

Prime Minister ⁰¹ 1PRIME MINISTER

David Willetts' note sets out how Norman Fowler's thinking is developing and seeks your initial reactions

BENEFITS FOR CHILDREN AND YOUNG PEOPLE

Norman Fowler's review of benefits for children and young people is now coming to an end. Two main proposals have emerged:

- take supplementary benefit from 16 - 17 year olds.
- a new Family Credit for the working poor.

A steer from you at this stage would be helpful.

Removing Supplementary Benefit from 16 - 17 year olds

David Young has kept you in touch with this. It is going well and Norman Fowler is being very positive. But two notes of caution:

- it might cost money (YTS places at £26 are more expensive than SB at £17). We must try to get funds either from employers or other savings from the benefit reviews.

- the MSC needs to be flexible. Consider a 16-17 year old who has been working (540,000 do) and is made redundant. He might not be entitled to Unemployment Benefit. There may be no parental support and no SB. He may be married and have a child. He will turn to the MSC for funds immediately. If they say he should come back in 2 months when they will have a training place then cases of hardship will make the policy difficult to sustain. But he must not be referred to the DHSS as that defeats the object of the exercise. The MSC must tide him over and find him a place quickly.

Family Credit

The Family Credit is the main new idea to emerge from the review. It would be paid through the wage packet. The employer funds it by paying over less national insurance or tax to the Exchequer. It might go to about 1 million families

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with about 2 million children. If you earned up to about £48 a week you would get the full rate of £13 plus £10 per child over 11 and £5 per child under 11. It would taper off at 50p for every £ of net income. So a married man with two children under 11 extinguishes his Credit at a wage of £94 per week.

Advantages

- It goes only to the working poor, thereby easing the unemployment trap.

- It helps the family man price himself into work as he can accept a lower wage and still meet his family responsibilities.

- The Poverty trap is less severe. Marginal rates of more than 100 per cent are eliminated. But the number of families with a marginal rate of more than 60 per cent doubles to 900,000.

- Paying through the wage packet means it is not another step towards a girocheque culture. It can be presented as a move towards bringing together tax and benefits.

Disadvantages

- The credit costs over £300m after allowing for savings from abolishing FIS (though strictly speaking it is revenue foregone rather than public expenditure).

Norman Fowler will have to find the money. Introducing Family Credit in November 1986 with no child benefit uprating in November 1985 or 1986 would be one option (cancelling a 5% uprating saves £215 m). And every 10p off child benefit saves £55m.

- Assessment is based on a DHSS means test needing at least another 1,000 civil servants.

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- An extra burden on employers: if too onerous the whole scheme is scuppered.

It is important whether the Family Credit is presented as a benefit or an offset to tax. If Family Credit were just another benefit - a more expensive version of FIS - it is not very attractive. But if it were an offset to tax it is a cheap way of cancelling out the tax payments of several hundred thousand people. I believe the Credit is neither a benefit nor an increase in tax allowances but in between - a tax credit in fact. The Chancellor's views on this point will obviously be important.

Recommendation

The idea has attractions and obvious drawbacks. I recommend you give it a cautious welcome subject to three points:-

- the burden on employers must not be excessive.
- Norman Fowler must find the means to finance it.
- it should be capable of presentation as something other than just another benefit.

Initial reactions unclear.

David Willetts

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28 December 1984

a) extremely disappointing.

b) will probably increase expenditure

c) why do it?

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