

PRIME MINISTER

SOCIAL SECURITY AND THE COMMUNITY CHARGE

A point not emphasised in these papers is that a flat rate addition would have a worse effect on work incentives than a rebate system. Young people would cease to receive the flat rate addition immediately they got a job and for family heads moving from unemployment benefit or supplementary benefit to family credit the rate of withdrawal would be 70% as against 20%. The effect on incentives would also be unhelpful geographically because the flat rate would tend to mean over-compensating people outside the South East. Benefit levels in many of those areas are already relatively high in relation to income levels and the flat rate addition would make that problem worse. This is of course a complicated question, not always easy to think through, and I suggest you ask Lord Young to comment on it.

One argument advanced against a rebate system (e.g. paragraph 9(iii) of Brian Unwin's brief) is that at least in the early years the amounts of rebates would be so small as to make the administration uneconomic. It might be worth considering whether to set a threshold level below which rebates would not be paid.

DN

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1 October 1986