

PO-CH / NL / 0070

PART C

Part C.

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begins: 10/2/84  
Ends: 16/4/84.

PO -CH /NL/0070



PART C

Chancellor's (Lawson) Papers:

CONSERVATIVE AND THE  
OPPOSITION PARTIES  
POLICIES AND PUBLIC  
OPINION

PO -CH /NL/0070  
PART C

Dispose Directions: 25 Years

*Phelan*

24/7/95



FROM: MISS M O'MARA  
DATE: 10 February 1984

MR RIDLEY

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr Lord  
Mr Portillo

ALLIANCE PROPOSALS FOR TAX CREDITS, ETC

The Chancellor was grateful for your note of 8 February which he read with great interest. However, his initial enquiry in fact related to the Government's own proposals in this area and he would therefore be grateful for a further note on those.

*MsM*

MISS M O'MARA

(MWT)

NOTE FOR THE RECORD

A 20

MEETING WITH BACKBENCH MPs: MONDAY, 13 FEBRUARY 1984 AT NO 11

Present: Chancellor of the Exchequer  
Sir Anthony Meyer MP  
Charles Morrison MP  
Stephen Dorrell MP  
Albert McQuarrie MP  
Michael Shersby MP  
  
Hon Mark Lennox-Boyd MP  
A N Ridley

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After the usual introduction from the Chancellor, Charles Morrison outlined his major thoughts for the Budget. He wished to see some changes in the CTT and its impact on horse owners, and an end to the treatment of income from land rental as unearned income. More broadly speaking, if the Chancellor had no room for manoeuvre, his long term objective was surely to get firm recovery going in time for the next election. It would be nice if there could be a substantial increase in income tax thresholds, but more important would be to have higher capital investment. Looking at the proposals from the CBI - some £600 million cuts in public spending and about £1 $\frac{3}{4}$  bns more on the PSBR, he would be in favour of the higher capital expenditure, but against the cuts advocated by the CBI which must be out of the question in practice. Given our low Budget deficit relative to other OECD countries, surely it would be possible to take a risk with the PSBR to finance more capital investment?

2. Michael Shersby said his main priority was to raise tax thresholds, in line with past pledges to help those with low incomes. A lesser priority would be another compassionate measure to help widows, and relief for CTT to help the successful small businessman to pass his business on intact to the next generation.

3. Anthony Meyer said he was slightly torn between a desire to see higher thresholds and some help for productive investment. Part of the case for the latter was that it was better to disappoint those who wanted income tax cuts in the early years of a new Parliament. He also stressed his antipathy to the "jungle of aids to industry", particularly regional aids, and avowed his willingness to see cuts in regional policy despite his Welsh interests.

4. Albert McQuarrie agreed with Sir Anthony Meyer on regional policy. He was in general in favour of the philosophy put forward in the White Paper, doubtful about enterprise zones, and saw such policies as primarily political exercises. By implication he was for leaving the balance of taxation pretty much where it is, commenting that employers would understand if NIS was not cut this year. The specific proposals he wished to see were the treatment of income from farm holiday lettings as earned income; no increase in whisky duty, since the position of the industry in Northern Scotland was already very difficult with the shift of tastes away from whisky to wines and spirits. He saw petrol and diesel duty increases as certain to cause the usual difficulties, and begged that the recent price cuts announced by oil companies should not be taken as an excuse for raising the duty. If other sources of revenue were needed, could not more be extracted from gambling, smoking and space invaders?

5. Stephen Dorrell said that he thought the claims of persons were more important than those of business, and in particular thresholds might be the best area in which to cut taxes, partly in order to sustain consumers' expenditure. Within the business sector, he saw NIS as a much lower priority than cutting Corporation Tax, since more companies were either paying or about to pay Corporation Tax and this would be the right time to help them. Though he was in favour of a generally expansionist stance when it came to the fiscal balance, the corollary arising for the counter-cyclical increases in the deficit was that now the recovery was happening, there should be no increases to the deficit. Turning to expenditure plans, he asked that the Government should not commit itself too tightly to figures two or three years ahead, so as to give more room for manoeuvre in necessarily unforeseeable circumstances in years to come.

6. Albert McQuarrie picked up Sir Anthony Meyer's references to widows. Was not the real issue the multitude of anomalies, mainly in the social security area, such as that a woman under 40 receives no widow's pension? Michael Shersby wondered whether one could add another year to the widow's bereavement allowance. He then turned to VED, where the PAC, of which he was a member, had been conducting a very full study of evasion and alternatives to the present tax system. None of the alternatives

seemed very satisfactory; and he and his colleagues had been very impressed by the vast scale of evasion at present, and in particular by the derisory penalties imposed on evaders when they were taken to court. Was there not a strong case for raising the question of penalties with the Law Officers, or the Home Office? Surely the minimum penalty for evasion should be a fine in the order of £200, rather than fines currently imposed, which did not make it worth complying with the law. Albert McQuarrie said that he and many others would see much advantage in principle in switching VED to a higher petrol duty, but the trouble was the prejudice and stupidity of people like many of his constituents who totally failed to work out where the balance of advantage would lie for them. Stephen Dorrell asked whether there was not a half-way solution which might help, involving either leaving VED to wither on the vine, or a programme of phased cuts coupled with balancing phased increases in petrol duty. There was general agreement with such an approach, if it were politically possible.

7. This prompted Michael Shersby to observe that his constituents were already complaining vociferously about the high level of tax on benefits from cars. He asked the Chancellor not to increase the tax burden on them further. Charles Morrison, in an obscure comment on gambling and the general betting duty, seemed to be pointing to the risk that, though there might be attraction in increasing the duty because bookies' profits were rising, such an increase would push more betting into the black economy.

8. Albert McQuarrie asked whether mortgage interest relief was untouchable - it was an absurdity in areas like Aberdeen, where most of the beneficiaries were getting the money they required for their house purchases in subsidies of one kind or another from their employers, mainly the oil companies. This led to an extended discussion, in which those present were pressed by the Chancellor to give their reactions to the possibility of the abolition of mortgage relief on new mortgages, but not on existing ones. The upshot of this was that all except Michael Shersby were in favour of the idea in principle, though with varying degrees of uncertainty having regard to the political and presentational difficulties, and the possible impact on house prices. Mr Shersby said he would oppose such

RESTRICTED

change at any year and at any time, as it went against the principles of the property owning democracy. The others commented that if such a change were to be made, now was the time to make it, early in a Parliament. Stephen Dorrell commented that the system was not only a distortion, but a particularly curious one from the point of view of income distribution, since it helped the wealthiest most.

*AR*

A N RIDLEY

Distribution:

Chancellor  
Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Lord  
Mr Portillo  
Hon. Mark Lennox-Boyd MP  
David Hunt MP



CHANCELLOR

FROM: PETER VIGGERS MP

DATE: 13 February 1984

cc. CST, FST, EST, MST,  
Hon Mark Lennox-Boyd MP  
Mr Adam Ridley  
Mr Michael Portillo  
Mr Rodney Lord  
Dr Brian Mawhinney MP

*PVP*

NOTES OF A MEETING WITH THE FINANCIAL SECRETARY TO THE TREASURY  
AND CONSERVATIVE BACKBENCHERS  
ON THURSDAY 9 FEBRUARY 1984

PRESENT: Mr Patrick McNair-Wilson MP                      Mr Tony Durant MP  
          Mr Martin Stevens MP                                Mr Michael Latham MP  
          Mr Michael Marshall MP

Patrick McNair-Wilson said that we must hold down inflation and should not do anything that would cause deviation from that primary purpose.

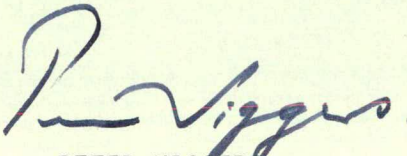
Tony Durant asked for a reduction of N.I.S. but that otherwise we should stand still in the present budget. He asked for special consideration for widows and in particular an age allowance for working widows.

Michael Latham said that he would not accept a neutral budget and would prefer reflation of about £2 billion. The social conditions of the unemployed were very bad and he was particularly concerned with those made unemployed at about 55. DHSS arrangements seem to militate against thrift and he would like to see the £3,000 disregard substantially increased. We should get people off the unemployed register by allowing them to retire at 60. We need to encourage construction and manufacturing industry.

Martin Stevens said that unemployment should reduce automatically because of the smaller numbers of school leavers, and the bulge in the numbers of workers who are retiring. He was concerned about the effect of the abolition of the Metropolitan authorities on Arts subsidy, bus passes, youth support and other Metropolitan functions.

There was a discussion about whether manufacturing industry would provide more jobs if the economy were to improve and Patrick McNair-Wilson pointed out that industrial investment often means investment in unemployment. He was worried by the expansion of the "credit balloon", and the overshadowing of our economy by the United States elections.

Michael Latham felt that it was impossible for us to justify present levels of mortgage interest relief or the present relief on life insurance payments. The latter had become a scheme of tax avoidance.

  
PETER VIGGERS



FROM : M D X PORTILLO  
DATE : 13 FEBRUARY 1984

CHANCELLOR



cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr Ridley  
Mr Lord  
Mr Scholar

SPENDING ON THE INFRASTRUCTURE (SEWERS ETC)

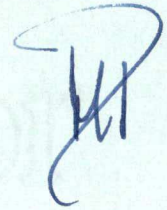
At Prayers on Friday 10 February, you asked me to check on the information which the Prime Minister had deployed on spending on the infrastructure, as exemplified in the case of sewers. The note that John Redwood did on the subject was Private to the Prime Minister, but I understand that it made the following points.

- i) It is absurd to claim that the country needs to replace its sewer system wholesale.
- ii) Much of the present system is working satisfactorily and in no danger of collapse. To replace it would be wasteful and highly disruptive.
- iii) Often the best way to detect where the system is faulty is to allow the weak parts to collapse. Most collapses are of a very minor character. The spectacular collapses in Richmond and Deansgate, Manchester are very much the exception.
- iv) However, modern detection techniques often make it possible to detect weak spots.
- v) Usually the best means of repairing a sewer is to coat the inside of the existing pipe with plastic or concrete. The technology involved is proven and in use. The problem so far has been to detect tributary pipes leading into the main sewer. It seems

that now, however, a machine has been developed that will detect these inlets and enable holes to be punched in the new coating in the appropriate places.

2. John Redwood tells me that he did not make any point in his minute about the distinction between capital and current spending. However, it seems likely that a lot of this work would be recorded as routine repair and maintenance and would therefore appear on the current side of the line. This may be a point that Mr Scholar would like to check further with Department of Environment officials.
  
3. Although John Redwood could not let me have his minute, he has sent me two papers from Christopher Monckton which add weight to these points, and I attach these.

CONQUEROR

A handwritten signature in blue ink, consisting of a large, stylized initial 'J' followed by several loops and a final flourish.

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FROM: MISS M O'MARA

DATE: 14 February 1984

MR PORTILLO

**SPENDING ON THE INFRASTRUCTURE (SEWERS ETC)**

The Chancellor was grateful for your note of 13 February.

*MSM*

MISS M O'MARA

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*[Handwritten signature]*

MINUTES OF A MEETING OF THE CONSERVATIVE BACKBENCH  
FINANCE COMMITTEE ON TUESDAY 14 FEBRUARY 1984

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The Committee was addressed by Mr Norman Payne, Chairman of the British Airports Authority.

2. Mr Payne first made some general remarks on nationalised industries. He stressed the interdependence of the public sector and the private.

Public sector purchases from the private sector are running at £9 billion a year; and private sector purchases from the public sector are running at £11 billion a year. Nationalised industries now have a self-financing ratio of about 60 per cent, which is not dissimilar from the private sector ratio.

3. Mr Payne said there was a real problem for nationalised industries in the growth sector of the economy. If they were embarked upon long-run capital expenditure programmes, it was difficult for them to be at the mercy of short-term EFLs. This imposes a severe restriction upon them, and in the case of the BAA had led the Authority into long and damaging litigation with its customers. How much better it would be if nationalised industries could obtain their money from sources which did not count against the PSBR. Mr Payne then gave his personal view on privatisation, stressing that the Nationalised Industries Chairmen's Group did not have an official view on the matter, given that the issues were largely political and the problems different in each case. Mr Payne noted that in the USA it had proved possible to sustain the electricity and gas industries, and airports in private hands, even though there was little competition involved in the provision of those services. However, the USA's success with its regulatory system had been very mixed. The lesson was that the more complicated the system of regulation imposed, the higher the prices charged to customers tended to be. A simple regulatory system tended to produce the most efficient regime.

