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From the Private Secretary

15 December 1982

Dear David,

Long-Term Public Expenditure: Social Security and Health

The Prime Minister had a meeting yesterday morning, to consider the long-term public expenditure prospect on social security and health. Your Secretary of State, the Chancellor the the Exchequer, the Chief Secretary and Sir Robert Armstrong were also present.

The Chief Secretary said that at the Cabinet discussion on 9 September there had been agreement that the long-term prospect for public expenditure presented a formidable problem to the Government. On social security, Treasury Ministers had examined the case for adopting a different formula for indexing social security benefits from that which currently applied. They had concluded that any new formula would either be difficult to substantiate, or would not necessarily involve savings. The best course would be to return to a discretionary system, in which the scale of an uprating would be determined by the Government unfettered by any statutory formula, but taking account of prices, earnings, affordability and so on.

In discussion, it was argued that, as inflation reduced, so did this problem of indexation also diminish. It was essential to get over to the electorate the message that large upratings of benefits imposed a heavy burden on the working population. Over the past twenty years this burden had shown itself in excessively low tax thresholds, penalising the low-paid. There was much disadvantage in the present system of uprating, in its reliance upon a forecast of inflation which was made well before the period in question. There would be merit in a system which, using modern office technology and administrative techniques, shortened the minimum time necessary between the uprating decision and its implementation; and your Secretary of State should consider a change to using an inflation outturn rather than an inflation forecast, perhaps using the June-to-June RPI figure, which would be available in mid-July each year.

Summing up this part of the discussion the Prime Minister said that the aim should be to maintain the maximum freedom of action in the run-up to the General Election. When pressed to give a pledge

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to link social security benefits to either prices or earnings indefinitely, Ministers should say that no responsible Government could give an absolute pledge that index-linking would be maintained come what may. This could also remain the position in the new Parliament, given that the Government's economic strategy should lead to a continuing decline in inflation. Your Secretary of State should discuss with the Chief Secretary how best to achieve these objectives, and to get across the message that high upratings meant a larger burden on the working population. He should also consider the change in the method of uprating which had been discussed.

On health, after a short discussion the Prime Minister said that work on the long-term public expenditure prospect should proceed on the basis that the fundamental structure of the National Health Service should remain intact, as she had said in her speech to the Party Conference in the autumn. But ways must be found of supplementing resources, by raising more income from charges, privatising some parts of the National Health Service, particularly the general, ophthalmic, dental and pharmaceutical services, reducing demand for treatment by charging patients (except, perhaps, in hospital) the full cost of services received and reimbursing them subsequently, and giving further encouragement to the private health sector through fiscal concessions. There would also need to be improvements in management, and greater help from voluntary sources.

I am sending copies of this letter to John Kerr and John Gieve (HM Treasury) and Richard Hatfield (Cabinet Office). I would be grateful if you and they would ensure that it is seen only by those specifically authorised by your Ministers to do so.

Yours sincerely,

Michael Scholer

David Clark, Esq.,
Department of Health and Social Security.

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