E(79) 2nd Meeting

COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
FRIDAY 1 JUNE 1979 at 10.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for
Foreign and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor
(Item 2)

The Rt Hon Francis Pym MP
Secretary of State for Defence
(Item 2)

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social
Services (Items 1-4)

Sir Kenneth Berrill
Head of the Central Policy
Review Staff

SECRETARIAT

Sir John Hunt
Mr P Le Cheminant
Mr P Mountfield
Dr N B W Thompson
Mr D R Instone

CONTENTS

1. ~~ECONOMIC STRATEGY COMMITTEE~~ PAY

THE COMMITTEE considered a memorandum by the Secretary of State for Employment (C(79) 6) and a memorandum by the Chancellor of the Exchequer (E(79) 5) which together dealt with the problems confronting the Government in the remainder of the present Pay Round and in subsequent years.

THE CHANCELLOR OF THE EXCHEQUER said that his paper suggested ways in which the Government could move from the difficult situation it had inherited to a more rational approach to pay policy, particularly in the public sector. He suggested that the Standing Commission on Pay Comparability (the Clegg Commission) should continue for the time being, and that the Government should seek to influence its recommendations. For the remainder of the present Pay Round, nationalised industries and local authorities should be encouraged to stick to the pattern already established. The Rate Support Grant for 1979-80 should take account of the cost of inherited commitments, including Clegg recommendations, and of the need for financial restraint. In the public services, cash limits should be set in due course which would also balance these two factors. The Government should seek to disengage from negotiation in the nationalised industries, provided that it could rely on competition policy to ensure the efficiency of the industries concerned and to minimise the effect on prices of excessive wage settlements. In addition, a major educational effort would be needed to inform public opinion and negotiators. Some kind of 'forum' might be necessary as part of this effort. It was however clear that formal contacts with the Trade Unions were unproductive, and it was better to concentrate on private discussion with individual trade union leaders. These would have to be supplemented by an intensive campaign of publicity including Ministerial speeches.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he was seriously concerned about the risk of excessive pay settlements in the private sector. Some unions were seeking to renegotiate settlements reached earlier in the present round. But with increaseng speculation about the possibility of a pay freeze, this only encouraged unions to force through excessive claims in a hurry. The Government had a very considerable difficulty of presentation. This might be eased following the Budget. If this was well received by the unions, there would be a period of relative calm befo-- the next pay round began in earnest at the end of the year. But if the Budget were badly received, pressure to re-open existing pay settlements would increase. In the public sector, he was concerned by the attitude of the Clegg Commission. The Chairman and some of the members took an excessively narrow view of their function, and seemed likely to concentrate too much on pay differentials, to the exclusion of other factors such as overmanning, especially in the first four references which were being handled against a tight timetable.

In discussion, there was general agreement that the prospect was sombre. Prices were rising, and would do so further as a result of Budget changes and of movements in the world oil price. This put further pressure on wages, at a time when unit labour costs were already much too high by comparison with our competitors. It was essential to break the expectation of annual wage increases unaccompanied by improvement in productivity. The Government's policy of restoring incentives would help to increase output, but until this happened there was no way in which pay could be increased in real terms. The private sector must be encouraged to look to its own self-interest. In the public sector, excessive and unrealistic wage demands simply added to the public sector borrowing requirement and generated further inflation. The concept of comparability was a potentially dangerous one in this connection. It was well-established in some parts of the public services, and it was not easy to see alternative methods of fixing pay there in the long term. But the pay research and review body machinery was undoubtedly capable of a good deal of improvement and needed re-examination. While the Government remained committed to maintaining the Clegg Commission for the time being, every effort should be made to strengthen it and encourage its more receptive members to take a broader view of their responsibilities. On presentation, all Ministers should make a serious effort to bring home to the public and to the negotiators the consequences of excessive pay settlements especially in the public sector. A number of public sector cases remained to be settled. Those in the law and order field would present particular problems for the Government because of its commitments. Ministerial Committees considering public sector pay cases should always be informed about the consequences for prices, taxes, rates etc of the recommended settlements.

