

~~Part A~~
Part A.

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PART A

Chancellor's (Howe) Papers:

CHANCELLORS CONSERVATIVE
PARTY CONFERENCE SUMMER
SCHOOL LECTURE JULY 1982

Disposal Directions: 25 Years


24/7/95.



FROM: ROBIN HARRIS
DATE: 18 June 1982

PRINCIPAL PRIVATE SECRETARY *— 2*

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- Mr Middleton
- Mr Kemp
- Mr Burgner
- Mr Mountfield
- Mrs Case
- Mr Dixon
- Mr Monger
- Mr R I G Allen
- Mr Faulkner
- Mr Moore
- Mr Culpin
- Mr Potter
- Mr Garside
- Mr Ridley
- Mr French

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CHANCELLOR'S CPC SUMMER SCHOOL LECTURE: 3 JULY

The Chancellor said that he would like to see this first draft based on the skeleton which he agreed, even though it had not/^{first}been seen by officials. Since the theme is essentially what we would like to do in the next Parliament it is necessarily both wide ranging and goes further on a fair number of commitments than either Treasury Ministers or other Cabinet colleagues have gone. However, the Chancellor asked that initially we should try to enter into areas from which by the time of the final draft it might be necessary to retreat. Moreover, for such a lecture to have any significance it must, I think, even in a guarded way, open up avenues along which we will undoubtedly have to advance with care.

Although a 'party' occasion, such a speech would if delivered in anything like its present form, have much more than 'party' significance. I am, therefore, circulating this for comment much more widely than usual. In the light of all that, I would be very grateful for help from copy recipients on a rather large number of points. If possible, it would be particularly appreciated if

that help took the form of alternative formulation of the idea intended rather than general comment. I would also appreciate such comments on points of substance reaching me by close of play on Tuesday 22 June.

In particular, could I have advice on the following sections:

- 2i) Inflation - Mr Middleton and Mr Ridley
- 2ii) Public Spending - Mr Mountfield
- 2iii) Privatisation: Industry - Mr Burgner
- 2iv) Privatisation: Local Government - Could Mr Culpin please provide the missing figures?
- 2v) Privatisation: Social Policy - Mr Monger, Mr Faulkner, Mr Ridley and Mr Garside
- 2vi) Deregulation - Mr Potter
- 2vii) Labour Market - Mr Dixon
- 2viii) Taxation - (as it stands, this seems to me to be rather feeble) - Mr French and Mr Moore.

I would also be very grateful if Mr Kemp and Mr R I G Allen could take an overview; and Mr Allen's assistance with the statistics would be particularly appreciated.

RH

ROBIN HARRIS

18 June 1982

1. The Conservative Consensus

This is a special moment in the life of the Government, the Party and the nation. Three years into our first term of office is a time to take stock; of past achievements and failures and of the policies required for the next parliament. We can take comfort in three things. First, we are riding high in popular opinion, higher than anyone could have expected. Secondly, we enjoy a greater degree of support for the broad thrust of our policies than we have ever done. Thirdly, far from running out of ideas, drive and stamina, the government and Party are more determined than ever to press forward with our programme to reverse Britain's decline.

Those happy circumstances must seem strange to some of our critics. The idea that we are the 'Stupid Party' has had its day. But the feeling still lingers in circles where our support should be great that Conservatism is faintly ridiculous. In part, we are to blame. Language and tone are often as important as content and policy. The notion that under each

Conservative exterior a racist sexist bigot struggles to get out is more widespread than it ought to be. The reality that in liberating the forces of enterprise we are strengthening opportunities

for ethnic minorities and for women is not grasped as it should. All of this we must work to change.

For, as Conservatives, we are uniquely equipped to carry out the great tasks which enlightened people wish government to perform. Both our Party's traditions and our own generation's political experience have made us so. The roots of our tradition are deep and widely spread. In our scepticism of devices and institutions and concentration on people; in our understanding of the importance of combining individual freedom and social compassion, we draw on the best of Toryism and Liberalism. Those instinctive inclinations which we inherit through tradition have been strengthened and sharpened through experience. In more than one way, today's Conservative Government represents the 'Bow Group' generation. We are strongly committed to economic and social policies founded on freedom. We are attached to and have faith in the potential of individual effort. We want to harness that effort to the common good. On the basis of sound economic growth we want to see a high quality of social provision for those who cannot cope. We are committed to the rule of law rather than the authority of the state. We place more emphasis on motivating and persuading people than in reforming structures and institutions. We want to see government do less - but do it better - and people do more. In the best and true sense of the word we are liberal Conservatives.

By misreading and misunderstanding history, Marxists draw - or at least drew - comfort from the notion that history was on their side. In a more modest and more accurate way we in the Conservative Party should draw some similar comfort too. That is so for three reasons. First, our voice is the voice of ordinary people. They want to own the homes in which they live and shares in the businesses for which they work: we too believe in ownership. They want to see economic power devolved to smaller units from monolithic public corporations and monopoly trade unions to small businesses and individual workers: that is the thrust of all our policies. They want to choose where and how their children will be educated and where their sick should be cared for: we alone would give them the chance.

and
Second /hardly less reassuring is the fact that our voice is also that of the international consensus of free nations. At Ottawa, Helsinki and most recently at Versailles the message from heads of governments was the same. They seek, as we do, a stable international order through the defeat of inflation, lower deficits and liberal trading policies. Like us, they wish to make markets work in the interests of the

international community. Three years ago people could talk glibly of the 'Thatcher experiment'. But no more. For the pursuit of financial prudence as a means of attaining sustainable growth and fuller secure employment is the norm not the exception. And the exceptions all too sadly serve to prove the rule.

The third reason why our approach is historically soundly based is that it is targeted towards the long term. It is against both our instinctive Conservative caution and

the lessons of recent experience to believe that quick, easy options exist to reverse long term economic decline. And it is long term decline which we have to reverse. Under successive governments during the last thirty years unemployment and inflation have been rising together. Under successive governments our share of world trade has been declining : it halved between 1955 and 1980. And as we lost our markets we lost the jobs and relative living standards which flowed from them. Our task in this parliament has been to tackle the fundamental causes of that decline: our task in the next will be to lead Britain back to higher growth and fuller employment.

We are not, of course, alone in claiming to have the policies required to overcome Britain's long term problems and secure Britain's long term future. The Labour Party and the SDP-Liberal Alliance adopt such rhetoric too. That is not surprising. For the electorate have ceased to lend credence to politicians who promise short term remedies. But neither is it justified.

With the Labour Party only the far Left entertain a long term vision. But it is one which most people find deeply repugnant; and one which Labour's leaders have always tried to conceal or deny. More nationalisation (with or without compensation), more planning 'agreements', exchange and import controls, the direction of investment: this is the apparatus of the siege economy. So irresponsible are the Labour Party's financial policies that such a programme might prove necessary - though not sufficient. But what is certain is that it would be incompatible in the longer term with a free political system, and is intended to be. For those still in the Labour Party who shrink from such a path, there is the 'national economic assessment, indicative planning and reflation. But those who served in the last Labour Government know all too

well that the nemesis which befell them in 1975-6 would do so again. Thier heart is not in it.

The Social Democrats too claim a long term vision. I, for one, would not grudge them a long term future. Civilising socialism and becoming a credible opposition will probably prove a long term task. But the great changes which have to be effected in Britain's economy and society are too important to be left to those who, in the Labour Party, presided over decline. When the SDP accept the social market consensus as does Chancellor Schmidt they will deserve to be taken seriously. But till then the British public is likely to conclude that clouds of well-meaning confusion are no substitute for clear policies, firm leadership and^a/sense of direction.

2. Policies for the Next Parliament

i) General:

Conservatism, then, offers the only acceptable approach to tackling Britain's long term problems and offers the only acceptable vision of her long term future. Our first Parliament has principally been taken up with overcoming the Labour Government's disastrous legacy of high inflation and unrealistic plans for public spending. Moreover, we have had to do so during a deep international recession. We have been riding out a world wide storm. The price of oil is now some [20] times its level of 1970. Two oil shocks reduced OECD growth rates each by some 2%. World trade is more sluggish, world markets more volatile. We have been trying to overcome long standing problems without the cushion of international prosperity to make their remedy less painful.

Yet this first Parliament has seen sure foundations laid in economic and social policy on which we can build during the rest of the decade. A return to sustainable economic growth will allow many of those achievements to bear fruit. Increased incentives through our first budget's cut in marginal income tax rates, deregulation of business activity and help for small firms: all of these will yield results as activity picks up. And our Herculean struggle to rein back public spending will be shown to be worthwhile as, with more growth, its ratio to GDP starts

to decline. In countless ways a more buoyant economy will allow potential gains to become real ones.

