

PRIME MINISTER

PLEDGE ON FUTURE PENSION UPGRATINGS

I have been discussing with the Chancellor and the Chief Secretary what we say about future pension upgratings. The Chancellor and I take a different view on this. It seemed best that each of us should set out how we see things. This minute sets out my view.

My judgement, and that of colleagues here, is that we cannot do less than promise to maintain what we achieved in this Parliament.

Accordingly I maintain my preference for the approach set out in my letter of 14 March to the Chancellor, which was copied to you:

"We stand by what we said in this Parliament - that we shall maintain the value of pensions and [related long-term benefits.]"

I should make it clear that I am proposing this pledge for the lifetime of the next Parliament. I do not believe it would be realistic to set our sights lower than this.

We have already limited our future commitments - first, by legislating for prices-only upgratings and second, by deciding to restore the historic method and so avoid unintentional bonuses. (The Opposition of course are promising to restore the link between earnings and pensions.) We are already saving £500 million a year by breaking the earnings link and this could grow to £2 - £3 billion a year by the end of the decade.

Looking at this from the point of view of the pensioner, giving no more than price protection will mean - on past experience and present expectations - that there will be a growing gap between the standard of living of those who are retired and those still in work. This can be illustrated dramatically by looking at what has happened since 1948. If we had uprated pensions only in line with prices since 1948, a married couple's pension now would be £22 a week not £52.55 a week.

If we seek to offer less than we promised in this Parliament we shall be asked a number of questions to which there are no politically sustainable answers. For example:

If you thought it right to give a promise in these terms for this Parliament, why is it wrong to do so for the next Parliament?

If we expect to be able to continue to price protect pensions, and accept that it would be unrealistic to seek to do less, the right answer is to say now that we will continue to pledge into the next Parliament. I do not believe we could hold the position if we watered down the pledge. Moreover, once we had to give ground, we might finish up with a formula which is not as tight as the one I have suggested. And of course a pledge given under pressure would carry much less weight than one offered freely at the outset.

The difficulty is pursuing any alternative course to the one I propose is amply demonstrated by paragraph 6 of the Chancellor's minute. The first and inevitable supplementary question which would follow such a statement would be - does this mean that pensions will be price protected or not?

I am copying this to the Chancellor of the Exchequer, the Chief Secretary and Sir Robert Armstrong.

31 March 1983



N F

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14  
Social  
Services

6 April 1983

The Prime Minister has seen the minute of 30 March by the Chancellor of the Exchequer relating to the Government's long term intentions on social security benefits.

The Prime Minister would like to discuss the contents of Sir Geoffrey Howe's minute with him and with the Secretary of State for Social Services. She has made the preliminary comment that she believes that the Government must "price protect" the basic retirement pension and that we are the more able to do this because inflation will be kept down.

We shall make arrangements separately for a meeting.

I am copying this letter to Colin Phillips (Department of Health and Social Security).

JOHN COLES

John Kerr, Esq.,  
HM Treasury.



## DEPARTMENT OF HEALTH &amp; SOCIAL SECURITY

Alexander Fleming House, Elephant &amp; Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

J O Kerr Esq  
 Private Secretary to the  
 Chancellor of the Exchequer  
 HM Treasury  
 Treasury Chambers  
 Parliament Street  
 LONDON  
 SW1P 3AG

30 March 1983

*Dear John*

## PLEDGE ON FUTURE PENSION UPRATINGS

At this morning's meeting on commitments for the next Parliament on the uprating of pensions, I understand that my Secretary of State agreed to give the Chancellor an opportunity to comment on the draft of a minute he intends to send to the Prime Minister. I attach a draft - which the Secretary of State has not yet seen - on which I would be grateful for comments.

We were surprised to see that the Chancellor had already sent his own minute to the Prime Minister without, as far as I can tell, any consultation with us. The Prime Minister will, no doubt, wish to consider the two minutes together.

I would be grateful therefore for comments as early as possible tomorrow.