THE PRIME MINISTER, summing up, said that the Committee had only had a preliminary discussion of the problems. The underlying difficulty was that for many years people had been led to expect pay increases unrelated to production, productivity or effort. And the balance of negotiating advantage had swung too far in the unions favour. The Government was committed to tackle the latter problem but more generally a major educational effort was required to ensure that the economic realities were understood. Ministers would need to consider these matters further. Meanwhile there were a number of steps which would be taken. First all Departmental Ministers bringing forward papers about pay issues to Cabinet Committees should ensure that they fully set out the relevant facts including not only the size and cost of the increase, but also its effect on prices, local rates, taxes, and employment. Second, once a decision had been taken on any public sector pay settlement, Ministers should take every opportunity to emphasise the consequences in public, both in national and local media. They should ensure that the Paymaster General also had all the relevant facts so that he could co-ordinate presentation. Third, the Chancellor of the Exchequer and the Secretary of State for Employment should consider how the independent members of the Clegg Commission might be persuaded to take a wider view of their responsibilities. Fourth, the Chancellor of the Exchequer should arrange for an article to be published in the serious press, emphasising that the intellectual integrity of the Comparability Commission required it to take account of such issues as over-manning and low productivity, as well as of pay differentials. Fifth, the Chancellor of the Exchequer should also arrange for the Government evidence to the Clegg Commission to be revised and circulated to Ministers concerned for clearance. Sixth, Ministers concerned with large firms in the private sector should seek informal opportunities to explain to them the importance in their own long-term interests of resisting excessive pay demands. Seventh, the Chancellor of the Exchequer should circulate a paper to the Committee, setting out the possibilities for a 'forum' in which pay matters could be discussed with interested parties in a wider context. Eighth, the Secretary of State for Employment should circulate a paper to the Committee about his proposals for changing the balance of power in industrial relations. These should cover not only trades union legislation, but also the future of the Advisory Conciliation and Arbitration Service (ACAS) and of Schedule 11 of the Employment Protection Act 1974. She would arrange in parallel for an excellent paper on the subject by the CPRS to be circulated to the Committee. Ninth, The Committee would need to consider questionsof pay, prices and efficiency in the nationalised industries, and the papers on the nationalised industries already being prepared by the Secretary of State for Industry would be relevant. Tenth, the Secretary of State for Employment should arrange for his Department to keep informed of pay developments in the private sector. Similarly Ministers responsible for nationalised industries should arrange to keep each other informed of pay developments in their industries which might have repercussive effects in other areas.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Ministers concerned to be guided accordingly.

2. TOP SALARIES REVIEW BODY - ELEVENTH REPORT

THE COMMITTEE considered a memorandum by the Lord President of the Council (E(79) 4) about the Eleventh Report of the Top Salaries Review Body (TSRB), dealing with the pay of chairman and members of the Boards of nationalised industries, the higher judiciary, senior officers of the armed services and senior civil servants.

THE LORD PRESIDENT OF THE COUNCIL said that the previous Government had accepted the recommendations of the TSRB's tenth report, but had staged those increases over two years with instalments in April 1979 and April 1980. They had made no commitment to update these increases further in the light of inflation. The April 1979 instalment had already been paid. The TSRB had now evaluated the increase due from April 1979, to take account of development, since its 10th Report had been prepared, and had also recommended adjusted rates for 1980 taking these factors into account. The adjustment for 1979 averaged 11.7 per cent and would cost, in all, about £4 million. He proposed that the Review Body's recommendations should be approved. He did not however propose to ask now that the Government should make a final decision about its willingness to further adjust the recommended salaries in 1980 to take account of developments between April 1979 and April 1980; though the Review Body would no doubt make its views on this known in due course.

In discussion, there was general agreement that the increases recommended by the TSRB for 1979 should be implemented forthwith. In the case of senior officers of the armed services, failure to do so would lead to inverted differentials with officers of the rank of Brigadier and below. In the case of the judiciary, there was a noticeable reluctance on the part of suitable members of the Bar to accept judicial appointment because of the financial sacrifice involved. Implementation of the Review Body's recommendation would assist here. In accordance with previous practice, it would be appropriate to pay pensions henceforward to the groups covered by the Eleventh Report by reference to the rates recommended for April 1980. But it was not necessary to enter now into any forward commitment to up-date the 1980 rates further that year. This issue could be considered when the TSRB reported again on the salaries concerned.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed with the Lord President that the rates recommended by the TSBR for 1 April 1979 should be brought into payment ~~at a further~~ from that date. The rates recommended for 1 April 1980 should be adopted for pensions purposes from 1 April 1979, and implemented for salary payment from 1 April 1980. The Government should make no advance commitment to update those rates further to take account of developments between April 1979 and April 1980. The Report should be published as soon as possible, and an accompanying Government statement made on the same day. The Ministers concerned should arrange for the Chairman of the nationalised industries to be informed a little in advance of the announcement. The timing of the announcement should be synchronised with that about the pay of doctors and dentists, to be considered under the next item of the Agenda.