4. Mr Payne had gained the impression from those chairmen of nationalised industries involved in privatisation programmes, that the process was invariably very complicated. It was very difficult to achieve privatisation rapidly and

efficiently. However, Mr Payne's advisers had no doubt that the markets would be able to absorb the privatisation programme provided that it was properly spaced. He did not think the the problem of index-linked pensions was so serious since the Chancellor of the Exchequer foresaw stable prices ahead.

5. Mr Payne then made some comments about BAA, noting that its seven airports handled 75 per cent of passenger traffic and 80 per cent of cargo traffic in this country. His aim was to run the BAA in a normal commercial manner. It had a turnover of £300 million and assets of £1 billion. Its income came 50 per cent from charges and 50 per cent from franchising, rents, provision of services etc. It was from this latter source that the profit of £50 million was generated.

6. Mr Payne was pleased with the new form of target that had been agreed with the Government which took the form of a base target of 3 per cent on assets — coupled with a demand-related element. He had a subsidiary target for the Scottish airports that they should break even. Capital spending was running at £140 million per year, including money on Heathrow Terminal 4 and Gatwick Terminal 2.

7. Mr Payne pointed out that the BAA owned and managed the airports, and provided the personnel necessary for safety and security. But virtually all other services were franchised out, so that BAA employees counted for only 10 per cent of total airport personnel.

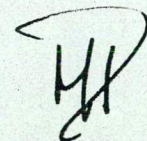
8. On privatisation, Mr Payne commented that his submission to Ministers was that the most successful means of privatising the BAA was as a whole, with a suitable regulatory system. He pointed out that the problem of regulation of airports was very different from the much bigger problems presented in the case of the utilities. BAA had only 200 named customers.

8. Nigel Forman wished to know if Mr Payne was in favour of giving away the "rump" of nationalised industries. Mr Payne thought not. The industries should close those parts that were worthless, and the employees should be given an opportunity to buy the businesses, even if the price was very low. He pointed out that in certain areas the coal industry had very good prospects.

9. In reply to a question from Peter Viggers, Mr Payne pointed out that the BAA was scarcely able to affect demand. Airport charges constituted only 3 or 4 per cent of total airline costs, and did not therefore greatly influence airlines or air passengers. For example, charges at Stansted were about a quarter of those at Heathrow, but there had been no switch of traffic between the two.

10. Anthony Steen was concerned to know why the BAA was opposing the British Midland Airways application to fly from Glasgow to New York. Mr Payne said that it would result in the other airlines wishing to withdraw from Prestwick and that would involve a write-off of £25 million of assets at Prestwick and further investment of £15 million at Glasgow. It was Government policy to retain Prestwick and that had been reinforced by the recent decision to establish a freeport there. Mr Steen pressed him further, pointing out that the BAA appeared to be opposing market forces.

11. John Townend wanted to know how, in the event of privatisation, the BAA would deal with inflation-proofed pensions. Mr Payne pointed out that the Authority's arrangements were different from British Airways. It had funded in inflation year by year, and was not like the NFC where the Government had needed to pump in a lot of money.



M D X PORTILLO

Distribution:

Ministers  
Advisers  
PPS  
David Hunt MP  
Hon Mark Lennox-Boyd MP

SPEECH BY THE Rt. Hon. ROY HATTERSLEY M.P. SHADOW  
CHANCELLOR OF THE EXCHEQUER AND DEPUTY LEADER OF  
THE LABOUR PARTY, TO A LABOUR FINANCE AND INDUSTRY  
GROUP CONFERENCE AT THE CORA HOTEL, UPPER WOBURN  
PLACE AT 11.30 a.m. ON TUESDAY, 14 FEBRUARY 1984

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We are about to enter a period of sustained Government self-congratulation. Of course, last month's unemployment figures were a brief interruption in the orchestrated assurances that the Government's economic prescription had worked and that the years of slump and depression are about to give way to a new era of expansion and prosperity. But the Chancellor of the Exchequer is not the sort of politician to allow an extra 120,000 unemployed men and women stand between him and the headlines which he wants to encourage. So we will be told that the suffering has all been worth while and that recovery is now assured. Unfortunately that assertion will not be true. It is necessary at the beginning of the campaign of carefully contrived optimism to put Britain's economic performance and prospects into proper perspective. Today I want to talk about what the Tory Government has done -- or failed to do. A week today I shall deal with what might have been achieved and what can be achieved in the future.

The reality of our economic position is easily explained:

- 1) The collapse of the manufacturing economy has been so severe and so continuous that some upturn was inevitable. However, we have not yet improved on our 1979 performance. *impeccable logic*
- 2) The extent of the recovery is much overstated by the Government and is the result of a diversion from, rather than the success of, Government policy. Who would have imagined a Tory Public Sector Borrowing Requirement of £2 billion in excess of its original target?
- 3) A reversion to the obsession with limiting money supply, Government borrowing and public expenditure will destroy the tentative recovery.
- 4) The unique opportunity to revitalize our productive capacity which was offered to us by North Sea Oil has been squandered.
- 5) And even if we accept the Government's predictions of both the speed and the extent of recovery, there is no prospect of a substantial reduction in the number of unemployed. The Government neither plans for nor anticipates a reduction in that total. A recovery which does not include putting Britain back to work is not a recovery that can be accepted in a civilized society.

A



The uncovenanted -- indeed gratuitous -- benefits that North Sea Oil has provided are immense. Since Labour's last year of office

- annual oil production has more than doubled -- from 53 to 114 million tons
- the value of oil and gas production in real terms has trebled -- from £6.3 billion to £17.9 billion
- the contribution of oil to the balance of payments has risen tenfold -- from £1.3 billion to £11.7 billion
- tax revenues from oil have increased about twentyfold -- from £0.5 billion to £9.2 billion.

The bonus of North Sea Oil should have been used as a springboard from which Britain leapt ahead of its competitors. As our oil wealth multiplied, other industrial nations faced escalating energy bills as the result of the 1979/80 OPEC price increases. It should have been our moment to plan for and invest in the long-term future of our production base. And it could have been a time when we exploited our good fortune to combat, perhaps even to overcome, the effects of the world recession on Britain. In fact, we did quite the opposite.

The Government increased interest rates when oil had made it possible for interest rates to be cut. It raised personal taxation when oil was providing a vast new source of Government income. It slashed public investment when oil was providing the opportunities to build new hospitals, new schools and new factories. In fact, the Government intentionally created a slump and the depression was deepened by world recession. Oil reserves were used to pay dole bills when they should have been used to eliminate dole queues.

Far from leaping ahead of our rivals, we fell into a recession much deeper than theirs. Unemployment in the United Kingdom rose twice as fast as in the seven major OECD countries. And it still stands much higher than the current level in any of the other major countries. Last year, public sector investment was 25% below its 1979 level. Manufacturing investment fell by over 30% during the same four years. Company liquidations rose to the record level of 13,421 in 1983 -- a fourfold increase since Mrs Thatcher was elected. And as Britain's domestic manufacturers faced the sharpest decline in output this century, the volume of imported manufactured goods escalated by 20%. For the first time since the Industrial Revolution, the United Kingdom had a deficit on the manufacturing component in its balance of payments.

It is important to recall why all the carnage came about. The Conservatives were convinced that cuts in public expenditure, personal taxation and Government borrowing provided a sovereign cure for all our economic ills. All other objectives -- no matter how desirable in themselves -- had to take second place to the achievement of the string of fiscal and monetary targets which were conjured out of the air and called the Medium Term Economic Strategy. Of course, the aims have not been achieved. The Public Sector Borrowing Requirement was, at the time of the Chancellor's Autumn Statement, £2 billion above target. The tax bill has risen from 39.6% to 45.7% of national income, an increase of £18 billion in less than four years. Public expenditure at £126.4 billion stands at about the same figure as it did when Labour was in office. Even if the recovery -- in which the Chancellor asks us to believe -- were genuine, it could not be attributed to the automatically beneficial effects of financial rectitude. For that virtue has been more advocated than practised.

No  
reference  
to  
inflation

(C)

There have been two other immense changes in the economy. Unemployment has now risen (even according to the Government-massaged statistics) to 3,200,000 men and women. And inflation has fallen to 5.1%. I want neither to diminish nor to denigrate the advantages of an inflation rate well in single figures.

for  
here

(D)

But it is worth digressing for a moment to recall what the Conservative manifesto, A BETTER TOMORROW, had to say about the Labour Government in 1970: "We have become conditioned to failure ...." it said; "we have become resigned to the value of the pound in our pockets or purses falling by at least a shilling a year." What Mr Heath condemned as a failure is now trumpeted as a success. And this "success" has been achieved at a cost which is at once terrible and unnecessary. The price we have paid is 1½ million additional unemployed, innumerable more men and women living in the poverty of short-time working, the diminished quality of our social services and housing stock and crucial, perhaps permanent, damage to our industrial capability and potential. For the pound has been substantially and continually over-valued -- damaging our manufacturing base and depressing the rate of growth in the service sector. And neither the waste nor the suffering need have happened. With a policy of controlled expansion Britain could have grown more prosperous.

The temporary benefits of oil revenue presented us with an ideal opportunity. If interest rates had been held down, an exchange rate established which assisted exports rather than subsidized imports and if, above all, the oil income had been used to finance new investment in industry and the infrastructure, our economic outlook would have been fundamentally changed.

cf. what  
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happened  
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I do not suggest for a moment that sustained growth is possible within our economy in the absence of a whole series of vital structural changes -- supply side adjustments, as they are called. Indeed, socialists have always insisted that the way in which the economy is organized has a crucial effect on its performance. And have gone on to argue that the Government has the right and duty to intervene in the economy in order to promote the conditions which produce the best performance. Intervention to improve the structure of the economy is a basic principle of socialist economic policy. But today I say only two things about the supply side. First, there are far more changes needed than the Government's assault on alleged restrictive practices concedes. Second, many of the necessary changes are more likely to be achieved in a climate of confidence than in the despair that comes from depression.

(E)

(F)

cf surveys

The worst effects of the depression could have been avoided. But for four years the oil revenues have been wasted. British oil greased the wheels of foreign industry whilst British factories closed, many of them never to re-open. And much of our oil revenue bled abroad as we exported capital at a rate of £10 billion a year. Instead of being used to restructure our industry, British oil was used to restructure the factories of our competitors. That resulted in our money being used to finance the imports which destroyed our jobs.

Exchange Controls

(G)

What would have happened if we had kept our money out of the world market?

Would it be over as balance sheet

Now the Government tells us that the years of destruction over which it has presided prepared the ground for a substantial economic recovery. They have not. The Government's claims are undermined by the way in which they have recklessly jeopardized the reputation of official statistics. It began with the Tax and Price Index -- a blatant attempt to massage the inflation figures that turned from fraud to farce when it rose more quickly than the old Retail Price Index. That was followed by the revision of the unemployment totals, which, in reality, has reduced the official total from 3,600,000 to 3,200,000. The simple fact is that the 400,000 men and women who have been removed from the unemployment register are out of work and looking for jobs. The Government's statistical techniques have now developed a new sophistication. In a number of statistical series oil output and reserves can no longer be isolated from figures relating to other industries. Thus the direct relationship between recovery and oil has been obscured. But even if we take their figures at face value, the best that can be claimed is that our condition has, temporarily, stopped getting worse. And even that limited achievement is the result of the underlying destruction of our manufacturing economy being hidden by the increasing flow of oil. Without oil, on unchanged policies, the United Kingdom would have run a balance of payments deficit of about £10 billion. Even the

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meagre recovery about which we hear so much would have been wholly impossible. Without oil the economy would have collapsed.

For a few years more, we may be able to survive our recent reckless profligacy. But we cannot go on wasting the precious asset indefinitely. On present predictions, oil production seems likely to reach its peak next year or the year after. It will then decline into the 1990s. According to the Independent Institute for Fiscal Studies, tax revenues will reach a peak of about £11 billion in 1986 or 1987. They will then drop to about half that figure over the following five years.

And the Government's depletion policy has reduced the long-term benefits that oil can provide the economy and intensified the short-term problems that oil has caused for other parts of the economy. Instead of using its powers under the Petroleum Submarine Pipelines Act of 1975 directly to limit production as part of a conscious strategy to take maximum advantage of oil revenues, the Government has accelerated depletion in order to obscure the underlying crisis in the industrial economy.