I am copying this letter (but not the enclosure) to Michael Scholar.

*Yours  
 Steve*

S A Godber  
 Private Secretary

~~FEB~~

Mary Hanker



FEB

21.3

10 DOWNING STREET

I have annotated Mr  
Fowler's draft with the  
Miss comments.

I passed them on to  
Carol Souter on Saturday  
morning.

Mal

19/3.



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

Willie Rickett Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

18 March 1983

Prime Minister  
I have asked DHSS also to clear  
with the Treasury and have alerted  
the Chancellor's office.  
Any comments which you have  
should be phoned to  
Mr. Fowler's office on  
Saturday. I have  
asked ~~myself~~ Trina and  
the Duty Clerk to arrange

FERS  
18.3.

Dear Willie

I attach a draft of a letter which my Secretary of State hopes to send this weekend to The Times, and a copy of the leader to which it refers.

As yet this is only a draft: Mr Fowler hopes to work on it tomorrow morning so that the letter can be delivered in time for publication on Monday - ie by lunchtime on Sunday. If there are any substantive amendments to the draft I will ring the duty Private Secretary tomorrow to discuss them. In the meantime I would be grateful for clearance of the draft as it stands - with apologies for the rush!

Yours

Mrs C L Souter  
Private Secretary

DRAFT LETTER TO THE TIMES

May I comment on the inaccuracies ~~[and eccentricities]~~ in your first leader on Thursday on the Government's decision to change from the forecast to the historic (or actual) method of uprating pensions and other benefits? ~~It is an important issue~~ <sup>master</sup> and it is important therefore to make the position clear. ~~It~~

Omit?

It might be helpful to your readers if I first explained what we are proposing to do and why we are doing it, since I am afraid many may have been ~~puzzled~~ <sup>confused</sup> by what you said. (I have in mind in particular your reference to the 1983 uprating being "based on an estimate of inflation from May 1982 and May 1983, and later comment that "a lowered rate of inflation will make him [the Chancellor] once again look generous if injudicious.) If Parliament approves the Government's proposals, the uprating this November will be based on the actual increase in prices between May 1982 and May 1983, <sup>\*</sup> instead of the forecast increase between November 1982 and November 1983. So the November uprating will be certain. By definition there will be no need for any subsequent alteration, either up or down. And any increase in prices between May and November 1983 will automatically be taken into account in the next (1984) uprating.

Indeed the main reason why the Government has decided to restore the certain historic method is that the forecast method has proved itself to be unrealistic and unsatisfactory. On five of the seven occasions forecasts have been used they have turned out to have been incorrect. This has led either to a shortfall or an overshoot in the uprating which successive Governments have had to consider adjusting at the next uprating. So far as I am aware, no-one now argues that the forecast method, introduced by the last Government simply in order to save money, is better. ~~[Perhaps the Times would like to say where it stands? The Guardian in its Wednesday leader accepted the historic method was better.]~~

Omit?

(published on June 17)

I should also make clear how pensioners and others are affected by the upratings in 1982 and 1983. Over this period, pensioners will not lose out compared with what would have happened under the forecast method. Indeed, they are likely to gain a little. And over the period between November 1978 and November 1983, pensions are expected to have gone up by around 75 per cent, while prices are forecast to go up by around 70 per cent.

What will happen in 1983 is in marked contrast to what happened in 1976 under the last Labour Government. Then, the Government switched from the historic method to the forecast method in circumstances which produced a £500 million saving at the time - worth £1 billion today. Moreover, the 1976 switch meant that no account was ever taken of 8 months of high inflation in 1975 - pensioners lost out permanently. By contrast, as I have explained, any increase in prices between May and November this year will be compensated for in the 1984 uprating.

~~4~~ There are two other points where I should like to clear up any misunderstanding. I find the reference to a "30 month" gap difficult to follow. Under the Government's proposals, the most recent actual prices taken into account will be those for May 1983 so that the gap you refer to until the November 1984 uprating will be 18 months. Had we followed the forecast method at Budget time this year, the most recent actual prices taken into account would have been those in January 1983, 4 months earlier. The latest month covered by the forecast would, by definition, have been 12 months ahead of the 1984 uprating.