The Committee -

Took note with approval of this summing up by the Prime Minister of their discussion, and invited the Lord President of the Council and the other Ministers concerned to proceed accordingly.

3. 1979 REPORT OF THE REVIEW BODY ON DOCTORS' AND DENTISTS' REMUNERATION

The Committee considered a note by the Secretary of State for Social Services (E(79) 3) about the implementation of the recommendations of the 1979 Report of the Doctors' and Dentists' Review Body (DDRB).

THE SECRETARY OF STATE FOR SOCIAL SERVICES said the 1979 Report of the DDRB contained two main elements. First, the report set out rates of pay which brought doctors and dentists halfway towards the fully up to date rates as assessed for 1 April 1978, updated to 1 April 1979. The cost was estimated at about £199 million, or 25.7 per cent of the net pay bill. Second the report recommended rates of pay appropriate to new contracts which had been negotiated for consultants, medical assistants and for general practitioners in certain hospital jobs. The cost of the new contracts would be around £5 to £6 million in the current year and around £23 million in a full working year. In his view the recommendations of the report should be accepted in full. A commitment had been given in Opposition to honour the proposals in last year's report for the phased implementation of fully up to date rates by 1 April 1980. There was also an urgent need to improve morale of the medical profession; this was vital to the wellbeing of the National Health Service as a whole.

In discussion it was generally agreed that the DDRB's recommendations should be accepted both as to the appropriate rates of pay in 1979 and the pricing of the new contracts. The new general pay scales should be covered by an adjustment in cash limits for the current year. But no extra provision in cash limits should be made in 1979-80 for the additional £5 to £6 million required to finance the new contracts. The Health Departments had originally asked the DDRB to price these contracts within money already available; and to adjust cash limits to accommodate their cost could undermine financial discipline. As to the final stage of introducing the 1978 salaries, due in April 1980, they should be updated to accommodate the recommendations in the new report but commitments should be avoided, if possible, to further updating them in 1980.

THE PRIME MINISTER, summing up the discussion, said the Committee agreed that the DDRB's recommendations about the appropriate pay scales in 1979 and 1980 should be accepted. Cash limits should be adjusted upwards to accommodate the increases to be paid in the current year. There was no objection to the implementation of the new contracts recommended by the DDRB; but no increase should be made in the cash limits for the current year to accommodate their additional cost. No new commitment should be entered into at this stage about the further updating of doctors' and dentists' pay in 1980 to 1980 levels. Nor need decisions be reached now about the treatment of cash limits to accommodate increases in pay in 1980. The Committee agreed that the Government's decisions should be announced as soon as possible. The Secretary of State for Social Services, the Secretary of State for Scotland and the Lord President of the Council should consult together, and with her, about the exact timing and wording of the announcement.

The Committee -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Social Services, the Secretary of State for Scotland and the Lord President of the Council to be guided accordingly.

4. SOCIAL SECURITY UPRATINGS

The Committee considered Social Security Upratings. Their discussion and conclusions reached are recorded separately.

5. STRUCTURE OF THE POWER PLANT MANUFACTURING INDUSTRY

The Committee considered a memorandum by the Secretaries of State for Industry and for Energy (E(79) 7) reviewing the structure of the power plant manufacturing industry. They also had before them a minute of 30 May 1979 from Sir Kenneth Berrill to the Prime Minister on the same subject.

THE SECRETARY OF STATE FOR INDUSTRY said that the power plant industry consisted of two turbine generator manufacturers (GEC and NEI Parsons) and two boiler makers (Babcock and Wilcox and NEI Clarke Chapman). There was general agreement that the industry's future lay in contraction to a single company in each field, but there was so far no sign that the necessary mergers would be forthcoming. The immediate issue was whether the Government should seek to influence the destination of the orders for the power plants for the Heysham and Torness Advanced Gas-tooled Reactor (AGR) stations, now out to tender. The two boiler making firms had reached a measure of collaboration, but this was not so in the case of the turbine manufacturers. GEC favoured a four-flow design, whereas Parsons had a six-flow design which the Generating Boards were known to prefer. He nevertheless considered it unlikely that the Boards would give all their contracts to Parsons, hence these orders were unlikely to decide the fate of either company. The Government's options were not to intervene in the normal ordering process; or to seek to persuade the Boards to place their orders in such a way as to force restructuring; or to seek to spread the work between the companies. His inclination was not to intervene, but to leave the ordering to the Boards. He was further influenced in this view by the information he had received that it was likely that all the companies concerned would be applying in due course to the Government for assistance to obtain contracts overseas. He would not wish by his action on the AGR orders to give the impression that Government help would necessarily be forthcoming for any such overseas orders. Nevertheless it was relevant that GEC was generally regarded as the more effective company in obtaining business in export markets and they might therefore have the best chance of succeeding in the long run. For this reason, if the Committee decided in favour of intervention, he considered that the orders should go to GEC.