But relying on growth alone to solve our problems would be quite unrealistic. Past governments have fallen into that trap. Unrealistic projections of growth have led to unrealistic commitments and spending plans. /^{So}we have to think hard about ways in which progress can be carried forward through policy initiatives. We have also to take a long hard look at apparently insuperable obstacles to that progress which have so far held us back.

ii) Inflation

The first area to be considered is, as it was in 1979, our financial policies. The experience of these last three years confirms the importance of having a medium term strategy for monetary growth and public sector borrowing. The crucial test was the 1981 budget denounced by our critics as wilful folly. In it we made the fight against inflation and downward pressure on interest rates our obvious first priorities and we raised taxes to do so.

The results were inexplicable to neo-Keynesians. For interest rates fell and economic recovery began. International problems choked off some recovery in the last quarter of the year. But since then we have continued to win the battle against inflation and short term interest rates have fallen some $3\frac{1}{2}\%$ since last November.

The lessons are clear. We must press on in the next Parliament with bringing down inflation and inflationary expectations. / ^{Inflation} is less than half the level reached in the spring of 1980 and in single figures - below the OECD average. We will be the first government in thirty years to pass on a lower inflation rate than it inherited. But we have to go further. Our aim is price stability. It is possible: retail prices were unchanged over [1958-9?]. And with most OECD countries predicting and planning for lower inflation rates next year and beyond we cannot afford to ease up. Broad price stability would be the single most important boost to industrial confidence and competitiveness which government can provide. And since past inflation and the expectations it aroused are the major cause of today's unemployment, the defeat of unemployment would be advanced immeasurably by the defeat of inflation. The pressing forward of a our strategy for limiting money growth and borrowing in the next Parliament is therefore essential.

ii) Public Spending

The second crucial aspect of our policy must be to tackle the momentum of growing public expenditure. All governments enter office with explicit and implicit commitments to more public spending. When in competition for power with a totally irresponsible Labour Party the public spending stakes are bound to be raised. In fact we managed to avoid many tempting traps for the unwary and ambitious. But we should have no illusion about the need to place all future policy making within a responsible framework for lower public spending.

We have managed to cut back Labour's public spending plans by some $4\frac{1}{2}\%$ or £5 billion. But public expenditure has risen as a share of GDP since we took office. It should fall slightly from now on. Yet the present prospect for public spending growth into the 1990s has unacceptable implications for taxation, for the private sector, for those in work, for our economic health. Unless as a Party and a nation we are able to think the presently unthinkable, challenge assumptions about the politically possible and acceptable, we will fail in our duty to future generations.

For too long, the control of public spending has been regarded as a negative exercise aimed at frustrating improvement. That is totally wrong. In fact, through the disciplines and pressure which controlling public spending has necessitated governments have been spurred on to overdue changes and reforms. That is true both in economic and social policy.

Our relentless struggle to exert effective pressure on the nationalised industries and local government has reinforced our conviction that privatisation must be encouraged. Already in this parliament major steps have been made. British Aerospace, Cable and Wireless, British Rail subsidiaries, parts of British Steel and various NEB shareholdings have been sold. British Gas's oil interests and BNOC's exploration activities will shortly follow. We must go further. The public utilities and the so-called 'natural monopolies' cannot be allowed permanently and without challenge to remain ^{within} / state ownership. Progress towards more competition must be accompanied by progress towards more real public ownership - ownership by the public. That may require new structures for management and accounting. It may require the institution of regulatory bodies to protect the public interest

iii) Privatisation:
Industry

and ensure fair competition. But the moral of the ceaseless debate between government and nationalised industry managements about investment and efficiency and between the industries and their customers^{on prices and service} is simple and fundamental. It is that state ownership and control must yield to the disciplines and pressures of private enterprise.

iv) Privatisation:
local government

A similar moral can be drawn from our difficulties with local government. The language in which the debate about the role and cost of local government has been conducted has been largely economic. But the issues are just as much constitutional and social. Local government's share of total government spending between [] and [] has risen by [] to []%. Yet during that time the number of services for which it was wholly financially responsible has diminished. Moreover, the share of that expenditure financed by central government, that is the tax-payer, has risen from [] to []%. We have to find a way of reversing those trends - strengthening local government's accountability and responsibility and diminishing its spending. We have to reform

its finances in ways consistent with those objectives. We must protect the rate payer, not least the business rate payer, from exploitation by irresponsible local councils - while securing greater genuine local autonomy. All this is immensely problematical. But one thing is clear: the more functions of local authorities/^{which} can be transferred to private enterprise the easier it will be to find acceptable solutions. That is the direction in which we must move.

v) Privatisation:
Social Policy

Putting private enterprise to work in the nation's interests is not just a policy for industry or local government. It is an approach which has as yet barely impinged upon the apparatus of the welfare state. Yet there are overwhelming reasons why we must shortly consider how private provision and individual choice can supplement or replace the role of government in health, social security, and education.

In the whole field of government social provision it is political commitments and irrational expectations which have played the dominant role, rather than cool headed analysis. The use of economic pricing to ration demand is currently restricted to only small areas of the programmes concerned. Charging

must in the longer term have a greater role to play. Charging can be used to direct resources where they are most required and at the same time induce a sense of priorities among recipients of the services involved. In many cases charges could be a preliminary to or concomitant of full privatisation.

The need to reform our system of social provision is pressing on public spending grounds alone. The social security budget constitutes about a quarter of total public spending. About ~~50~~⁸⁰1% of it is effectively indexed. It is all demand determined. About half is for the elderly. The burden of funding their retirement pensions alone has risen in real terms by over 60% in the last decade. The Health Service budget continues to grow so as to accommodate a real growth in services. Education spending, because of difficulties in adjusting provision to take into account falling pupil rolls and because 65% of the programme goes on staff costs, will only slowly contract. This overall picture of increasingly heavy burdens placed on spending and on the working population by those not in work is far/^{from} confined to Britain. For the seven major industrial countries the ratio of total public expenditure to GDP rose from 29% in 1965 to around 37% in recent years. In all

cases, entitlement programmes and other transfers were the main source of that expansion.

The way forward must be on the one hand to review consistently our commitments to indexation and on the other to use charging and privatisation where appropriate.

Take health. Private health insurance is already one of Britain's growth industries. By 1980 the number of the subscribers to private health insurance schemes had risen by almost 30% since 1978. We must encourage that proportion to grow faster and ensure that it is by no means confined to the rich alone. We must try to learn lessons from other countries. Some of them make more use of voluntary charging than us. France ensures that the real cost of medical treatment is more fully apparent to recipients through a retrospective reimbursement. Others, the United States in particular, take far more advantage of private provision. These are areas where there are major difficulties /^{and} uncertainties; but they require investigation.

Another and closely linked issue is the role of voluntary organisations. Already the number of registered/^{charities} ~~has~~ [almost doubled] in the decade to 1980. In the personal social services, the amount of voluntary effort has been estimated as

greater than that provided through local government's statutory services. The 'voluntary' effort represented by the family itself cannot, either, be over-rated particularly in case of the elderly. That is something we need to encourage. My 1980 Budget contained important measures to encourage charitable giving. But there are major questions which still have to be tackled. What scope is there for a further movement towards encouraging voluntary effort in personal social services? And, with unemployment the grave problem that it is, are there ways in which the charities could be brought individually or collectively together to provide jobs for young people and more care^{for}/the those in need?

A similar approach must be attractive in education too. Widening choice, encouraging private provision, ensuring more flexibility, while improving value for money: those are our proper goals. The 1980 Education Act was a significant step towards ensuring parental freedom of choice and encouraging parental involvement. A voucher system whereby it is parents, not government, who choose their/^{children's}school and whereby standards might be raised through more competition is one possibility. Student loans to encourage greater responsibility and self-help are another. Perhaps there is scope for more community involvement in the financing and management of local schools. All these approaches, to the extent that they are compatible with our over-riding public spending and

monetary objectives, are worthy of serious consideration.

vi) Deregulation] Whatever the balance between public or private provision which we achieve, our ability to care for those not in work will depend upon the enterprise of those in work. So will our ability to create new jobs which will last. The encouragement of small businesses, management buy-outs and demergers is as important to our social as to our economic policies. Four enterprise packages and 90 separate measures later, there is still more to be done. Both because of our overall tax objectives and the burden of public spending, further tax concessions towards small firms will be of less importance. It is the non-fiscal obstacles/^{to} enterprise which we will have to tackle in our second term. A searching scrutiny of all the regulations - above all perhaps planning regulations - which inhibit enterprise must be a major priority. What is already happening in once dead, derelict areas of our inner cities, suggests to me that the ^{deregulation elements of the} enterprise zone concept have potential application to our economy as a whole. Even at times of international recession and high unemployment secondary and tertiary enterprise can flourish given the chance. And in the long term it may offer our greatest hope for full employment.

Section on Competition

June 1 P

vii) Making Markets Work: the labour market

Privatisation and regulation are essentially ways of making markets work better. The operation of markets, that is of choice, rather than the actions of government, offer the best hope of overcoming the obstacles to fuller employment. And it must remain our object, even when direct government action is required to tackle special employment problems, to complement not frustrate the working of the labour market.

