SM

SECRET

Prime Minister 5 1

Are you content with this?

Yes ?. TL

12/6

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

Tim Lankester
Private Secretary
10 Downing Street

Told DHSS that PM content TL 13/6

12 June 1979

Dear Tim

STATEMENT ON UPRATING OF SOCIAL SECURITY BENEFITS

I attach a copy of the statement which the Secretary of State proposes to make in the House of Commons tomorrow. It will be followed by a Press Conference in this Department.

I am copying the statement to John Stevens (Office of the Duchy of Lancaster) Richard Prescott (Paymaster General's Office) Martin Hall (Treasury) Kenneth McKenzie (Scottish Office) and George Craig (Welsh Office).

Yours sincerely

Don Brereton

D BRERETON

12 JUN 1979

H13

THE NOVEMBER 1979 UPRATING OF SOCIAL SECURITY BENEFITS

STATEMENT BY SECRETARY OF STATE

1. I will, with permission, Mr Speaker, make a statement about the proposed increases in social security benefits to come into effect from the week beginning 12 November.

2. Yesterday, my Rt Hon Friend the Chancellor of the Exchequer announced the new rates of the National Insurance Retirement Pension. The rate for a single person will go up by £3.80 from £19.50 to £23.30, and the rate for a married couple by £6.10 from £31.20 to £37.30. The same increases will apply to other long-term National Insurance Benefits. He explained that these new rates are based on the forecast for the rise in prices over the 12 months between November 1978 and November this year, and also that they take account of the shortfall in the rates introduced last November by our predecessors.

3. Short term benefits, we propose, should go up by £2.75 from £15.75 to £18.50 for a single person, and from £25.50 to £29.95 for a married couple, representing increases of 17.5 per cent, in line with the price forecast.

4. War and Industrial Disablement Benefits will be increased in line with other long term benefits, together with comparable increases in the additional allowances which can be paid with these pensions.

5. Under the new arrangements for increasing public service pensions, the main increase - to be paid on pensions which were increased last December - will be 16.0 per cent.

6. The main Supplementary Benefit scale rates will be increased by the same cash amounts as those of the National Insurance Benefits to which they are related, but I must warn the House that because this announcement comes some weeks later than the usual date, due to the Election, in some areas the new rates may not be in payment until a few weeks after 12 November. We will do

our best to get the increases to everyone as quickly as possible but, with may? the best will in the world, it will not be feasible to complete the process by the due date. We will of course pay any arrears from the due date.

7. The Government is well aware of the problems of mobility for the disabled, and as my right hon Friend mentioned yesterday, we propose that the rate of mobility allowance should go up in November from £10.00 to £12.00, a 20 per cent increase.

8. Although Child Benefit went up to £4.00 in April, the premium for working lone parents was not increased. Accordingly, the premium will go up by 25 per cent in November - from £2.00 to £2.50.

9. Family income supplement will also be increased in line with other benefits.

10. We will pay a Christmas Bonus of £10 this year, and take powers to pay it in subsequent years, fixing the amount by Order. I hope to introduce the necessary legislation shortly.

11. The full-year cost of the benefit uprating, including FIS, Mobility Allowance, and the Christmas Bonus will be about £2.7 billion - a substantial sum by any standard. The great bulk of this falls to be met out of the National Insurance Fund. As is customary, I shall be reviewing the bands and percentage rates of contributions in the autumn, when I have received the necessary Report from the Government Actuary.

12. For the convenience of the House I am circulating details of the new rates of benefit in the Official Report, and copies will be available in the Vote Office.

13. The House will appreciate that we have honoured to the letter the commitment which we gave in the Election to protect pensioners in full against rising prices. It so happens that this is in accordance with the existing statutory requirements, but it is right that I should tell the House that in the light of experience in the last three years and other factors, we have been driven to the conclusion that the statutory obligation to uprate long term

benefits each year in line with either prices or earnings, whichever is the higher, is not sustainable in the long term. Much has been written about the so called "ratchet effect". In years when earnings exceed prices, the real value of pensions increases. When prices exceed earnings, and when the living standards of the working population fall, the real value of the pension is maintained. It has been pointed out that the result over a period of years is that the proportion of the national income absorbed by pensions, and correspondingly, the proportion absorbed by the contributions necessary to pay those pensions must inevitably rise, throwing an ever heavier and heavier burden on the working population.

14. I would remind the House that between 1970 and 1974, pensions in fact kept closely in line with earnings, though there was no statutory requirement that they should do so. [Conversely, since 1975, in two years out of the three in which the statutory obligation was in force, the increase announced and paid fell short of what the Party opposite had led people to expect. There does not seem to us to be much point in retaining a statutory obligation which those who put it on the Statute Book found themselves in the event unable to comply with.] I shall therefore be introducing legislation shortly to amend the provision relating to the uprating of benefits, so as to provide that pensions and long term benefits, as well as short term benefits, should be increased at least in line with the movement of prices.

But our forecasts could go wrong too! Better to leave out.

15. I would like to make it clear however, that it remains the Government's firm intention that pensioners and other long term beneficiaries can confidently look forward to sharing in the increased standards of living of the country as a whole. That has always been the intention and the achievement of Conservative Governments. It remains the intention of the present Government.

