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Social Services

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PRIME MINISTER

DEBATE ON THE 5 PER CENT UNEMPLOYMENT BENEFIT ABATEMENT

Since Cabinet yesterday, I have had meetings with the Chancellor of the Exchequer, the Chief Whip and other colleagues. Broadly, there are three options for the debate on Monday.

First, we could stand pat and say that all decisions will be taken at the time of the Budget and implemented in the November 1983 uprating. The Chief Whip advises me, however, that he would not guarantee a majority if this was our position.

Second, we could promise to restore the 5 per cent abatement at the time of the next uprating. This would not satisfy the Opposition, who are asking for "immediate" restoration, but it would unquestionably satisfy our side.

Third, we could attempt some kind of middle position. It is suggested, for example, that we give a commitment that we will restore the abatement by not less than the overshoot which unemployment benefit beneficiaries are receiving as a result of this November's uprating. We would say at the same time that the balance would fall due to be considered at the time of the Budget.

I can see the attractions of this middle course, but I also believe that there are formidable difficulties which we will face if we give such an assurance. The most obvious effect will be that we will then widen the debate to the whole question of adjustment generally. We will have retirement pensioners, war pensioners and invalidity pensioners, for example, all seeking the same kind of assurance. In addition, I am doubtful whether such an assurance would carry those on our side who regard the restoration of the 5 per cent abatement as a matter of the good word of this Government. I myself will be talking to one or two of the people concerned on our side and will be able to tell you better about the position on Monday.

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However, the point that concerns me is that if we take the middle course we will then be straight into an argument about a 2.5 per cent abatement rather than a 5 per cent abatement, plus a number of other technical and not so technical arguments. As I said at Cabinet, my major concern is that Ministers in handling the original Bill made it quite clear that the 5 per cent abatement would be restored when unemployment benefit came into taxation. The clearest statement of this was by Patrick Jenkin in Committee on 30 April 1980 when he said:

"The hon Gentlemen asked specifically about abated unemployment benefit. That will make no difference, because as the unemployment benefit comes into tax so the rationale for the 5 per cent abatement ends. It is an interim scheme in lieu of taxation. One will give way to the other."

Since then, Ministers have affirmed in both the major debates that have taken place on the abatement that "it will be made good". Ministers have also given the assurance that "the abatement will not be a permanent reduction".

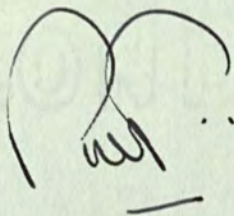
The fact is that the last occasion on which we can make good this abatement in the lifetime of this Parliament will be at the next uprating. Clearly this is a position that will be recognised and my judgment is that during the course of the next few months we shall be forced, whether we like it or not, to announce that we will restore the abatement in full. This may be unwelcome news, but I believe it is the true position.

Given all this, I believe that the choice that colleagues should make is between saying that we will take all the factors into account at the time of the Budget when the uprating is decided, but without giving a guarantee that we will restore the abatement; or saying that at the next uprating we will restore the 5 per cent abatement. From what I have said previously you will recognise that I believe that the best choice would be to give an assurance that we will restore at the next uprating and to extract from the people concerned on our side the strongest possible assurances about future conduct -

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in particular on the much more difficult and more valuable question of an adjustment generally. We should perhaps remember that the full year cost of restoring the 5 per cent unemployment benefit abatement is just over £50 million while the kind of figure we are talking about for adjustment is in excess of £0.5 billion. Meantime, we are getting back £650 million from taxing unemployment benefit and would get another £15 million or so if we restored the abatement.

I am copying this to the Chancellor of the Exchequer, the Lord President and the Chief Whip, and to Sir Robert Armstrong.



19 November 1982

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DRAFT MINUTE TO PRIME MINISTER

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However, the point that concerns me is that if we take the middle course we will then be straight into an argument about ^{(an estimated} 2.3 per cent) abatement, plus a number of other technical and not so technical arguments. As I said at Cabinet, my major concern is that Ministers in handling the original Bill made it quite clear that the 5 per cent abatement would be restored when unemployment benefit came into taxation. The clearest statement of this was by Patrick Jenkin in Committee on 30 April 1980 when he said:

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(£35 million net of tax)

£50 million - although we are now getting £650 million in taxation - while the kind of figure we are talking about for adjustment is in excess of £½ billion.