

SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

(i) 1984 Social Security Up-rating

Mr. Fowler will be announcing the changes in social security benefit rates on Monday. These will include the changes resulting from last year's PES round as well as the normal up-rating. These are all set out in the minute attached which Mr. Fowler has circulated to colleagues. All the items are agreed except that Mr. King is objecting to the proposal to shunt payment of unemployment benefit back one week. As the minute explains, there are good reasons for this - payment in arrears brings UB into line with payment of wages so that there are no distortions as people move from a job to unemployment back to a job. In addition, the change saves 200 posts in the Department of Employment as it is no longer necessary to chase up over payments. Mr. King will not be writing but proposes to raise the issue orally at Cabinet.

You may want to discuss the handling of this with the Chancellor. While it is right that colleagues should be made aware of unpopular decisions before they are announced, you will not want to allow Cabinet to re-open elements of the package agreed between Mr. Fowler and the Chancellor. These implement the decisions of the last PES round plus the changes needed to finance the concessions made on housing benefit. You should therefore indicate that discussion will be confined to the question of unemployment benefit.

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(ii) Argentina

The Chancellor could bring you up to date on Argentina's latest move in submitting a Letter of Intent to the IMF Board without the agreement of the IMF team of negotiators. There is also Argentina's threat to talk directly to banks if the IMF rejects this package. You will want to consider how the British banks should respond to this.

(iii) The Chancellor may want to give you an early indication of the PES round.

(iv) You might want to compare notes on the outcome of the Summit.

(v) The Chancellor may report on financial markets. Three-month inter-bank rate has eased a little further and now stands at nine and five-sixteenths.

185

12 June 1984



10 DOWNING STREET

Prime Minister

There is one issue outstanding
on the social security upgrading
package which Mr King and
Mr Fowler wish to raise
orally. The paper on this
is in the folder for the
meeting with the Chancellor
as you will want to
discuss how to handle it.

AT

13/6

The Secretary of State for
Social Services and I
suggest that you ask
Ministers to leave their
copies of his minute and
not take them away:
we will collect them in.
