



10 DOWNING STREET

THE PRIME MINISTER

8 April 1982

*Dear Richard,*

Thank you for your further letter of 24 March.

I think that the points which you offer by way of clarification only serve to underline the importance of our more responsible approach, based on what the nation as a whole can afford. We have promised that as the economy is restored to growth so we shall ensure that pensioners share in the increasing prosperity and that, in the meantime, we shall guarantee to protect the value of pensions. The country is not at present in a position to finance significant real terms increases in pensions such as the increase to half average earnings for a married couple for which you have argued elsewhere. It is mischievous or naive to suggest that an extra £11½ billion a year could be found for this purpose without enormous damage to the economy, vastly increased national insurance contributions or tax payments, and a rapid worsening of the rate of inflation.

I understand the pride you take in the real improvements in pension which were made by the last Labour Government under the provisions which linked pensions with the higher of either prices or earnings. But I repeat that the real improvements in pension made after the special uprating in 1974 were comparatively modest,

/and



and lost much of their value to pensioners because of the high inflation rates over most of this period which savagely eroded the value of retirement savings, and imposed considerable extra burdens on the working population too.

In present circumstances our priority is to take measures to improve the deep seated problems of low productivity and lack of international competitiveness and to bring down the rate of inflation. During that difficult process our pledge of price-protection is clear. Once the nation is fully restored to sound and efficient growth pensioners will be able to share in the increased resources that will be available. In the long term this policy offers far better prospects for pensioners and indeed for the rest of the community as well. Pensioners will not easily be fooled by irresponsible promises based on a blank cheque mentality.

I have no objection to your releasing our exchanges on this issue to the pensioners' organisations.

Yours sincerely

Margaret Thatcher

The Rt. Hon. Michael Foot, M.P.