

PRIME MINISTER

1
please also see comment Alan Walters
and Mr. Mount, also attached.

(please see his minute, attached)

Mr. Fowler wants to announce that social security benefits will be uprated by 4½% (he may drop his sights to 4%). *he has now - to 4¼%*

I really think this is a monstrous attack on the Chief Secretary, who now stands to lose - again! - all the social security public expenditure savings agreed last autumn.

(4½%)

- (1) it would cost £220m in a full year - 1.4% on income tax thresholds or 0.2% on total NICs.
- (2) it would be inconsistent with all we have said about the actual figure, and brings us straight back into the ratchet - since although upratings can exceed inflation they can never fall short of it.
- (3) it would give the beneficiaries (not just pensioners) a second bonus, within a year, since we cannot now recover an overshoot next year.
- (4) it would worsen the unemployment trap and the poverty trap.
- (5) I think it would look like (whether at 4½% ^{4¼%} or 4%) a blatant bribe, and the antithesis of what this government has stood for.

MCS

Mr Fowler would like a word
before Cabinet. Agree to see
him at 9.45?

11 May, 1983.

MCS

yes
ms

FROM: G W MONGER
DATE: 9 May 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Bailey
Mr Wilding
Mr Mountfield
Ms Seammen

SOCIAL SECURITY UPDATING

I understand informally from DHSS officials that Mr Fowler intends to argue at Cabinet tomorrow that social security benefits should be uprated by 4½% this November.

The History

2. Under the new legislation this year's uprating must be at least equal to the annual RPI increase shown in May. The Budget arithmetic assumed that this would be 4½%, the best estimate at the time. This was the figure in Ministers' minds when the decision was taken to return to the historical basis of uprating. But of course there was never a decision to do other than apply whatever the May RPI turned out to be. Public presentation of the change assumed that the May outturn would be used. The Chief Secretary warned Mr Fowler very clearly at the time that this was his position.

(bankrupts
were excluded
- bonus even!)

3. In your Budget speech, to guard against the possibility that the May forecast would come down, you said that it might be "around 4%". But Mr Fowler in the later debates on the Social Security Bill more than once referred to the "Budget forecast" of 4½%.

4. The prospect now is that the May RPI will be in the range 3½-4%, with the mid-point of this range as the most likely single figure.

(and for NW 5½-6)

Arguments for keeping to the May RPI

5. First, there is the argument of cost. An uprating of, say, 3¾%, would save, as compared with Mr Fowler's 4½%, £75m in 1983-84 and about £220m in a full year. This is equivalent to 0.2% on total NICs or 1.4% on income tax thresholds.

6. Secondly, you could say that the increase proposed by Mr Fowler would be inconsistent with the purpose of the new system. It is meant to eliminate the arguments that arose under the old system because upratings exceeded, or fell short of, inflation. Mr Fowler himself justified the change as providing a surer and more automatic method of uprating. But once it becomes accepted that under the new system too the RPI increase can be exceeded, we shall be back to the old arguments. And once again, as with overshoot and undershoot, we shall be operating a ratchet for, although the uprating can exceed inflation, it can never fall short of it.

7. Thirdly, you could point out that social security has already done well from the recent public expenditure decisions. Last autumn Cabinet decided to save £180m in 1983-84. This would be achieved by having an uprating 1 $\frac{3}{4}$ % below what it would otherwise have been. The change to the historical method was designed to produce approximately this saving. But in the Budget concessions costing £120m were announced, and indeed Mr Fowler, in debates on his Bill, used a figure of £220m, which allowed also for changes in expectations on inflation. So even without Mr Fowler's further proposal, last autumn's decision to make savings on the social security programme has already been largely or wholly frustrated.

8. Finally, there is the argument that higher increases in the short-term benefits will worsen both the poverty trap and the unemployment trap. The Prime Minister might be especially concerned about the effect on unemployment benefit and supplementary benefit. But of course it is hard to argue that a difference of $\frac{3}{4}$ % is decisive.

The new levels for the retirement pension

9. We have looked at the actual and prospective levels of the retirement pension to see what figure would be produced by an uprating at the level we would like. The figures are (£/week):

	Present	After uprating at			
		3.75%	4%	4.25%	4.5%
Single	32.85	34.10	34.15	34.25	34.35
Married	52.55	54.50	54.65	54.80	54.90

Unfortunately, these figures do not help. There is no good round figure for an uprating below 4.5% - unless you think that the £2 extra on the married couple's pension at 3.8% qualifies. Indeed, Mr Fowler might even be tempted to go for the £55 a week figure for the married pension which an uprating of 4.7% would produce.

Mr Fowler's arguments

10. You should be prepared for two arguments from Mr Fowler.

11. The first is that we were already budgetting for 4½%, so that anything less would be an uncovenanted bonus for us. This might be an effective point. You could point out that we assumed no increase in real terms, whereas Mr Fowler's 4½% would give a real increase of about ½%.