~~**The Chancellor of the Duchy of Lancaster and Leader of the House of Commons (Mr. Norman St. John-Stevas)**: If arrangements are not in accordance with the general wishes of the House, we must re-examine them. I shall be willing to have discussions on this matter to see whether a solution satisfactory to everybody can be arrived at.~~

SOCIAL SECURITY BENEFITS (UPRATING)

The Secretary of State for Social Services (Mr. Patrick Jenkin): I will, with permission, Mr. Speaker, make a statement about the proposed increases in social security benefits to come into effect from the week beginning 12 November 1979.

Yesterday, my right hon. and learned Friend the Chancellor of the Exchequer announced the new rates of the national insurance retirement pension. The rate for a single person will go up by £3·80 from £19·50 to £23·30, and the rate for a married couple by £6·10 from £31·20 to £37·30. The same increases will apply to other long-term national insurance benefits. My right hon. Friend explained that these new rates are based on the forecast for the rise in prices over the 12 months between November 1978 and November this year, and also that they take account of the shortfall in the rates introduced last November by our predecessors.

Short-term benefits, we propose, should go up from £15·75 to £18·50 for a single person, and from £25·50 to £29·95 for a married couple.

War and industrial disablement benefits will be increased in line with other long-term benefits, together with comparable increases in the additional allowances which can be paid with these pensions.

Under the new arrangements for increasing public service pensions, the main increase—to be paid on pensions which were increased last December—will be 16·0 per cent.

The main supplementary benefit scale rates will be increased by the same cash amounts as those of the national insurance benefits to which they are related, but I must warn the House that, because this announcement comes some weeks later than the usual date, due to the election, in some areas the new rates will not be in payment until a few weeks after 12 November. We will do our best to get the increases to everyone as quickly as possible but, with the best will in the world, it will not be feasible to complete the process by the due date. We will, of course, pay any arrears from the due date.

The Government are well aware of the problems of mobility for the disabled, and as my right hon. Friend mentioned yesterday, we propose that the rate of mobility allowance should go up in November from £10 to £12, a 20 per cent. increase.

Although child benefit went up to £4 in April, the premium for working lone parents was not increased. Accordingly, the premium will go up by 25 per cent. in November—from £2 to £2·50.

Family income supplement will also be increased in line with other benefits.

We will pay a Christmas bonus of £10 this year, and will take powers to pay it in subsequent years, fixing the amount by order. I hope to introduce the necessary legislation shortly.

The full-year cost of the benefit uprating, including FIS, mobility allowance, and the Christmas bonus will be about £2·7 billion—a substantial sum by any standard. The great bulk of this falls to be met out of the National Insurance Fund. As is customary, I shall be reviewing the income bands and the percentage rates of contributions in the autumn, when I have received the necessary report from the Government Actuary, and the resulting changes will take effect next April.

For the convenience of the House I am circulating details of the new rates of benefit in the *Official Report*, and copies will be available in the Vote Office.

The House will appreciate that we have honoured our commitment which we gave in the election to raise pensions in November in line with prices. It so happens that this is in accordance with the existing statutory requirements but, as the House now knows, in the light of experience in the last three years and other factors, we have been driven to the conclusion that the statutory obligation to uprate long-term benefits each year in line with either prices of earnings, whichever is the higher, is not sustainable in the long term. Much has been written about the so-called

[Mr. Jenkin.]

" ratchet effect ". In years when earnings exceed prices, the real value of pensions increases. When prices exceed earnings, and when the living standards of the working population fall, the real value of the pension is maintained. It has been pointed out that the result over a period of years is that the proportion of the national income absorbed by pensions, and correspondingly, the proportion absorbed by the contributions necessary to pay those pensions, must inevitably rise, throwing an ever heavier and heavier burden on the working population.

I remind the House that between 1970 and 1974, pensions in fact kept closely in line with earnings, though there was no statutory requirement that they should do so. Conversely, in 1976 and 1978, both years in which the statutory obligation was in force, the increase paid fell short of what the Labour Party had led people to expect. The guarantee that really matters is the guarantee against rising prices. I shall therefore be introducing legislation shortly to amend the provision relating to the uprating of benefits, so as to provide that pensions and long term benefits, as well as short-term benefits, should be increased at least in line with the movement of prices.

I should like to make it clear, however, that it remains the Government's firm intention that pensioners and other long-term beneficiaries can confidently look forward to sharing in the increased standards of living of the country as a whole. That has always been the intention and the achievement of Conservative Governments. It remains the intention of the present Government.

Mr. Ennals: I congratulate the right hon. Gentleman on the occasion of his first appearance at the Dispatch Box in his present office. He holds a great responsibility and I do not underestimate the problems that he will face.

I wish that his first appearance had been in happier circumstances. The country will be forced to pay for the folly of a savagely inflationary Budget—especially those for whom he bears particular responsibility. What help will income tax cuts be to those whose income is below tax level—including millions of pensioners? What help will be given to those forced on to the dole queue by the increase in unemployment which will inevitably flow from cuts in public expenditure?

I welcome the pension increase in November. It represents an increase of about 20 per cent. According to the right hon. Gentleman, it is linked with his expectation of the prices increase at that time. The inflation rate is expected to be not far off that figure.