Finally, you suggested there should be upratings "much more frequently than once a year": I do not accept this at all. We are not living in a Weimar Republic. Inflation has now been brought down to comparatively low levels and we intend to keep it under control. I do not believe we should legislate for 6-monthly or quarterly upratings any more than we should expect pay rises of such frequency. 9

Omit?

Keep?



P.O. Box 7, 200 Gray's Inn Road, London WC1X 8EZ. Telephone: 01-837 1234

## THE CHANCELLOR'S CLAWS

It is generally held that inflation is a solvent not only of the economic order but, in time, of the social attitudes of the nation. Yet in recent years there has been a remarkably strong consensus that the working population should maintain its support of the elderly and infirm and, specifically, that the elderly should be adequately protected from the debauch of money values.

The present government was not convinced that old people should share in any gains in real income and, in its 1980 social security amending legislation, uncoupled pensions from the movement of earnings. But ministers have flocked to re-affirm their oaths on the up-rating of pensions in line with the movement of prices. The problem has been the mechanism for indexation. The 1975 scheme of annual up-rating according to the forecast movement of prices has, Sir Geoffrey Howe said on Tuesday, "never worked well."

The trouble has been the pattern of repeated over-and under-estimation of prices followed by politically embarrassing bids to retrieve any real increase in pensions. Since last November a cabinet committee has been commissioned to find a method of avoiding such bouts of unintentional Treasury generosity. But on the evidence of the Budget statement, that committee (or perhaps more accurately put, the Treasury in response to it) has not saved the government's face nor discovered a more just or lasting system of indexation.

At best the switch to historic estimation of price movements will save public money in the short run; over a longer period it will benefit the Treasury only if inflation is on an upward course — something of a paradox for the present Government, it must be said. Meanwhile the switch-over has not been judiciously managed.

American social security administrators have a useful term — "grandfathering in" — to describe the way in which present beneficiaries are given a place in a new system without necessarily being made worse off. This Sir Geoffrey has failed to do. Pensioners' benefits in the period from November 1983 to November 1984 will be based on an estimate of inflation in the year from May 1982 to May 1983: by the end of October 1984 there will be a gap of 30 months in the movement of prices. Sir Geoffrey insists that this is not a claw-back of the over-estimation benefiting pensioners between November 1982 and November 1983; it none the less looks like one.

There is of course a better way. In principle — and in the comparative practice of other western countries — there is no reason why social security benefits should not be uprated much more frequently than once a year, so minimizing the leads and lags. Indeed officials of the Department of Health and Social Security concede that old age pensions could be reviewed and re-priced more quickly. Five months are needed for uprating,

they say, because of supplementary benefit, which is indexed along the same lines as old age pensions. As a means-tested payment open to many local and personal amendments, supplementary benefit has to be re-calculated for a host of individuals.

Here is more ammunition — if more is needed — for that thoroughgoing review of supplementary benefits that has been required for years. It is a review accomplished in many of its aspects by Professor David Donnison, the former chairman of the Supplementary Benefits Commission; it is part of that now pressing need for reform of our multiplicity of social benefits. For the present there is that *deus ex machina* the computer. Sir Geoffrey Otton, DHSS second permanent secretary, has described computerization in his field as a task akin to lunar travel with benefits to match.

Sir Geoffrey Howe cannot wait for the machines. His own forecast that by November this year the annual inflation rate will be 6 per cent makes his arrangements for indexation look mean. It could be that by mid-1984 a lowered rate of inflation will make him once again look generous, if injudicious. However Mr Richard Crossman, that pensions aficionado, once noted in his diary, "the Budget disappeared from public view, apart from its effect on old age pensioners." That political maxim may return in the autumn to haunt the Chancellor.