The fundamental causes of today's unemployment lie deep in the past. Not all are understood. Lost markets have meant lost jobs. Part of our uncompetitiveness has resulted from misguided government policies - over-spending, over-borrowing over-taxing and inflating. And manipulation of the exchange rate did little or nothing to ameliorate the consequences. Between 1972 and 1976 the effective exchange rate fell by over a quarter: but competitiveness was unchanged.

In the long and short term it seems certain that real wage inflexibility, excessive wage bargaining power, irresponsibly exercised, and restrictive practices have been a major cause of unemployment. Successive governments have tried to tackle the problems. The Industrial Relations Act, the Employment Act and our present proposals are all

attempts to restore order and balance to the labour market. All have been resisted by trade unions, determined to achieve wage levels and conditions which could only be at the expense of jobs. But there is growing evidence that the link between pay and jobs and the crucial importance of profits are being grasped outside union leaderships.

We must build on that understanding. If necessary, we will have to consider whether unions themselves should be made more democratic to reflect it. We have made great strides already in protecting the rights of non-union members. There are arguments for moving further to give the unions themselves back to unionists. That could be a first step towards a reformed and de-politicised trade union structure genuinely reflecting the realities of British industrial life, not the assumptions of a century or more ago.

We have also to remove the inflexibility in the labour market which government and employers together have conspired to achieve. Old assumptions need to be challenged. Is there really a case for wage councils imposing minimum rates deliberately designed to frustrate market forces by restricting

the supply of labour? Is it any longer acceptable that government departments, nationalised industries and employers' groups should fail to respond with varying rates for the job according to local labour markets conditions? Can we afford to move so painfully slowly towards a revived de-regulated private rental sector of housing which would allow people to move quickly and easily to find jobs? How long must we wait for the pension funds to respond positively to the pressure for 'portable' pensions? Adaptability and mobility are the preconditions for an efficient labour market. And only efficient labour markets can provide tomorrow's jobs.

viii) Taxation

The final policy area in which we will have in the next Parliament to build on our achievements in this is taxation. The fundamental changes made in our first budget have never been reversed. The cut in the basic rate and the reduction of the top rate to a level comparable with our European partners significantly increased incentives. So did the structural change from tax on income to tax on spending.

The reason why we have not been able to go further is simple: it is the size and momentum of public spending. That is also why it is right to consider

taxation policy after reviewing the options for reducing public spending. It would be possible to move towards lower rates of income tax by ending most or all reliefs. But it would be most desirable to reach that end by transferring functions of government and the spending they entail to the private sector. Either way, progress towards lower marginal rates is essential at both ^{ends of} the tax scale so as to increase incentives.

We have also made significant progress in using the tax system to promote wider ownership - which is both an economic and a social aim. Since we took office, the number of employee profit sharing and share option schemes has risen from 30 to over 440, covering some 270,000 employees. Our privatisation proposals have been accompanied by special provision for employee share ownership too - as in the cases of British Aerospace, Cable and Wireless and Amersham. Our tax policies must continue to reflect the objective of wider ownership.

3. Conclusion

All of these policy areas are subjects of deep concern to ordinary people. In all of them our approach of widening choice and ownership, of deregulating and of making markets work in the common interest is widely accepted. Few seriously believe that the Socialist alternative, in whatever guise, could do other than harm our economic prospects and worsen the outlook for long term social improvement. The Conservative Party has taken upon itself the mantle of reform. It is we to advocate and implement change; the other parties and the inert power blocks and the vested interests they represent which oppose it. We must try to present all our policy initiatives for the next Parliament in that context.

The crucial determinant of our ability to do so will be confidence. The abiding importance of the much discussed "Falklands factor" is that it has increased confidence in our ability to see difficult decisions through, both at home and abroad. In itself, that may have desirable economic consequences too. But above all, our aim must be to build on and increase that confidence by looking ahead and sharing with the public what we see. For our long term vision is also theirs.

FROM: E P KEMP
21 June 1982

MR HARRIS

cc Principal Private Secretary
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Middleton
Mr Moore
Mr Mountfield
Mr Allen
Mr Norgrove
Mr Ridley
Mr French

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE

I wonder if I could accept your invitation and venture one or two comments on the draft lecture attached to your minute of 18 June.

2. These arise principally on the public expenditure section (page 10 onwards) and the tax section (page 20 onwards), and the way they hang together. At the risk of seeming to want to recycle one's wares, I have a feeling that some of this was better treated in the Chief Secretary's speech to the IFS of 10 May - with which, indeed, the CPC draft is not entirely consistent in places. Thus in the present draft we are given no discussion about why public expenditure is too big, either now or for the future, nor what the "right" level might be. There is an implication, but no more, that the reason why we have to get public spending down is so that tax can be reduced. But this is not really spelt out, nor are the virtues of lower tax rather than higher tax really discussed. And the way the paper is structured does imply quite strongly that tax is residual; that public expenditure rules, so to speak, and that within given monetary and fiscal policies the taxpayer picks up the consequences. I accept that it is not put quite as brutally as that, and indeed the message that the tax burden should govern public expenditure rather than the reverse is trying to get out. But it does not quite succeed in doing so. Indeed the message one might get from this lecture is that notwithstanding the words in the first Budget that "finance should govern expenditure rather than expenditure finance" the Government has in practice found this not to

I think it
should
- reports

(if it means what it
says)

But acknowledge that

at all times
be ~~capable~~ of fulfilment, so that the lecture becomes something of an explanation about why this is so. *- but why it should be so.* But if this is the message, then I am afraid that it does not really come out either. Arguably this would be a good occasion to develop both these messages, but if you are going to do so it seems to me that they need to be put more clearly and the paper will have to be somewhat restructured. ✓

✓
3. An assortment of smaller points (culled in many cases, I fear, from the Chief Secretary's IFS speech!). First, to a thinking audience it might be worth making the point that the problem in controlling public expenditure is not just the "explicit and implicit commitments to more public spending" with which all Governments enter office. Those are just the symptoms. The cause is surely the fact that ever since 1945 people have been egged on by politicians of all Parties to expect more and better of the sort of things that can often be conveniently, if not effectively, provided by the state (health, education, pensions, etc) and that because of the growth of the 1950's and 1960's these expectations were in fact met; the legacy of these fulfilled expectations remains as we enter a period when the growth is not there to fulfil them.

✓
4. Second, going to the tax section I wonder whether the discussion, there could not be enlarged and broken up into two aspects of the Government's taxation policy; first the need to get the tax system structurally sound (shift from direct to indirect taxes, use of the tax weapon to encourage enterprise, etc) and second the need to get the burden of tax, howsoever structured, down. The Government has has a fair bit of success on the first point but not so much on the second.

5. Third, I wonder whether the section on privatisation of social policy does not go too far, in practice, at the present stage? True, we would like to see more of this in eg the health and education field. But my impression is that we are not in fact going to see a lot of change this side of the Election - certainly not on health but I believe the same is true of education. You will recall that Mr Fowler was said to have been a bit cross with the Chief Secretary's IFS speech

*I'd like
it as is
(I may
speak
a little)*

because it floated ideas about new ways of financing health care which he was either unwilling or unable to deliver. By the same token, I wonder whether the discussion on privatisation of local government does not promise a bit much - in its reference, eg, to protecting the ratepayer from exploitation by irresponsible local councils; unless we are going to do something these could end up as just words.

6. Fourth, it might be worth saying a bit more about interest rates, as well as inflation, in pages 8 and 9. There is rather a throw-away line at the foot of page 9 about the strategy for limiting borrowing, and this could with advantage be expanded.

7. Fifth, I wonder whether more should be said, and in a rather sharper way, about unemployment. After all this really is the biggest single problem which the Government faces. The lecture is going to be delivered not long after publication of tomorrow's unemployment figures, which are going to be pretty nasty. There is a mention of unemployment towards the end of page 9, as well as elsewhere; but the reference towards the end of page 9 might usefully be expanded to take in the point we have often made before (but it is none the worse for that) that the Government's macro economic policies to control inflation are not alternatives to a policy about employment; they are such policies.

8. I hope you do not find these comments unhelpful. Overall, I think what may be the problem with the present draft is that it is not always clear what sort of timescale is being discussed; whether we are talking about what the Government has achieved since May 1979, what it would like to aim for in the remaining period before the next Election, and what its programme would be for a second term. At points some clarification would be useful.

EPK

E P KEMP

✓
And the
point needs
to be
highlighted
or expanded
at the
end of
page 9

FROM : S A ROBSON

DATE : 21 JUNE 1982

MR HARRIS

c.c. Principal Private Secretary
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Middleton
Mr Kemp
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CHANCELLOR'S CPC SUMMER SCHOOL LECTURE : 3 JULY

I have some suggestions on the tax sections of the draft you circulated on 18 June.