Mr. William Clark: On a point of order, Mr. Speaker. I hope that you will give the same latitude to Back Benchers when they rise to ask questions so that they also can make speeches.

Mr. Speaker: Order. We all know that the right hon. Gentleman is leading up to his questions.

Mr. Ennals: I am grateful to you, Mr. Speaker. I have three main points—[HON. MEMBERS: " Ah! "] I have three main questions that I should like to put to the right hon. Gentleman. By his decision today, he is widening further the gap between short- and long-term benefits. What are his proposals to alleviate that gap, which will become increasingly serious as the number of unemployed increases? What is his estimate of the rate of inflation in November? Is it the 16 per cent. figure given in one paragraph of the Budget Statement, or is it the 20 per cent. figure to which he referred elsewhere? What does he propose to do to help the long-term unemployed, still stuck on short-term benefits and now to be penalised by Budget measures?

My second point—[HON. MEMBERS: " Ah! "] My second question is: how can the right hon. Gentleman defend his decision not to proceed with the increase of 50p in child benefit, to which the Labour Government were committed? Is he aware that the Prime Minister has said that the Conservative Government would view further improvements in child benefit as part of their plans to increase personal tax allowances? What has happened to that proposition? In view of the fact that there are now no child tax allowances, why does not the right hon. Gentleman come before the House with a proposal that would increase family support?

What has happened to the arguments that have been used by the right hon.

Gentleman in the House about incentives to work? What has happened to the arguments about the Conservative Party being the party of the family? If family support is to be a casualty of public expenditure cuts why was there no honesty about that during the election?

My third question—[HON. MEMBERS: "Ah!"]—is this. I hope that the right hon. Gentleman will go further in seeking to justify the decision that was announced yesterday and repeated today to deny to pensioners the right to share in rising living standards by linking their benefit to earnings as well as to prices. If he feels that that should be done, why does he believe that it is necessary to bring this legislation before the House? Is he aware —[HON. MEMBERS: "Ah!"]—that there will be vigorous opposition from the Labour Front and Back Benches to the denial of that right to pensioners which was given four years ago?

Mr. Jenkin: I start by thanking the right hon. Gentleman for his kind words to me at the outset of his remarks.

Mr. Cryer: A long time ago.

Mr. Jenkin: I had almost forgotten. At the end of his remarks the right hon. Gentleman said that there would be a change in the law and that the uprating rule would be opposed from both the Labour Front and Back Benches. We look forward to hearing from him—as I understand it, from the Back Benches— in this Parliament.

The right hon. Gentleman asked first about short-and long-term benefits. In the uprating, we have followed the pattern that he followed last year and we have increased them in line with the higher of prices and earnings—in this case, prices. The widening of the gap is a process that has been going on for a number of years. It is something to which attention should be paid in the future and I recognise the disquiet about the matter.

On the question of inflation, the increase is 19·4 per cent. That is not a forecast of the rise in prices for November to November. We have to take account of the 1·9 per cent. shortfall in the uprating that was announced by the right hon. Gentleman last year. The 1·9 per cent. from 19·4 per cent. leaves the November-to-November price forecast at 17½ per cent.

It is our clear intention to provide, this time round, help to those in the greatest need of child benefit. Child benefit was increased to £4 last April. This time, we have increased the child dependency additions to the social security benefits, the family income supplement for the very poor at work and the child benefit for single working parents. Those are the three categories in greatest need.

The right hon. Gentleman asked me why I did not honour the Labour Government pledge on child benefit. It is interesting that the right hon. Member for Leeds, East (Mr. Healey), when he opened his Budget on 3 April this year, although he said something about child benefit, was exceedingly careful not to commit himself to a figure. The only figure appeared in the Labour Party manifesto. When we came to office we found that there was no provision whatever for an increase—there was nothing in the estimates. A 50p increase in the level of child benefit would have cost £285 million. We were faced with the honouring of our pledge to the pensioners against rising prices and we could not contemplate a further expenditure of that amount.

Lastly, the right hon. Gentleman asked about the change in the basis of uprating. It has been widely accepted—not least by some of the political advisers of the previous Government, and I shall refer to this in tomorrow's debate— that the long-term "ratchet effect" of an automatic annual guarantee of an increase in benefits in line with either prices or earnings is not sustainable in the long term. We have grasped that nettle. There were a number of Labour Members who recognised that at some stage it would have to be grasped.

A commitment was given by my right hon. and learned Friend the Chancellor yesterday—and I repeat it—that it is our intention that pensioners should share in the rising standards of living which my right hon. and learned Friend's Budget will eventually make possible.

Mr. Paul Dean: I welcome my right hon. Friend's statement. Will he indicate how much greater are the long-term benefit increases which he has announced compared with those envisaged by the previous Government? Secondly, will he give an assurance that the priority for the

[Mr. Dean.]
long-term beneficiaries, those most in need—pensioners, widows and the disabled —will be continued by the Government? Finally, can he give some indication of what increase in contributions will be required to meet these substantial and welcome increases in benefits?

Mr. Jenkin : I can best answer my hon. Friend's first question by saying that before the Budget the figures of the present Leader of the Opposition indicated a 12·8 per cent. increase. Our increases, including the shortfall, total 19·4 per cent.