## ST PATRICK ON PARADE

For years there has been much anxiety in the United Kingdom and among upholders of constitutional authority in the Republic of Ireland over the support given by Irish Americans to the IRA. Some of this support has been financial — quite a bit of money has been channelled to the terrorists over the years through the Irish Northern Aid Committee (Noraid) in the United States — but far more of it has been psychological. There is

not be represented today, and all federal military bands have been forbidden to participate.

Not all leading New York politicians are taking an equally responsible attitude. The new Governor Mario Cuomo, Mayor Ed Koch, and Congressman Mario Biaggi, who runs the Congressional Ad Hoc Caucus for Ireland, are all expected to take part in the parade. None of them is an Irish American, which is more than a coinci-

associates are the big names, the natural leaders of the Irish American community. Their disapproval of the IRA becomes easier for other Irish Americans to understand as the consequences of terrorism are made evident on television.

The Mountbatten assassination had a profound effect upon American opinion on the Irish issue. Not only was Lord Mountbatten a member of the royal family; he was also a

## Lives in medical students' hands

From Dr A. N. Pain

Sir, Following the recent news about student locums in Leeds, I feel compelled to write my views.

On the night of your article (March 14) I was working in a casualty department as a qualified doctor in the night. To assist me as part of my duties I had a fourth-year medical student. Throughout, his help was invaluable, as many seriously injured patients came in under my care.

At one point during the night three patients arrived almost simultaneously and I had to decide which patient to see first.

Having seen the most serious patient, I felt that it was in the situation for me to treat myself and so I proceeded to the medical student whom I knew to be competent. I proceeded to take arterial blood gases, give an intravenous drip of a potentially dangerous drug (having assured myself that I was aware of the possible complications) and monitor the patient's vital signs.

This left me free to treat the patient whose life might be compromised by unnecessary delay.

Students in my casualty department are required, as part of their course, to spend time helping the doctor on duty. If this policy was abandoned, the publicity of the isolated Sheffield, then the liquidation of the medical profession spending five years "voicing" and being told overnight to totally replace doctors would arise.

Yours sincerely,  
ASHLEY PAIN  
12 Liggett Hill,  
Roundhay,  
Leeds,  
West Yorkshire.

## Dr Strauss's position

From Mr Forrest E. Studd

Sir, It is an admirable, and amusing aspect of your article that views of every political opinion find an airing in your column. Thatcher's extremes of glory, Mr Foot's stonewalling, Labour woods, Enoch Powell's pontifications — cannot be covered by French, German or Gambian events.

Why then, in this political analysis, from politics in Britain to "cold war" in West Germany, does Heidegger alone seem to draw such a condescension? One might say Hitler would — in moderation — draw a better picture of the world than the *Times*.

Why indeed would the

Hansard

10 . 3 . 83

Q3. Mr. Race asked the Prime Minister if she v  
her official engagements for Thursday 10 March.

**The Prime Minister:** I refer the hon. Gentleman to t  
reply that I gave some moments ago.

10.3  
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Mr. Race: Does not the Prime Minister realise that the  
creation of mass unemployment implies the creation of  
mass poverty? Does she not know that this year her  
Government have cut £610 million from benefits to retired  
people, £300 million from benefits to the sick and the  
disabled, £300 million from the benefits to the  
unemployed, £50 million from the benefits to widows and  
orphans and £150 million from benefits to families? When  
will the Prime Minister stop hiding behind the phrase  
"Don't blame me, I'm only the Prime Minister".

**The Prime Minister:** It is not a phrase I have ever  
used. May I add to what the hon. Gentleman stated that  
in the four pension upratings since this Government took  
office, the pension has increased—*[Interruption.]*  
Pensions are benefits. The pension has increased by 68.5  
per cent. During that period, the retail price index rose by  
64 per cent. and the pensioners' price index by less. We  
have put up pensions by more than the cost of living. I also  
remind the hon. Gentleman that, in addition to putting up  
each pension by that amount, there are now about 600,000  
more pensioners than at the time when the Labour  
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