2. On page 17, line 11 I am not quite clear what the sentence starting "Both become" is saying. On one interpretation it could be an acceptance that further reductions in public expenditure are not feasible : reductions would only have to be relatively small to finance many small firms measures. On the other hand it is probably true that we do not have many cost effective small firms tax measures left in our locker and that we should concentrate on more general (and more costly) reductions in tax rates. Perhaps the sentence might be replaced by :

"Further tax concessions towards smaller firms ^{may} will in future be of less importance than efforts to reduce tax rates more generally." ✓

3. Six lines from the end of page 17 I suggest substituting "freedom from regulation and red tape provided in enterprise zones" for "enterprise zones concepts". Enterprise zones do provide important tax concessions and the logic of the argument at this point requires us to emphasise that it is the non-fiscal aspects of the zones we have in mind. ✓

cf A & R's book

4. On page 20, the paragraph side headed "taxation" has a tricky second sentence, which states "The fundamental changes made in our first budget have never been reversed". The text then goes on to mention cuts in the basic rate, reductions in top rates and the shift to indirect taxes.

5. It certainly is true that we have not reversed the cuts in the basic rate or in the higher rates. But :

- a. taxation as a proportion of GDP has risen since 1979-80
- b. income tax as a proportion of personal taxable income has risen
- c. income tax will take a higher proportion of income in 1982-83 than in 1978-79 for single earners below about $\frac{3}{4}$ of average earnings and for married men below about average earnings.
- d. marginal rates of "tax" (more widely defined than income tax) have risen for those in the poverty trap
- e. direct taxes are likely to represent 46.1 per cent of total taxes in 1982-83 compared with 45.1 per cent in 1979-80 and 47.9 per cent in 1978-79.

Against this income tax (and income tax plus nic's) are likely to represent a lower percentage of total taxation in 1982-83 than in 1978-79 or 1979-80.

6. All this shows that the picture is complex and a good deal turns on the measures being used, the time span and the section of the population involved. I suggest that this sentence be run into the following one as follows :

"In our first budget we made fundamental cuts in the basic rate and in the top rates of income tax. This brought the top rate into line with our European partners and significantly improved incentives. So did"

7. You make no reference to capital taxes at this point. There is a good story to tell here and you might like to consider something along the lines :

"Capital taxes were suffocating enterprise when we came into office.

We have made important reductions in capital taxation. These culminated in the radical changes in capital gains tax which I introduced in this year's budget to tackle the long standing injustice of taxing paper gains. ✓

8. Page 21, first two complete sentences. The first of these sentences might benefit from a little filling out on the following lines :

One way of finding the money to reduce still further the rates of income taxes would be to reduce or eliminate some or all of the various income tax reliefs or allowances. ✓ But he D's point on this

9. The second whole sentence describes privatisation as the "most desirable" way of cutting rates. Privatisation creates less room for tax cuts than cutting (not transferring) services or improving efficiency (possibly via privatisation). Another way of financing tax cuts would be through lower inflation leading to higher economic growth, more tax revenue and less social security spending. Against this background it might be better to replace the sentence by :

It would be most desirable to finance tax cuts by cutting public spending, by improving the efficiency and reducing the costs of public services, and by getting the economy going through further reductions in inflation. ✓

SAR

S A ROBSON

UNCLASSIFIED

From: M J C FAULKNER
Date: 21 JUNE 1982

MR HARRIS

cc: Mr Mountfield
Mr Culpin

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE

Thank you for sending me a copy of your draft of 18 June.

2. If I may say so, I think the passage on education preserves a nice balance between policy desiderata and practical constraints and I have no changes to suggest in it.

3. But I wondered whether, in fairness, the earlier section on privatisation ought not to include some reference to the additional spending burdens placed on authorities by successive Governments. Responsibilities have been added as well as functions taken away. It is not all local government's fault that local spending has grown. Perhaps an extra sentence is needed before the last one on page 12, eg:

"Central and local government have both played their part in this process over the years." ✓

Mf

M J C Faulkner

UNCLASSIFIED

→ Mr R. Harris

CPC Summer School.

Apologies for MS (Secretary Strickland).

Section 2 vii - labour market. I broadly agree. You may want to show to the ~~press~~ Mr Tebbott's Office, a' ✓
propos the reforms to democratising unions etc.

On page 20, line one "supply of" should be
"demand for"?! C.H.M.

The reform to 'part-time pension', with which I agree, may be of interest to ES (or maybe?) ✓
clearing a committee on that).

P.V. Jones

21/6/82

A.5 Speeches

FROM: ADAM RIDLEY
22 June 1982

CHANCELLOR

cc Mr Harris

DRAFT CPC SPEECH

Here are some quick comments on Robin Harris' draft of June 18. The redrafting suggestions are, I should stress, very illustrative in character.



A N RIDLEY

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE: FIRST DRAFT

Page 1: I would add a fourth point in para. 1:

The frank admission that ^{the} high hopes the Government entertained in 1978 and in its Manifesto have not all been achievable - a thought which sets the scene for some tough talking on public spending later.

BUT AS
POINT
3, not 4

Page 3: In line 8, bearing in mind the firm evidence that the Conservative Party seems a long way away from ordinary people, I would say:

"Our policies reflect the real interests of ordinary people"

or something like that. I would then add at the end of the paragraph that this perception is not sufficiently widespread, and it is part of the Party's duty to make it more widely appreciated.

In the last paragraph I would beef up the point about international consensus. Perhaps

"Secondly - and far from adequately appreciated as yet - is the fact that the international community is coming round more and more to our point of view in economic policy matters. Not just the IMF, but individual Governments, the latest recruit being France. Talk of our policies as a somewhat eccentric "the Thatcher experiment" is now over. Overseas interest today is far more in how soon we shall be able to reap the dividends of three years

of exceptionally firm and realistic policies."

Page 4: In the third reason you might want to insert the idea that in the early post-war era it was possible to view our decline as the inevitable adjustment to the loss of Empire and Colonies, and to the resurgence of other countries as they recovered from the war. One can then add that that process should largely have been ended by the '60s, yet the decline continued. ✓

Page 6: It is one of the most uncanny things about the SDP that everything they say - particularly Bill Rodgers - is an almost uncannily precise re-run of the Labour Government from '64 to '66. Could one not insert the thought that they have "learnt nothing and forgotten nothing"?

At their work they're like this (cf. Mitterand, Delors) - but in general let's build them up in the long run

Page 7: I would not talk about "Conservatism", which I think has an unattractive ring to some people. Why not "The Conservative approach"? In this paragraph you might also enlarge on the reasons why we have had such difficulty recently. Apart from the deep recession induced by the oil crisis, we had also to struggle with a wage explosion following the collapse of Labour's incomes policy; and the very sharp unpredicted (and irresistible) rise in the exchange rate in the heat of the oil crisis because of sterling's petro-currency status. At the bottom of the page in the last line, one should not say "as...the GDP ratio starts to decline". Better if. ✓

Page 8: In the first full paragraph, I would redraft

"So we have to think hard about ways in which we can meet the objectives set for our public spending programmes while preserving a realistic total for overall public spending, and the tax cutting policies so essential to sustained economic growth."

At the bottom of the page redraft the last sentence :

"and we raised some taxes.....". I think the burden of indirect taxes fell in real terms! Arguably you also need to say here something on the lines:

"The connection between beating inflation, lowering interest rates, and controlling public spending is very close and important. Lower inflation makes, of of itself, for lower interest rates, more confidence, and less acute problems for industry and financing expansion. A lower PSBR makes for lower interest rates, less difficulty in controlling the monetary aggregates, and hence tighter control of inflation. Contrary to what was until recently conventional wisdom, cutting public borrowing is not a recipe for a fall in demand, but, in the long run at any rate, the opposite."

Page 9: Redraft second sentence:

"...and economic recovery began, even if international problems - in particular rising US interest rates - set that process back significantly in the last quarter, and the international storm clouds are still exercising restraining influence. Despite those anxieties, we have got back on the path of falling inflation, our short term interest rates have fallen back some 3½% since our November 1981 peak,

and we continue to look forward to ^{moderate} economic growth ^(cf. last Sunday broadcast) during this year."

Page 10: I think you need a different introduction to this section. Following the comment made earlier, one must be more precise about the policy issues to which solutions must be found.

"The second related, and equally important, aspect of our policy must be the control of public spending and borrowing. The world of economic post-war growth, and the rising expectations that go with it, is such that it has until recently been to all intents and purposes unthinkable that there should be any serious check to its rate of growth. In addition, we are competing in this country in the political market place with a totally irresponsible Labour Party and the many advocates of reflation, for both of whom - if not always for the same reasons - rising public spending and borrowing ^{are a} fundamental part of the "goodies" with which the voters' votes are being solicited. Unlike almost any of its predecessors, this Government came to power pledged to do all it possibly could to hold the level of public spending in the short run, and to cut it over the lifetime of the Parliament. Subsequent experience has shown how important is such an ambitious objective, all the more so since the world around us has turned out to be so much more unpredictable and hostile than people once thought.