On the second point, it is recognised on all sides that there is real advantage, for a variety of reasons, in the long-term benefits having a substantial premium over the short-term benefits. As I indicated earlier to the right hon. Member for Norwich, North (Mr. Ennals), obviously it is a question for judgment each year as to what the exact gap should be.

On my hon. Friend's third point about contributions, it is not possible for me to say at this stage what the increase in contributions will be. Of course, for employed people contributions are on a percentage and earnings-related basis. It will be necessary to increase the lower and upper band income levels to which the percentage figure applies. The same is true of the flat-rate figure for class 2 contributions. However, those decisions must await estimates later in the year and the advice of the Government actuary.

Mr. J. Enoch Powell : Will the right hon. Gentleman consult his right hon. Friend the Secretary of State for Northern Ireland in order to ensure that, in accordance with the new arrangements made in February, the statutory instruments bringing these changes into force will be made simultaneously in Great Britain and Northern Ireland?

Mr. Jenkin : I certainly take note of what the right hon. Gentleman has said and I will consult as he asks.

Mr. Sproat : Does my right hon. Friend accept that there will be great and widespread approval of the increases that he has announced, particularly those for the pensioners and the disabled? Is he aware, however, that there is a widespread belief that too much social security is still going not where it should —to those in real need—but to those who merely know how to fiddle their way round the system? Can my right hon. Friend give the House some details of the Chancellor's welcome reference yesterday to the new measures that he proposes to take to cut out waste, fraud and abuse in social security?

Mr. Jenkin : I am grateful for my hon. Friend's welcome, which I know will be widely echoed in the country. I know that fraud and abuse greatly concern citizens of this country and I have already indicated that we intend to strengthen the measures against them.

Let me give an indication of the sort of thing that we can hope to achieve. An unemployment review officer, whose total cost may be about £5,500, may expect to save about £100,000 to £120,000 of benefit simply by calling people in and questioning them. The right hon. Member for Norwich, North will know that when questions are asked, about 15 per cent. of beneficiaries stop claiming at once. When people are asked to come in for an interview, a further 15 per cent. to 20 per cent. stop claiming after the first interview. That is the sort of thing on which it is sensible to deploy manpower in order to save benefits and to strengthen the integrity of the system.

Mr. George Cunningham : Does the Secretary of State remember all the enthusiastic speeches he made about child benefit back in 1976? Does he accept that now that child tax allowances have been phased out, it is right and inevitable that increases in child benefit should be made in November each year and that we are therefore talking of a gap between the last increase and the next, now that he has dropped the Labour proposal for a 50p increase in November, of 18 months? In light of the $17\frac{1}{2}$ per cent. inflation figure from November to November, which he so quietly mentioned a few minutes ago, child benefit will have been eroded by about 25 per cent. before it is increased at the next likely date of November 1980. Is the right hon. Gentleman satisfied with that?

Mr. Jenkin : I am sure that the hon. Gentleman will recognise that I cannot say anything about next year's Budget.

Mr. McCrindle : I warmly welcome the announcement of these upratings, but I should like to put to my right hon. Friend the question that I have put to all his predecessors over the past 10 years. If it is possible to pay announced tax reductions in July and October respectively, why does it remain impossible to pay pension upratings before November and then, at least on this ocasion if I understood my right hon. Friend correctly, only with some difficulty? Can he indicate whether computerisation of benefits is sufficiently far forward that future upratings may not have to be awaited for quite so long?

Mr. Jenkin: I remember my hon. Friend putting that question to the present Secretary of State for Industry five or six years ago, and on coming to office I was mildly surprised to find that the position is exactly the same as it was five years ago. No steps appear to have been taken to speed up the payment of benefits and to shorten the gap between the announcement and the payment of benefit. It really requires six months, but we shall do our best to get the great majority of payments in payment in five months' time.

The reason for the delay is the same as that which I am sure my predecessors have given my hon. Friend. The uprating of supplementary benefits requires individual assessment of about 3 million separate cases. That is done by hand in about 550 local offices. That is what takes the time.

Mr. Canavan: Yet the Government intend to sack more civil servants.

Mr. Jenkin: No doubt the hon. Gentleman will be able to make his case. In fact, there have been no sackings in the local offices; nor will there be. It is the work to which I have referred which takes the time. Of course, the answer is computerisation and the Government will press ahead with the introduction of computers with rather more vigour.

Mr. Penhaligon: Did the Secretary of State inform the House a moment ago that there is a possibility that child benefit will be ignored next year as well? Secondly, can he tell us what the pensioners are supposed to do between now and November?

Mr. Jenkin: On the question of child benefit, I do not know where the hon. Gentleman got that idea. I simply said that I cannot anticipate next year's Budget. I am sure that he will accept that. On the question of what is to happen to the pensioners between now and November, this is the biggest ever pension increase, it includes the shortfall on last year's uprating, and it is a bigger increase than the Labour Party proposed.

I also remind the hon. Gentleman that VAT is not paid on food, fuel, housing and children's clothes. Whereas the proportion of family income spent on zero-rated products in the average family is 50 per cent., for low-income families it is 60 per cent., and the figure for low-income pensioners is 63 per cent. Therefore, if VAT adds $3\frac{1}{2}$ per cent. to the rise in the cost of living this year, and if pensions and other benefits are being increased fully in line with prices, it follows that the increase in pensions will be somewhat higher than the rise in prices affecting pensioners and low-income families because of the lower impact of VAT on what they buy.

