



DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 Treasury Chambers
 Great George Street
 London S W 1

12 February 1980

Dear Geoffrey,

SUPPLEMENTARY BENEFIT CHILDREN'S RATES

Thank you for your letter of 5 February about holding back supplementary benefit children's rates. I assume it was written before the Cabinet minutes were circulated since they make it absolutely clear that we agreed that there should be no restriction on the lines proposed in the increases in supplementary benefit children's rates. In accordance with this I take it there is no question but that they will go up in line with prices (by 14 per cent on current PESC assumptions).

For the record, however, I think I ought to set out briefly once again the reasons I gave in Cabinet, and which are set out in both memoranda on the public expenditure cuts which Cabinet considered on 24 and 31 January, indicating just why I am in no doubt that our decision was the right one.

First, the incentives argument is really a very weak one. Only one in three of the claimants with children is in the employment field; most of those who would bear the loss would not be unemployed men with families but lone parents.

Second, the figures you quote do, if I may say so, indicate how insignificant an effect holding back on these rates would have on the overall problem of the "in work - out work" equation. And I must point out that the same rates are applicable to the long-term beneficiaries (the chronic sick, widows, one-parent families) as to short-term beneficiaries; moreover as they have only been price protected since 1975, there has been no real improvement in their value at all since then.

This leads me on to my third point, which is that to hold back on these rates is totally inconsistent with what we did last winter for families and what we are now doing in the Social Security Bill before Parliament. If I may remind you, we specifically allowed a special 95p heating addition for families with children under five last winter because of the difficulties they were having in managing. In the White Paper (Cmd 7773) under the heading "More benefit for children" we said that the Government was directing resources towards families with children and went on to say "about half a million children will be affected, and as the review report suggested, it is claimants with children who are experiencing the most difficulty in managing at supplementary benefit levels". It is politically impossible to face both ways - to argue one case in Committee on the Bill and the opposite in the Public Expenditure White Paper.

E. R.

The final specific point I would make is that recently published research by David Piachaud does, as I have repeatedly stated, indicate that present rates fall well short of the actual cost of maintaining a child. While some of his detailed figures can be criticised, I really do not think that we can take the line that the present rates are too high and should be reduced in real value.

There are two more general points which I feel I really must make in the light of your letter. I am in no doubt that to attack the supplementary benefit children's rates in the way you suggest would be seen as incredibly mean - destroying our claim to care about the interests of families. It would be a clear retreat from policies supported by our party for many years, and I have no doubt that, if we put it forward, it would provide political ammunition for the Opposition that could be used against us for years to come. We certainly could not use public expenditure savings as the justification for making such a cut. There is just £20 million in a full year.

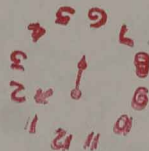
Second, looked at in the context of incentives and the 'why work' syndrome, a cut of 25p off the Supplementary Benefit children's rates is really a minnow beside the whales you have cheerfully gone along with in our decisions on school meals and school transport. There we seem deliberately to have imposed new burdens on the low paid in work, while protecting those on benefit. In the light of this, now to argue that it is necessary actually to cut the cash benefits to the poorest of all in the pursuit of incentive would have no credibility at all. I am under no illusion that with unemployment forecast to rise to two million, it is going to be easy to argue the five per cent interim tax case - but at least that has some semblance of consistency with our manifesto pledges. To have to go on to contend that because of our refusal to raise Child Benefit by the full £1 which I sought we also have to cut the supplementary benefit entitlement of families for most of whom the incentive argument has no relevance whatever, would make that task infinitely harder. If I may be quite frank, I am simply not prepared to do it.

Last Autumn's round of cuts produced a saving of £480 million in my Department's programme for 1981/82, and the recent decisions have produced a further saving of £460 million. When you include the saving of £195 million a year from uprating benefits in 1979 by less than the actual rise in earnings, I will have contributed no less than £2 billion towards your cuts for 1982/83 - the last year for which we inherited spending plans.

I have been doing my best to help you with this whole exercise, and I am really rather shaken that you should still be coming back to me for more.

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

You are
Patrice



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