



10 DOWNING STREET

THE PRIME MINISTER

28 November 1980

Dear Johnnie,

Many thanks for your letter of 27 October. I think I ought to begin by saying that in the changes we have had to legislate for earlier this year, and in any discussion of public expenditure, all Ministers have the very difficult task of holding in balance what they know personally and as constituency MPs about the effects on individuals and families of hard times and the hard measures taken to deal with them; their concern for their own Departmental programmes and priorities; and their collective determination to give priority to controlling inflation and getting the economy moving again. It suits Opposition spokesmen to accuse individual Ministers of betraying their Departmental trust, and it pleases journalists to speculate on energetic inter-Ministerial argument. I don't betray any Cabinet secrets that the journalists are much nearer the truth.

I understand entirely your concern about the sharing of the disadvantages that have to be shared when we are, as a country, doing rather badly in the midst of a worldwide recession in which few countries are doing well. The Government can point the way out of our problems, and must do that and keep doing it even though the route is one of sharp gravel while the flowery pathway leads to the great fire. Because it cannot wave away the disadvantages, it must, and does, accept responsibility for trying to share them fairly. Neither you nor I believe for a moment that the principles of free enterprise, self help and personal responsibility mean that the well-placed must be allowed to float comfortably and the vulnerable to drown.

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I need not deal in detail with the changes we have legislated for in 1980. The social security programme constitutes such a large part of total public expenditure that public expenditure restraint must involve some restraint here, too. The sad fact is that the improvements in recent years, welcome in themselves, have been based to some extent on a false prospectus of our national prosperity. We cannot change the economic reality quickly; we must therefore, in the meantime, adjust our demands on resources to that reality. The social security budget continues to grow. The comparatively modest savings that have been made in it have as far as possible been made where benefit levels or other resources give those affected something over and above the basic provision. Similarly, acceptance that benefits ought to be taxed implies acceptance that while they are untaxed those beneficiaries with a potential tax liability enjoy an unintended advantage. Abatement of the benefit uprating, which saves substantially less money than proper taxation would raise, is in no sense a precise substitute for taxation; but when hard decisions have to be made its logic can be understood. As you say, our firm commitment to restore invalidity benefit once it is brought into tax, to the level it would have had but for abatement, subject to availability of resources, is an important one.

You know, much better than most, what we have been able to achieve, despite all the difficulties, in terms of provision for chronically sick and disabled people: improvement of mobility allowance and acceleration of the mobility allowance phasing programme; easier entry to the higher rate of supplementary benefit for the young congenitally handicapped in particular and for long-term sick people in general; the heating allowance improvement that you mention, and so on. The situation we have to face this year is not any easier; and difficult decisions will have to be made - just as they are having to be made by Unions negotiating realistically within the limits of what their industries can afford. However, Patrick Jenkin and I

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have in mind the points you made. We are concerned with fairness as well as with survival.

We shall have a very difficult year - until our own industries get into better shape to compete in world markets.

It was good of you to write.

Yours

Raymond

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His Grace The Duke of Buccleuch, KT.