

(26)

PRIME MINISTER

MEETING WITH NORMAN FOWLER

There is no alchemy whereby we can save money on social security without losers. It is sensible politics to consider how to fine-tune these losses but there can be no question of undermining the savings from the reviews.

Norman Fowler's note contains no expenditure figures because apparently he wants to talk about the politics without going behind the Chancellor's back on expenditure. But we need a costing of his various options, broken down into their components.

People in Work

Norman Fowler is worried because although family credit helps people in work its effects are in some cases more than offset by housing benefit losses. Provided we can find offsetting savings there is a case for increasing the family credit as it only goes to the deserving poor - family men going out to work on a low wage. Housing benefit by contrast is a pretty indiscriminate subsidy. Moreover, the family credit was one of the better received parts of the review.

Here is a possible shopping list of further reductions to finance increases in the family credit:

- reduce the family premium under the income support scheme. This helps with the unemployment trap.
- further reduce income support for people under 25 without children. This is already being cut but there is little sympathy for these people and again it would increase incentives for them to find work.
- further reductions in single payments from the social fund.

David Young is worried about the family credit because of two features:

- (i) Family Income Supplement is structured so that you can get a big sum for having one child with much smaller modest additions for extra children. Family credit is designed so as to be more sensitive to the number of children.
  
- (ii) Supplementary benefit pays more if your children are older. Until this year FIS did not. The family credit deliberately mimics the structure of supplementary benefit so as to keep an incentive to find work whatever the age of your children.

David Young rightly points out that this means that if you have a small family or very young children you might do less well under family credit than under FIS. But it seems to me that the family credit proposals still have a sound logic.

#### Old People

Pensioner losers are very tricky politically. About 3½ million old people get housing benefit and inevitably they are all affected by the 20% rule. There are several arguments against major concessions here:

- old people get about half of all benefits so if they are not to be affected by the reviews we would seriously jeopardise our scope for savings.
- the reviews stick to all your pledges for old people and that is the important point to get over in presenting them.
- it would threaten the crucial principle that everybody must pay some rates.

Presentation

The changes we are discussing are largely due in April 1988. It is unfortunate to get into a public row about them two and a half years in advance. Norman Fowler's problem is that he is committed to providing some figures in his White Paper but you could ask him about the possibility of reducing the impact by

- swamping the reader with figures
  
- including the effects of uprating the basic benefit rates, increasing tax allowances, (especially the age allowance) and the gains for the single elderly from rate reform. With all this going on it will be more difficult for the critics to focus on the bad bits.

David Willetts

DAVID WILLETTS

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