



PRIME MINISTER



PENSION UPDATING

As you know, I intend to raise the issue of pension updating in Cabinet tomorrow. My reason is that I believe it is essential for us to defuse the pensions issue before the campaign begins and avoid an auction.

We have successfully completed the transition from the forecasting to the historic method of updating; and we have largely won the presentational argument. But we face one major difficulty - the uncertainty about what the updating will be. The opposition will claim that we will update only by the May RPI figure - which on the latest estimates could be as low as 3.6 per cent. Our very success in dealing with inflation will therefore be presented as something which harms pensioners.

I do not believe we can stand pat and say that the electorate must wait and see. To do so would be to give the field to Labour. But we have a credible alternative.

In the Financial Statement and Budget Report - we assumed an updating of $4\frac{1}{4}$ per cent. Therefore, to decide now on an updating of $4\frac{1}{4}$ per cent would cost us nothing; and would be in line with the Chancellor's Budget judgement and expenditure plans. Moreover, it would enable us to avoid any embarrassment about our continuing success in dealing with inflation. In effect, we would be saying to pensioners that, even though prices were falling even faster than we expected, we would stick to the pension updating plans we made at the time of the Budget, and give them the benefit of lower inflation.

We will still have to defend ourselves against Labour claims that they would update on the forecast inflation rate in November and that this

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is likely to be 6 per cent. But we could point to the fact that inflation is now falling faster than forecast; no one can be certain where we will be in six months.

If you and colleagues accept my view on this, we will need to consider how and when to present it. On timing I am attracted to the notion that we might announce our commitment on the uprating shortly after the April RPI becomes public. In terms of presentation, it would fit naturally into a statement which stressed (i) our record in this Parliament; (ii) our determination to remove uncertainty for the future by changing to the historic method; (iii) our decision to stick by our Budget plans for pensions, giving pensioners the benefit of more rapidly falling inflation; and (iv) our commitment to price-protect pensions through the next Parliament.

I am not copying this minute to our colleagues. I hope we may have a word about it before Cabinet.

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