Mr. Peter Bottomley: May I put to my right hon. Friend in a slightly different way the question put by the hon. Member for Truro (Mr. Penhaligon) of a future increase in child benefit? My right hon. Friend referred to administrative difficulties and the previous Government not having gone into this matter. How long does it take to introduce an increase in child benefit? Do such increases have to wait for a Budget?

Mr. Jenkin: I must make it clear that my earlier remarks about the length of time did not refer to child benefit. Child benefit went up only in April—incidentally, at the beginning of a financial year. Therefore, we felt it right to increase that part of child benefit which had not been increased by the previous Government—namely, the addition for lone parents. My right hon. Friends and I are of course examining the question of the machinery, and so on, for the future of child benefit, but I cannot add anything to my previous remarks.

Mr. Carter-Jones: Is the right hon. Gentleman aware that his right hon. Friend the Prime Minister is a patron of Motability? Is he aware that, for example, VAT, with its double incidence, will increase the cost of purchasing and hiring a car and that the increase in the minimum lending rate will also cause a

[Mr. Carter-Jones.]
great disability to the scheme? Will he give an undertaking that Motability will not be put at risk as a result of the Chancellor's Budget?

Mr. Jenkin: Not only is my right hon. Friend a patron of Motability; I, too, am a patron, and am proud to be so. Of course I am aware of the points that the hon. Gentleman has made. I regard them with great sympathy. We shall do our best to see how we can help Motability to continue to provide the essential service of making vehicles available for disabled people.

Mr. Eldon Griffiths: May I revert to the question of my hon. Friend the Member for Brentwood and Ongar (Mr. McCrindle) about the delays between the announcement and the payment of benefits? One understands my right hon. Friend's disappointment that nothing has been done to improve the system during previous years. However, because there is a great deal of public dissatisfaction, particularly among elderly people, in comprehending the delay, will he give two undertakings: first, that he has personally satisfied himself that there can be no improvement at all this time; secondly, that he has set in motion within his Department a crash programme to do better next year, given the new mechanical facilities that are available to Departments?

Mr. Jenkin: I am very well seized of the public anxiety over the length of time that there is repeatedly between the announcement and the uprating. I would not be looking to any more frequent uprating than once a year. I think that that is part of the developing pattern in paying increases and everything else as well. Indeed, I am satisfied that the payment cannot be made more quickly. As my hon. Friend will remember, I have already had to warn the House that we may not be able to get every supplementary benefit in payment by 12 November. We are engaged on an urgent study of the review of supplementary benefits, which was published last year under the title "Social Assistance". We shall be bringing forward proposals to the House. This will involve a considerable simplification of the system of supplementary benefits. It should make easier the question of uprating and the more rapid increase of benefits when this is called for. I cannot promise anything too specific by next year. These are complex matters involving millions and millions of citizens and thousands and thousands of civil servants.

Mr. Rooker: Can the right hon. Gentleman tell us how the Chancellor's statement on car leasing affects Motability, a matter which was not included in the right hon. Gentleman's answer to my hon. Friend the Member for Eccles (Mr. Carter-Jones)? That must have an impact on the Motability scheme. If the pensioners' real increase is 17½ per cent., excluding the 1·9 per cent., how is it that the public service pensioners will receive only 16 per cent? Is this a move away from the previous Tory Government's proposal to index public service pensions? Will the right hon. Gentleman confirm the Chancellor's Budget Statement yesterday that the costs of the social security changes will largely be met from the existing social security programme? He implied to one of his hon. Friends that this Government had suddenly found a pot of gold that was not there before.

Mr. Jenkin: I can add nothing to what was intended to be a reasonably reassuring statement to the hon. Member for Eccles (Mr. Carter-Jones) about Motability. The answer to the hon. Gentleman's second question is that I was rather careful to stress that under the new arrangements the increase in public service pension is to be paid in November. The hon. Gentleman may not have been a member of the Standing Committee that considered the last Government's Social Security Bill under which the increase in public sector pension payments was transferred from December to November. Therefore, the 16 per cent. figure refers to an 11-month period for this year's public sector increase, because it was paid in December last year. The hon. Gentleman is quite right on the question of the cost. There is no crock of gold. All these payments must be paid for, and paid for largely by higher National Insurance contributions by employers and employees, with the Treasury supplement on top. What I said was that this would fall to be assessed during the course of the year and that any increased contributions would be paid next year. I can tell the House with some satisfaction that at least we are not lumbering employers with any increase in National Insurance surcharge this year.

Sir Brandon Rhys Williams: Will my right hon. Friend bear in mind that if there is heavy pressure in the course of the coming year to help the lowest paid, as seems likely, it will place far less pressure on the economy if the Government increase child benefit, thereby dealing with the problem selectively, than if employers give blanket increases in wages?

Mr. Jenkin: My hon. Friend has been a long-standing supporter of child benefit, and I recognise his commitment to what he has just said.

Several Hon. Members *rose*——

Mr. Speaker: If hon. Members will co-operate with me, I propose to call all those who have been rising.