THE SECRETARY OF STATE FOR ENERGY said that he also favoured non-intervention, though he recognised that this would involve putting our faith in the procurement ability of the Generating Boards whose past performance did not inspire confidence. If they were to decide in favour of the six-flow design from Parsons a strong reaction could be expected from GEC.

In discussion, it was suggested that it would be wrong to leave the future of the industry entirely in the hands of the Generating Boards. Parsons was the weaker of the two turbo-generator manufacturers and could soon be in danger of collapse. The Boards' ordering policies might well be aimed at keeping Parsons in existence as a counter to GEC, but the essential consideration was that there was most unlikely to be room for two companies to continue in the longer term. It was therefore desirable that the actions of the Generating Boards should promote rationalisation in the industry. But this would not be possible in relation to the present orders and if the Government intervened to this end the Generating Boards might seek financial compensation. The right course might therefore be to allow the Boards to go ahead with formulating their ordering policies on the two stations, but to expect them to consult Government before reaching final conclusions or signing contracts.

THE PRIME MINISTER, summing up the discussion, said that the Committee were agreed that the Generating Boards should be told that they were responsible for reaching decisions on the ordering policy they followed in respect of plant for the two AGR stations. But it should also be brought home to them that the Government expected them to face the consequences for the power supply industry of whatever decisions they reached. It followed that they should not expect financial compensation, for the consequences of any decision they took. It should also be made clear to them that they should not assume in their decisions either that the Government would be prepared to help the manufacturing industry with export orders or that the Government would wish them to take social or regional factors into account. These were matters for Government. The

Generating Boards should however be asked to let the Government know well in advance of final commitment or public announcement of the decisions they had reached. The Secretaries of State for Energy and for Scotland should inform the Generating Boards accordingly and should report back to the Committee the decisions which the Boards reached when these were known.

The Committee -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Ministers concerned to be guided accordingly.

6. OFFSHORE SUPPLIES INTEREST RELIEF GRANTS SCHEME

The Committee considered a memorandum by the Secretary of State for Energy (E(79) 6) on the offshore supplies interest relief grants scheme.

THE SECRETARY OF STATE FOR ENERGY said that the Commission of the European Economic Community had decided on 2 May to require the United Kingdom Government to abolish this scheme within two months on the grounds that it was contrary to the Treaty of Rome. If we failed to comply, the Commission had threatened to take the issue to the European Court. There were essentially the following options: to discontinue the scheme at once; to defy the Commission and keep the scheme in its present form; to phase it out over a period; or to seek to reach a compromise agreement with the Commission on retaining the scheme in a watered-down form. An important consideration was whether the scheme had succeeded in what it had attempted to do: namely, to help our offshore suppliers establish themselves in the market provided by the development of the United Kingdom Continental Shelf. Our share of this market had grown substantially since the scheme was introduced but it was nevertheless difficult to conclude with certainty that this was attributable to the assistance which the scheme had offered. He judged that the scheme had probably been marginally valuable over the last four or five years. In public expenditure terms, discontinuing it ~~woud~~ WOULD produce a saving of £17 million over the period of the Public Expenditure Survey. Neither of these considerations was conclusive. Hence the issue was essentially one of tactics. If the scheme was discontinued immediately, the Government would be criticised for being too compliant to the demands of the Commission. To defy the Commission completely however would lead to a case being put before the European Court which we would almost certainly lose. To announce unilaterally that we were prepared to phase the scheme out in our own time would probably lead to renewed protests from other members of the Community particularly Denmark. For these reasons he preferred to attempt to negotiate a modified scheme, thereby prolonging the debate and providing the opportunity to dismantle the scheme at a later date.