We have managed..."

Page 11: I think sections 3, 4 & 5 need a joint introduction advocating the general case for the diminution of

✓ very weak. The kickback of domestic prices in response to rising import prices eliminates the temporary advantage achieved by devaluation, usually within no more than three or four years. This leaves us with the sad and, to employers and unions alike, unappetising conclusion that we have to deal with uncompetitiveness directly by higher productivity, wherever it arises.

Page 20: In section 8, I would not say "never" in line 4! ✓

FROM: DOUGLAS FRENCH
DATE: 22 JUNE 1982

MR HARRIS ✓

cc Principal Private Secretary
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Middleton
Mr Kemp
Mr Burgner
Mr Mountfield
Mrs Case
Mr Dixon
Mr Monger
Mr R I G Allen
Mr Faulkner
Mr Moore
Mr Culpin
Mr Potter
Mr Garside
Mr Robson
Mr Ridley

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE: 3 JULY - TAXATION SECTION

I found your text extremely interesting. I have the following thoughts in relation to the section on taxation.

✓ 2. We are scarcely ready to give any considered view of where we are going on tax policy in the next Parliament so it is inevitable that the tax section will have to ask rather more questions than it answers. One of the most challenging themes to try to unravel is, in my view, that what is desirable for reasons of fiscal simplicity and efficiency is not always obviously capable of being reconciled with broader Conservative Party philosophy. Indeed there are a number of fairly awkward questions which can be asked in this area and which at some stage may be asked by the SDP if only to provide a smoke-screen to hide their own empty cupboard.

✓ 3. How, for example, do we reconcile contemplation of a reduction or elimination of some or all of the income tax reliefs (page 21), which is highly attractive in terms of fiscal and administrative simplicity, with a philosophy of social caring which long ago justified the introduction of special reliefs and has continued ever since to support their retention? If we believe in channelling

help where help is most needed it may be thought unrealistic, in a world of limited revenues, to talk in terms of 'eliminating' reliefs. At best we may have to be content with saying that there is no question whatever of any new ones being created so that anybody with a pet scheme based on a new relief would be advised to forget it.

*but ✓
reducing
—*

4. How do we reconcile the desirability of fiscal neutrality, and the removal of fiscal distortions, with a policy of special tax reliefs to encourage, for example, private savings? Can our philosophy of the market reconcile giving a fiscal boost to institutional savings when institutions should attract their customers on the basis of their investment performance, not because they are the vehicle which provides access to fiscal goodies?

*Put a
little more
strongly*

5. How do we reconcile a belief in self-help and thrift, as a way to provide for one's own retirement, with the discrimination which investment income surcharge makes against people who saved personally before the days of fiscally-aided self-employed pension schemes, still less occupational ones? Are we content, or profoundly discontent, that investment income should still bear the extraordinary stigma of being 'unearned'? Why do we encourage investment on the one hand and discriminate against it on the other?

*At the DF
to be
you see as
inc. election
note on I.I.S.
And let this
point come
then quite
strongly*

6. How do we reconcile our (in my view absolutely correct) belief in allowing the £25,000 mortgage interest relief to wither away with our objective of extending home ownership?

*NDV
Ken!*

7. Whatever we say on all these points we should emphasise that our future tax programme will emerge as a result of careful consultation as, for example, in the case of the Green Papers on The Taxation of Husband and Wife and Corporation Tax rather than our less happy experience over CGT.

*I think we can
risk this: provide
we justify the CGT
stap as 'value to
make a stap'*

8. One of our strongest points on income tax is the reduction of the top rates achieved in the first Budget. Perhaps we should consider declaring our objectives on future policy in this area at an early date. Are we content with having reached a reasonable European average in terms of the top rate or can we see significant benefit in being lower than the European average? Or will we be concentrating on raising the threshold at which the top rate is reached? I think we have to investigate this area because, as Mr Robson's comments of June 21 show extremely clearly, there is not much comfort to be drawn from looking at our record on income tax generally. ✓

9. One of our most vulnerable points remains, I think, the intractable problem of the Poverty Trap. ✓

*+ thresholds generally ✓
(But don't let's lose options completely)*

✓ 10. It is always worth emphasising the point (which is so obvious that people forget it) that it is very easy to reform taxes if you do not bother too much about (a) revenue and (b) how to get from here to there. Our defensive position must presumably be that the Party is acutely aware, even if individuals may not be, that we are not able to go as far or as fast as we would like.

11. I am sorry that these very interrogative thoughts are not in direct narrative form and may indeed step outside the brief which the Chancellor had in mind. However, I think they should be aired even if not necessarily on this occasion.

Douglas French
DOUGLAS FRENCH

UNCLASSIFIED

FROM: R I G ALLEN
DATE: 22 June 1982

MR HARRIS

cc Principal Private Secretary
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Middleton
Mr Kemp
Mr Ridley
Mr French

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE: 3 JULY

You invited my comments on the draft attached to your minute of 18 June. I very much agree with Mr Kemp's observations on structure/presentation (his minute of 21 June), and the comments below incorporate some rather more specific suggestions:

Page 7, 1st paragraph. Redraft the fifth sentence and onwards as follows:

"The price of oil is now some twenty-five times its level of 1970. The world has faced two oil shocks, each reducing OECD output by the equivalent of 2 percentage points. OECD growth rates and the volume of world trade have halved since 1973; and world markets are more volatile. We have been trying to overcome ... "

Page 7, foot of 2nd paragraph. You might mention that there have been other changes apart from cuts in marginal income tax rates (eg changes in CTT and CGT) which affect incentives. And in the next sentence, though it is ready for GEP to comment, I wonder whether you should be quite so confident that the public expenditure/GDP ratio will fall as the economy recovers; or indeed, does this imply that if recovery is less than expected, so too will the ratio continue rising?

✓ This is
harris
has?
Is
And's
how's

Pages 8-9, 1st paragraph on inflation. I am a bit concerned about the drafting here - interest rates are still higher than immediately post-1981 Budget; you seem to imply an implausibly fast response of output to lower interest rates; and we cannot blame the current hesitation in recovery (entirely) on "international problems". Could I suggest the following redraft, from the second sentence onwards:

Diagnosis correct.
Many more mistakes will be made by Park

"The experience of these last three years confirms the importance of having a medium term strategy for monetary growth and public sector borrowing so as to bring down inflation while maintaining the maximum downward pressure on interest rates. In the 1981 Budget, maintaining this strategy necessitated raising taxes, so as to meet our objectives on borrowing, and we did not shirk from doing just this. The policy was denounced at the time by our critics as wilful folly. But the benefits are now beginning to show through. Not only has inflation fallen rapidly, but the recovery inactivity has begun. And interest rates have been on a downward trend since last autumn, with short rates now some $3\frac{1}{2}$ percentage points lower than in November."

Page 9, 1st complete paragraph. The third and fourth sentences are not quite right. Redraft as follows:

✓
On the knowledge of those who knowled me for saying this on the day of a 10% rise. ("If that's the way they can buy, fire! Look at the end-down")
Last Saturday's Guardian leader

"Inflation is less than half the level reached in the spring of 1980; in single figures; below the average for major European countries; and still falling. We will be the first Government in thirty years for whom the average inflation rate will be lower than that experienced by the preceding Government."

Later on in this paragraph, you raise as a longer term objective of policy "broad price stability". IP may well have comments on this, but I would have thought there were some dangers in going quite so far. Certainly,

the Chancellor invoked the zero inflation goal in his Mais lecture last year, but the Chief Secretary backtracked somewhat on this in a recent PQ. A safer, a rather more tangible, inflation objective might be to get down to the kind of rates recently observed in Japan and Germany (and here in the 1960s), say 4-5 per cent. Sir K Couzens used just this kind of benchmark in his recent Cologne speech (8 June). This would suggest, after your fifth sentence, a redrafting along the following lines:

"But we have to go further. Our inflation rate is still three times that of Japan, and almost twice that of Germany. And with most OECD countries predicting and planning for lower inflation rates next year and beyond we cannot afford to ease up. Attaining the sort of inflation rates to which countries like Germany and Japan have become accustomed would be the single most important boost ... "

*Don't look like
settling for this:
but otherwise
assume R163
Don't know*

- + which they ^{quite rightly} want to know -

Page 10, 2nd paragraph. I suspect GEP would find the third sentence a little over-confident, given how events have turned out over the last few years. You might say instead:

✓ "It should broadly stabilise in 1982-83 and, on current plans/assumptions, could begin to decline in subsequent years."

The next sentence makes me very uneasy. I am not sure what scenario for public expenditure growth you have in mind here, but I am not sure we have sorted out the longer-term implications for taxation, even internally. I would be strongly inclined to go for something much more bland, perhaps along the following lines:

? Perhaps
"It is crucial that the growth of public spending in the longer term is contained so as to release resources for use in the private sector etc and to allow for a lower overall burden of taxation."

