes will have to be amended to allow employees to opt for personal pensions; and in the case of the Civil Service it will almost certainly be necessary, if the personal pension option is to be a reality, for us to find some way of moving to a contributory scheme. Second, although the cost may be substantial, we shall have to consider extending membership of the public service schemes down to include those part-timers earning above the lower earnings limit, if that is the condition which is in future to apply in the private sector.

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

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON



Social Services

PT 2 Review



CONFIDENTIAL



*Copy*

*Of - we already have one copy.*

*Debbie*

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

*From the Secretary of the Cabinet and Head of the Home Civil Service*

Sir Robert Armstrong GCB CVO

Ref. A085/1136

19 April 1985

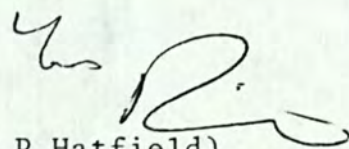
*Dear Richard,*

Social Security Review: Presentation to Ministers Before  
Cabinet on 25 April

The main item for discussion at Cabinet next Thursday, 25 April, will be a Memorandum by the Secretary of State for Social Services on the outcome of the review of social security.

To set the scene and supplement the information in his Memorandum, the Secretary of State for Social Services will make a presentation for members of the Cabinet beginning at 9.15 am on Thursday 25 April in Conference Room A, 70 Whitehall (Cabinet will begin at 10.00 am). Discussion of the issues will be for the Cabinet meeting later in the morning, but it is suggested that all those attending Cabinet who have not been involved in the work of the Ministerial Group on Social Security (MISC 111) would find the presentation of great value and should make a point of coming to it. Ministers who have been involved in MISC 111 may attend if they wish to do so.

I am sending copies of this letter to the Private Secretaries to all members of the Cabinet, the Chief Whip, the Paymaster General and the Minister for Social Services.

  
(R P Hatfield)  
Private Secretary

R C Stoate Esq

CONFIDENTIAL



CC DW.  
FileNOTE FOR THE RECORD

SOCIAL SECURITY REVIEW  
NOTE OF POINTS MADE BY THE CHANCELLOR OF THE EXCHEQUER  
TO THE PRIME MINISTER AT HIS BILATERAL  
ON MONDAY 15 APRIL

The Chancellor said that he was still hoping for further savings from the Social Security Review. In ascending order of importance, he was considering the following possibilities:

(i) Supplementary benefit: less than full uprating for all or some recipients of benefit.

(ii) Housing Benefit: reducing the ceiling on reimbursement on rates from 80 per cent to 75 per cent.

(iii) Child Benefit: creating a presumption that child benefit would not be indexed by projecting it in the public expenditure figures at its presently proposed level.

(iv) Deferring the operative date of the 1986 uprating until April 1987: the Prime Minister doubted whether this could be done in a single move.

The Chancellor also said that he would prefer that the results of the Review were published as a White Paper rather than as a Green Paper. They were in fact firm proposals, and, if the Government suggested that there were scope for comment on them this would invite pressure for concessions which would reduce the public expenditure savings. The Prime Minister had some sympathy with this view, but said that it would have to be one of the matters decided by Cabinet.

F.R.B.

15 April 1985



John. Latest news is that Cabinet meet  
Tuesday is likely to take MISC 111  
conclusion. You will need to check with  
RTAs for latest news, MCA 11/41

PRIME MINISTER

MISC 111

CF  
Pse BF Monday 15  
April

The report of MISC 111 is due to come to Cabinet on  
18 April i.e. in the first Cabinet after the Recess. The  
Chancellor has suggested it might be useful for you to hold  
a pre-Cabinet <sup>meeting</sup> comprising himself, the Lord President and the  
Social Services Secretary to discuss the handling of the Cabinet  
discussion. Would you like us to arrange such a meeting,  
perhaps for the Wednesday afternoon before Cabinet?

Yes mk

DF

3 April 1985





file  
SH

10 DOWNING STREET

*From the Private Secretary*

1 April 1985

This is to confirm that the Prime Minister was generally content with the draft reply which your Secretary of State proposes to give to Mr Dale Campbell-Savours MP this week about the future of benefit entitlement to 16 and 17 year olds, subject to the amendments set out in the attached version.

