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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
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Prime Minister 2

20 October 1986

DW
20/10

Nigel

INCENTIVES

I know you share my concern over the problem of incentives, as do many other people to judge from speeches at the party conference. I thought you might like to see a recent letter which illustrates graphically the problem faced by some of the unemployed.

Mr Paine wrote to me explaining that one reason for his difficulty in finding a job was because most available jobs paid less than the £122 he received in benefit each week. I attach his letter together with my private secretary's reply and would like to highlight a number of the issues involved.

First, he appears to be unaware of the in work benefits which help to close the gap between his income in work and out of work. Benefits such as FIS should help him to consider a range of low paid jobs so that in practice he can afford to take a job at £70 or £80 a week and still maintain his net income. I am arranging for our new Claimant Advisers to give unemployed people information on in work benefits to show how they can afford to take low paid jobs without losing net income. This should help.

Second, and more worrying, Mr Paine needs to achieve a fairly high level of earnings to put clear water between his net income on benefit and his net income in work. To put a gap of £20 between in and out of work income he would need to earn over £160 a week. And of course from that £20 he would have to meet travel costs and in work expenses. What is also noticeable is that his net income from work varies very little between a job earning £70 a week and one earning £120 a week.

No Fowler, as you know, is trying to reduce from 6 months to 3 months the period in which the



unemployed will get no help with mortgage interest.

Third, Mr Paine's problem partly arises because he is a home owner paying mortgage interest. So when he is unemployed his mortgage interest payments are paid for him but when he is in work, he will not get housing benefit (except for rates), unlike those who rent.

The figures which DHSS produce on the problem of incentives do not show that problem because they typically assume that people pay rent rather than owning homes. Our approach to benefits conflicts with our aim of increasing home ownership.

I recognise that Mr Paine's case is not a typical one since about 60% of the unemployed are single. But, there are around 300,000 unemployed families with one or more children aged over 11 and I have no doubt that the proportion of these people who are paying mortgages has been rising.

This individual case has brought home to me more forcibly than overall statistics how important it will be to try to find ways to tackle the problem of incentives. We both recognise how hard that task is going to be but I hope to approach you in the near future with some ideas for the next Budget which may help.

I am copying to the Prime Minister.

Handwritten signature:
J. S. Paine

Mr Paine assumed married, non-working wife, 3 teenage children, one 16/17, two 11-15

out-of-work

ordinary supp ben rate £48.40
for married couple

supp ben additions for
dep children

2 aged 11-15 (2x15.30) £30.60
1 aged 16 or 17 £18.40

sub total £97.40

standard assumptions for
household rates £725

sub total £104.65

residual (to be explained
by mortgage interest
payments and other costs
etc) £17.35

TOTAL £122.00

in work

tax allowance £70.29
(married man)

FIS prescribed amount £125.90

HB needs allowance £114.65

assumptions

- household rates £725

Earnings	Tax	NI	FIS	CB	HB(rates)	TOTAL
£70	-	£4.90	£27.95	£21.30	£5.37	£119.72
£80	£2.82	£5.60	£22.95	£21.30	£4.97	£120.82
£90	£5.72	£6.30	£17.95	£21.30	£4.57	£121.80
£100	£8.62	£9.00	£12.95	£21.30	£4.05	£120.68
£110	£11.52	£9.90	£7.95	£21.30	£3.40	£121.23
£120	£14.42	£10.80	£2.95	£21.30	£2.75	£121.78
£130	£17.32	£11.70	-	£21.30	£1.83	£124.11
£140	£20.22	£12.60	-	£21.30	£0.53	£129.01



Lord Young
Employment Secretary
Houses of Parliament
London

6-8-86

Dear Lord Young,

I am 40 years old and have three teenage children, and have been unemployed since June '85. I have applied for 33 jobs that pay enough to cover my mortgage and other expenses.

I have been self employed, relating to all bookwork and have had dealings with transport, mainly p.s.v.

Although I have had all the practical experience it comes to the point that I do not have any letters behind my name, and it comes down to the cost of paying for a course when one is unemployed.

I have been into my local job centre who say they can not help, that is why I am writing to you to see if it would be possible for a grant to pay for a C.F.C. course.

The amount of social security I receive is £122 per week, and that is one reason why I have not been able to get a job from the job centre, because nearly all the ones they have are a lot less than that. This is another reason why I am asking you for help.

I did receive details of a C.P.C. course that is held locally in Devizes, which I still have.

I have a newspaper cutting and one of the points that you say is, trying to update old skills.

Trusting that you will be able to help me from this situation, I look forward to hearing from you.

Yours sincerely

A handwritten signature in cursive script, appearing to read "P A Paine".

P A Paine