



Original in GFR LPO
Soc. Sec. Sec.
cc 19
JHSS
J. Stallard

CF to note

10 DOWNING STREET

THE PRIME MINISTER

29 January 1980

Dear Andrew

Thank you for your letter of 23 January signed jointly by Jock Stallard and yourself. I appreciate your concern about the shortfall. You will by now know our decision on it - a decision which will of course have disappointed you.

There are a number of points I would like to make. First, as you know, there is nothing in the current legislation to require the Government to make good any shortfall - a point clearly stated by our predecessors as well as by ourselves. We are required to make the best estimate we can (and our estimate of the price rise was very accurate and meant that we were able to protect pensions fully with a little to spare), and to up-rate on that basis. The shortfall is a shortfall by comparison with what we would have done had we known the earnings figures instead of having to estimate them; it is not a shortfall by reference to our statutory obligations.

My second point is that neither we nor our predecessors have given any general guarantee about shortfalls. We promised to make good for pensioners the Labour Government's 1978 up-rating shortfall. We added on an extra 1.9 per cent to do precisely that. We kept our promise. But we gave no commitment about future shortfalls.

/Third,

Third, to make good the shortfall as an addition to next November's uprating would cost £195 million in a full year. This is out of the question when the Government is being forced to find further savings in public expenditure. We must face the reality that the resources to meet this extra burden could be found only by greater cuts in public expenditure in other fields or by an increase in taxation or public borrowing. Given that the real value of pensions has been maintained, the choice we have made is the only responsible one.

I am sending a copy of this letter to Jock Stallard.

Yours sincerely
Margaret Thatcher

A. Bowden, Esq., M.P.