TIM FLESHER

S H F Hickey Esq  
Department of Health and Social Security

SH



Mr D N Campbell-Savours : To ask the Secretary of State for Social Services, whether he proposes any changes affecting the benefit entitlements of 16 and 17 year olds.

AMENDED DRAFT REPLY

We have no proposals at present for changes in benefit entitlement as part of the current plans for expanding the Youth Training Scheme. It is, however, the aim of this expansion to provide a guaranteed opportunity of appropriate training for young people of this age who are not in work or in full-time education so that unemployment is not an option for them. The benefit position will be given further consideration in the light of progress towards this objective, taking into account also any wider changes in the benefit system which may follow from the present social security review.



PART 1 ends:-

DHSS to MEA 29.3.85

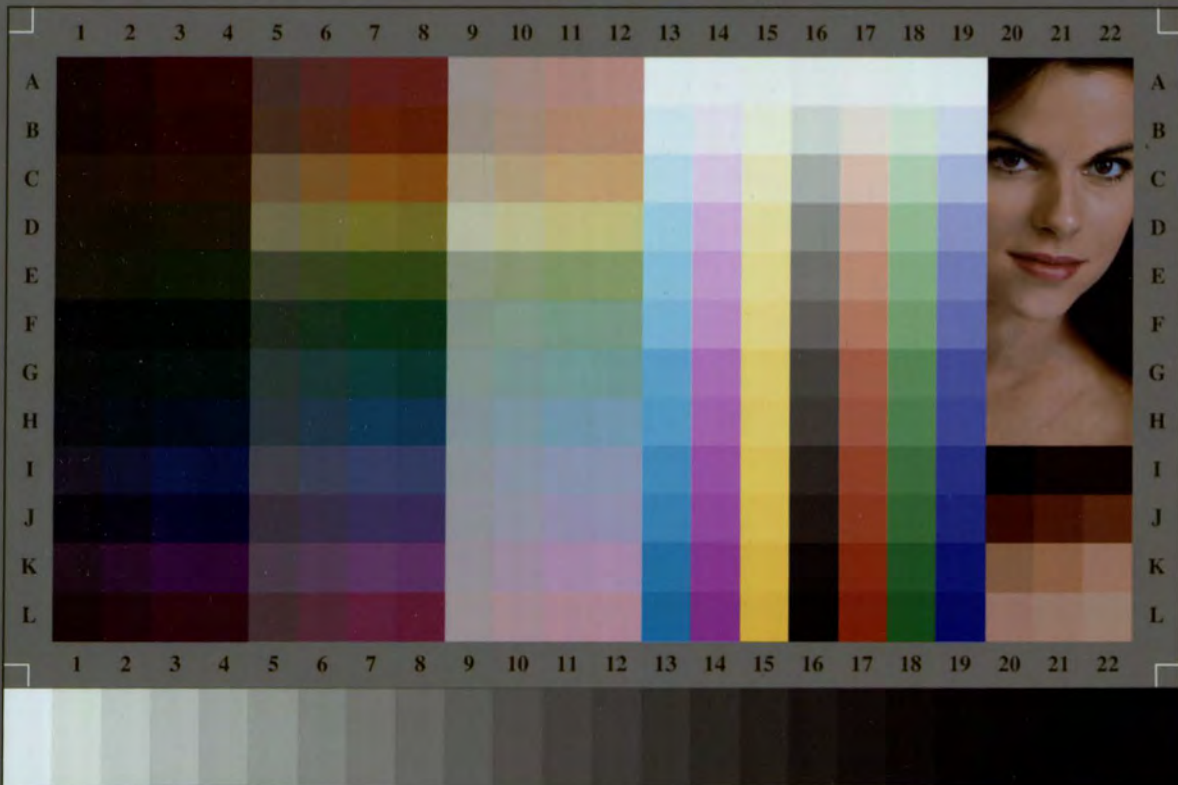
PART 2 begins:-

MISC 111(85) 7<sup>th</sup> 1.4.85.



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