

From: The Rt. Hon. Sir Geoffrey Howe, QC MP



HOUSE OF COMMONS
LONDON SW1A 0AA

Sir G. HOWE NP
MT spoke to Sir
Geoffrey about
this 1/11/76
ES.

SECRET

1st November, 1976

The Rt. Hon. Margaret Thatcher M.P.

Inflation Proofed Pensions

This issue has come to the boil more quickly than we had anticipated when I mentioned it in Shadow a couple of weeks ago, expecting it to arise in the context of the series of Pension Increase Orders which are likely to come before the House very shortly.

John Pardoe (see the lead story in today's Daily Express and his article on the leader page) is making it the main point of his Ten Minute Rule Bill on Wednesday. He intends to propose that increases should be subject to the same cut-off point (£208 per annum) as of pay increases under the Pay Policy.

Kenneth Baker's paper, which Shadow considered earlier this year, led us to recommend that we should, if pressed, argue the case for turning the Pay Research Unit into a more independent and public body with a view to correcting the inadequacy of the 1.75 per cent deduction now made from Civil Service pay to cover the cost of inflation proofing. We then rejected the idea of establishing a cut-off rate for increases because of our general opposition to spitefulness on differentials and because we hoped that a reduction in the rate of inflation might lead to the disappearance of the problem.

The opposite has now happened. This means that public sector pensions will next year cost £1.140 million. This includes an extra £114 million (a 13.8 per cent increase for pensioners) for this year and £180 million (a 26.1 per cent increase) for last year.

Pardoe draws attention to the fact that a Permanent Secretary who retired in 1975 on a pension of £10,500 will this year get an increase of £1,450 per annum.

I attach a copy of the low profile model letter that Research Department have so far been recommending after discussion with myself and others.

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Kenneth Baker and David Howell last week considered the problem afresh. They still supported the proposal for changes in the Pay Research system but were cautious about our suggesting any kind of cut-off point. Kenneth argued that:

‡ "such a proposal would raise a howl from the two million pensions who benefit from it, but the private sector pension may think it only fair. However, I think any anti-pension move tends to rally all pensioners to the defence of those who are affected."

Two questions arise for decision:

1. How should we vote on Pardoe's Bill, if at all?
2. Should we make any statement to clarify our position?

I have discussed this briefly with Humphrey Atkins and Jim Prior. We are arranging for it to be discussed at tomorrow's meetings of the Back Bench Social Services and Finance Committees.

Our provisional view is that we should not vote on Wednesday in the not unreasonable belief that the Government will not oppose Pardoe's Bill; it is, of course, quite possible that some of our own Back Benchers would want to vote with Pardoe.

We should welcome, if you possibly have the time to think about it, your reaction on the wisdom of our making any kind of statement. You will remember that you yourself expressed anxiety the other day at the exposed position of MPs on this issue.

‡ Patrick Jenkin is less fearful of this, & more willing to take the Pardoe line.



cc The Rt. Hon. Humphrey Atkins MP
The Rt. Hon. James Prior MP
The Rt. Hon. Patrick Jenkin MP
John Nott MP
David Howell MP
Kenneth Baker MP