



Prime Minister

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To note

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From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
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3 March 1983

1983 BUDGET AND SOCIAL SECURITY UPDATING: OTHER ITEMS

I have written separately about the outstanding issues on the 1983 updating. This leaves a number of awkward or unresolved items: it may be helpful if I list these, since you may well be tackled on them.

The first is the pensioners earnings rule. As I said in my Budget letter of 4 February, this seems likely to be a Manifesto promise on which we shall not have made progress in this Parliament; and it is one to which Opposition parties are drawing attention. During previous discussions last autumn in the public expenditure context we had hoped to be able to make a further move on this by raising the earnings limit significantly at the November 1983 updating from £57 to £97 a week at a cost of £18.5 million in 1983/84 and £44.5 million in 1984/85. That has now fallen by the wayside, and there is no provision to do anything in November 1983 beyond the normal updating of the earnings limit.

The normal updating arrangements will not get us very far. The public expenditure provision is for the earnings rule to go up in line with prices. (Arguably, the comparison should be with earnings but this could not in any event be allowed for in the public expenditure figures because we do not have earnings assumptions in the same way as we have price assumptions.) If we have an updating of $4 \frac{1}{4}$ per cent, it would produce an increase of £2.40 from £57 to £59.40.

You and I (and the Prime Minister) may well be pressed hard on this. There is provision in the forward public expenditure figures for 1984/85 and 1985/86 for abolishing the rule in two annual stages, starting at November 1984. I believe that the least we can do, if

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nothing extra is possible in November 1983, is to make an announcement that it remains our intention to move on this at the beginning of the next Parliament and that we have made the necessary provision in the social security programme. Indeed, you may like to say this yourself in the Budget speech.

Second, there is the question of tax relief on national insurance contributions paid by the self-employed. I set this out fully in my letter of 4 February. In the absence of some concession here we shall have nothing to offer as a result of the review we have conducted following a promise in the last Manifesto. Is there anything else we could do for self-employed people? We shall be in a very exposed position without anything to show for our Manifesto promise to review the position.

Last, but most important, we are bound to come under pressure for a statement of our longer term policy on protecting the interests of pensioners and other beneficiaries in the next Parliament. As you know, a number of voluntary organisations wrote to the Prime Minister on this very point last month. (I attach a copy of the letter for convenience.) So it seems almost certain to be raised during the Budget debate - possibly immediately after your statement.

(not attached)

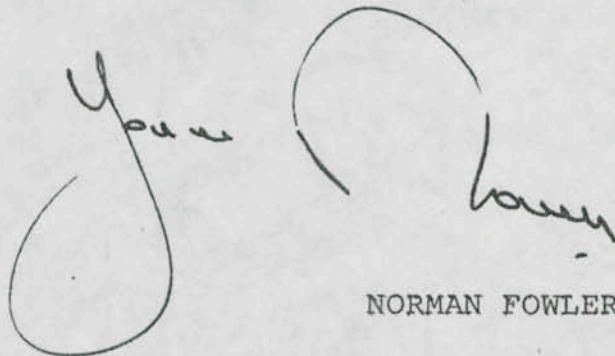
There seem to me to be two possibilities:

- We say that we stand by what we said in this Parliament - that we will maintain the value of pensions and related long term benefits.
- Alternatively, we reply to the effect:

"With the backing of a satisfactory method of uprating we shall continue during the next Parliament to protect the value of pensions and other benefits subject only to overriding economic circumstances - a qualification which must apply to any Government policy in any area."

We shall need to consider carefully whether we could sustain this second approach. Any qualification (however worded) presents problems. I think it is important that we give this consideration both in the light of the letter to the Prime Minister and the Budget debate.

I am copying this to the Prime Minister.



NORMAN FOWLER