Mr. English: Does the right hon. Gentleman, as an ex-Treasury Minister, agree that it is very difficult for people to understand why some three-quarters of a million points can be required to increase VAT within a few days when he has to delay for weeks the expenditure of money? This sort of ploy, like a bankrupt company, of doing one's collections first and one's expenditure later is a fine thing, except for the people involved.

Mr. Jenkin: I am sure that the hon. Gentleman will recognise that the operation of increasing VAT and introducing higher rates is a relatively simple administrative one, although of course it imposes burdens on traders. I have indicated that our uprating will involve manually adjusting the assessment of 3 million individual beneficiaries.

Mr. Rooker: Change the system.

Mr. Jenkin: I have already indicated to my hon. Friend the Member for Brentwood and Ongar (Mr. McCrindle) that we are urgently examining ways of simplifying the supplementary benefits system on the basis of the report "Social Assistance" and introducing computerisation.

Mr. Meacher: Does the right hon. Gentleman accept that as a result of the last Government's statutory increase in pensions according to the rise in prices or wages, whichever is the greater, the pension for a married couple today is about £5 more than it would otherwise have been? Is it not therefore the case that this is about the measure of the cut that he is proposing to impose on pensioners over the next five years?

Mr. Jenkin: I do not accept that for one moment. The hon. Gentleman will remember the assurances that my right hon. Friends and I have given that it is this Government's intention to do as we have done before and see that pensioners share in the country's rising standards of living.

Mr. James Callaghan: Is the right hon. Gentleman aware that the calm complacency with which he admits that Government measures will lead to an inflation rate of 17½ per cent. within the next few months is totally outrageous, that we see no sign that the Government intend to fight this, and that in view of the rapidity with which they are leading us to the abyss of a price inflation he had better get out his toothbrush again and start looking to see whether there is a gleam in the dark?

Mr. Jenkin: It is a little sad that the right hon. Gentleman should continue to stoop to the level of the lowest cartoonist. May I make it clear to the right hon. Gentleman, as he obviously did not understand it yesterday from my right hon. and learned Friend the Chancellor, that an increase in VAT which this year adds three and a half percentage points to the rise in the cost of living is a once-for-all addition—[HON. MEMBERS: "Oh."]—as the right hon. Member for Leeds, East (Mr. Healey) discovered when he put VAT down by two percentage points in 1974. May we remember 8·4 per cent. on the basis of one quarter's movements? Of course, it did not go on, did it?

Mr. Callaghan: Is the right hon. Gentleman aware that, on any basis and with regard to any analogies that he cares to make, a rate of inflation of 17½ per cent., whether it is once for all or not, is totally insupportable, and the Government should be ashamed of themselves?

Mr. Jenkin: It is substantially less than the rate of 29 per cent. achieved under the last Government.

Mr. Harry Ewing: Does the right hon. Gentleman understand that those who use the services of Motability depend largely

[Mr. Ewing.]
on the level of the mobility allowance? His announcement this afternoon of an increase in the mobility allowance from £10 to £12, against the background of an increase in petrol and all other costs for all modes of transport, will not be acceptable to the disabled. Can he therefore be surprised if the disabled now feel that the importance of bringing them out into the community has taken a step backwards rather than forwards?

Mr. Jenkin: The increase in the mobility allowance is as high as that of any other benefit in the Budget, and higher than most.

Mr. Stoddart: Does the right hon. Gentleman agree that families with children on average or below-average earnings are virtually being cheated as a result of his announcement and of the Budget, in the first place because their tax reliefs are lower than the single person's on the same level of salary; secondly, because they have lost the £205, if they have two children, in tax-free advantages that they had last year; and thirdly, because child benefit has not been uprated in line with what they would have got had there not been child benefit but a continuation of child tax allowances?

Mr. Jenkin: Most people recognise that the tax reductions announced yesterday will be of the utmost value, particularly at the lowest end of the scale, because it is at the lowest end, as the hon. Member for Birkenhead (Mr. Field) pointed out in his previous incarnation, that there are those who earn their poverty. The tax threshold got lower and lower in real terms under the Labour Government and there is no doubt that the situation was one of the principal causes of the poverty trap. My right hon. and learned Friend the Chancellor of the Exchequer has taken a notable step towards removing it.

Mr. McNally: Will the right hon. Gentleman clarify how it is that, within 24 hours of calculating the rate of inflation at 16 per cent., the Government are calculating it at 17½ per cent.? Will he accept that the intention of the Labour Government's legislation was to abolish the indignity of poverty in old age? Will he not now come clean and confess that this Government have abandoned that objective?

3 H 46

Mr. Jenkin: I can understand why there has been some misunderstanding on the first point raised by the hon. Gentleman. The figures in the Red Book deal with the period from the third quarter of last year to the third quarter of this year. I am required under the Act to make an estimate of the rise in prices from November to November. The figure that I have quoted—and I have to do the exercise honestly—is 17½ per cent.

Secondly, surely the hon. Gentleman recognises that the biggest single long-term step towards removing poverty from old age, an aim that all of us share, is the introduction of the second pension scheme and the progressive increase of the second pension—the additional component—which will progressively over the years raise the level of pension of those in retirement to a level that bears a closer relation to what they were earning in work. That is the way to do it. Meantime, I repeat our commitment to our determination to see that our pensioners share in the rising standards of living as a whole. It is a travesty to say of our policy that we have abandoned any idea of pensioners getting off the poverty line.