Page 18, 2nd paragraph. In the final sentence, I would be inclined to compare 1967 and 1976, two years at similar points in the competitiveness cycle (see chart 1 figure 1 in last month's EPR article). The sentence might then run:

✓ "Between 1967 and 1976, the effective exchange rate fell by over a half; but competitiveness increased by only about 5-10 per cent."

? In the previous sentence "manipulation" is a rather emotive word and might best be replaced by "the fall in".

RA

R I G ALLEN

FROM: P C DIGGLE
DATE: 22.6.82

MR HARRIS

← 53^A/2

Try to win
your battle:
discuss with
PCD etc

cc Mr Culpin
Mrs Imber

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE

Your minute of 18 June requesting for figures from Mr Culpin.

2. I have discussed section 2(iv) with the DOE and Mrs Imber, and both have advised that it is not really possible to offer figures to make the point you want to make. The DOE reckon that over the recent past local government spending as a proportion of total public expenditure has been static at roundabout 25% (20% counting local government current expenditure alone). There may have been a slight trend upwards in the last two or three years, as local government has overspent and public expenditure generally has dropped, but this will not be very marked.

3. On finance, again the recent trend belies your theme. The nominal RSG percentage in England has dropped from 61% to 56% over this government's lifetime. The effective rate of support will have dropped even faster, from about 60% to, at a guess, nearer 50%. Over a longer perspective the rate of support may have risen, but all the growth in support through the 1970s has already been eliminated: the RSG percentage in 1971-72 was 57.5%, higher than the 56.1% in 1982-83.

4. I am not sure where you want to go from here. If you want to mention local government, you might say something about the government's success in reversing the trend of increasing support from 1970's. But you will need to tread warily in doing so. Only capital spending by local government has fallen. Current expenditure is actually budgetted higher this year than in 1979-80.

5. I should be glad to discuss if it would help.

PC Diggle

P C DIGGLE

Real Study /

See F Mark's /

No!

UNCLASSIFIED

FROM: R R GARSIDE
DATE: 22 June 1982

MR HARRIS

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE: 3 JULY

✓ The passage on foreign experience in section 2 v) of the draft attached to your minute of 18 June is factually correct. If I may make a drafting comment, I would say that the experience of the US does not in itself require you to end the paragraph on health finance, para 3 on p15, on so tentative and cautious a note. If reliance upon private medicine is as harmful to the general level of health as the opponents of private provision seem to believe how is it that the Americans are not a race of sickly weaklings?



R R GARSIDE

UNCLASSIFIED

3

MEMORANDUM FOR THE DIRECTOR
DATE: 10/10/50

20

MR. GARDNER

CHARACTERISTICS OF THE SCHOOL TEACHER: 3. WHY?

The passage on teacher experience in section 2 of the bill is placed in your opinion of 10 years in teaching career. If I say make a further comment, I would say that the experience of the US does not in itself require you to end the paragraph on health fitness, but in fact, as a condition and condition of hire. If the reliance upon university education and on health, the general level of health of the population of the country is not to be taken into account in the bill, the bill is not a case of ability.

W. R. GARDNER

FROM: MISS J M SWIFT

DATE: 22 June 1982



MR HARRIS

cc. Principal Private Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Middleton
Mr Kemp
Mr Burgner
Mr Mountfield
Mrs Case
Mr Dixon
Mr Monger
Mr R I G Allen
Mr Faulkner
Mr Moore
Mr Culpin
Mr Potter
Mr Garside
Mr Ridley
Mr French

CHANCELLOR'S CPC SUMMER SCHOOL LECTURE: 3 JULY

The Chief Secretary has seen the draft CPC lecture attached to your minute of 18 June to Mr Kerr.

2. The Chief Secretary thinks that the right ground is covered in the draft speech. He agrees with Mr Kemp about the general handling of the public expenditure section (Mr Kemp's minute to you of 21 June) but would not water down the social policy discussion.

A handwritten signature in black ink, appearing to be 'J M Swift', is located in the bottom right corner of the page.

MISS J M SWIFT

22 June 1982

22/6/82.

* just received



CHANCELLOR

CPC Sneed

... I attend all committees received. AR's is on its way. I have not received anything from DF* ^[now below]; but we obviously need to strengthen the tax section a good deal.

On the local government section (P. Dingle's minute 22/6/82), I do not accept that we cannot prove what I suggest and will tackle LG again. *Im*

*Comments in his text
Broadly, yes. See my*

P. Kemp's are obviously more far reaching. He may well be right on tax and public spending. But I felt when drafting that our record was not in fact attractive enough on tax to make it the main justification for our plans to reduce public spending by privatisation etc. However, I may well be wrong. I would be, personally, more inclined to revisit the suggestion that we should too clearly differentiate, as he suggests, between what we have done, will do this parliament and would do it the next. Calculated vagueness may prove to be more desirable.

One final general point: I think that you essentially envisaged this occasion as one at which you would spell out your thoughts for the areas deserving more policy work before the election. That is not, of course, explicit. But if that does remain the intention, there may be something to be said for a statement which points out the areas without

Handwritten header text, possibly a date or reference number.



Handwritten text, possibly a name or title.

Handwritten text, possibly a name or title.

Main body of handwritten text, consisting of several paragraphs. The text is very faint and difficult to read, but appears to be a formal letter or report.

group like some of the more well known things about the 'camps of
'independent' or we forget they might otherwise require.

RLH →

22/6/82

pwp



FROM: CHANCELLOR
23 June 1982

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr. Kemp
Mr. Ridley
Mr. French

MR. HARRIS

CPC SUMMER SCHOOL LECTURE : 3 JULY

I am most grateful for the first draft circulated on 18 June and to all those who have so far commented on it. I should be grateful for any comments that might be forthcoming from Ministers who have so far not commented, including the two Ministers of State. My comments on all the comments so far received are attached below. This minute contains some further general comments. I should be most grateful if you could work all this material up into a full text on which I can work throughout the coming weekend. Clearly we want to avoid the thing becoming too immensely long. But it is a major occasion on which we can afford to spread ourselves, so that brevity need not be the over-riding consideration.

2. The main flavour of the speech, already quite well reflected, should be designed to demonstrate - without assertion - that the intellectual initiative is now firmly with the Government. The luxuriance of ideas, and their relative candour, in this speech, should speak for itself to that end.

3. The references to the thinking of our political opponents should, by implication as much as directly, look forward to the decline and disappearance of the Labour Party as the principally relevant affair and to the emergence of an Alliance-type of opposition (possibly embracing some elements of the present Labour Party) as the real



alternative Government of the future. In the early 60s, Labour writers (Anthony Crosland and Mark Abrahams) asked "Can Labour win?" and "Must Labour lose?". Today, it is clear that those questions must be answered "No" and "Yes" respectively. In support of this proposition, we should tend to identify areas where the Alliance is already answering (and even asking) questions within our terms of reference. Last week's document on industrial policy - recognising, as it did, the case for extended equity participation and limited company structures for nationalised industries - is a case in point.

4. We need to make it clear, in a sentence, that the speech is not attempting to deal with every question - nor even every economic question. But some should be noted, if only to show that they are not overlooked. For example:-

- (a) the importance of monetary policy, although this is not the place to deal with technicalities;
- (b) the importance - in that old Bow Group phrase - of taking a realistic view of Britain's role in the world. This leads to:-
- (c) keeping defence expenditure in perspective.
- (d) A sentence or two about the importance which we attach to membership of the European Community, alongside the development of the competitive advantages of membership and the essential need for a completely reformed and fairer arrangement for the Budget;
- (e) the importance of a liberal world economic system.

5. Unemployment needs to be given a more prominent place - leading to emphasis on several things:-



- (a) The need for a campaign of deregulation, not least by local government, in the planning field, as part of a positive campaign to open up possibilities for enterprise;
- (b) alongside positively helpful changes in the labour market - including market clearing rates of pay - long-term transitional schemes designed to provide a socially acceptable and human - dignity - respecting a setting within which people can find worthwhile work to do;
- (c) recognition of the need for the most deprived to secure a better share in the prospect of economic regeneration, not least in the inner cities. We must not fail to emphasise setting the objectives which we seek to serve in an all-embracing vision; black as well as white, weak as well as strong.

6. We need to focus too on the damaging, counter-productive and debilitating structure of many of our present arrangements, which give a large number of people (in management as well as amongst the workforce) a vested interest in campaigning against the State in order to increase the resources at their disposal. It cannot be good for our institutional arrangements to encourage the management of the Health Service or British Rail to make common cause with those whom they employ in a great campaign for larger hand-outs. Too few people have, or feel they have, an opportunity of increasing their resources and room to manoeuvre as a result of their own efforts rather than as a result of political campaigning. Too few people - not least because of the hopelessly over-centralised structure of much of our administration - can influence their own environment or terms and conditions of service.