In discussion, it was argued that to attempt to negotiate a watered-down scheme would not work. The previous Government had attempted to do this and had been rebuffed. Moreover there were obvious objections to arrangements which would require us to subsidise our European competitors. A better course would be to discontinue the scheme on economic grounds as part of the Chancellor of the Exchequer's exercise to reduce public expenditure. But to cut it immediately would be badly received by industry which objected to abrupt changes in Government policy affecting them. It was important that the Government's hand should not appear to have been forced by the Commission; nor should we give the Commission encouragement to believe that we would accept their intrusion into other areas of our energy policy. A phasing out of the scheme was therefore the best solution and one which we should justify on economic grounds.

THE PRIME MINISTER, summing up the discussion, said that the Committee were agreed that the best course of action would be to phase out the scheme over a reasonable period - perhaps 12 or 18 months. The most suitable period for this purpose should however be decided by the Secretary of State for Energy, in consultation with the Secretaries of State for Industry and for Scotland and with the Chancellor of the Exchequer. The Secretary of State for Energy in consultation with the Secretary of State for Foreign and Commonwealth Affairs should thereafter arrange for the Commission to be informed of our intentions.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Energy to be guided accordingly.

Cabinet Office

4 June 1979

COPY NO 18

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(79) 2nd Meeting, Minute 4
FRIDAY 1 JUNE 1979 at 10.15 am

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4. SOCIAL SECURITY UPRATING

The Committee had before them a letter dated 31 May from the Secretary of State for Social Services to the Chief Secretary, Treasury, about reductions in public expenditure on health and social security.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said Cabinet the previous day (CC(79) 4th Conclusions) had provisionally concluded that reductions in public expenditure should not be obtained through the extension from 3 to 6 days of the number of waiting days before sickness and unemployment benefit could be calimed. He had, however, been asked to discuss with the Secretary of State for Employment and Chief Secretary, Treasury, the scope for alternative savings. He was assuming that £30 million of such savings for the current financial year needed to be found, on the assumption that £10 million of the £40 million target savings would be obtained through the Cabinet's provisional decision not to make good the shortfall in the 1978 uprating for those on short term benefit. The main alternatives that had been considered were: the abolition of death grant; avoiding uprating child dependancy allowances; aligning supplementary benefit and national insurance main rates; and holding of the uprating of family income supplement to the minimum. Neither he nor the Secretary of State for Employment found any of these alternatives attractive. In his own view the best choices were either the increase in waiting time which he had already proposed, or an increase in prescription charges from 20p to 60p, together with an increase in dental charges in line with inflation, which would save about £50 million.

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In discussion it was generally agreed that the further alternatives proposed by the Secretary of State for Social Services were unattractive. But since Cabinet had already provisionally rejected the option of increasing waiting time for unemployment and sickness benefits, this left only the option of increasing prescription and dental charges. An increase in prescription charges from 20p to 60p would be unpopular and would have an adverse effect on the retail price index. However increases in prescription charges had the general advantage of being among the simplest increases to explain; and if the increased charge were limited to 45p, and thus below full uprating for inflation since it was established at its present level, the political reaction should be sustainable. It was relevant too that children and other sensitive groups were exempt from the charges and would not be affected by their increase.

THE PRIME MINISTER, summing up the discussion, said the Committee agreed that the further alternatives proposed by the Secretary of State for Social Servic[es] in his letter of 31 May should not be pursued. They reaffirmed the Cabinet's conclusions of the previous day that the shortfall in short term benefits sho[uld] not be made good and that there should be no increase in waiting time for sickness and unemployment benefits. They agreed that prescription charges sho[uld] be increased from 20p to 45p and also that dental charges should be increased in line with inflation, as proposed by the Secretary of State for Social Serv[ices] in his letter to the Chief Secretary of 24 May. The Chancellor should announ[ce] the decision on prescription and dental charges in his Budget statement. It was very important that no prior publicity should be given to these changes.

The Committee -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Chancellor of the Exchequer and the Secretary of State for Social Services to be guided accordingly.

Cabinet Office

4 June 1979

Sir J. Hunt

16M

I take it that Tend Jenkin has been invited to E? Anyone else?

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
LONDON SW1

cc Sir K Berrill
Mr Le Cheminant
31 May 1979
Mr MacMillan
Mr Baldwin
Mr Mountfield
Photocopy No 1.

115/15

Dear Chief Secretary,

At Cabinet this morning colleagues expressed considerable doubts as to whether it would be possible to get through the House proposals to extend from three days to six days the number of waiting days which a person has to serve before becoming entitled to sickness or unemployment benefit. The matter was to be considered further at Committee E tomorrow and I am therefore circulating this letter to colleagues in advance of the meeting.