Mr. Foulkes: Will the right hon. Gentleman explain to the House and to many thousands of disappointed pensioners why he has made no announcement about an increase in the death grant, despite the many representations that he has received? Will he further explain why the Christmas bonus is still to be at the level of £10 whereas, in real terms, to keep up with its value when it was introduced, it should be in excess of £24?

Mr. Jenkin: The answer to the question about the death grant is that this is simply a matter of priorities. The death grant, at a level of £30, costs about £16 million in revenue. To restore the 1967 value would add a further £38 million. With the Government's present constraints on public spending we found, just as our predecessors found, that such an increase could not be afforded. I realise that the hon. Gentleman is a new Member, but I remind him that he campaigned on the Labour Party manifesto, which said nothing whatever about the Christmas bonus. We are going to pay it.

Following is the information:

MAIN INCREASED CONTRIBUTORY AND NON-CONTRIBUTORY BENEFIT RATES

	Existing weekly rate £	*Proposed weekly rate* £
Standard rate of retirement*, invalidity, and widow's pensions, and widowed mother's allowance:		
Single person ...	19·50	23·30
Wife or other adult dependant ...	11·70	14·00
Earnings limit for retirement pensioners ...	45·00	52·00
Standard rate of unemployment and sickness benefits:		
Single person ...	15·75	18·50
Wife or other adult dependant ...	9·75	11·45
Widow's allowance (first 26 weeks of widowhood) ...	27·30	32·60
Maternity allowance ...	15·75	18·50
Invalidity allowance payable with invalidity pension:		
Higher rate ...	4·15	4·90
Middle rate ...	2·60	3·10
Lower rate ...	1·30	1·55
Attendance allowance:		
Higher rate ...	15·60	18·60
Lower rate ...	10·40	12·40
Retirement pension for persons over pensionable age on 5 July 1948 and for persons over 80*:		
Higher rate ...	11·70	14·00
Lower rate ...	7·05	8·40
Non-contributory invalidity pension, invalid care allowance ...	11·70	14·00
Increase of non-contributory invalidity pension and invalid care allowance for a wife or other adult dependant ...	7·05	8·40
Mobility allowance ...	10·00	12·00
Guardian's allowance, child's special allowance, increases for children of widows, invalidity, non-contributory invalidity and retirement pensioners, and invalid care allowance beneficiaries ...	5·35	7·10
Increases for children of all other beneficiaries ...	0·85	1·70
New Child Benefit Rates for One-Parent Families:		
First Child ...	6·00	6·50
Each other child ...	4·00	4·00

* An age addition of 25p is payable to retirement pensioners who are aged 80 or over.

MAIN INCREASED INDUSTRIAL INJURIES BENEFIT RATES

	Existing weekly rate £	*Proposed weekly rate* £
Injury benefit*† ...	18·50	21·35
Disablement benefit (100 per cent. assessment)* ...	31·90	38·00
Unemployability supplement‡ ...	19·50	23·30
Special hardship allowance (maximum)...	12·76	15·20
Constant attendance allowance (normal maximum), exceptionally severe disablement allowance ...	12·70	15·20
Industrial death benefit:		
Widow's pension during first 26 weeks of widowhood ...	27·30	32·60
Widow's pension now payable at £20·05 rate ...	20·05	23·85
Widow's pension now payable at £5·85 rate ...	5·85	6·99

* The rates for beneficiaries not over the age of 18 will also be increased.

† Increases for adult dependants and children will be the same as those payable with unemployment and sickness benefits.

‡ Invalidity allowances and increases for adult dependants and children will be the same as those payable with invalidity pensions.

MAIN INCREASED SUPPLEMENTARY BENEFIT RATES

	Existing ordinary weekly rate	Existing long-term weekly rate*	Proposed ordinary weekly rate	Proposed long-term weekly rate
Ordinary scale:	£	£	£	£
Husband and wife	25·25	31·55	29·70	37·65
Person living alone	15·55	19·90	18·30	23·70
Any other person aged:				
18 and over	12·45	15·95	14·65	18·95
16–17 years	9·55	—	11·25	—
13–15 years	7·95	—	9·35	—
11–12 years	6·55	—	7·70	—
5–10 years	5·30	—	6·25	—
Under 5 years	4·40	—	5·20	—
Blind scale:				
Husband and wife:				
If one of them is blind	26·50	32·80	30·95	38·90
If both of them are blind	27·30	33·60	31·75	39·70
Any other blind person aged:				
18 and over	16·80	21·15	19·55	24·95
16–17 years	10·45	—	12·15	—

No specific rates for blind persons less than age 16.

	Existing weekly rate	Proposed weekly rate
	£	£
Non-householder rent allowance	1·45	1·70
Attendance requirements:		
Higher rate	15·60	18·60
Lower rate	10·40	12·40
Discretionary additions to supplementary benefit:		
Heating additions	0·85	0·95
	1·70	1·90
	2·55	2·85
Dietary additions	0·95	1·05
	2·25	2·50

* Where the claimant or a dependant is aged 80 or over a further 25p is added to these long-term rates.