7. This argument is best illustrated in the field of nationalised industries and privatisation generally. We need to demonstrate

(what the



(what the Social Democrats already observe) that the debate about privatisation and public ownership, so far from being sterile, is at the heart of much of our malaise. The recent speech by Sir Robert Marshall, although seeking to argue the opposite, so frequently identifies the irreversible tensions that arise from present relationships that it amounts to a formidable indictment of the present scale and nature of public ownership.

8. This is the background against which to argue the case for multiplying those who are - or should be - encouraged by the system to press for changes that would operate in the right direction rather than be directed solely against Government. This means looking for ways of establishing useful tensions between countervailing forces, which allow politicians at the centre to stand aside. Obviously the market place and market forces are the ideal way of doing this. But in some sectors others need to be found and developed.

9. I repeat that I should positively welcome the odd reference to my earlier speeches, pamphlets and Ministerial initiatives (over many years) which would underpin the consistency of this analysis not only on my own behalf but on behalf of the general thrust of Conservative thinking over a long period of time.

JHC

pp.

GEOFFREY HOWE

8) Copies that go at least to
& Rebbat — Fowler & Joseph for clearance



(I've mentioned
it to H.J.)

(See below)

9) How avoid
'hubris'? See
below

1) Check with comments

1) Or Gow, Ridley, ~~also~~
CSJ et al.

2) Let I.S. have an
✓ early copy of my
concluded draft to
conclude

3) We need a reference
- Volokhine - which
✓ at page 25, for cabinet
redu. in prices, costs
+ to pay. Also, in same
context (as in § dealing
with "understanding") a

✓ NESD - copy sentence

4) Enock refer to this
|| ways + NNS strikes?

5) Check for unnecessary
repetition - I can't
see much

✓ 6) The words "private
inclusion" and "privatization"
are so rare rather
obscurely will under
frequency.

7) Are we making drafts
✓ for advance proofreading?

I have promised M. H. a
early copy of this draft
- so that he can consider it, &
advise a press

Ch. Ex

Please see my m.s. comments
showing what I have done.

RH

28/6/82, 29/6/82

cc Principal Private Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Burns
Mr Middleton
Mr Kemp
Mr Burgner
Mr Mountfield
Mrs Case
Mr Dixon
Mr Monger
Mr R I G Allen
Mr Faulkner
Mr Moore
Mr Cuplin
Mr Potter
Mr Garside
Mr Robson
Mr Ridley
Mr French

has seen your minute of 25 June to the
the following detailed comments and suggested
second draft of the Chancellor's CPC Lecture



- (ii) Page 1, second paragraph: Amend from fourth line to read

".... that Conservatism if robust, is insensitive. In part, we are to blame. Language and tone are often as important as content and policy. The notion, to take but one example, that under each Conservative exterior a racist sexist bigot struggles to get out is more widespread than it ought to be. The reality that in liberating the forces of enterprise we are in fact strengthening opportunities for ethnic minorities and for women is not grasped as it should. Because policies that are in truth constructive are not supported by soothing rhetoric, they are often misread and misrepresented, whether by accident or design."

✓

✓

- (iii) Page 2, line 1: Delete "For" insert " The reality is that".

- (iv) Page 3, paragraph 2, penultimate sentence: Amend to read

✓

"The perception that our policies coincide with their interests is not sufficiently widespread."

- (v) Page 5, paragraph 1, last sentence: Amend to read
"But the claims of the other parties do not stand up to scrutiny."

See text. [??]

- (vi) Page 6: The Chief Secretary is slightly unhappy about the tone of this section. He certainly thinks it is a good idea to welcome the SDP as potentially a sensible alternative to the Conservatives. But he thinks the passage is a shade too kind and also not clear enough in warning off potential Conservative supporters. The Chief Secretary thinks it is too early to assume that we have won all such Conservative supporters back. The point surely is not just that the SDP leaders personally presided over the decline,

Good point - state not quite right

Amended text

but that they now still favour essentially the same policies that brought about that decline.

(vii) Page 8:

- ✓ (a) Line 3, delete "like" insert "such as those"
- ✓ (b) Line 11, delete "And"
- ✓ (c) Line 12, delete "in"
- ✓ (d) Line 25, delete "advantage" insert "help"

(viii) Page 14, first paragraph: The Chief Secretary thinks this passage needs a bit re-inforcing on the familiar lines - why the Government can't cure unemployment by spending or reflating, what harm is done if you do frustrate the working of the labour market (c.f. the Chief Secretary's Newcastle speech on Friday last!).

A bit [squeeze bracketed
cumbersome,
as with? text]

(ix) Page 20, paragraph 2, second sentence. The Chief Secretary thinks it is difficult not to make some reference to the criticisms - whether to say that the best is the enemy of the good, or to say that it's only a start, or to be more aggressive. Even a think-piece such as this will be read in the current context!

?? [squeeze bracketed
text]: can
we go further as
CST suggests?
[altered.]

(x) Page 22 (a), last sentence: This sounds rather lame.

(xi) Page 22 (b): Amend to read:

"What is clear is that we have to continue, to combine [clarity?] [penetration?] in analysis with caution in implementation. [In this area resort to extensive consultation is not a means of procrastination but a recognition of the complexity of the interests as well as issues involved in clearing a way through the thicket.]

[squeeze bracketed
text]

Reads, in text, with cumbersome

(xii) Page 23

✓

(i) The Chief Secretary thinks a transition is needed to this section.

✓

(ii) Insert new penultimate sentence end paragraph 1 to read "It was then that we were widely expected to respond to the pressures of the recession by reflating the economy in the traditionally perennially unsuccessful manner. Instead we made the fight...." etc.

(xiii) Page 24, paragraph 2

Temporarily wanted this.

(a) line 6: Re the bracketed sentence, the Chief Secretary does not think the response will seem sufficient to make this point necessary. ✓

I have removed it.

(b) line 12: The Chief Secretary does not think the period 1958-9 long enough to demonstrate the credibility of this aspiration.

I think what follows i.e. privatisation does exemplify this.

(xiv) Page 26, line 2: An example would help illustrate that "... governments have been spurred on to overdue changes and reforms". ✓

[amended] ✓

(xv) Page 29, paragraph 2, line 6: What does "problematical" mean? Difficult to achieve, or controversial? ✓

But see your comment.

(xvi) ~~★~~ Page 32, section in square brackets: The Chief Secretary hopes this will not be omitted.

Leave in, problem, at least

MISS J M SWIFT
28 June 1982

C. G.



pmf

Post script

Your office will have their work cut out to get clearance from DHSS, DE and DES (amongst others) for the final version. The text will have to be re-typed as a press release. All this will take quite a time. Could I suggest that, unless you feel very strongly on the matter, you resist suggestions for further changes in this draft. I am much afraid that if it goes on late, something of this length will pass unnoted and our efforts will prove in vain.

Att

C
Yes - but we can't ride rough shod over all comments. Some may be

Answers

've. as. good
to ext as
S suggested.
and later on
all the Gov
points you listed
rich still apply.

- 1 Current business 1-10
- 2 Next Part. 11-
H (actually mostly retrospective)
- 3 Unemployment / Labour
14-16
- 4 Deregulation [competition]
17-18 [18 next in 2]
- 5 Taxation 19-22
(not much for basic rate taxpayer here)
- 6 Inflation & Interest Rates
23-5
- 7 Public Spending
25-6
- 8 Privatization - industry
26-7
- 9 do - Local Gov.
28-9
- 10 Do - Social Policy
30-4
- 11 Conclusion

Tony

P 90
 bureaucracy
 public sector
 deregulation

R.H.

As a kind
 of reprise
 of the
 theme
 e.g. before
 H: 26-7
 I've not
 had time
 to
 consider

? Nigel

Above is 1.5
 Summary of contents:
 he was wondering whether
 H: 7-10 or maybe should be
 dropped no later in the
 text

✓
RH



FROM: ROBIN HARRIS
DATE: 29 June 1982

CHANCELLOR

CPC LECTURE: MST(C) COMMENTS
(All page references to Second - not Third - draft)

*See my reactions to
bundle) all this: Do 3 hours
still to take on
down*

I have received the MST(C)'s comments over the telephone. Where they do not change the sense and balance of what I understand you to wish to say I have incorporated them, in square brackets. But some were very far reaching and I said that I would pass them on [with my own reaction in brackets]

- i) something should be said about Parliament's not just government's role in what we want to see happen; [:?] X
- ii) strengthen EEC reference [new sentence in brackets]; ✓
- iii) stress that it is not just government but people who make things happen - that is the real lesson of the Falklands [new sentence: 'conclusion' added]; ✓
- iv) page 2: delete liberal economy : omit 'Liberalism'; X
- v) page 3: omit 'liberal Conservative', mention instead Disraeli et al [I would be against iv) and v)]; X
- vi) page 12: line 2: 'when' not 'if' [official advice led/^{me}to change this to 'if']; ✓
- vii) page 15: paragraph 3: second sentence omit [This is a policy matter for you: I would like us to say it]; ✓

- viii) page 16: fourth sentence: Review in light of Megaw [Yes.]; ←
- ix) page 25: first paragraph, last sentence: omit [!]; ❌ ❌
- x) page 29: second paragraph: just 'reform' of rating system is provocative [In light of Mr Scholer's letter of 28 June (Alternatives to Domestic Rates) and your own views, I think this is OK.]; ✓
- xi) privatisation: social policy (PP 30-34). Essentially the MST(C) dislikes all of this, particularly the tone. He would omit the discussion of charging; omit the observations on indexation and pensions; challenges the consistency of pointing at one moment to an international consensus (p-3) then to how other governments have been wrong in indexing public spending (p.31); he would drop (p.32) the stuff on private health insurance because it raises expectations; he would omit vouchers (p.33) and student loans (p.34). [I am afraid I entirely disagree with all this; though I think that the implication on p.31 concerning indexation of retirement pensions might be softened by omitting the now bracketed sentence]. ✓

RH

ROBIN HARRIS

29 June 1982

PERSONAL AND CONFIDENTIAL



FROM: ROBIN HARRIS
DATE: 29 June 1982

CHANCELLOR

CPC DRAFT: COMMENTS ON COMMENTS

... I attach my comments and queries on others' comments.