I attach a note about this proposal: despite all the obvious difficulties, it remains my view that this is the best available option, if savings of this order have to be achieved this year on the social security side. If colleagues are not able to accept that we should go forward with this proposal, then I have to say that it will be extremely difficult for me to find substantial savings - of the order of £30m - in this financial year, if the possibility of increased NHS charges for prescriptions and dental work is also excluded. (I am assuming that Cabinet's decision not to make good the shortfall in the 1978 uprating for those on short-term benefits which will save £10m in 1979-80 counts towards my overall target of £40m).

I have nonetheless considered in detail what savings could be made and I list below propositions which, to my mind, are frankly less acceptable than going for six waiting days but which are the only alternatives I can offer:-

(a) abolish death grant. This would save £5m in 1979/80 and £16m in 1980/81. One could argue that those in financial difficulties with funeral expenses could claim supplementary benefit, as indeed they do at the moment. But: this would be fiercely opposed in Parliament, where all the recent pressure has been to increase the grant.

(b) hold down on the uprating of child dependency allowances. If the increases in the child dependency allowances are restricted so that child support for those on national insurance benefit goes up only by the amount needed to inflation proof the dependency allowances themselves and not by the amount needed to inflation proof the total support for each child (including the child benefit element), as is provided for in

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the public expenditure programme, £10m would be saved in 1979/80 and £26m in 1980/81. If, more realistically, only the child dependency allowances paid with sickness and unemployment benefit were so restricted the savings would be about £5m and £12m respectively. But: this would be a subterfuge, yielding a much less generous level of child support. Coming on top of our decision not to uprate child benefit this November, it would be very damaging to our claim to concern for the family.

(c) align supplementary benefit and national insurance main rates. The principal scale rates for married and single persons on supplementary benefit are slightly ahead of the principal national insurance rates (£31.55 for a married couple compared with £31.20 and £19.90 for a single householder compared with £19.50). If those rates were aligned with the new pension rates there would be a saving of £12m in 1979/80 and £30m in a full year. But: this would mean that supplementary pensioners got less than price protection in November, which would be inconsistent with our undertakings.

(d) hold the uprating of family income supplement to the minimum. It would be possible to shave £2-£3m off the FIS uprating, final details of which have yet to be arranged. But: a "mean" FIS uprating is inconsistent with colleagues' aims to encourage people to stay in work rather than fall back on social security benefits.

Nonetheless these are the only immediate savings I can offer if colleagues do not wish to go ahead with the proposal to increase waiting days from three to six. Beyond these areas one moves into impracticable propositions such as attempting yet again to withhold unemployment benefit from occupational pensioners.

I have looked again at the possibility of making savings in the HPSS programme but the only way to secure such savings while not cutting expenditure would in fact be to increase charges. I am still ready to pursue this if colleagues so wish. I have considered but rejected the possibility of charging for family planning supplies or of curtailing the present welfare milk scheme. Reductions in health authority expenditure are ruled out by our Manifesto commitment; and the most I could do would be to make some comparatively small savings in centrally financed services, which cover for example research, training and grants to voluntary bodies. I may be able to save in all up to £5m spread over a number of sub-heads, which I am urgently reviewing.

For myself I would prefer to go ahead either with the extended waiting days or with the increased charges rather than put together a package of the kind I have outlined above, which would attract criticism on a number of fronts out of all proportion to the savings achieved.

Yours sincerely

pp PATRICK JENKIN
(Approved by the Secretary of State and signed in his absence)

EXTENSION OF WAITING DAYS

Proposal

1. It is proposed that the 3 days for which unemployment, sickness and injury benefit are not paid at the beginning of a spell of unemployment or incapacity should be extended to 6 days.

Savings

2.

	Gross	Full year Net of Supp. Ben.
Sickness Benefit and Injury Benefit	£63m	£60m
Unemployment Benefit	£15m	£10m

Only very rough estimates are possible. The latest available figures relating to claims for benefit show that in 1976/7 the total number of sickness benefit claims was 10 million, while the total number of unemployment benefit claims in 1978/9 was 4½ million.

Effect on claimants

3. Beneficiaries would lose 3 days flat-rate benefit: £7.88 for a single person; £12.76 for a married couple; £14.46 for a married couple with 2 children.* Perhaps 70% of men would be likely to have some sick pay cover for those 6 days and a rather higher proportion of women. The unemployed would receive no continuing payments from their employers but a considerable proportion receive an extra week's payment (a week in hand) when they are discharged and a number of them would have redundancy etc payments.

