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Prime Minister

PRIME MINISTER

There are 4 minutes
for this meeting - including
this new one.

PLEDGE ON FUTURE PENSION UPDATINGS

Before the discussion you propose to have on the uprating of long
term benefits in the next Parliament, I ought to respond briefly to
the further minute Geoffrey Howe sent you on 11 April.

Ms 20/4

2. Geoffrey focusses on the public expenditure implications of
 pledging to maintain the value of pensions and related long term
benefits in the next Parliament. Of course, if we did cut the value
 of pensions, then we could make substantial public expenditure
 savings. But for the reasons set out in my earlier minute of
 31 March on pledges and long term public expenditure, I do not
believe it is realistic to expect to make further savings in this way.
 The course we have already set implies that pensioners and other
 beneficiaries will become worse off in relation to those in work, and
 that the share of national resources going to the elderly by way of
social security benefits is unlikely to change very much until the
mid-1990s at least. This reflects the fact that our earlier changes
 will produce a steadily growing saving in the social security
 programme by comparison with what it would otherwise have been.

3. In general, my view of trends on social security expenditure is
 rather different from Geoffrey Howe's:

- the increase in social security spending in this
Parliament has been mainly due to more beneficiaries,
 particularly the unemployed, rather than to raising
 the real value of benefits or extending the scope of
 the benefits system;
- whilst it is true that the number of pensioners has
 been increasing, the trend is now slowing and in a
 very few years the number of pensioners will stabilise,
 and remain stable for some 20 years. Moreover, there

E.R.

are falling trends elsewhere. For example, the number of children for whom child benefit will be payable will fall from 13.5 million in 1978/79 to 11.8 million in 1988/89;

- even quite modest reductions in unemployment, generated by the success of our economic policies, would more than cancel out the effect of pension increases. The full year cost of an increase of 1 per cent in pensions and other long term benefits in 1984/85 is estimated to be about £200 million. Each reduction of 100,000 in the number of unemployed people would save about £180 million in benefit expenditure and, in addition, there would be increases in tax revenue and national insurance contributions.

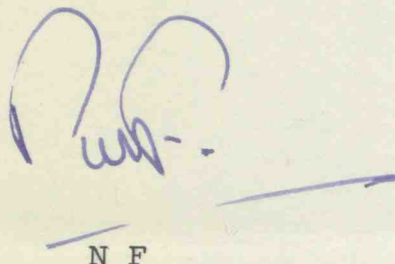
4. By the way they have mishandled their pension proposals, the Opposition have made it much easier for us both to defend our pensions record in this Parliament and to resist extravagant demands for the future. This is despite the fact that for reasons we all recognise, we have not been able to match the real increases of previous Governments, and UK pensions remain low by comparison with most comparable industrial nations.

5. Against this background, the last thing we should now be doing is handing the Opposition an opportunity to regain the initiative. If we promised less for the next Parliament than for this Parliament, we should be doing just that. People will understand and respect our refusal to enter into an auction of pension promises. But they would not understand - or accept it - if we refused to undertake not to cut the value of pensions. We could not sustain that position - and, as I said previously, we must start off with a position we can hold. I believe that to be the position commended in my earlier minute.

E. R.

SECRET AND PERSONAL

6. I am copying this to Geoffrey Howe. I would also suggest that because of its obvious electoral importance we might widen our discussion on Thursday to include at least Cecil Parkinson - and possibly also Willie Whitelaw and Michael Jopling.



20 April 1983

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