This stratagem has, predictably, done direct damage to the non-oil economy by pushing up the exchange rate to a level that penalizes exports, subsidizes imports and diminishes employment prospects in manufacturing industry. History will hardly believe that the oil reserves which could have been directed towards the public sector capital investment programme and used for the re-invigoration of manufacturing industry did, thanks to the Government's folly, contribute to industry's collapse.

Oil is now a wasting asset. It is, therefore, more urgent than ever to prevent its further dissipation. It is vital to start using its benefits to prepare us and our industries for the now not-far-distant day when North Sea Oil will begin to run out. Yet we have not heard a word from the Government about its intentions.

About some of its long-term plans the Government is eager to talk -- or at least it is anxious to make a whole series of half promises about areas where promises have been broken and hope must take the place of reality. It declares an undying commitment to the N.H.S. and the Welfare State -- yet is setting about dismantling them. It announces a determination to reduce income tax, yet increases the overall burden of taxation. But we have not heard a word



on the subject of the Chancellor's strategy for the years after the oil has run out -- apart from hints that the social services may have to be cut again. Neither the Government, nor any of its apologists in Fleet Street, have attempted to answer the six crucial questions about how we sustain our living standards in the decades when Britain is once more a net importer of oil. In the hope of obtaining enlightenment, I first ask the Chancellor five questions about the past:

First -- what has happened to the £27.5 billion oil revenues already received, the uncovenanted bonus that he, and Sir Geoffrey Howe his predecessor, have enjoyed?

- How much of the much-vaunted economic recovery has been based on the consumption of the oil revenues?

- Why has it proved impossible to keep the central promise to cut taxation as oil revenues have flowed in?

- Why has the Government allowed the oil revenues to flow abroad when so much of our own industry and public services are so desperately in need of funds?

- Why for so much of the five Tory years did the oil-rich British economy perform so much worse than the economies of our oil-impooverished rivals?

That final question, concerning the failure of the last four years, is directly and depressingly concerned with a question about the future:

- What strategy does the Chancellor possess for preventing more waste and dissipation of our precious and unique national asset in the few years of high oil production which are left to us?

I fear that the honest answers about the past are frighteningly revealing about the prospects for the future. The Chancellor possesses no strategy to meet our needs after the oil has run out. For the Government's economic philosophy obliges it to eschew any policy which requires direct intervention in the financial and industrial life of the nation. It is dogmatically committed to its own mystical definitions of laissez-faire, an economy based on a series of magic numbers governing growth in the money supply, the aggregate of public expenditure and the total of Government borrowing. According to this metaphysical view, the nation grows prosperous when the magic numbers are turned from theory into reality, and in pursuit of the holy permutation all sorts of extraordinary intellectual contortions are justified.

In practice what happens is rather different. The manufacturing economy collapses. Unemployment increases. Taxes rise. The social services deteriorate. And when the economy edges its way a few inches up the pit which their policies have dug, the Government calls what is happening "recovery".

Such an assertion is worse than economically disreputable. It is morally bankrupt. For I repeat what I said at the beginning -- a definition of recovery which does not include a substantial reduction in unemployment is not a decent definition of that desirable -- and attainable -- condition. Our task, having pricked the balloon of the Government's claim to have found a magic formula that sets our economic ills to rights, is to describe how real recovery can be achieved.

/ENDS

(pwp)



CHANCELLOR

Pbb

I have told Chris we don't want to do the economy on March 21<sup>st</sup>, in the attached letter 4 1/2 words of mouth.

I stressed our "moral dilemma" for the autumn fairly hard when talking to Bill, so that he will relay that to the Chairman tomorrow afternoon.

M 15/2



H M Treasury  
Parliament Street London SW1P 3AG

I 8

Switchboard 01-233 3000  
Direct Dialling 01-233 5618

A N Ridley  
Special Adviser

15 February 1984

Keith Britto Esq  
CUCO  
32 Smith Square  
London S W 1

*Dear Keith.*

You told me yesterday that Central Office are considering what kind of Party Political Broadcast should be shown on March 21, and you asked me whether the Chancellor would like it to be devoted to longer-term economic issues. He considered the matter at some length this morning, and has asked me to write to let you know that he would be happy for it to be devoted to some other subject. This PPB comes very shortly after the Budget, his normal Budget Broadcast and the inevitable intense public attention to economic matters. As a result the advantage to be gained from a second broadcast on the economy would probably be less than if it were devoted to other topics.

Another consideration which weighed heavily with him was that an economic PPB in the autumn of this year would probably be of very considerable value.

Obviously no firm decisions can be made about that until the middle of the Summer. Nonetheless he has asked me to underline the thought now so that you and others can bear it in mind.

*Yours ever  
Adam*

A N RIDLEY

Note - CX  
informant.  
(MP)



HOUSE OF COMMONS  
LONDON SW1A 0AA

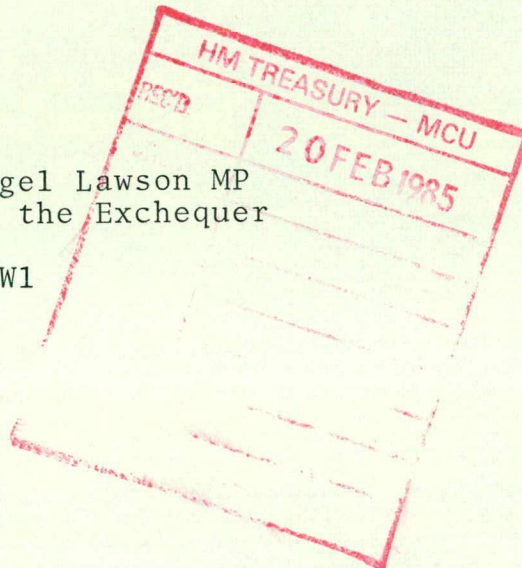
18 February 1985

*Dear Chancellor*

I write to inform you that I will not be able to attend Treasury Questions this coming Thursday, 21st February, as I will be in my constituency attending the funeral of an old and valued colleague.

*Yours sincerely  
Roy Hattersley*

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
The Treasury  
Whitehall, SW1



CONFIDENTIAL

Ch/tx (P)  
Ref. No: EA (84)3

Date: 20.2.84

Notes in connection with a motion  
in the House of Commons on

Monday 20th February 1984

to take note of the European Community  
documents on the Draft General Budget  
for 1984

Conservative Research Department,  
32 Smith Square,  
London SW1  
Tel. 222 9000

Enquiries on this brief to:  
Peter Cropper

Five items are before the House:

- 1) The Preliminary Draft Budget of the European Communities for 1984. (Presented 10th June 1983).
- 2) The Draft budget of the European Communities for 1984.
- 3) The European Parliament's modifications and amendments to the Draft General Budget of the European Communities for 1984.
- 4) The Annual Report of the European Court of Auditors for the financial year 1982.
- 5) Sixth Report from the House of Commons Select Committee on European Legislation.

The Draft General Budget for 1984 consisted of seven volumes, including individual budgets relating to the Community institutions. The Budgets of the Council, the European Parliament, the Court of Justice and the Court of Auditors are almost entirely for their administrative and running expenses. The main Community policies (e.g. the Common Agricultural Policy, the Social Fund, Regional Development Fund, Aid etc) are financed out of the Commission's budget, which accounts for some 98% of the expenditure in the Draft Budget as amended and modified by the Parliament.

The Parliament considered the draft Budget as decided by the Council of Ministers on 20-22 July 1983, and made various proposals for increased expenditure. These proposals were in turn amended by the Council; the Budget was declared adopted on 20 December 1983. The principal proposals were:

	<u>Parliament's proposals</u>		<u>Council's decisions</u>	
	Payments	Commitments	Payments	Commitments
Social Fund	£74m	£136m	£74m	£68m
Regional Development Fund	£69m	£216m	£69m	£62m
Aid	£72m	£132m	£43m	£56m
Energy	£50m	£69m	£30m	£34m
Research and Investment	£18.5m	£129m	£3m	£46m
Transport	£1m	£28m	£0.7m	£10m

European Court of Auditors for 1982 represents, in the view of the British Government, an important step in the development of financial control within the European Communities.



Sixth Report for the House of Commons Select Committee (23 November 1983)  
considered problems of the future financing of the European Community viz:

- i) Various proposals to increase the revenue of the Community;
- ii) a fairer sharing of the burden of funding Community expenditure;
- iii) control of CAP expenditure.

The Select Committee noted the British Government's position, that the United Kingdom would be prepared to consider an increase in own resources provided:

'First, that agreement was reached on an effective control of the rate of increase of agricultural and other expenditure; and secondly, that it was accompanied by an arrangement to ensure a fair sharing of the financial burden' (Sir Geoffrey Howe, Hansard, 14th November 1983, Col. 611).

I 13

FROM: ADAM RIDLEY  
21 February 1984

CHANCELLOR

cc CST  
FST  
MST  
EST  
Mr Lord  
Mr Portillo  
Mr Battishill  
Mr Folger

ROY HATTERSLEY ON THE ECONOMY: PART 1

...  
As you know, Mr Hattersley has embarked on a four part speech campaign to put his views on the economy across to the public in the run up to the Budget. I attach his press release for Tuesday, February 14, and will be submitting the others as quickly as I can get hold of them. This opening speech, which deals, so he alleges, with the past, is quite interesting for a number of reasons. In part it offers a very questionable and - analytically considered - incoherent assessment of what did and should have happened to economic policy between 1979 and 1983. The piece ends with six major questions to the Chancellor and his Ministers, of which you are likely to hear more.

2. There are a number of points which occur to me on reading through the speech, each of which is marked in the margin of the text with an appropriate letter.

3. A. It is odd that Hattersley risks a firm judgement that  
"there is no prospect of a substantial reduction in the number of unemployed."

He could well be tripped up on that before very long if things go reasonably well.

B. He asserts that

"last year, public sector investment was 25% below its 1979 level."

This assertion was, of course, comprehensively refuted by the data in Table 1, 13 of the PEWP.

C. Hattersley characterises the MTF5 as a total failure, saying

"of course the aims have not been achieved".  
He does this in the paragraph in which there is no

RESTRICTED

whatever to the rate of inflation.

- (i.e. to inflation)
- D. That reference comes only in a paragraph later, in a manner which would have one believe that the fall in inflation was just a staggering piece of good fortune!
- DD. Hattersley argues that it should have been possible to have held down interest rates and the exchange rate in order to preserve competitiveness. In so doing he is of course ignoring completely his own Government's ignominious failure to do just that in 1977 and 1978, when pressures in the oil market were much less.
- E. He concedes, usefully, that sustained growth calls for a whole series of "vital structural changes" on the supply side.
- F. He then makes the curious point that such changes are difficult in a climate of despair - ignoring that surveys of industrial opinion both show the better optimism balance in the UK than for many years, and a stronger position than in most other countries in Europe.
- G. Hattersley attempts to resuscitate Peter Shore's curious, contradictory and absurd arguments that it should have been possible to have fed the oil revenue into restructuring industry, rather than let it flow abroad at the rate of £10 billion a year. On the one hand it ignores the massive accumulation of overseas assets which has taken place. On the other, it implies both the imposition of unprecedentedly tight exchange controls to keep the money in (all the more so if one postulates the Hattersley commitment to low interest rates as well); and a massive current account surplus which could only have the effect of pushing the exchange rate up through the roof to an even higher level than we actually achieved - since to have kept the capital at home rather than allowing it to go out must have pushed the rate still higher.

RESTRICTED

- H. Throughout the speech there are attempts to present the recovery as a mere statistical trick. This culminates in his saying

"Even if we take their figures at face value, the best that can be claimed is that our condition has, temporarily, stopped getting worse."

This is self-evidently absurd in the light of such figures as the improvement in employment, the upturn in investment, and the strengthening of manufacturing output over the last year or more.

- I. The speech ends with six questions which are put to the Chancellor, five about the past and one about the future. Interestingly these did not get much attention when the exercise was originally reported in the papers. However, it is likely on past form that you and your colleagues will get these thrown at you fairly often. Almost all their thrust is directed at demonstrating that we are the Government which has dissipated the benefits of oil. They strongly suggest that the opposition will be building very hard on this in coming months, and may go into the local and European elections on the platform that we have not only wasted the money in the past but have no strategy for using oil sensibly in the future.