The draft itself (under separate cover) in fact takes on board the CST's, MST(R)'s, Mr Middleton's, Mr Allen's, and some only of the MST(C)'s comments. You will see why, on grounds of tact, I have adopted that approach.

... I attach separately comments and suggestions received from others too late to be taken into account in the revised text. *

RH

ROBIN HARRIS
29 June 1982

* DF's contribution on tax has not yet been fitted in.

RH

CONFIDENTIAL



U. Ex
—
Please see my ms.
Comments.

RK

29/6/82

FROM : P A MICHAEL

DATE : 29 June 1982

MR HARRIS

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Mr Burns
Mr Middleton
Mr Kemp
Mr Burgner
Mr Mountfield
Mrs Case
Mr Dixon
Mr Monger
Mr R I G Allen
Mr Faulkner
Mr Moore
Mr Cuplin
Mr Potter
Mr Garside
Mr Robson
Mr Ridley
Mr French

CPC LECTURE : 3 JULY

The Minister of State (R) has seen your minute of 25 June to the Chancellor and has made the following comments on the second draft of the Chancellor's CPC Lecture.

(1) In the reform of the Labour market section
✓ he prefers "customers" not "people" generate
amended text lasting jobs.

(2) In the deregulation section, could there be
✓ a sentence on BT liberalisation?
amended text
in square brackets

CONFIDENTIAL

CONFIDENTIAL

✓
Not easy to
see where.

- (3) In general could there be a bit about IT and our support for the sunrise industries?

[Handwritten mark]

PM
P A MICHAEL
Private Secretary

CONFIDENTIAL

Cl Ex

P. Kapri in of course; but
done we go further or this scope?

Probably
no need

FROM: E P KEMP
29 June 1982

MR HARRIS

RH
29/6/82

cc PS/Chancellor
PS/Chief Secretary
Mr Allen
Mr Norgrove

CPC LECTURE 3 JULY

Thank you for sending me a copy of your draft of 25 June.

2. I must say I think this is now a very interesting piece. There are a number of points that one could make, but you are probably not too interested in anything other than questions of fact at this stage. There is one point, however, which I would like nevertheless to mention, and this concerns our old friend public expenditure.

3. I must say I found the two relatively brief paragraphs (starting a third of the way down page 25 and then the first four lines of page 26) not all that satisfactory, especially taken with what follows. The issue that I think is ducked here is just what effectively the Government proposes to do about it. On page 25 you identify the problem, including the question of momentum and the way while this could be accommodated for high growth rate problems arise when growth levels off. But the solution to the problem appears exclusively to lie in what are described, at least on the face of it, as various kinds of "privatisation" - thus beginning on page 26 we have a section "privatisation - industry", on page 28 we have "privatisation - local government" and on page 30 we have "privatisation - social policy".

4. I am certainly all for privatisation and this is clearly a way of reducing public expenditure (though not necessarily the claims of the service in question on national resources, but that is another point).
No. | But is it going to be sufficient? There can be no question of privatising the whole of public expenditure covered by these wide areas; some minimum - howsoever defined - provision will continue to have to be made by the state. In any case privatisation on the scale envisaged could not make much of an impact at all quickly. So if public expenditure is to be

restrained in the interest of tax reductions, the logic says that the Government is going to have to do something more than just "privatise"; it is actually going to have to rein back, over time, the growth of level of service which it provides, and may be even cut it in real terms. Yet these pages are, I felt, distinctly coy - perhaps deliberately - about may be having to do this. The Chief Secretary's IFS speech was much blunter. You do actually put your toe in the water once, right at the top of page 32 where you talk about "reviewing consistently our commitments to indexation", but I cannot find much more than this.

5. As I say it may be deliberate, because clearly this is a most sensitive area, but I thought it worth remarking on it.



E P KEMP

Ch. Ex

FROM : S A ROBSON
DATE : 29 JUNE 1982

MR HARRIS

c.c. Mr Moore
Mr Kemp

CPC LECTURE : 3 JULY

Your minute of 25 June.

2. A few suggestions on the tax side :

Page 20, line 7 and 8

- delete Rewarding effort is seen by Ministers as applying also to those in the poverty trap where marginal "tax" rates can be even 100 per cent. As far as those on upper rates are concerned, it is not evident that Ministers would concentrate further help here on thresholds as opposed to rates or, indeed, to the investment income surcharge or capital taxes.

In reply
This is not, I think, your view?

Page 22, lines 7-10

- it is not clear that Ministers have expressed a firm wish to "reform and reduce" or see such reductions as "necessary". The thoughts might be expressed as questions by substituting "Would it be appropriate" for "How are we going" and "such" for "that necessary".

Take in then

Page 22 (a) lines 18-20

- the bias in favour of institutional channels can be remedied by either removing their tax advantages or by giving the same tax advantages to individuals. The latter course is very costly and these lines can be read as favouring it. The sentence might be expressed more neutrally as follows "Can we accept in the long term a tax regime that encourages self help and thrift in savings and provision for retirement to be channeled through institutions rather than invested personally."

Your new text covers this point now.

SAR

FROM: R I G ALLEN
DATE: 29 June 1982

C Ex
Please see
my comments.

MR R HARRIS



cc Mr Burns
Me Kemp
Mr Ridley
Mr French

RH
29/6/82

CPC LECTURE: 3 JULY

I have a few comments on the second draft of this paper, attached to your minute of 25 June:

Page 11, first paragraph. In the sixth sentence, I think you should say: "The growth rates both of OECD output and the volume of world trade have halved...". Later on in this paragraph, I think you want to avoid suggesting that exchange rate changes can have significant, lasting effects on competitiveness - further on (page 14), you argue to the contrary. I would be inclined to delete from "We (and British industry)" to "exchange rate", and simply say "We inherited a wage explosion from the Labour Government which gravely damaged our industrial competitiveness".

Now bracketed
- AR suggested this earlier wording?

So would I think

Page 14, fifth line from the bottom. Insert "and prices" after "costs". Delete "above all" in the penultimate line.

Page 15, first paragraph. You might add "and finances" after "profits". And I would delete the last line here. Ministers have recently been arguing that investment has been holding up quite well and, more importantly, the reference to "tomorrow's jobs" may be taken as a scarcely veiled suggestion that unemployment will inevitably go on rising. [now bracketed]

I rather disagree and would be inclined to show the history of AR's wording comments.

Page 23, final sentence. This might benefit from some expansion, perhaps along the following lines:

"Contrary to what was until recently conventional wisdom, containing the growth in public spending and cutting public borrowing over the medium-term has a beneficial effect on activity both by allowing for lower inflation and interest rates and by releasing resources for use in the "enterprise" sector."

Mr Middleton advised dropping the whole thing! [which I have done]

Page 24, first paragraph. The first couple of sentences do not strike quite the right tone. I would suggest:

Mr Middleton advised me to drop Keynes: which I've done. A new link passage is in brackets.

"This is not just theory; the results are beginning to show through, in ways inexplicable to many neo-Keynesians. Inflation has come down fast, interest rates have fallen and economic recovery, albeit slow and somewhat hesitant, has begun."

The following three sentences run into similar difficulties - particularly the reference to "international storm clouds on the horizon" - that Mr Cassell picked up in your draft of the Chief Secretary's recent Newcastle speech. You might replace the draft with something on the lines of the final version of the latter (see sidelined passage attached).

Page 24, second paragraph. We need to be very careful about the wording of the fourth sentence (I am minuting Mr Burns separately on this). I suggest:

"We will be the first Government in a quarter of a century under which the average inflation rate during our term of office is lower than that of our predecessor."

12A

R I G ALLEN
EB

