

Shadden

Conservative Research Department

24 Old Queen Street, London SW1H 9HX Telephone 01-930 1471

Chairman: ANGUS MAUDE, TD, MP
Director: CHRISTOPHER PATTEN
Consultant Director: JAMES DOUGLAS, OBE

CM/MHM

8th February, 1977

Dear Mrs Thatcher,

I have been asked by Mr. Jenkin to circulate the attached note to members of the Shadow Cabinet. The note recommends the line the Party should take on the earnings rule which will come up on the Report Stage of the Social Security (Miscellaneous Provisions) Bill, which is likely to be taken in the Commons early next week.

Yours sincerely
Chris Mockler

CHRIS MOCKLER

The Rt. Hon. Margaret Thatcher MP,
Leader of the Opposition's office,
House of Commons.

THE EARNINGS RULE
(Paper by Mr. Jenkin)

1. In 1975, we forced the Government to increase the earnings limits for pensioners to £20 p.w. in 1975, to £35 p.w. in 1976 and to £50 p.w. from April 1977. A clause in the Social Security (Miscellaneous Provisions) Bill now seeks to claw back the increase to £50 so that the limit would be held to £35, though it would in future be uprated in line with earnings; the first uprating which would take effect next November and might take the limit to about £41 p.w. The Government claim that the clause will save £45 million in 1977-78.
2. In the 1975 debates, the Government's case was similarly based on cost, but we justified our stance by challenging their figures and assumptions. During 1976, further figures published by the Government appeared to vindicate our arguments that raising the limit from £20 to £35 p.w. may actually have saved public spending. Accordingly we planned to oppose the claw-back.
3. During the Committee Stage, however, the Government produced a closely-reasoned Note seeking to substantiate their claim that the clause would save £45 million in 1977-78. The core of their case is: (a) that all their earlier figures were wrong, having been based on faulty methodology; (b) that the Government Actuary had now revised his calculations in the light of actual figures now available; (c) that with each increase the cost has risen quite sharply; and (d) therefore increasing the limit again could be expected to increase the cost still further.
4. Although it is still possible to pick many holes in some parts of the Government's case, it is the view of the Social Services Committee that we cannot now argue that the clause will not save money. (It may not save the full £45 million, but is probable that it will save the bulk of it).. Even if one makes generous assumptions about the numbers of pensioners who will increase their earnings and so pay more tax, that does not offset the cost of paying pensions and allowances to pensioners who would now claim their pensions.
5. I do not believe it would be consistent with our general stance to argue for an extra £30 to £45 million public spending in 1977-78; reluctantly therefore I have to advise that we do not vote against the clause on Report. In the debate, we can still make attacking speeches: (a) claiming credit for what we have undoubtedly achieved so far; (b) the Government is guilty of having seriously misled Parliament in the past; (c) re-stating our pledge to abolish the rule entirely as soon as circumstances allow; and (d) calling on the Government, in the meantime, to verify their figures by surveys and to report to Parliament.

P.J.