4. With the Budget taking so much of everyone's time, the Budget debate still some way ahead, and only one of the four speeches in this series to hand, it may be wisest to sit and wait to see how these arguments and those to follow it are developed and received by the public at large. But I would suggest that before very long you may at least want to consider whether, and if so when and how, it is sensible to give some kind of retort to the case which Hattersley is trying to pin on us. It is not difficult to see that the strategy he has evolved so far accords well with a simple and deep seated feeling that many people will doubtless have (I am

RESTRICTED

sure an opinion / <sup>survey</sup> will confirm this) to the effect that the country has not used the oil revenues as well as it should have done. Harnessing that powerful emotion to Labour's advantage could be a worthwhile exercise for Labour, and for the same reasons it may call for some attention from us, in order to nip the exercise in the bud.

AR

A N RIDLEY

(M)

MINUTES OF THE MEETING OF THE BACKBENCH FINANCE COMMITTEE ON  
TUESDAY 21 FEBRUARY 1984

---

The Committee was attended by the Chancellor of the Exchequer, along with the full Treasury Ministerial team.

2. Mr Peter Hordern paid tribute to the Government's achievement in bringing down inflation. The Government's first priority must be to continue to control inflation, and that gave the Chancellor no room for a give-away. The Government would need to maintain the PSBR at a low level and to control public expenditure. He considered the CBI's case for a reduction in NIS. The question was whether such a reduction will lead to higher pay claims. By contrast, Mr Hordern thought that an increase in income tax thresholds would make excessive pay claims less likely. He pointed out that a married couple on average earnings with no children now paid 20 per cent of their income in tax and NIC. He thought the Chancellor should give consideration to early retirement at 60 for those who had been unemployed for more than a year. He reminded the Chancellor of the party's pledge to abolish the earnings rule. He also thought that the long term public expenditure review ought to be extended also to taxation. There were now 56 different allowances in the personal tax system. He offered his congratulations to the Chancellor and good wishes.
  
3. Mr Robin Maxwell-Hyslop wished to see a change in the treatment of holiday lettings. He reminded the Chancellor of the assurances given by Mr Nicholas Ridley on this point. He was unhappy that the indexation of CGT was ineffective because it applied only from the date of the introduction of indexation, and not from the date of purchase.
  
4. Mr George Gardiner wished to see the Chancellor establishing the Government's clear commitment to cutting taxation.
  
5. Mr Peter Bottomley wished the Chancellor to get rid of the distortions in the tax system: mortgage interest relief, the married man's allowance where both husband and wife worked etc. He saw no reason to touch NIS while

# CONFIDENTIAL

employers continued to give too much away in pay settlements.

6. Mr Terence Higgins wanted the Chancellor to pay regard to asset sales in fixing the PSBR (as per the TCSC Report). He also called for the abolition of the earnings rule, and urged that there should be no tax on banks.

7. Mr Tim Eggar wanted the Budget to help individuals and not industry. He did not wish to see the abolition of IIS, and he wished to see the Chancellor making a careful study of tax expenditures with a view to abolishing some of them.

8. Mr John Browne said that enterprise was over-taxed. He wished to see the abolition of stamp duty and of IIS. The BES should be simplified and liberalised and the entrepreneur should be allowed to benefit under the scheme in backing himself financially.

9. Mr Stephen Dorrell hoped there would be no commitment to a detailed MTFS. That would close options, particularly the option of higher PSBRs in years to come.

10. Mr Tim Yeo lamented the decline in public sector capital formation. He wished to see the poverty trap tackled by an increase in child benefit. He called for lower subsidies to housing and lower taxation of capital ownership and hoped the Budget would bring tax reform. Sir Nicholas Bonsor complained that capital gains tax was too complex.

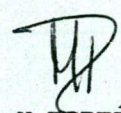
11. Mr Nick Budgen said he would welcome a boring Budget but was afraid of a bank tax. Any attack now on the financial institutions would lead to compensating action later or further tax relief to bank customers.

12. Mr Toby Jessel wished to see a substantial increase in the taxation of cigarettes mapped out for the years ahead.

13. Mr Jack Page urged the Chancellor not to touch mortgage interest relief. He wished to see a tax allowance for subscriptions to private hospital funds.

# CONFIDENTIAL

14. Mr David Heathcoat-Amery wished to see tax reform and no increase in mortgage interest relief. He wished to see expenditure and revenue presented together in future Budgets.
15. Mr Tony Nelson was relaxed about a bank tax. He wished to see a reduction in stamp duty but on houses as well as equities.
16. Mr John Townend wished to see the abolition of IIS, the halving of stamp duty and action on stock options.
17. Mr Tony Marlow would object to an increase in tax on beer and a decrease in tax on claret and hinted that this was an issue on which there might be a revolt.
18. Mr Anthony Beaumont-Dark wanted a "Conservative Budget" and thought the Chancellor should abolish IIS and stamp duty.
19. Mr Alistair Burt wanted action on VAT on charities and on heavy fuel oil duty.
20. Mr Nick Winterton did not wish to see higher taxes on tobacco and beer, and urged the Chancellor not to pander to Brussels.
21. Mr David Crouch thought that the CBI had made a good case on NIS, but also wished to see personal thresholds increased.
22. Mr Nigel Forman urged action on NIS and on infrastructural investments.
23. Sir John Osborn was disturbed that the individual could not set interest on bank borrowings against taxation.
24. Mr John Maples wished to see a Budget for industry and tax reform.
25. Mr John Ward wished to see a 25 per cent rate of tax and public expenditure reduced accordingly.

  
M D X PORTILLO  
22 February 1984

Distribution: Ministers  
Advisers  
PPS  
David Hunt MP  
Hon Mark Lennox-Boyd MP



A 28

FROM: ADAM RIDLEY  
27 February 1984

CHANCELLOR

cc Economic Secretary  
Mr Battishill

MEETING WITH TERENCE HIGGINS: TUESDAY, 28 FEBRUARY AT  
6.00 P.M.

It may be helpful to note one or two issues which you may want to bear in mind when you see Mr Higgins; and one or two questions which you might find it helpful to have clarified before the evening.

LTPE

2. You will doubtless both want to discuss this. You may wish to

- indicate to Mr Higgins the timetable, and the hoped-for Budget-day publication, which naturally leads to the question of when he would hold his hearings and report. In that connection, you might want to induce him to go at a fairly leisurely pace having regard to the familiar "secret manifesto" problems and the timing of the Local Authority and Euro Elections in early May and June;
- [find out how far he expects his committee to explore options and implications for individual programmes. If they do, as is likely, this could be ticklish. Either this Department would be asked to give evidence; or other Departments and/or Ministers could be summoned; or all the evidence could be from outsiders - and heaven only knows what that might involve! ]
- probe the matter of who his committee's special advisers will be for the inquiry.

*V. Street  
Conference*

*I doubt if he'll  
go that slowly*

*best not to  
raise,  
if true*

*for the inquiry*

BUILDING SOCIETIES

3. The newspapers report that the TCSC have decided to investigate this. Clearly it is possible Mr Higgins may wish to be very uncommunicative<sup>about it</sup>. He will himself have had a belly-full of the kind of city criticisms I have been passing on to you, not least because he, like me, was at the Union Discount party for Richard Petherbridge last Thursday when the news broke. My hunch is that if it should not seem inappropriate you should either seek to put over the Treasury's case in some detail,

PERSONAL AND CONFIDENTIAL

following up what the Economic Secretary may have told him on Friday; or offer him the chance of having a fuller briefing from the Economic Secretary very shortly if he would like it.

EC FINANCE

4. We know the TCSC have expressed pretty firm interest in studying this family of issues, possibly in a pretty broad way. But so far no concrete proposals of dealing with timing or the precise issues have emerged. This is not, as we have already agreed, a very seductive topic from the Department's or Government's point of view. Accordingly you might want to

- probe Mr Higgins about the Committee's intentions;
- if they are to have an enquiry, recall how this could elicit minimal evidence because we cannot reveal our negotiating position; remind him - if it is tactful - that the House of Lords have just covered much of the ground; and stress that the officials involved are very few and very busy with some extremely important work preparatory to Brussels, the World Economic Summit and the (probable) climactic EC Council after the Euro-Elections.

BUDGET

5. It is helpful background to know roughly how quickly and with what emphasis the TCSC might tackle this. One imagines they would want to be through with it by the Easter Recess.

*he can hardly say must yet!*

BUDGETARY REFORM

6. The TCSC could well want to return to this. Mr Battishill tells me that they have not mentioned it - or at least the clerk to the Committee has'nt - for a little while. So it would probably be unwise to gratuitously raise the issue with Mr Higgins, since to do so could imply a guilty conscience on our part, incite his interest, or both. However, you could ask him what topics other than those cited above he expects the TCSC to tackle this summer, and if he mentions it, you could then react in whatever way you felt appropriate.

OTHER QUESTIONS

7. Two topics you might want to touch on are:

PERSONAL AND CONFIDENTIAL

- the role of the advisers to the Committee, though this is obviously delicate;
- the timing of the reply to their recent report on the Autumn Statement, and perhaps a friendly warning that Mr Higgins should not take it too personally if it is rather trenchant.

FURTHER INQUIRY BEFORE THE MEETING

8. Unless you advise to the contrary, I shall seek to speak to Mr Higgins tomorrow simply to ask him what questions he wants to cover with you; and to speak to one or two others on the Committee to find out how they see things. I would expect to be able to report back later on in the day.
9. Finally, do you want me (or another adviser) in attendance? If so I shall be free to do so, but only at about 6.20 p.m.
10. It would be very helpful if you could get your office to tell me very early in the morning if you do not want me to speak to Mr Higgins or members of the Committee.

AR

A N RIDLEY

MINUTES OF THE MEETING OF THE BACKBENCH FINANCE COMMITTEE ON  
MONDAY 27 FEBRUARY 1984

---

Those Present: Chancellor  
Alan Haselhurst MP  
Jim Spicer MP  
Robert Hicks MP  
Sir Walter Clegg MP  
Sir Michael Shaw MP  
Harry Greenway MP  
Michael Marshall MP  
Hon Mark Lennox-Boyd MP  
Michael Portillo

✓ M

All the Chancellor's guests agreed that thresholds should be raised as much as possible (though Mr Greenway thought there should be a combination of increases in the thresholds and a cut in the rate of tax). Sir Michael Shaw objected to the rumoured increase of 7p on a pint of beer.

2. Alan Haselhurst wished to see a Budget that underpinned recovery, but noted that the abolition of NIS was not a priority.

3. Robert Hicks asked the Chancellor not to valorise the duty on petrol this year. The disregard for supplementary benefit was too low. He asked for the industrial buildings allowance for hotels to be increased to 50 per cent.

4. Jim Spicer wished to see the abolition of IIS.

5. Michael Marshall thought that the Inland Revenue sometimes thwarted Government's broader policies. He was worried about the building societies' gilts decision, and hoped that capital allowances would be extended to cable ducting.

6. Mr Greenway wished to see a reduction of the NIS to  $\frac{1}{2}$  a per cent. He was not strongly in favour of abolishing it, since while it remained it was possible to blame Labour for its introduction. He wished to see incentives for wider share ownership. He pointed out that many old people lost from lower interest rates because they had money deposited with building societies.

# CONFIDENTIAL

The Chancellor asked how, given a neutral Budget, those present would finance the tax reductions that they had recommended. Mr Greenway was not in favour of giving anything away now. Mr Hicks said this was the moment to seize the political initiative. Sir Michael Shaw recognised that the Chancellor's question posed a difficult dilemma since he did not wish to see any new taxes. Sir Walter Clegg thought the Chancellor should put up the duty on tobacco, but Mr Greenway was strongly against that. Mr Spicer thought that the Chancellor should gamble a little in raising thresholds (presumably by running a higher PSBR).

8. A theme running through the discussion was the concern of some members about the alleged lack of capital spending. This was raised in one way by Alan Haselhurst and Robert Hicks.

9. Sir Walter Clegg described regional policy as "reasonably disastrous". Mr Greenway complained that 1100 jobs had been taken away from Perivale and relocated to Merthyr Tydfil.



M D X PORTILLO

Distribution: Ministers  
Advisers  
PPS  
David Hunt MP  
Hon Mark Lennox-Boyd MP

# CONFIDENTIAL



(HARRISON)

Mr Higgins

I spoke to him briefly.