12. The second possible argument by Mr Fowler is that the Government must be able to say during the Election campaign what the size of the uprating will be. This argument may have been strengthened by the decision to hold the Election before the May RPI is published on 17 June. If it were to be accepted that beneficiaries cannot be left in uncertainty until then the way is open to Mr Fowler's proposal which is essentially to give a politically attractive minimum figure. I suspect that in political terms this will be a hard argument to refute. Perhaps it could be said that the Government would not in practice get any extra credit by giving a figure which (even with Mr Fowler's 4½%) will look low, and will certainly be outbidden by the Opposition.

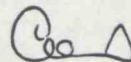
Compromise positions

13. What will be acceptable to Cabinet is of course very much a matter of political judgement, especially at present. But it may well be that with an Election imminent they would not be willing to stand on the May RPI figure (especially since that will not be known until 17 June). Whether to offer a 4% uprating is a matter of tactics. Mr Fowler's decision to go for the unexpectedly high figure of 4½% suggests that he is playing a tactical game himself.

SECRET

Other Social Security Matters

14. DHSS have a number of other smaller points some of them on the November uprating. They do not expect Mr Fowler to raise them tomorrow but in case he does a short annex on them, prepared by Ms Seammes, is attached.



G W MONGER

PS. I have just heard from DHSS that Mr Fowler may also propose tomorrow that his statement on the uprating should ~~also~~ announce the renewal of the pledge for the next Parliament. No doubt it is realistic to accept that this decision has now been taken. It is important however that the pledge should be restricted to the same benefits as before. Those are "pensions and related long-term benefits." DHSS believe that this is what Mr Fowler will propose.

SECRET

POSSIBLE BIDS

1. Child dependency additions to short term benefits

The intention is to abolish them but the power to do so was removed from the current Bill. There is no provision in PESC for their continued payment. They could be maintained at their current level of 30p, or reduced. A level of 30p costs £3m. A reduction to the minimum (5p) would be possible but perhaps have political disadvantages.

A reasonable compromise might be 20p, and to confirm the intention (subject to legislation) to abolish from November 1984.

2. Housing benefit children's needs allowance

The bid is for a real increase of £1. It was given a low priority during pre-Budget discussions. Full year cost is £11.7 million, but savings are available from 1984-85 onwards. Part-year cost (1983-84) is £3.9m.

This bid further extends the 'benefit society'. Housing benefit is already payable a long way up the income scale.

3. Mobility Allowance

Bid is for a 6% uprating, to match exactly the amount new lessees will pay for their car under Motability leases. Full year cost is about £5m.

This was rejected at Budget time. Mob A has done well under this Government. We cannot undertake to tie upratings to decisions taken by Motability on the terms of their leases. After all, by no means all Mob A recipients get Motability cars.

4. Earnings rule

(a) Uprating in line with prices would give an increase from £57 to £59; in line with earnings would give £61. There is no established procedure for uprating. Cost about £1 million in full year.

Possible compromise might be £60.

(b) More important is need to maintain flexibility about pricing of rule. PESC includes provision for index-linking, starting November 1984; full year (1983-84) cost about £100m.

Do not want new commitment to abolish in next Parliament, still less announcement

that money provided for. Might well want money for other things. Little pressure for abolition; other Government policies eg JRS encourage early retirement.

5. Household duties test/new disablement allowance.

The test will become illegal from the end of 1984 under an EEC directive. Simple abolition would cost about £275 ~~m~~ a year in housewives non contributory invalidity pension (HNCIP). Proposal is to abolish HNCIP and NCIP and replace by new non-contributory benefit payable on test of incapacity for work and 80% disablement. Full year extra cost of £22m, allowing for preservation of rights of those currently receiving HNCIP and NCIP.

Clear that some action, probably along these lines, necessary and desirable. But we have doubts about some of the details; and we are not yet convinced that preserved rights are absolutely necessary. Without them, a nil net cost package could be constructed.

6. Death grant

No proposal yet put to us. But likely to take the form of a substantially increased grant (from current level of £30) payable selectively, to produce nil net cost package

Treasury wants to abolish grant. Clearly a nonsense as it stands (funerals cost at least £300). Would produce savings of about £17m* (nearly enough to pay for 5, above.) Selective scheme was publicly canvassed but received virtually no support; if put forward now would not gain Government any credit and would lead to pressure to increase level further and to extend eligibility.

7. War widows' pensions

Proposal (not yet put to us) likely to be to pay war widows' pension to widows of 100% disabled war pensioners, whatever the cause of death. Benefit cost about £7m, plus revenue forgone of £1.5m, because war widows' pension is tax free.

Rejected at Budget time. Not desirable to ~~...~~ scope of tax free war widows' pensions. May be no connection between ~~...~~ cause of death and disability (eg deaf man falls off ladder). Would lead to greater pressure to make all widows' pensions tax free.

8. Family income supplement

We have suggested at official level reducing the FIS uprating by the amount of the real terms increase in child benefit, so as to reduce the number of families in the poverty trap without creating any losers.

plus admin savings of about £7m

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