Historical

4. The waiting period for receipt of unemployment benefit when the scheme commenced in 1911 was 6 days. During the 1920s the period varied between 6 and 3 days; but it has been 3 days since 1937. From 1948 waiting days became payable retrospectively after there had been 12 days of sickness, unemployment or injurying during a period of interruption of

* benefit values at current (1978/9) rates

employment. In 1966 the Labour Government tried to make the 3 waiting days absolute but had to withdraw their proposals in the face of backbench pressure and Conservative opposition. In 1971, the Conservative Government made the 3 waiting days absolute in the face of very strong opposition from the Labour benches (3 mornings were spent on this subject in Committee).

<u>In favour of the proposal</u>

5. It would result in considerable savings (see para 2. above). It could be argued that since the period of 3 waiting days was last introduced the background has changed a great deal. Increasingly employers have provided sick pay for employees who are temporarily incapacitated. The Contracts of Employment and Redundancy Payments Scheme have increased considerably the provision made for a worker who becomes unemployed; and the number of workers who receive a week's wages in hand on the termination of their employment has also increased. The rates of national insurance benefit are now much higher than in 1948 and earnings and savings have also gone up considerably since then, and with them the ability of people to manage on their own resources during short interruptions of earnings.

<u>Against the proposal</u>

6. a. Many claimants would be worse off particularly those who are low-paid and those working in heavy industries such as coal mining, engineering and shipbuilding where the incidence of sick pay is not as great. Considerable opposition could therefore be expected from the Labour benches and from the TUC.

b. The fact that benefit will not be payable for the first 6 days of sickness will mean that many employers with sick pay schemes would either have to pay their employees an additional 3 days' benefit or re-negotiate the private insurance cover they have for sick pay schemes. The CBI would therefore be likely to oppose the proposals also.

c. More claimants would need to have recourse to supplementary benefit. It has been estimated that 14% of those becoming unemployed claim supplementary benefit during the first week of unemployment and 26% during the second week. A change to six absolute waiting days would mean an increase in these numbers.

d. Increasing the number of waiting days would be contrary to the ILO conventions on sickness and unemployment benefit. There could be difficulties for us in relation to the EEC, as none of the EEC countries has more than three waiting days for sickness benefit and only one (Italy) has more than three waiting days for unemployment benefit.

Administrative implications

7. The payment of unemployment benefit is mainly computerised and, because of the need to re-programme the computers, the change could not be made until January 1980. The sickness benefit rules could however be changed with effect from September 1979, assuming legislation is through before the summer recess. This would mean an awkward 4 months' period during which two benefits which have run in close parallel for 30 years had different rules and would be a complication which would be unwelcome to staff and beneficiaries alike. But it would not be operationally impossible to begin the new arrangements on different dates. On this basis the benefit saving in 1979/80 would be £40 million net.

c. Mr Downey
c. Mr Crawley
c. Miss Land

Qa 04110

To: MR STOWE

From: SIR KENNETH BERRILL

Uprating of Social Security Benefits

1. I think the Prime Minister will wish to consider very carefully whether Mr Jenkin's proposals on retirement pensions in C(79)9 fully meet the need for public expenditure savings both this year and in the longer term.

2. The present pension is £19.50 a week for a single person and £31.00 a week for a married couple. The real value of the pension has risen 20 per cent over the last five years. The cost is now over £7½bn. a year.

3. The present statutory requirement is to uprate long-term benefits (including pensions) by the forecast growth (November to November) in earnings or prices, whichever is the higher.

4. Mr Jenkin proposes that next November's uprating should be indexed to prices only. Legislation would be taken, as necessary, to make this the statutory minimum requirement, in line with the present arrangements for basic rate personal tax allowances.

5. He also proposes that a margin should be added to make good the 'shortfall' on the previous Government's uprating last November (they under-estimated the rise in incomes). The cost of this margin would be up to £90m. in 1979/80 and £220m. in a full year. The cost is inevitably carried forward into all future years because indexation provides a ratchet. This £220m. is a significant sum. There is no provision for this in current expenditure plans and if it is committed now it will necessarily be at the expense of equivalent cuts elsewhere.

6. There is no doubt that the Government is committed to an increase of at least £2.50 (to £22) for a single person and £4.00 (to £35) for a married couple. That is implicit in the Prime Minister's assurance on 29 March that "we shall honour the pension commitments which he [Mr Callaghan] announced yesterday". But these, or even larger, increases will result from indexation by prices only without the addition of any margin for shortfall on the rise of incomes (unless prices are forecast to rise by less than $12\frac{1}{2}$ per cent, which is unlikely).