He said

- (a) he simply wanted a quick chat about the TUC
- (b) he indicated no desire to speak at any length. So you may want to make him feel at ease if you think this is an occasion you would like to spend time on.
- (3) He confirmed he & his chess would want to cover the

Building Societies

Smiser; but in the

Budget Enquiry. His

concern is handling & limiting,

not substance.

M 28/2

PERSONAL AND CONFIDENTIAL

A 28

FROM: ADAM RIDLEY  
28 February 1984

cc EST  
Mr. B. H. H. H.

CHANCELLOR

MEETING WITH TERENCE HIGGINS: TUESDAY, 28 FEBRUARY

Further to my minute of February 27, I have a few more points to add to the information and reports set out there.

EC INQUIRY

2. The Committee have got as far as looking at a preliminary paper from the clerks outlining a sequence of topics, and reaching some broad decisions on what to deal with and what to leave on one side. In essence they have decided that they will not delve into the wider questions of the costs and benefits of Community membership; but they will look at the determination of the Community's budget and the financial burden on the UK. Happily their purpose is to start an inquiry, through a Sub-Committee under Austin Mitchell's chairmanship, some time after the Easter recess, probably not reporting until near the end of this year. No advisers have yet been appointed to this inquiry, though there may be some ideas in peoples' minds. This inquiry will be far more concerned with the longer term prospects for the Community after the "hoped for" resolution of the current crisis than with the negotiation to resolve that crisis.

BUDGETARY REFORM

3. It seems that there is rather less steam behind this issue than there used to be. There is little likelihood of its getting onto the agenda this year, not least because Terence Higgins is aware that Ministers in this Department are not very enthusiastic, and that the ground has been trodden fairly firmly recently. This suggests that it would be a good idea to continue to convey an impression of friendly refusal to budge very far on the matter!

BUILDING SOCIETIES

4. *I was* told *some TCSC members* that *A* had not yet heard or even read that the Committee was to study the issue! *It* was likely that, were it to do so, it would pick it up in the inquiry into the Budget, since the main committee is busy completing its report on the PEWP, & the sub-committee is equally busy dealing with the appointments to the private sector of ex-Civil Servants.



PERSONAL AND CONFIDENTIAL

LTPE

5. It appears that this is an issue which would not begun till after the Easter recess. Most probably it would have to be taken by the full committee. No advisers have yet been appointed or seriously considered - though our members have been asked to think of suitable names. The Committee have had one or two very preliminary discussions in private, which suggest that they would be interested in such matters as demographic trends, unemployment levels, social security benefits, and one or two other selected programme areas. I doubt whether they have given much thought to the delicate problem (for us) of whether or not they can go into individual programme areas as such.

ADVISERS

6. I had confirmation, once again, of the very considerable determination of the Labour party when it comes to appointing Advisers. They have apparently established already the individuals who they would like see on each report, and made sure that they are ready and available when needed. Mr Higgins is reportedly well aware of the need to counter this by early and effective proposals from our own side. But whether he and his people will in fact have sensible names to draw on is altogether another matter.



A N RIDLEY

✓  
12/12

JOHN GREENWELL (MIDLAND) - INTERVIEW ON BANK DEPOSITS TAX

Transcript from: BBC Radio 4, Financial World Tonight, 28 Feb 84

PRESENTER: (Rodney Smith) .... After last week's shock for the building societies, when they learned that they'd have to pay tax on gilts dealings - a decision confirmed by the Chancellor today - now it's the turn of the banks. Mr Lawson is planning to impose a composite tax on depositors in exactly the same way that building societies do. It appears that his proposals went to the British Bankers Association in secret some weeks ago and they've caused a huge row, as Vincent Duggleby learned when he spoke to the head of UK banking at the Midland, John Greenwell:

GREENWELL: We see this mechanism as being of the worst of all worlds. It is penalising the school leaver, the old age pensioner, who is not a taxpayer and subsidising those who are standard taxpayers. This is an unfair mechanism.

INTERVIEWER : Would it be difficult for you to administrate?

GREENWELL: Vastly difficult. The computing programmes that we would have to prepare and develop are enormous in their complexity. And the costs would be very considerable indeed.

INTERVIEWER : So you couldn't just implement it overnight?

GREENWELL: I doubt if we could implement it in 12 months. And certainly to do so would require - in my organisation I suspect - to suspend every other programming ambition we have for the development of its business.

INTERVIEWER : There is a suggestion that this is simply another move towards equalising the competition between banks and building societies?

GREENWELL : Well first of all the mix of the banking depositor is different from the mix of the building society depositor. So there is no equality in that area. We believe that our mix of depositors need different treatment.

And we would go down the road, if the Chancellor would permit us, of gross interest for those who prefer gross and net of tax for those to whom it's most appropriate.

INTERVIEWER : One of the interesting things of course is that national savings would apparently not be effected by this?

GREENWELL : Well I think it's rather ironic that a Conservative Government should be instrumental in making a proposal which would effectively make a nationalised, the National Savings, industry the only provider of interest paid gross of tax.

INTERVIEWER : And are you going to fight this proposal?

GREENWELL : I would very definitely want to fight this proposal because I feel that it is detrimental to the whole of the banking deposit taking activity. We have no means of knowing, and I don't think the Chancellor will know either, what the responses of our depositors will be; will they move away to other forms of savings, will they be resistant to this? We don't know the answer. I think its implications for the deposit structure of the banking industry are quite incalculable.

## DOMINIC HARROD - INTERVIEW ON BANK DEPOSITS TAX

Transcript from: BBC Radio 4, Today, 29 February 1984

INTERVIEWER : (Brian Redhead) The smirk which spread across the faces of the clearing banks when they heard last week that the building societies would have to pay similar taxes to them, disappeared this week when they were told that they, like building societies, would in future have to deduct tax from the interest that they pay to personal savers. Now what is the purpose of these changes? Well with me is our economics editor, Dominic Harrod, to explain it all. First of all we'd better begin with what these changes are:

HARROD: Well as far as people who've got deposit or savings accounts at banks are concerned; the banks will be obliged from next year, from 1985-6, to deduct tax when they credit those interest payments to those accounts. And the rub is that this tax is not recoverable if you're a person who wouldn't otherwise be paying tax. That's to say if you're one of the students, for instance, who have savings accounts at banks and do not have an income high enough to attract income tax. But nevertheless what is proposed is that the banks shall deduct the composite rate, which is what the building societies have to do, of tax from the interest payments when they're credited to your account or mine. And of course this does actually, rather curiously, it clobbers the person who's got a low income. Because a person who's got a high income probably pays more than the composite rate of tax, would have to declare the interest on his deposit, have to pay tax on that, so he would be paying tax anyway. It's the chap who hasn't got much money, hasn't got much income, who will start having to pay tax on the bank rate.

INTERVIEWER : And it does of course make the bank deposit rates look even crumbier than they are?

HARROD: Yes it does indeed. It would certainly, for a non taxpayer after this thing has come in, it would certainly make the bank rate look very low. Indeed, I think it's something like about  $3\frac{1}{2}\%$  or something like that. And there there may be a twist in the tail because this may mean that such people, the people effected by this, the people who have to pay extra tax, will be looking very hard at National Savings. The national savings investment account which would be very attractive because that will still be tax free. And that of course is money that the Government has the use of rather than the clearing banks.

INTERVIEWER : So it's all a plot by the Chancellor to get his hands on our money?

HARROD: I think he'd be very upset to hear you say that. But I think it may have the effect of increasing the amount of money in national savings as opposed to the banks. I think he's claiming that what he's doing is rationalising and tidying up the tax system so that it's the same for everybody. Of course it would be the same for everybody if he taxed national savings but I somehow don't think he will.

INTERVIEWER : No, but if he's also going to tax the building societies on their gilt deposits does that mean the building society accounts will also be less attractive to people, so that money too will go to national savings?

HARROD: What's going to happen with the building societies is still up for grabs. As a matter of fact the building societies saw a junior Minister last night and they apparently had very long talks, and earnest talks, with him. Neither side is saying much about what came out of it. And I guess from the posture Ministers have taken in recent days is

that they wouldn't be budged on the basic principle of taxing these gilts dealings. But I think the next thing that may happen is that the building societies, or a building society, will say well we don't trade in gilts. We buy them and we hold them until they mature and that is not trading. And we'll challenge the Government in the courts. Challenge the Inland Revenue's reading of the ACT which says that they are taxed on trading profits. Only these are not trading profits, these are what gilts are there for. We draw the income as you intend us to. And why should there be tax concessions on holding gilts if you're not going to allow us to exercise them. And if they don't win, if the Government carries its point and does tax them, I think you are looking at a loss of about between one quarter and half on 1% on the margin between the savings rate in the building societies and the mortgage rate rate which they make us pay as it were in order to pay the savings rate. Now that doesn't necessarily mean a 1/2% increase in the mortgage rate. It might mean a slight having of the gaps so that in fact, either by paying depositors less or by charging a little bit more on the mortgage, they'll just find that half, one quarter to half a per cent in their margin. Now that would presumably happen at the meeting after the Budget when everyone had expected the building societies would recommend a cut in the mortgage rate and a cut in the deposit rate. What they may now do is just cut the deposit rate and leave the mortgage rate where it is.

(PWT)

CONFIDENTIAL

*Quite with  
disproportion  
1 small  
for*

*PER is drawing the Govt attention  
to this - and the Ireland change  
below.*

MINUTES OF THE MEETING OF THE BACKBENCH FINANCE COMMITTEE ON  
28 FEBRUARY 1984

*Wait for a job  
of finance  
M.*

The Committee was addressed by Sir Timothy Bevan (Barclays Bank) and Mr Ian Fraser. Professor Rose accompanied them.

2. Sir Timothy made some remarks about the international debt position. The problem had its origins in the first oil crisis which had led to massive surpluses in the OPEC countries which had been recirculated by the private banking system mainly to the LDCs. By 1978, the banks had lent up to their prudent limits, but had then been confronted with new surpluses arising from the oil price rise in 1979-80. In Sir Timothy's view this second round of recycling should have been undertaken by the official institutions and not by the private banks. Possibly the banks had taken on too much, but it was worth pointing out that the recession would have been much worse without the actions of the banks, since much of the credit granted was in order to finance trade.

3. With the rescheduling of the loans to Mexico and Brazil it was possible to say that the debt crisis was behind us. The official institutions now needed to play a bigger role in solving the problem, but Sir Timothy did not believe that the banks should be relieved of their responsibilities for past errors.

4. Sir Timothy then argued that bank profits were not too high in this country. If compared with the large American banks on similar accounting principles the level of profitability in British banks would be shown to be lower. It was not true that the banks had granted excessive pay rises. In 1980, 1981 and 1982 the pay increases had been less than the RPI. Today a new entrant to Barclays Bank was paid £500 less than a new entrant to the civil service, and the new civil servant was granted an index linked pension.

5. Sir Timothy then turned to the "hypothetical question" of a composite rate of taxation on bank account interest. He noted that

CONFIDENTIAL

# CONFIDENTIAL

the Wilson Report had said that the composite rate on building societies should be abolished. The banks, in calling for equality of treatment, had had in mind the abolition of the composite rate altogether. CR, if applied, would be regressive. About a third of Barclays deposit account holders were below the income tax threshold. The only place that investors would be able to get interest gross would then be in national savings, which Sir Timothy thought was an undesirable move from a Government that was pledged to competition. (Mr Beaumont-Dark and Sir William Clark appeared to agree with this point). Sir Timothy also noted that foreigners would not wish to go through a certification procedure to avoid composite rate taxation.

6. Returning to the international debt scene, Sir Timothy drew attention to the problem of US interest rates. A 1 per cent reduction in interest rates would save Brazil \$1 billion a year, and of course the LDC debts were generally dollar debts.

7. Mr Ian Fraser took a gloomier view of the debt position. The LDC had been helped by recovery in the industrial countries. And some had improved their own position: Mexico, Rumania, Turkey and Indonesia. Venezuela and Chile also looked like being responsible. But Brazil was the worst debtor country "by miles". UK banks had been much more prudent than US and Japanese banks, and had written down much of their debt against profits. The Americans were inhibited by the transparency of their system. If they wrote down debts, that was an invitation to debtor countries to disregard those debts. The debt problem was likely to be with us until the end of the century.

8. There was some discussion of the Barclays Bank bill. Sir Timothy said that it was mendacious to say that the bill involved changes in Barclays Bank contractual obligations. Sir Anthony Grant, who is moving the bill on 29 February, called for supporters to attend at 10.00pm.

