

CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 11 April 1988

*BF 18/4*

MR CULPIN \*

cc PS/Chief Secretary  
Sir P Middleton\*  
Mr Anson  
Mr Phillips  
Mr Byatt  
Mr Hawtin  
Miss Peirson  
Mr Turnbull  
Mr Riley\*  
Mr McIntyre  
Miss Sinclair\*  
Mr Tyrie  
Mr Call

\*With recent papers

**HOUSING BENEFIT AND UNEMPLOYMENT/POVERTY TRAPS**

The Chancellor has seen the most recent papers on this (copies attached for you and others not on previous circulation), including Lord Young's letter of 31 March to Sir Henry Phillips, in which he expresses enthusiasm for the idea of setting up a task force to look at 'the extent to which the combination of tax, national insurance and benefit rules can act as a disincentive to employment and growth'. The Chancellor would be grateful if you, in consultation with ST and others, could produce a quick and fairly brief paper for the Chancellor to send to Lord Young and Mr Ridley, making the point that this is a benefit and not a tax/NIC problem, and that it is an inescapable consequence of targeting benefit on the neediest.

*M.P.W.*

MOIRA WALLACE



The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

Miss Deborah Lamb  
Private Secretary to the  
Secretary of State for the  
Environment  
Department of the Environment  
2 Marsham Street  
LONDON SW1P 3EB

EXCISE	
05 APR 1988	
CST	
MR ANGON	
10	MR H PHILLIPS Tlx
	MR HANTIN Fax
	MISS PEIRSON
	MR TURNBULL
	MR MCINTYRE
	MR CALL

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Your ref  
Date 31 March 1988

Sr P Middleton  
Mr Byatt  
Mr Culpin

*Dear Deborah*

**POVERTY TRAP: LETTER FROM SIR HENRY PHILLIPS**

I attach a copy of a letter my Secretary of State received recently from Sir Henry Phillips about the cumulative effects of fiscal and social security policies.

Given the current correspondence about the issue, the Secretary of State thought Mr Ridley and other colleagues might be interested to see the letter. A copy of the Secretary of State's reply is also attached.

I am copying this letter and the attachments to Paul Gray, Alex Allen (HMT), Geoffrey Podger (DHSS), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Nick Wilson (Employment) and Trevor Woolley (Cabinet Office).

*Yours*

*Jeremy Godfrey*

JEREMY GODFREY  
Private Secretary



**dti**

the department for Enterprise

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

Sir Henry Phillips  
34 Ross Court  
Putney Hill  
LONDON  
SW15 3NZ

CH/EXCHEQUER	
NO	05 APR 1988

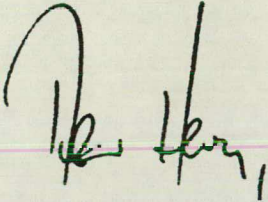
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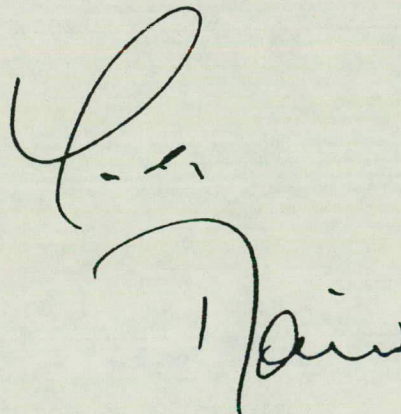
Telex 8811074/5 DTHQ G  
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Our ref DW3DPR  
Your ref  
Date 31 March 1988



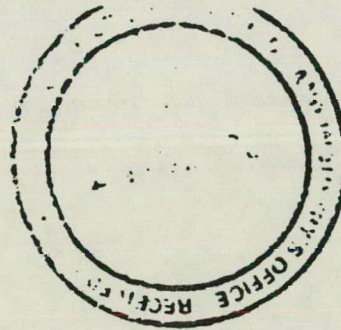
Thank you for your letter of 23 March setting out your concerns about the cumulative effects of fiscal and social security policies. This is a subject in which I take a close personal interest, not least because of the extent to which the combination of tax, national insurance and benefit rules can act as a disincentive to employment and growth - to the detriment of the individual and the economy generally.

We all want to get rid of the poverty trap but, as you say, it is an especially difficult problem to get to grips with. That said, the approach you suggest seems worth consideration and I will certainly pass copies of your letter on to those of my colleagues directly concerned.





SIR HENRY PHILLIPS



34 ROSS COURT  
PUTNEY HILL  
LONDON SW15 3NZ  
01-788 1404

23 March 1988

The Rt Hon Lord Young of Graffham

*Dear David,*

It gave us great pleasure to listen to you last night, so relaxed, so confident and so optimistic; and you fielded the questions with a fine combination of skill and wit. The part you have played in the turn round of the economy is a matter for warm congratulation.

I do have a concern which I might have voiced, but it would have been difficult to compress it into a short question; so I am writing to you instead.

While countless people are set to benefit in one way or another from the recent Budget and from the impending reforms in local taxation and social benefit, there still remains a sizeable number who do not benefit, and some will lose. There is moreover a tendency for the same people to be affected in different ways.

