



HOUSE OF COMMONS  
LONDON SW1A 0AA

*See Margaret*

26th March, 1979

TAX CREDITS

The whole subject of tax credits threatens, as I expect you have seen, to blow up into a major political row within the Party. This is a report on what I have been doing to defuse the situation.

I expect you will have seen the Tory Reform Group publication, produced a couple of weeks ago, accusing us of dropping, or preparing to drop, a firm commitment. It is a well-argued document which begins by quoting my statement from the October 1974 Election:

"Potentially one of the greatest social reforms since Beveridge .... The Conservative Party has made it absolutely clear that the Tax Credit scheme is put forward not as a short term expedient, but as part of a long-term modernisation of our tax and welfare systems".

They go on to cite "The Right Approach" (page 59) which represents in substance what I said in 1974, states that "We are using our period in opposition to improve the scheme, and to examine the possibilities of broadening it .... within the resources available".

A number of colleagues and outside correspondents have been pressing Patrick Jenkin and ~~me~~ for a statement of the Party's present position (including, for example, William Clark, who was Chairman of the Select Committee which examined Tony Barber's Green Paper).

The issue was brought to a head by the news that Bob Hughes had tabled an amendment for debate at Central Council, requiring us to reaffirm our commitment. As a result of Angus' intervention, the amendment was not called but Bob Hughes spoke to the same effect (I enclose a copy of the press release of his inaugural speech as Chairman of the YCs, which gives the flavour of what he said at Solihull).

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In light of all this, I prepared, in consultation with Arthur Cookfield, Patrick Jenkin and Nigel Lawson, a text for use at Solihull, of which I enclose a copy. The salient points are as follows:

1. When we wrote "The Right Approach", the Labour Government had rejected the child benefit scheme. Since then, under pressure from us, they have adopted it so that it will be in operation from 5th April. This makes it impossible to introduce the complete tax credit scheme because half of it has effectively been done.
2. In order to fulfil our original objectives so far as families are concerned, we still need to raise tax thresholds "as far and as fast as resources allow" and to ensure that short term benefits are made to count as part of total annual income for tax purposes. This will be done.
3. There remains the question of pensioner credits. On this front, "we have not discarded our search for a way of applying the tax credit principle to them". Big problems do arise on this front because of the likely cost of pensioner credits in a relatively less prosperous and more heavily taxed Britain - where the relative value of benefits and tax allowances has changed a great deal.
4. "The arithmetic must, therefore, be re-examined. For it would certainly not be wise, in the economic circumstances that are likely to confront the next Conservative Government, to give any final or open-ended pledge on this front. All I can responsibly say at this stage is that we shall certainly wish, as soon as economic conditions allow, to examine the scope for making further progress, so far as pensioners are concerned, towards our original tax credit objectives.

"And it is after all the objectives that are important. We want to care as well as we can sensibly afford for all of our fellow citizens who are in genuine need and who cannot care for themselves. But we must also ensure that, in trying to do that, we do not stifle the nation's capacity to create the wealth on which they depend as much as everybody else.

"Those were the principles on which Iain Macleod and Tony Barber built the original tax credit scheme. And they are the principles by which we shall continue to be guided."

The speech was heard by Peter Thorneycroft, Angus Maude and John Biffen, who all take the view that these last few paragraphs enlarged our room for manoeuvre as far as it was possible to do without appearing totally to abandon what has come to be regarded as an important aspect of our social policy.

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So far as the merits are concerned, you will know that the social security budget now accounts for a quarter of all spending on programmes compared with one-fifth in 1973-74. It has grown in real terms by 43 per cent since then (some allowance must, of course, be made for a growth in the number of pensioners and unemployed) compared with a real growth of 16.2 per cent for other programmes.

None of us are under any illusions about the need to reverse this trend. A change in the basis on which benefit levels are linked to earnings as well as prices is probably the key here. On the other hand, some of our other policies must increase the case for price linkage in the early years. For these reasons, the figures which Nigel and I, with the help of Adam Ridley and George Cardona, have agreed with Patrick Jenkin for his budget over the next four years make no provision for the introduction of anything resembling pensioner tax credits.

This is, I hope, consistent with what I said at Solihull which is itself, I hope, not inconsistent with the history of the Party's attitude to the whole subject of tax credits.

I apologise for such a long letter, and hope that our attitude towards this subject, in the Manifesto and in such answers as we are required to give in an Election Campaign, can be based on what I said at Solihull.

I am copying this letter to Keith Joseph, Peter Thorneycroft, Patrick Jenkin and Chris Patten.

The Rt. Hon. Margaret Thatcher MP