9. Mr Nigel Forman wondered what would happen if debtor countries defaulted in a co-ordinated way. Mr Ian Fraser agreed that this was a possibility and was what had happened in 1931. It would be extremely serious for the American banks, less so for our own.

CONFIDENTIAL




10. Mr Edmond Bulmer wondered whether the current debt position would make the United States think harder about its deficit. Sir Timothy thought that their position was unstable. Whilst trade deficit was good for the LDCs, the USA was sucking in dollars, driving the dollar up as well as interest rates.

11. Mr Tim Eggar asked about leasing as a way of reducing bank taxation, and asked Sir Timothy if he thought it was a powerful argument that the Inland Revenue could reduce its manning level by introducing the composite rate. Sir Timothy said that the banks had been told they could not offer their customers a choice between being taxed at the composite rate, or receiving their interest gross. The Treasury was too focused on manning levels and should realise that the composite rate proposal was regressive. If national savings became more attractive, the banks would have to buy the money back on the market, and that would put up rates to industrial borrowers. On leasing, Sir Timothy commented that 80 per cent of the benefit was passed on by the banks, and leasing was very good for investment.

*We seem to have heard from hypothesis*

12. Mr John Maples asked whether there was a close connection between the level of the PSBR and interest rates? Was there anything magic about a figure of £10 billion? Mr Ian Fraser said that the PSBR was one of a number of influences. Inflationary expectations in this country tended to suggest that interest rates should be lower, but the US situation suggested that they should be higher. By comparison with these influences, "a billion or two" made no difference.



M D X PORTILLO

Distribution:

Ministers  
Advisers  
PPS  
David Hunt MP  
Hon Mark Lennox-Boyd MP

I 13

FROM: ADAM RIDLEY  
2 March 1984

CHANCELLOR

*NOTE  
Stimulus  
Approved by 27!*

cc CST  
FST  
MST  
EST  
Mr Littler  
Mr Folger  
Mr Lord  
Mr Portillo

KINNOCK IN WASHINGTON: SPEECH EXTRACT ON THE INTERNATIONAL ECONOMY

... I attach a brief and little reported extract from Neil Kinnock's speech to the Carnegie Endowment in Washington on February 13. Its principal point of interest is the first full paragraph on page 15, in which he expresses strong approval of the big increase in the US deficit and the revival in the economy which it has generated. Obviously this could be a dangerous line to have taken if it turns out that the US revival collapses in crisis!



A N RIDLEY

Political conflict is economic sabotage. And the resulting economic weaknesses foster further political instability, and waste of people and wealth. It is like a murder plot that turns into a suicide pact. And when in recent years the World has spent over 70 thousand million dollars on arms the finite resources of the planet are being recklessly misused.

Those assets are being deliberately disused too. Monetarism has swept across the World like economic fall-out with its expenditure cuts, its high interest rates and its efforts to starve the world economy into recovery. The result for all economies has been disastrous and the plight of underdeveloped economies is pitiful.

They acquired their debts in the brief period in the late 70s when it looked as if they might be able to start building away from chronic poverty. Their mistake was not their borrowing. The alternative course would have been the acceptance of permanent hopelessness. The general purpose of their policies was right.

But the costs of borrowing have since been forced up to inordinate levels with the result that poorer countries have to spend any revenues gained from increased sales or higher prices on repaying debts instead of on buying the produce of industrial countries. No-one benefits from that.

The primary producers are paralysed by debt obligations, the industrial producers stagnate, the world teeters continually on the edge of international debts crisis and the self-

\Contd...

righteous rich give lectures to the barefooted about pulling themselves up by their bootlaces.

Of course, nothing has exposed the deficiencies of monetarist faith more than the effects of its abandonment here in the USA. Since you gave up monetarist targets a year or so ago and learned to live with - though perhaps not to love - a policy of increased Government borrowing, your economy has undergone a major revival. There are lessons there for us in Britain and for the World Economy and we should be putting them into effect.

But even the turnaround in the United States and the recovery of the economy will not automatically relieve the rest of the world. We need to ensure that all industrialised nations develop spending, taxation and - above all - exchange and interest rate policies which are designed for expansion rather than a shoddy austerity. Economic self-flagellation should be left to the fanatical faithful of Friedmanism - even if the good professor is not now included among his followers.

The conscious re-application of the resources of the industrialised West to economic expansion would be the greatest possible stimulus to recovery.

This will require increased commitment to development assistance through international instruments like the International Development Association. It will need to be supplemented by a deliberate effort on our part to put within the disposal of the relatively under-developed world the means by which they can trade with the West.

There will be a World Economic Summit in London in June. The international leaders meeting there must not repeat the follies of Williamsburg last June. For the sake of each of their countries and for the rescue of the World Economy they must contrive a plan for economic expansion and stick to it with the same sense of purpose as that shown by their predecessors who fostered redevelopment and facilitated the transfer to peace-time prosperity in the years following the Bretton Woods Agreement of 1944.

I do not offer such a view as a soft idealistic option. Those of us who plead for joint strategies of expansion are motivated by the knowledge that secure co-ordinated recovery is the only feasible means of delivering the needy from starvation, lifting the developed economies out of slump and - in the process - providing the conditions of political stability which must be the enduring objective of all civilised people.

(psk w 7 Burns TB)

MINUTES OF THE MEETING OF THE BACKBENCH FINANCE COMMITTEE ON  
6 MARCH 1984

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The Committee was addressed by Andrew Britton, Director of the National Institute of Economic and Social Research.

2. Mr Britton said that economic news recently had been quite good, but not very good. It was not something to be complacent about. Over the last three years the economy had not grown at all. He suggested that we should look at a new indicator - COST, or Cumulated Output Shortfall from Trend. This showed a shortfall of 7-7½% a year in 1982, 1983 and 1984, a cumulated shortfall of about 26% or a quarter of a year's output. To assume a steady growth in output of 2% a year, as in the FT story about the LTPE Green Paper, was a good example of someone extrapolating what was possible in a cyclical upturn into eternity.

3. Monetarism as an economic theory had been clearly falsified because the big rise in sterling M3 had not led to higher inflation within the specified time period. Whether monetary control was a prerequisite of lower unemployment in the longer term had not yet been tested. The MTFs ('muddle through and fudge the statistics') seem to be being operated more pragmatically. The UK had no need to run a structural budget surplus as it was with the present PSBR ('political sacrifice to budgetary rectitude'). He preferred the Reagan recipe of low tax and high borrowing.

4. The Budget needed to present a more convincing demonstration of how the strategy would get down unemployment, or the strategy should be changed. Nick Budgen agreed that there did not seem to be a reliable time lag of two years between monetary growth

and inflation. But he cautioned that we might yet see a revival of inflation in the economic upturn. Mr Britton agreed.

5. Mr Stephen Dorrell asked if you don't watch the monetary aggregates what do you watch? He said he did not think there was a lot of surplus capacity in the economy at present and so 'COST' was misleading. Mr Britton suggested that it was more sensible to look at the exchange rate than the monetary aggregates. He added that unemployment was a form of surplus capacity.

6. Mr I Lawrence asked if the NIESR forecasting record had not been pessimistic, how the government should deal with an increase in imports if it were to reflate and what would happen to the economy after the North Sea oil began to run out? Andrew Britton replied that NIESR had not been pessimistic enough during the recession. He said that we could afford with our reserves to import more in the short-run. And he believed that we should leave the effects of the North Sea run-down to the market.

7. Mr John Maples asked whether higher wages would not undermine the recovery. Andrew Britton agreed.

8. Mr Peter Lloyd suggested that monetarism had not yet been tested since the Government had not been notably successful in keeping the money supply under control. Mr Britton said that, on the contrary, monetary policy had probably been too tight.

*RL*

R A L LORD

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David Hunt MP

Hon Mark Lennox-Boyd MP



# Members' Brief

No. 5  
8th March 1984

## THE LABOUR LEFT AFTER CHESTERFIELD

Mr Tony Benn's victory in the Chesterfield by-election on 1st March 1984 can have provided little comfort for Mr Neil Kinnock. Mr Benn achieved the lowest Labour majority in Chesterfield for 50 years, a fall of nearly 1,500 on the result achieved in last June's disastrous national showing, despite an increased turnout. It is a measure of the desperate state of the Labour Party that Mr Kinnock described the result as 'nearer a triumph than a good victory' (*Morning Star*, 3rd March 1984).

Throughout the campaign, Mr Benn tried to avoid discussing Labour's policies, even going so far as to abandon the normal daily press conferences. Yet as soon as the result was announced the old Mr Benn showed himself once more, claiming that his victory was an indication that 'the passionate advocacy of socialism and the policies of the party is a way of winning support' (*Financial Times*, 3rd March 1984). This was widely interpreted as a warning to Mr Kinnock that Mr Benn and the Left are not prepared to see any watering down of Labour policies.

### Parliamentary Labour Party

Mr Benn is returning to join a Parliamentary Labour Party that is very different from the one before the General Election. Although much reduced in size, the number of Labour MPs on the Left has increased dramatically. Immediately after the General Election, the Left-wing newspaper, *Tribune*, commented:

'The swing to the Left is greater than had previously been anticipated. When all the results had been collated, it appeared that the hard Right, which will continue to oppose party policy on issues like nuclear disarmament, is now a minority and has been reduced to below the 100 mark. A clear majority of the new 209-strong PLP is in favour of unilateral nuclear disarmament and the Tribune Group or another grouping to its Left now has a potential membership of around 100' (17th June 1983).

Traditionally, the Tribune Group has been the main grouping of Left-wing Labour MPs in the Parliamentary party.

In September 1982, some 20 Labour MPs broke away from the Tribune Group and set up the Campaign Group which represented the hard left of the Parliamentary party. Following the General Election, the Campaign Group decided to remain as a separate entity and to campaign for party policy both inside and outside Parliament. The Campaign Group currently numbers 36 Labour MPs, under the chairmanship of Miss Joan Maynard MP, who recently said of the IRA: 'If they were fighting for us we would call them freedom fighters; because they fight against us, we call them terrorists. I would not call them terrorists' (*Daily Telegraph*, 21st February 1984). The Campaign Group have also been giving support to the banned Militant Tendency by placing advertisements in the Militant newspaper.

### Leadership Elections

A further indication of the strength of the Left in the Parliamentary Labour Party came in the elections for the leadership and deputy leadership of the party at the 1983 Labour Party Conference. In the leadership election, 29 MPs voted for Mr Eric Heffer and 100 for Mr Kinnock against 53 for Mr Roy Hattersley and 21 for Mr Peter Shore. In the deputy leadership election, 59 Labour MPs voted for Mr Michael Meacher while 112 voted for Mr Hattersley. Amongst the new Labour MPs, the strength of the Left was even more evident; 22 MPs voted for Mr Kinnock for leader, 10 for Mr Heffer, and only two for Mr Hattersley. In the deputy leadership election, 20 new MPs supported Mr Meacher, 13 Mr Hattersley and one Mr Denzil Davies.



## Mandatory Reselection

On 1st October 1980, the Labour Party Conference voted in favour of the principle of mandatory reselection for sitting Labour MPs. This means that Labour members must submit themselves to the General Management Committees of their constituency parties, who will decide whether they wish the MP to stand again as the Labour candidate in that constituency. The process has to be set in motion not later than three years after an election, and in the case of a new MP not before 18 months after an election.

Reselection is also causing problems for Labour's Members of the European Parliament. Mr Michael Gallagher, Member for Nottingham, has defected to the Social Democratic Party, following his failure to be selected for the safer seat of Derbyshire. Another Labour MEP, Mr. Derek Enright, who represents Leeds, has been deselected in favour of Mr Michael McGowan, a Left-wing anti-marketeer.

On 9th December 1984, constituency Labour parties will begin the reselection process, and already several senior Labour MPs appear to be in danger. According to *Tribune*:

'Leading Labour MPs whose seats are thought to be in jeopardy include Gerald Kaufman, Peter Shore and John Silkin ... The chances of a successful attempt to save them are slim' (2nd March 1984).

Mr Neil Kinnock is now under pressure to support an amendment to the party constitution allowing constituencies to reselect on the basis of one-member one-vote rather than restricting the decision to the General Management Committees. However, this is unlikely to succeed as it would result in a decline in the influence of local trade union branches, and the unions still hold over 90 per cent of the votes at the Party Conference. It therefore seems likely that the Labour Party is faced with 18 months of further feuding and bloodshed as the Left consolidates its hold.

