



Prime Minister ² 15,

We are arranging

Treasury Chambers, Parliament Street, SW1P 3AG a short
01-233 3000

PRIME MINISTER

discussion with the
Chancellor & Mr Fowler.

Mrs 12/4

You envisage a discussion of the minutes of 30 and 31 March which Norman Fowler and I sent you about what should be said about the uprating of social security benefits in the next Parliament.

2. I have been thinking about your preliminary comment - John Coles letter of 6 April - that the Government should "price-protect" the basic retirement pension, "and that we are the more able to do this because inflation will be kept down." It isn't in fact easy to argue that price protection is simpler when inflation is low. Pensions which have been uprated by 4 per cent when prices are rising at 4 per cent a year cost as much in real terms as pensions which have been uprated by 15 per cent when prices are rising at 15 per cent a year.

3. But I know you feel that the real issue is a more general one. One of our main objectives over the next Parliament will be to contain the growth in public expenditure, and if possible reduce it. We both realize only too clearly that unless we can do that, we shall still fall well short of what we want to do in cutting the tax burden. And that must require us, despite all we have already done, to secure still more effective control over social security expenditure. It is the biggest single programme, costing £34bn ^{this} ~~last~~ year and accounting for nearly 30 per cent of the total. Its growth has made things enormously more difficult for us during this Parliament: the increase in this programme alone, between 1978-79 and 1982-83, more than accounts for the increase in cost terms in the total of public expenditure between those years.

4. Unless we can find ways of preventing it, the prospects are for continued growth in expenditure which could hamstring us in the next Parliament. Expenditure on social security could rise between 1982-83 and 1985-86, by some £5 billion. The prospect is made even more difficult by the continuing increase in the number of pensioners, which is expected to grow by the end of 1985-86 by another 200,000, on top of the 500,000 extra since the start of this Parliament. The same trends are likely to continue in the longer term.



5. I realize, of course, the immense political difficulties involved in all this, particularly for a Government entering its second term - during which the economic difficulties are expected (rightly, as a result of our actions so far) to be less pressing than in our first Parliament. But if we really want to contain public expenditure, then we have to think long and hard before closing our options on social security benefits in the next Parliament. That is why I am so anxious that we should not repeat the pledge which so constrained us in this Parliament. Restricting the pledge to the basic retirement pension hardly helps, since this accounts for some three-quarters of expenditure on the pledged benefits and we should, in practice, find it difficult not to extend it so the remainder (such as war pensions and widows' pensions).

6. I am sending a copy of this minute to Norman Fowler.

(G.H.)

11 April 1983



BF for
mtg folder

10 DOWNING STREET

Caroline

Have you got
a date for this
meeting please?

Nicky 13/4

Thursday

2111 April

1715-1745.

9
14/4



10 DOWNING STREET

Michael (or)

You will wish to tie up
the Miss comments on
this with her comments
on the other two minutes
(top enclosure) on the
question of Pensions & Benefit
upratings.

It may be best for her meeting
with Fowler & the Chancellor
to cover the minutes below
as well.

Wm 8/4