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PRIME MINISTER

19 November 1985

SOCIAL SECURITY REVIEWS: FAMILY CREDIT

It is not very easy to design an in-work benefit which:

- helps the poverty trap (ie does not taper off too sharply);
- helps the unemployment trap (ie is worth more than being out of work);
- does not cost too much.

Norman Fowler, through no fault of his own, is impaled on this three-horned dilemma.

In addition, there is a real political problem. Our measures to save money on HB take more off families in work than Family Credit gives back to them. The result is that the Reviews don't do much to help poor working families, although that has been a main presentational theme. Without the Family Credit the position would, of course, be worse.

But Norman Fowler has not yet made out a strong enough case for spending more on the Family Credit. He is in danger of losing the support of the public.

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repeating the horrors of housing benefit by extending Family Credit too far up the earnings range. It might be better to offer a slightly more generous provision to very low paid families. This could taper off sharply and whilst it would not help the poverty trap it would encourage people into really low-paid work.

I recommend against agreeing to Norman Fowler's current proposal as we need more information about its impact.

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