JFLW/AM

### ENERGY PRICES

- \* The current round of energy price increases is well below the rate of inflation. On 1st January the domestic gas price rose 4.3 per cent, the first increase for fifteen months. At the end of the winter the domestic price of electricity is due to go up by 2 per cent, the first increase for two years. Electricity prices rose by a total 170 per cent under the last Labour government. This was equivalent to about 2 per cent every six weeks.
- \* Following this price increase, the return on capital employed in the publicly-owned electricity industry will still be very low – around 2 per cent. It is vital that the prices charged for energy should reward past investment by the taxpayer, and make possible future investment in the energy industries.
- \* There is no truth whatever in the *Daily Express* report (5th March 1984) that there are plans for a 40 per cent rise in the domestic gas price.

PJC/AS



FROM: JOHN GIEVE  
DATE: 16 March 1984

*(Handwritten initials)*

MR LORD

cc PPS ✓  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Mr Bailey  
Mr Anson  
Mr Scholar  
Mr Battishill  
Mr Olding-Smee  
Mr Ridley  
Mr Portillo

#### CONSERVATIVE BACKBENCH FINANCE COMMITTEE

As you know the Chief Secretary is to speak to this Committee on Tuesday. He is going to talk about Public Expenditure - the White and Green papers. He would be grateful for:-

- a) a very brief aide-memoire setting out the main figures and the main points to make; this might look at the Public Expenditure prospect and the implications for tax in the period to 1986-87, in 1988-89, and then in 1993-94;
- b) some brief defensive points to make, in particular, in response to allegations that the aim of holding expenditure flat in real terms is unrealistic in the Survey period let alone thereafter (viz TCSC's figures on past record), that the Green Paper ducks any substantive discussion of the prospect of holding expenditure down; and that the "gamble on <sup>continuing</sup> growth" is a triumph of hope over experience;
- c) some defensive briefing on the line (taken by the Times for example) that the Government has abandoned the search for zero inflation and has substituted supply-side economics for stringent and orthodox financial policies.

2. I would be grateful if you would coordinate necessary work in consultation with GE and CU and submit the notes by 6pm on Monday.

Jc

JOHN GIEVE

I 13

FROM: ADAM RIDLEY  
16 March 1984

CHANCELLOR

cc CST  
FST  
MST  
EST  
Mr Lord  
Mr Portillo  
Mr Burgner  
Mr Folger  
Mr Battishill

HEALEY ON THE ECONOMY

Mr Healey usually picks up the material he uses in his speeches like a magpie who collects sparkling objects. A recent Press Release of his which has just come to hand does, however, include two arguments which could well have been supplied to him by the Labour Party Research Department, and be in the hands of other Labour front bench spokesmen. As the attached extract from his speech at Leeds on March 2 shows, he alleges:

- in 1983 Britain imported more manufactures than she exported for the first time in history. This may be true of that period of our history for which we have trade statistics, but I rather doubt whether something as absolute as that could be said with total confidence!
- Grieveson Grant have estimated that the Government will soon have sold public property worth £90 billion for a mere £30 billion. Clearly one needs to have answers ready for that gibe.



A N RIDLEY

Adam Redley, MPT  
~~Mike Grant~~  
Healey

# NEWS RELEASE

ISSUED BY THE LABOUR PARTY PUBLICITY DEPARTMENT  
144-152 WALWORTH ROAD · LONDON SE17 1JT · 01-703 0833

DIRECTOR OF PUBLICITY: ~~XXXXXXXXXX~~ NICK GRANT

S22/84

EMBARGOED: 21.00 HOURS FRIDAY 2 MARCH

SPEAKING TO THE LEEDS JUNIOR CHAMBER OF COMMERCE AT THE CIVIC HALL, LEEDS,  
THE RT. HON. DENIS HEALEY MP SAID:

"After five years of Conservative rule, Britain still faces record unemployment, record bankruptcies, a level of investment insufficient to cover depreciation, and a workforce ill-trained to meet the challenge of the new technologies.

Yet these have been five years of increasing benefits from North Sea oil. In those years the real value of our oil and gas production has trebled, the contribution of oil to our balance of payments has risen tenfold, and the government's revenues from oil have increased twenty-fold, to almost £10,000M this year.

Output increased about 3% last year, but is still below the level of 1979. But this increase is due in large part to oil. Manufacturing output increased only about 1%, mainly because people were borrowing to spend more on consumer goods, and all too often on goods made abroad. Household debt has risen 40% in the last three years. In 1983, Britain for the first time in history was importing more manufactures than she exported. It cannot go on like this.

Meanwhile, the government has been investing ever less in Britain's economic infrastructure, and piling ever heavier burdens on private business in rates and energy prices. It has been financing its own deficit by selling off the taxpayer's property at a loss. The leading city firm, Grieson Grant, estimates that the government will soon have sold public property worth £90 billion for a mere £30 billion.


Britain cannot continue this rake's progress, particularly as our oil will soon be running down, and we shall be facing competition from countries which are fast renewing their capital stock and training their children and work-people in the new skills science now demands.

If the Budget does not bring a fundamental change of course, Britain will find herself relegated to the Third Division in world trade, condemned to attempt the mass production of low value goods against a tidal wave of competition from the low wage countries in the Far East which are engaged in their industrial revolution."

PL 1, 1a, 2, 10 (Labour Journals).

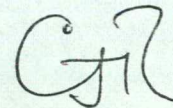
MR GIEVE

FROM: C J RILEY  
DATE: 18 March 1984

  
cc PPS ✓  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Mr Bailey  
Mr Anson  
Mr Scholar  
Mr Battishill  
Mr Odling-Smee  
Mr Folger  
Mr Ridley  
Mr Lord  
Mr Portillo

CONSERVATIVE BACKBENCH FINANCE COMMITTEE

You requested briefing for the Chief Secretary (your minute of 16 March to Mr Lord) on the suggestions that the government has abandoned stringent financial policies and the search for zero inflation, and substituted supply side economics. Given the time available since the request reached me, I have done little more than recycle material in the Budget brief.



C J RILEY

The Budget is expansionary and marks a relaxation of policy  
(cf. Victor Keegan, Guardian, 19 March ).

It is true that the Budget proposals in themselves constitute a net reduction in revenue to the public sector in 1985-86; and in 1984-85 fiscal neutrality is achieved with the aid of advancing payments of VAT on imports, which reduce the PSBR by over £1 billion but will have relatively little effect on demand. But the Budget changes must be seen within the context of the Government's overall fiscal stance. In 1984-85 the PSBR is expected to be significantly lower as a share of GDP than in 1983-84 and the previous two years, with further falls in subsequent years. The PSBR is now put nearly £1 billion lower in 1984-85 than in last year's MTF5. In no sense, therefore, can the Budget be regarded as a relaxation of policy. [The possibility of tax reductions was foreshadowed by the positive fiscal adjustments in previous versions of the MTF5.]

The stance of monetary policy is too relaxed (cf. David Lipsey, Sunday Times, 18 March).

It has been argued that a target which allows broad money growth of up to 10% in 1984-85 is too high in relation to prospective inflation of less than 5%. However, real growth of 3% is expected, taking money GDP growth close to 8% - the centre of the target range. It is also important to remember that in recent years, broad money has been growing <sup>about</sup> ~~the~~ 2% faster than money GDP as the banks have adjusted to the removal of restrictions. £M3 growth of nearly 10% in 1983-84 was consistent with inflation performance better than most forecasters expected, and the prospect is for further reductions in the inflation rate.

Government has abandoned the objective of zero inflation (Times leader of 14 March claimed government happy with 4% inflation).

This is clearly not the case. Fiscal policy has been set to achieve a PSBR in 1984-85 around 1% of GDP lower than in 1983-84, and the illustrative figures for the next four years show further

falls in the share. The monetary ranges decline by 1 point per year. These policies are consistent with the inflation assumptions in the MTF5 which show a significant decline from over 5% in 1983-84 to only 3% in 1988-89 [though it is important to note that this is a statement of assumptions, not objectives.] The ultimate aim remains zero inflation, which should be attainable by the early 1990s.

Supply-side economics replacing stringent and orthodox financial policies

No. Policies directed towards improving the supply side are being pursued in the context of continuing firm financial policies and downward pressure on inflation. Indeed, such a macroeconomic environment is essential for the success of supply side policies.



(M)

FROM: M C SCHOLAR

19 March 1984

MR LORD

cc: PPS —  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Mr Bailey  
Mr Anson  
Mr Battishill  
Mr Odling-Smee  
Mr Ridley  
Mr Portillo  
Mr Gray  
Mr Perfect

CONSERVATIVE BACKBENCH FINANCE COMMITTEE

You asked for help from GEP in providing the Chief Secretary with some brief defensive points to make when he speaks to this Committee on Tuesday.

These are attached.

MCS

M C SCHOLAR

- Q.1 There have been overspends in two of the last three years. On what grounds, therefore, do you expect to stick to your plans in the next three years?
- A.1 The overspend in those two years was 0.3 per cent and 0.6 per cent (£0.3 billion in 1981-82 and £0.7 billion in 1983-84, on the latest estimate). Even in these two years the outturns <sup>were</sup> within the total of programmes plus the Reserve; it was the allowance for shortfall which proved mistaken. The figures do not reveal a loss of control. They show relatively small errors in forecasting an item which has been very difficult to estimate. Table 1.1 of the White Paper shows, in any event, that cash spending in all years is below that given in the March 1982 White Paper.
- Q.2 But have not the papers given to the TCSC shown that the planning total for 1984-85 increased by about £1 billion in cost terms since the 1983 Budget, and that there were similar increases for earlier years?
- A.2 In cost terms there has indeed been an increase, of less than  $\frac{3}{4}$  per cent, for 1984-85. That does not result from any increase in cash plans. It results entirely from a fall in the expected rate of inflation. The fact that the money will now buy more is one of the benefits of reducing inflation.
- Q.3 Why not recoup this increase by reducing the cash total?
- A.3 Saw no reason to do so. Essential for proper cash planning to maintain a reasonable stability in these figures. Cannot fine-tune programmes to reflect every variation in the forecast rate of inflation.

Q.4 But are not the plans for the years up to 1986-87 unrealistic?  
Will you really be able to hold expenditure flat in cost terms?

A.4 The cash figures up to 1986-87 build in a cash increase in the three years of 5, 4.5 and 3.5 per cent. At the same time there is a large reserve, going from £2.75 billion to £3.75b then £4.75 billion over the three years. This permits a flexibility in the management of the public expenditure planning total, and we are confident that spending will be able to be held within these cash totals. On the basis of the GDP deflators published in Table 5.5 of the Red Book, this outcome will be consistent with a broadly stable path for public expenditure in real terms over the period.

Q.5 How does the new-style reserve improve control?

A.5 The previous practice, whereby only discretionary increases in expenditure were charged to the Contingency Reserve was too limited. The bigger variations in spending tended to arise from "estimating" changes, particularly on demand-led, non-cash limited programmes. Under the new arrangements, all increases which cannot be absorbed within programme totals will be charged to the reserve.

Q.6 Why does the Green Paper duck any substantive discussion of the prospects of holding expenditure down?

A.6 Part 3 of the Green Paper is devoted entirely to such discussion, and contains an assessment of the longer term pressures on public expenditure totals.

Q.7 Why no figures for individual programmes?

A.7 Such figures would inevitably be misconstrued as plans or decisions, and it would in practice be impossible to distinguish their status from that of programme figures in the White Paper. Expenditure projections 10 years out would not be worth the paper they were written on, and would distract public discussion from the key issue identified in the Green Paper - what is the appropriate future level of public spending.

Q.8 Why no specific commitments to limiting expenditure?

A.8 This is a discussion document and records no expenditure decisions.

Q.9 Why no options for reductions on individual programmes?

A.9 Because there are no plans after 1986-87 to reduce; and because the Green Paper is not that kind of document: it is a discussion paper which does not attempt to pre-empt others' views about these issues. Where radical options need to be explored, the right way to do so is to set up a 'fundamental review' such as Mr Fowler is undertaking into pensions.

Q.10 Why no illustration of a declining path for real public spending?

A.10 A flat path for expenditure will, with the economy expanding, mean a progressively smaller share of output taken by public spending. Pressures for higher spending will, as the Green Paper shows, remain intense.