MAIN INCREASED WAR PENSION RATES

All ranks receive the same increases, officers' rates being expressed in pounds per annum

PART I: DISABLEMENT BENEFITS

	Existing weekly rate	Proposed weekly rate
	£	£
Disablement pension for private at 100 per cent. rate	31·90	38·00
Unemployability allowances*:		
Personal allowance	20·75	24·70
Increase for wife or other adult dependant	11·70	14·00
Comforts allowance:		
Higher rate	5·40	6·60
Lower rate	2·70	3·30
Allowance for lower standard of occupation (maximum)	12·76	15·20
Constant attendance allowance:		
Special maximum	25·40	30·40
Special intermediate	19·05	22·80
Normal maximum	12·70	15·20
Half and quarter day	6·35	7·60
Age allowance with assessments of:		
40 and 50 per cent.	2·20	2·65
Over 50 and not exceeding 70 per cent.	3·40	4·10
Over 70 and not exceeding 90 per cent.	4·80	5·90
Over 90 per cent.	6·80	8·20
Exceptionally severe disablement allowance	12·70	15·20
Severe disablement occupational allowance	6·35	7·60

	Existing annual rate £	Proposed annual rate £
Clothing allowance:		
Higher rate	43·00	51·00
Lower rate	27·00	32·00

* Invalidity allowances and increases for children will be the same as those payable with invalidity pensions.

Part II: Death benefits

	Existing weekly rate £	Proposed weekly rate £
Widow's pension—private's widow; widower's pension:		
Standard rate	25·30	30·20
Childless widow under 40	5·85	6·99
Rent allowance	9·60	11·50
Age allowance for elderly widows:		
Between age 65 and 70	2·40	2·95
Over age 70	4·80	5·90
Adult orphans	19·50	23·30

ORDERS OF THE DAY

WAYS AND MEANS

Order read for resuming adjourned debate on Question [*12 June*].

AMENDMENT OF THE LAW

That it is expedient to amend the law with respect to the National Debt and the public revenue and to make further provision in connection with finance; but, without prejudice to any authorisation by virtue of any other Resolution, this Resolution does not extend to the making of—

(*a*) any amendment with respect to value added tax so as to provide—

(i) for zero-rating or exempting any supply;

(ii) for refunding any amount of tax;

(iii) for reducing the rate at which tax is for the time being chargeable on any supply or importation otherwise than by reducing that rate in relation to all supplies and importations on which tax is for the time being chargeable at that rate; or

(iv) for any relief other than relief applicable to goods of whatever description or services of whatever description; or

(*b*) any amendment relating to the surcharge imposed by the National Insurance Surcharge Act 1976 and applying to some only of the persons by or in respect of whom the surcharge is payable.—[*Sir Geoffrey Howe.*]

Question again proposed.

BUDGET RESOLUTIONS AND ECONOMIC SITUATION

4.16 p.m.

Mr. Denis Healey (Leeds, East): I must start by thanking the Chancellor of the Exchequer for his kind words about myself yesterday. I would like to reciprocate by congratulating him on the style, structure and brevity of what was by any standard a quite exceptional Budget Statement. As he is now joining a small but select fraternity of Finance Ministers—an office which in all countries under all parties at all times is one of the most difficult and testing—I would like to start by saying one or two things on which I agree with what he said.

First, I think that the right hon. and learned Gentleman was right to consider our national problems in a longer perspective than is offered by the immediate

past or even by the past 25 years. He was right also to emphasise, as I myself did so often, that our economic troubles are very largely home made, and that we must find a cure for them at home. He was right, too, to make no more than a perfunctory but ritual attack on the legacy that I bequeathed him. He could scarcely have done more without contradicting the opening sections of his own Financial Statement, which list the achievements of the British economy in the last 12 months, and comparing them with the appalling prospect in the first year of the Conservative Government. Indeed, he could have done no more than he did without undermining the credibility of the Chief Secretary to the Treasury, who has never hidden his admiration for the Labour Government's economic responsibility.

I must criticise the Chancellor, however—and this will be the main burden of my speech—for what I believe to be his obstinate refusal to learn any lessons from the past, particularly from the experiences of the last Conservative Government, of which he was a member—a Government elected on the same policies as this Government and who attempted, with the same reckless dedication to the same election rhetoric, to carry out those policies with the same blind indifference to social and political realities, bringing about catastrophic consequences both for themselves and for the nation as a whole.

Nothing that the Chancellor said yesterday gave us any reason to believe that the consequences of this new diversion to pre-war Conservatism will be any different from those which followed on the last occasion. Indeed, the circumstances in which the Chancellor is repeating the experiment attempted by the right hon. Member for Sidcup (Mr. Heath) are far less propitious than those in 1970.

As the Chancellor himself pointed out in his review of the past year, average earnings increased by 14 per cent. in the 1977-78 pay round, and rather faster in manufacturing industry. Indeed, in that round the whole excess over the Government's guidelines took place in the private sector. In the countries which compete with us, increases then ranged from $7\frac{1}{2}$ per cent. in France to only 2 per cent. in West Germany, with a severe loss in the competitiveness of the goods we have to sell, both at home and abroad.