

PRIME MINISTER

BENEFITS FOR STRIKERS

1. The aim we must keep in mind throughout this exercise is to tip the bargaining balance enough to discourage militant action - and the excessive power that its cost-free use gives trade union negotiators.
2. Deferring tax rebates would reduce strikers' cash flow by around £11 per week. This appears important because it affects the majority, who do not claim Supplementary Benefits (SB). But we must not exaggerate its importance, since the rebate will be received when the strike is over. Those who do not claim SB are, by definition, not very hard-pressed. Many of them have other sources of income within the family.
3. We believe it makes sense to bring benefits for strikers into the tax system - along with benefits to other groups. When this is done, it will be necessary to defer tax rebates during a strike for SB claimants and non-claimants alike. This change - which will affect strikers and other groups as well - can be made as a complete package in spring 1982 at the latest.
4. The paper contains a separate proposal to introduce legislation this year in order to defer tax rebates for strikers (and, if Ministers wish, for the unemployed as well) before the more general change is made to bring these benefits into the tax system. On balance, we doubt the wisdom of this early change:
  - (a) It would be politically much more difficult to sell the deeming proposals and the deferral of tax rebates at the same time. It looks like two measures designed to hit the same target.
  - (b) The moral justification for deferring tax rebates - to which individuals are entitled - is much less strong than the principle that unions should pay a share of the cost of supporting their members on strike.
  - (c) The deferral of tax rebates has two unfortunate side effects: it increases the number who are likely to claim SB and increases the amount of SB to which claimants are entitled.

5. If colleagues wish to proceed with the deferral of tax refunds this year, it will be necessary to increase the level of deeming in order to have the effect originally intended when £12 was discussed. Two alternative approaches are outlined in paragraph 13 of the paper. The simpler method would be to raise the level of deeming to £23 - which would still leave the unionist only £16 per week worse off than at present when the strike was over.
6. We favour establishing the principle of deeming this year without the complication of tax refund deferral, which should come as part of the package in 1982. However, it is very important that the level of deeming should be sufficient to provide a real incentive to some of the strikers to exert pressure on their union to provide strike pay. If tax deferrals are to be left to one side, we would recommend an initial level of deeming of £15.
7. Finally, I think it was agreed at the last meeting that the level of deeming should be increased progressively in real terms. This is central to the aim of eventually transferring to the unions the responsibility for the welfare of their members on strike. If £15 per week were widely adopted, this would become a major factor in the calculations a union had to make about striking in future. But there will be many cases where only relatively small numbers of a large trade union are involved in a strike. In the long run, we should aim to increase the financial burden of strikes and eliminate the idea that the state should help to finance them. (We would have liked to move straight to this position, but for various reasons colleagues were unwilling to contemplate this at the last meeting.) Unless there is a public commitment to increasing deeming in real terms over the years, it will be unlikely to happen and more difficult to explain the underlying philosophy.

I am sending a copy of this note to the Chancellor.



JOHN HOSKYNS