

23 April 1985

PRIME MINISTER

BENEFITS

Tactics

You are meeting Norman Fowler, Nigel Lawson and Viscount Whitelaw tomorrow to agree how to handle the Cabinet discussion of benefits. Some Cabinet colleagues who have not taken part in MISC 111 may be worried that the proposals are too tough. Nigel Lawson might suggest that he balances this by arguing that the proposals are too soft. Our view is that it is best if the MISC 111 team presents a united front.

Green or White Paper?

Norman Fowler describes his Report as a Green Paper, presumably to keep open a line of retreat if everything goes badly wrong. But there are good arguments for making it White. That is the honest thing to do, as the DHSS will be introducing legislation early in the autumn to implement the supposedly Green proposals. Moreover, we had open consultations last year, as the Reviews took oral evidence. We don't need a second round. If the Chancellor raises the question, we therefore recommend that the Report should be a White Paper, though with Green edges for those proposals on

which we have not already consulted (eg Unemployment Benefit for only 6 months).

Timing of Uprating

There are tricky political and practical questions here which need to be thought through. Norman Fowler won't have his structural changes in place for November 1986. The staff will not be trained. Trying to implement the changes then would risk the same administrative nightmare as we saw with the unification of Housing Benefit. But November 1987 is leaving it rather late. April 1987 is the earliest practicable date. And if we missed the November 1986 uprating, it would be easier to avoid cash losers from the reforms, as benefits recipients would be due to have an increase of 7% or 8%. The Treasury have also spotted that this would save them about £600 million in 1986-87.

The obvious argument against this is that the uprating of all benefits would be deferred from November 1986 to April 1987; and that this might be presented as breaking your pledge on price protecting the retirement pension, even though it would be given full price protection over the 18-month period.

Both Norman Fowler and Nigel Lawson may push this option.

Presentation

You could also discuss the main positive themes.

Norman Fowler will save £1 billion by 1988 (and that ignores extra savings by holding Child Benefit). These savings are essential. The abolition of SERPS will save us up to £20 billion a year by the next century. But part of the appeal of the changes is that there are other good arguments in support of them, independent of expenditure pressures.

The abolition of SERPS gets rid of a commitment which future governments were anyway unlikely to meet because of the burden on future taxpayers. It is a relic of the era when governments wrote paper promises and hoped they would not be around to pick up the bill. It leaves out the 2.5 million self-employed, who have always had to make their own flexible arrangements. The elaborate negative means test (giving more money to high earners) is exactly the sort of thing which governments should not get involved in. Much better to provide the basic pension and get individuals to top up with private provision. That, after all, was the logic of the original Beveridge national minimum.

The next biggest change is the reduction of maximum rate rebates to 80%. This helps with the problem of local authority accountability: the people who vote don't pay, and those who pay don't vote.

The toughening up of Supplementary Benefit for young people should encourage them to go out and take jobs. The Family Credit is an attractive positive measure to help poor working families and enable them to accept low wages.

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