7. Mr Jenkin is likely to argue that the Government also has a commitment to make good the shortfall on incomes left over from last November. We do not think that this need be read into the Prime Minister's assurance noted above. But she will wish to judge that for herself. Mr Callaghan's remarks, to which she responded, are at Annex A.

8. Unless the Prime Minister feels that the Government is committed to making good the shortfall on incomes, there is a good argument on merits for not doing so. The social security programme now accounts for nearly 25 per cent of public expenditure; is growing rapidly; and is increasingly closing off other options. Pensioners have done well in recent years. The present Government's policy is to index by prices only until resources are available to achieve further improvements. Last November's uprating has already provided for an increase in real terms of over 3 per cent even in its defective form. Given the present need for expenditure savings it is illogical to seek to go further.

9. I am sending a copy of this minute to Sir John Hunt.

K.B.

22 May 1979

Att

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ANNEX A

EXTRACT FROM HANSARD

HOUSE OF COMMONS

Mr. Callaghan

of the Industrial Reorganisation Corporation. This time they want to hamsting the National Enterpise Board. They intend to cut public expenditure. They keep saying so. What do they propose to do? Do they propose to stop the National Enterprise Board funding the new Rolls-Royce aero-engines? [HON. MEMBERS: "Answer".] There are more questions yet. Let us have a compendium. Do they intend to cut the Euopean airbus? Will they stop the production of the new HS146 aicraft? Is it the youth employment schemes that are to go? Is it the Welsh Development Agency or the Scottish Development Agency, which is at the moment backing 9,000 jobs with £20 million of investment?

Is it the new social benefits that we have introduced that are to go or the mobility allowance for the disabled, the invalid care allowance, or help to disabled housewives? I make no mention of school milk.

Since we came into office the average number of patients on each doctor's list has declined. Are the numbers to be allowed to swell again when public expenditure is cut?

The numbers of people served by home helps have increased. The meals on wheels service has been enlarged.

Are these to be cut back? Or is it the rebuilding of our cities? Would they tamper with the child benefit scheme, whose allowance is to be increased from £3 to £4 per week from 1 April?

What about the pensioners? During the Conservatives' term of office pensioners' living standards fell behind those of the population who were working. By contrast, this Government have steadily improved the real position of the pensioner year by year, by increasing the pension by whichever has been the higher of the forecast earnings or the forecast prices. That is now a statutory responsibility. It has improved the standard of life of the pensioner after he or she retires, by comparison with the wage earner.

Let me give the figures. When the Conservative party left office the pensioners' proportion of the net earnings of a married male manual worker was 40 per cent. Today the pensioners' proportion of the same net earnings of the male married manual worker is 50 per cent—an increase in real standards. We shall fulfil our statutory obligations again this year.

This is the season of estimates and revenue. Yesterday we debated expenditure on the Armed Forces for the coming year. Today I should like to inform the House of the estimate of the Chancellor of the Exchequer for old-age pensions for the coming year. First, he has provided for a correction to the underestimate in the forecast made this time a year ago—a question that has been raised on a number of occasions by hon. Members on both sides, but mainly from Government supporters, I grant. Let us associate the Conservatives with this. Do not let them escape their share of the responsibility.

Earnings last year rose faster than the forecast on which the Chancellor based his uprating at that time. He has taken account of this in the new increase that will operate for the next pension year from November. For a marired couple, therefore, he has provided for an increase in the pension next November of about £4 a week to around £35, and for a single person of about £2·50 per week, to about £22. That is provided in the Estimates. That will be one more important step to reduce the gaps that still exist in our society—to remedy the injustices, to erase the class divisions and racial bigotry, to attack poverty and the lack of opportunity that still face many of our citizens. The difference between the Opposition and the Government is that we know that these problems will not be solved by a return to those policies of 1970 or by soup-kitchen social services. They will be overcome only if we harness the energy and the ideals of our people to build a fairer and more just society.

Let need, not greed, be our motto. Our purpose as a Government and as a party is to present a bold, Socialist challenge to all these problems as we face these tasks. I ask for the confidence of the House and of the country so that we may continue with our work. [*Interruption.*]

Mr. Speaker: Order. I think that hon. Members have conveyed their message.

Mr. John Stokes (Halesowen and Stourbridge): On a point of order, Mr. Speaker. I have just received a message that—[*Interruption.*]