

We can't increase contributions and reduce benefits at the same time

*cc JV
AD
AW*

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Treasury Chambers, Parliament Street, SWIP 3AG
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Prime Minister

You are going to discuss with the Chancellor at 5.30 on Wednesday. John Vereker's note at play A makes 3 criticisms of the Chancellor's approach.

PRIME MINISTER

INDEX LINKED PENSIONS : FOLLOW-UP TO THE SCOTT REPORT *MUS 30/11*

At the meeting of E Committee on 15 July (E(81)24th Meeting), I was asked together with the then Lord President of the Council to arrange for the Official Committee on the Value of Pensions to make their report by the end of September, and to make recommendations as soon as possible thereafter.

2. We have now prepared within the Treasury a paper making such recommendations, which I propose now to circulate to E Committee together with a copy of the Official Committee's report. I understand that E will on present plans be taking this issue on 10 December.

3. I thought you might wish to see a copy of my paper before it issues because of the political controversy it is likely to give rise to.

4. The main difficulty is whether we take action on the levels of benefits as well as on contributions. I feel we must act on both, not least because most of the public complaint is directed at the fact of full index linking, rather than at under contribution. However there is no doubt - and Barney Hayhoe I know feels this strongly - that action on the level of benefits will be politically very controversial.

5. I have of course consulted Janet Young on this subject, and she has seen both the latest draft and earlier drafts of

/the paper

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the paper. We have agreed that it would not now be appropriate for it to be circulated as a joint paper.

6. I would be grateful to know whether you are content for me to circulate the paper as it now stands.

G.H.

(G.H.)

27 November, 1981

CONQUEROR

