



Prime Minister

SOCIAL SECURITY REVIEW

My proposals for the reform of social security, which we discussed on 22 January, are going round to MISC 111 today. The paper is designed to give a clear view of the proposals as a whole.

No need to read at present, other than to sample the style.

In addition there will be Volume 1 of the Green Paper which will set out the case for reform and a summary of the proposals. This will be circulated next week but in the meantime I am enclosing a draft of this for your information.

No need to read this, I have kept it back.

Volume 2 of the Green Paper will set out the proposals in detail. You certainly do not want to be burdened with all this at present but - purely for reference - I thought you might like to see the proposals on supplementary benefit, since they illustrate the degree of detail the review has involved.

I want in addition to let you have my personal assessment of the impact of the proposals. If the proposals are agreed, they would amount to the biggest change in social security since the 1940s. Ever since Beveridge, successive Governments have based their policy more and more on the assumption that it is the responsibility of the Government to provide an all embracing social security system. I believe it is essential that we turn this tide. We must move away from this perception of social security to a twin pillar approach, where one pillar is the state system but the other is private provision and builds on individual responsibility and initiative.

The specific proposals also involve major change. On pensions, we shall move to a position where the Government's role is to



provide a decent basic pension, leaving it to individual and employer initiative to augment that with an occupational or personal pension. We should thus be rejecting the general view since the late 1950s that the Government has a responsibility to provide earnings related as well as flat rate pensions. It would be an integral part of this approach to encourage as wide a coverage of occupational and personal pensions as possible, since we do not want people to rely on means-tested help in addition.

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For supplementary benefit I am proposing the most radical change since 1948 and probably since the 1930s. It would reverse the trend of seeking to provide a very detailed system of help, designed to respond to each individual variation of need. This has led in practice to a position where we are trying to deliver on a national basis to over four million households a casework system suited to a few thousands of households. It is just too complicated ever to be delivered effectively on anything like this scale. It has also led to a position where officials have to inquire in detail into personal circumstances and where there is more and more reliance on the state to look after day to day needs. And it has led to the continual involvement of "welfare rights" officers (often employed by local authorities) who seek to establish new "needs" and so new benefit precedents. None of these developments is desirable. So the existing arrangements would be replaced by a straightforward system of income support, providing people in need with an income on which like anyone else they would be expected to manage. This would be backed up by a discretionary fall-back system of help for real emergencies. The fall back system would be tightly administered on a cash limited basis to ensure that it was not exploited, as the present system can be.

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Housing benefits would be substantially simplified and reduced in scope. The effect would be to reduce by over one million

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the numbers who are on benefit.

My family support proposals recognise that, with the improvement in the position of pensioners, low income families with children, in and out of work, are the group who are now most in need. More help is also needed for low income working families in order to reduce the effect of the unemployment trap and improve wage flexibility. The family income supplement scheme does not do this satisfactorily. It gives less help to larger families, is difficult to administer satisfactorily and does not have any direct effect on pay packets. So we propose to replace it by a family credit, which, by being paid through employers, would in practice reduce deductions from take home pay and so enable working parents to keep more of their own money.

At present there is a very unsatisfactory overlap between unemployment benefit and supplementary benefit. This is wasteful and time consuming, for both beneficiaries and staff, and means there may be little financial advantage in having paid national insurance contributions. I am therefore proposing that we pay a higher rate of unemployment benefit for six months and cut out the need for supplementary benefit in that period. That will be a considerable simplification for all concerned.

Taken together, the proposals will have a substantial impact on the social security budget and on the number of staff required to run the system. The savings will begin to emerge soon after the introduction of the changes - there will be savings of £100 million on both supplementary and housing benefit in the second or third years. The savings on earnings related pensions will reach £500 million by 1993-94. And once the new structure is in place, the budget and priorities within it can be adjusted by changing basic benefit rates. On staffing, over the next 10 years savings of around 17,000 posts can be achieved.

is then enough?

There may be concern from colleagues whose departmental policies assume that the social security system will continue to pick up the bill, whether this involves students, increases in rates and rents, fuel costs or other special interests. I am anxious not to cut across other important Government policies. But if the social security system is having to pick up other people's bills, then it is important as a matter of good financial management that the responsibility for those bills be identified and dealt with in the context of the particular programme concerned. Otherwise we shall see the social security budget continually increasing.

As I have already said, the timetable is tight. If we are to introduce legislation this autumn, we need to publish the Green Paper by Easter.

A handwritten signature in black ink, consisting of a large, stylized 'N' followed by a smaller 'F' and a flourish.

1 February 1985

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