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cc: CO

Michael Alexander

Original on

10 DOWNING STREET

Social Services: May 79

Uprating of Benefits.
10 January 1980

From the Private Secretary

Dear Tony.

As you know, the Chancellor called on the Prime Minister this morning. The following points are worth recording:

(i) The Chancellor commented that the Prime Minister had effectively ruled out the de-indexation of retirement pensions in her weekend interview on television. He intended, nonetheless, to base the next pensions uprating on a relatively optimistic RPI forecast - just as the RSG settlement had been based on a low forecast of pay and prices. The Prime Minister agreed that there was scope for some savings from this approach, though the principle of indexation would have to be adhered to. The Prime Minister also suggested that it would be worth considering postponing the announcement of the new pension rates until June - rather than announcing them in the budget. With the inflation rate hopefully turning down by then, this would reduce the pressure for a larger uprating.

(ii) The Chancellor went on to say that if retirement pensions were not to be de-indexed, it would be necessary to look for major savings by not uprating other social security benefits in line with inflation. He mentioned in particular child benefit, where it would be possible to save £300m if the child benefit rate were increased by only half the inflation rate. There would be powerful opposition to this, both from the poverty lobby and from those who were concerned about the "income in and out of work" problem. But he felt that savings had to be secured from this source. The Prime Minister said that she agreed in principle; she also commented that, in order to prevent the "income in and out of work" problem from getting worse, it would be necessary to reduce the uprating of the child supplement on supplementary benefit.

(iii) The Chancellor reported briefly on his discussions in The Hague with Sir Ian Gilmour on the EEC budget. The Dutch Prime Minister had told them that the Dutch Government could perhaps support the UK in obtaining a reduction in our net contribution up to 900 m.u.a. But he had also said that it would be necessary for Britain to provide some concession to the Germans and others in return, even though this could be of a symbolic or cosmetic nature. They appeared to have in mind something in the energy field. He (the Chancellor) did not suggest that we should give

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- 2 -

away anything substantive, but we ought to be in a position to offer something which our partners believed was a concession. Accordingly, he was asking Treasury officials to consider possible options. The Prime Minister agreed that this work should proceed, though she emphasised that we should not concede anything in the energy field of substance.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

Wm ew.

Tim Latham

Tony Battishill, Esq.;
H.M. Treasury.

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