The impact of the proposed community charge and of the interim obligation to pay 20% of the general rate, the changes in housing benefit (which are of particular concern to the Housing Association movement), the new fiscal treatment proposed for one-parent families, the alleged lack of Government support for child care which inhibits the mother in her search for remunerative employment - all these examples, and there are others, tend to affect the same disadvantaged section of the population who, not surprisingly, become vocal and claim the attention of the media.

The problem is compounded by the reliance of the Government, in endeavouring to measure the effect of its reforms, on national averages. Regrettably there are regional and neighborhood averages which are substantially lower; and this distorts the picture.

A further difficulty is that several Government departments are involved in dealing with matters of hardship in



their respective spheres of responsibility with the result that the Government may be deprived of essential advice on the collective effect of the measures it is introducing.

Is there perhaps a need to assign to a small task force of civil servants the job of collating information about these changes, measuring their combined effect on various classes of people and, where necessary, proposing ways of alleviating hardship in cases where the new income support regulations do not go far enough? So that such a body was not overwhelmed by a flood of individual complaints it would deal only with representative bodies such as Age Concern, the National Federation of Housing Associations, the Maternity Alliance and the Child Poverty Action Group through which individuals would be advised, by printed circular, to channel their complaints.

All these organisations are of course awash with details of potential hardship within their respective spheres of influence and will have made representations to the concerned Government departments. It is the cumulative effect which worries me and which has inspired this letter.

The Tory Party wants to be known as a caring party; but I do feel that it is running a risk of not earning this description as far as low income families are concerned. Maybe what I am suggesting could help. Because the suggestion implies an overview there is no one Minister to whom I can address it. If therefore you think that it merits examination may I leave it to you to put it into the right channels?

With all good wishes

Yours ever  
Henry



**CONFIDENTIAL**

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

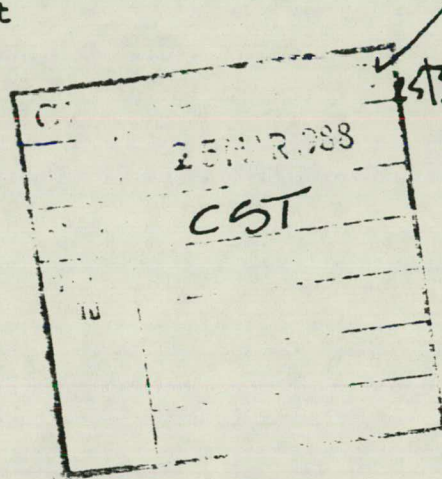
Deborah Lamb  
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Date 24 March 1988

*Dear Deborah*

#### EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Thank you for sending us a copy of your letter of 4 March to Paul Gray about the planned review by officials of options for alleviating the unemployment/poverty trap. We have also seen the letters dated 8 and 9 March from Jill Rutter and Rod Clark respectively.

This is a subject in which my Secretary of State and the Chancellor of the Duchy of Lancaster both take a close personal interest. The Secretary of State has been concerned for some time about the extent to which the UK's tax, national insurance and benefit systems may act as a disincentive to employment and growth - to the detriment of the economy generally.

My Secretary of State considers that this is an area which needs to be looked at in its entirety and therefore supports your Secretary of State's proposals for a Working Group of officials with the wider remit described in your letter of 4 March. He would wish this Department to be represented on any such Group.

I am copying this letter to Paul Gray, Alex Allan (HMT), Geoffrey Podger (DHSS), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Nick Wilson (Employment) and Trevor Woolley (Cabinet Office).

*Yours*

*Jeremy Godfrey*

JEREMY GODFREY  
Private Secretary









10 DOWNING STREET  
LONDON SW1A 2AA

REC.	18 MAR 1988
TO	Mr McIntyre
	Cx, Mr Anderson, Mr Phillip
	Mr Newton, Miss Pearson
	Mr Turnbull, Mr Gibson
	Mr Call

From the Private Secretary

17 March 1988

Dear Deborah,

EMPLOYMENT TRAP OF HOUSING POLICIES

Thank you for your letter of 4 March which the Prime Minister has seen. She has also now had an opportunity to consider all the further exchanges following my letter to Roger Bright of 22 February.

The Prime Minister considers the mechanics for carrying forward the further work by officials would best be handled through the inter-Departmental group already set up under DHSS chairmanship, and she would wish the Policy Unit to be involved in its further work.

The Prime Minister does not wish to suggest precise terms of reference for the group but does not think it appropriate for the remit to extend to a general consideration of options for alleviating the unemployment and poverty traps. The work should be more narrowly focused along the lines suggested by the Secretary of State for Social Services and the Chief Secretary.

She hopes that the work could focus mainly on options which do not involve increased expenditure or numbers of housing benefit recipients; attention might also be given in appraising the options to net income after housing costs as well as housing costs as a percentage of net income.

The Prime Minister also feels that the conclusions of the work by officials should be fed into the public expenditure survey in the normal way, with the appropriate Secretaries of State taking responsibility for their expenditure programmes.

I am copying this letter to Jill Rutter (Treasury), Robin Weatherson (Scottish Office), Jon Shortridge (Welsh Office), Alison Brimelow (Department of Trade and Industry), Nick Wilson (Department of Employment), and Trevor Woolley (Cabinet Office).

Yours,  
Paul.

PAUL GRAY

Miss Deborah Lamb,  
Department of the Environment.

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