Q.11 Is not the expectation that the economy will continue to expand a triumph of hope over experience?

A.11 The Green Paper carefully explains the status of its growth assumptions. Annex 3 shows that the chosen figures after 1988-89, of 2 per cent and  $1\frac{1}{2}$  per cent for annual GDP growth, are reasonable and defensible, judged against the growth of the GDP over the last century or so.

✓ r muf

MINUTES OF THE MEETING OF THE BACKBENCH FINANCE COMMITTEE ON  
20 MARCH 1984

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The Chief Secretary addressed the Committee.

1. David Howell said that the entire strategy depended on keeping public expenditure unchanged in real terms. This had been criticized as unambitious but would be fiendishly difficult to achieve. However, although not all capital expenditure was useful, it was silly not to bring forward worthwhile public investment. He welcomed the Green Paper which he described as "stimulating" and endorsed Sir Leo Pliatzky's comments in the press. But he said that it did not explain what would happen when North Sea output began to fall.
2. Sir Paul Bryan stressed that it was important that the cuts in allowances and CT rates should be simultaneous.
3. David Madel said that he hoped employers would be able to provide more finance for education and training programmes which would help to achieve a more relevant curriculum.
4. Peter Bottomley urged the formal hypothecation of revenue from indirect tax increases for application to income tax reductions. He said the opportunity should be taken to restrict mortgage interest relief to the basic rate.
5. John Townend urged a switch in pension provision from SERPS to the private sector.
6. Tim Yeo welcomed the Green Paper, but he said that it would be dogmatic not to tackle the poverty trap by increasing child benefit simply because CB was categorised as public expenditure.

7. John Butterfill asked whether net expenditure on housing had been diminished by receipts from sales of council houses.
8. Nick Budgen said that he had been hoping for an authorised re-run of the Think Tank Report rather than the published Green Paper.
9. Nigel Forman asked whether the Government would stop relating public expenditure to GDP and rather relate it to tax. He also asked whether more expenditure could not be cash-limited.
10. John Maples expressed the hope that personal tax would also be reformed as well as corporation tax.
11. Alan Howarth endorsed Peter Bottomley's enthusiasm for restricting mortgage interest relief to the basic rate. He said that the politics of changing the pattern of the last twenty years in which growth in public expenditure had exceeded growth in the economy were difficult.

*RL*  
R A L LORD

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David Hunt MP  
Hon Mark Lennox-Boyd MP

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CHANCELLOR

FROM; Peter Viggers MP

DATE: 22 March 1984

cc. CST, FST, EST, MST,  
Hon Mark Lennox-Boyd MP  
Mr Adam Ridley  
Mr Michael Portillo  
Mr Rodney Lord  
Dr Brian Mawhinney MP

*Handwritten signature in red ink, possibly 'Mawhinney'.*

CONSERVATIVE EUROPEAN AFFAIRS BACK BENCH COMMITTEE MEETING  
HELD AT 5 pm ON 21 MARCH 1984 IN COMMITTEE ROOM 12

The Foreign Secretary spoke and answered questions. Approximately 60 Members were present.

SIR GEOFFREY HOWE explained that the UK has sought to agree programmes that would help to open up the market. Some good headway had been made in liberalising certain industries such as transport and insurance. The major problem in budgetary terms was that the UK wished to agree a formula which would place a ceiling on our contribution (albeit with some flexibility) which would prevent our proportional contribution to the EEC from rising. All the other Members wanted to approach the problem from the other direction by maintaining our proportional contribution but by giving us relief on our contributions. Despite "quite formidable support" of the text which included an acceptable reference to our position by the French President it became impossible to bring the meeting to an agreed conclusion.

ROBERT JACKSON asked what lay behind the French and Italian vetoes. Did they anticipate our withholding payments and if so what did that imply?

The FOREIGN SECRETARY (FS) said that the Italian position was perhaps not based on sound intellectual foundations. The French, on the other hand, had always been consistent and would not change their position.

SIR ANTHONY MEYER said that the Agricultural agreement will be very unpopular with our farmers.

FS said that we should put ourselves on 'hold' for the time being pending further clarification and agreement.

SIR ANTHONY MEYER also referred to withholding and asked whether we could wait for the other nine to break the Law before we do.

FS said that depended on circumstances.

TEDDY TAYLOR asked for a firm assurance that there should be no increase in own resources until we had obtained our refund and he also asked for a firm agreement on the contributions formula.

FS said that he would not pronounce further than the Prime Minister had in the House of Commons but he did say that it was pointless to have an agreement which would be non-durable.

BILL WALKER said that it would be an affront to Scottish farmers if the Irish farmers got a special deal by walking out.

FS noted the point and said that it was matter of regret that we had not been able to arrive at clarity of purpose which farmers want.

Cont/d.....





TIM RATHBONE said that we should be beware of withholding. He said that there is a huge gap between the threat of withholding and actual withholding which would be very destructive to community spirit (this point seemed widely supported).

JONATHAN AITKEN asked whether it was really likely that the 'narrow gap' will close. Is it not more likely that we and others will harden up our positions. If we withhold and agreement is not reached what would then happen? Is there a via media perhaps on the basis of associate status.

FS said there was something intrinsically improbable about a community which is expanding (Spain and Portugal) and simultaneously contracting. No country has better European credentials than the United Kingdom. Associate status would be a heresy but he would not wish Jonathan Aitken to think that Monks never contemplated heresy.

HAL MILLER said that the EEC normally operates on the basis of eleventh hour agreements. Could FS give us a perspective of the likely game plan.

FS said he could not, but he did remark how extraordinary it was that some nations appeared not to have thought through the wider implications of the various moves. The French Presidency was much more experienced than the Greek Presidency.

HUGH DYKES said that only 0.08% of GDP was involved and we should not precipitate a major crisis for such a small amount of cash. He urged an increase in own resources.

FS said that it was unrealistic to work on that basis without agreement.

HARMER NICHOLS asked whether our payments could be put in escrow. As Members of the EEC we should be leaders of it. We cannot be thrown out.

FS agreed that associate membership was unrealistic and that as Members we must be leaders (this was widely supported).

STEPHEN DORRELL had some sympathy with the concept of associate membership but said that we should not withhold.

PATRICK NICHOLLS asked whether a compromise solution would be likely to arise after the Euro-elections.

FS said that the next Summit was not scheduled until after the elections.

GEORGE WALDEN said that Brussels had been a semi-success.

NICK LYELL said that our stance was excellent. What would we gain by withholding?

FS said he would rather not answer the question.

RICHARD SHEPHERD asked whether the increase in own resources was central to the discussions?

FS said that the increase was conditional upon agreement on other issues which are considered.



ALAN HOWARTH said that withholding would compromise our position in other ways.

NICHOLAS SOAMES asked how we should regard the budget issue in the light of the Euro-elections?

DAVID HEATHCOTE-AMERY asked about the legal context of the payments.

PETER BOTTOMLEY asked about the timetable of further discussions.

To each of these questions the FS gave an anodyne reply.

PETER VIGGERS

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FROM: MISS J C SIMPSON

DATE: 26 March 1984

cc PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Lennox-Boyd  
Mr Ridley  
Mr Portillo  
Mr Lord

PS/CHIEF SECRETARY

**CONSERVATIVE EUROPEAN AFFAIRS BACK BENCH COMMITTEE MEETING  
HELD AT 5 pm ON 21 MARCH 1984 IN COMMITTEE ROOM 12**

The Chancellor has seen Mr Viggers' note of 22 March of this meeting and was grateful for it. Perhaps you would be kind enough to pass this on to Mr Viggers.

*B*

MISS J C SIMPSON



MINUTES OF A MEETING OF THE CHANCELLOR OF THE EXCHEQUER  
WITH CONSERVATIVE BACKBENCH MPs ON MONDAY 26TH MARCH 1984

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Those Present:           Chancellor of the Exchequer  
                          Sir John Biggs-Davison MP  
                          Sir Nicholas Bonsor MP  
                          Richard Holt MP  
                          Richard Hickmet MP  
                          John Watts MP  
                          Nicholas Budgen MP  
                          Tim Eggar MP  
                          Tim Wood MP  
                          Hon Mark Lennox-Boyd MP  
                          Rodney Lord

Richard Hickmet suggested levying VAT on the cost of foreign holidays.

2.   Sir John Biggs-Davison praised the Budget.
3.   Sir Nicholas Bonsor asked the Chancellor to explain further the logic of removing LAPR.
4.   Tim Eggar suggested that more public credit could be taken for the effect of the CT package in raising taxation on the financial sector. The tax allowances for pensions should receive as radical a scrutiny as LAPR. Mortgage interest relief should also remain an open issue.
5.   Tim Wood commented that the reduction in interest rates would reduce the burden of mortgage interest relief.
6.   Richard Holt called for a better deal for war widows.
7.   John Watts felt that people could become accustomed to restricting mortgage interest relief to basic rate relief only.

8. Richard Holt felt, as a personnel expert, that changes to mortgage interest relief would simply put pressure on wages.
9. Sir Nicholas Bonsor said that the removal of higher rate relief was acceptable if it was linked to other incentives.
10. Sir John Biggs-Davison asked for an explanation of the way VAT falls on charities.
11. Richard Hickmet asked about the outlook for the economy, the effect of the US recovery and the prospects of a fall in unemployment. He felt we were not competing in high technology industries.
12. Nick Budgen felt that minimum wage legislation was one of the rigidities causing unemployment and asked when something was going to be done about it.
13. Sir John Biggs-Davison asked whether the State contributed to the Low-Pay Unit.
14. Tim Eggar questioned whether the Government were paying enough attention to the quality of public expenditure as well as the quantity.
15. Nick Budgen felt the Cabinet could be criticised for not setting out its priorities between public expenditure programmes clearly enough.
16. Sir Nicholas Bonsor said that CGT tended to lock wealth into unproductive assets because index-linking was not retrospective back to 1965.
17. Nick Budgen commented that there had been a very big reduction in CTT and the abolition of the IIS.

18. Tim Eggar felt that we must reward merit not the landed interests. He welcomed the new share option scheme though he had a technical reservation over the transition period.

19. Sir John Biggs-Davison expressed worries about the Civil Service.

20. John Watts asked about the effect of the Budget on the unincorporated sector.

*RL*

R A L LORD

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*Pwp*

Ref. No: TPT(84)7

Date: 27.03.83

CYCLE TRACKS BILL

SECOND READING

30th March 1984

Conservative Research Department,  
32 Smith Square,  
London SW1  
Tel. 222 9000

Enquiries on this brief to:  
Jeremy Moody  
Extn 2416

The Cycle Tracks Bill has been brought forward as a private Member's Bill by Cecil Franks, Conservative MP, to effect certain changes in the law governing cycle tracks in England and Wales.

The purpose of the Bill is to simplify the procedures by which local authorities may establish cycle tracks along footpaths where appropriate and to prevent their use by motor vehicles, taking up a number of representations made by cycling interests on the May 1981 Government consultative paper on cycling.

Clause 1 proposes that mopeds should be excluded from cycle tracks.

Clause 2 proposes to make it an offence to drive or park a motor vehicle on a cycle track with exemptions for emergency, public utility and maintenance vehicles as well as for access to adjacent properties with no alternative approach. Penalties are to be related to those for existing parking and obstruction offences. There was strong support for such a change in the responses to the Department of Transport's 1981 Cycling Policy Consultation Paper since under the present arrangements it is only an offence if there is a traffic regulation order or a local by-law to this effect.

Clause 3 proposes to simplify the present complex procedures for converting existing footpaths to a cycle track while retaining the right of way on foot. At present an authority has to obtain permission for a new track, stop up the existing footpath and then create the track, together with the possible need for both a Compulsory Purchase Order and a Traffic Regulation Order. While this offers the opportunity for objections at several stages there is only a limited prospect at present of an independent assessment of a conversion scheme. The Bill proposes that, subject to procedural regulations governing advertisement, consultation, objections and inquiries, to be made by the Secretary of State, the Highway Authority should have the specific power to convert part or all of an existing footpath to a cycle track and to reverse this step.

Clause 4 would give Highway Authorities the power to erect barriers on cycle tracks or to make a physical separation of the track from the footpath where appropriate.

Clause 5 proposes that compensation for the making of the conversion order and the subsequent use of the cycle track should be in accordance with the Land Compensation Act 1973, while compensation for ancillary works should be under the Highways Act 1980, allowing for any fall in value of any interest in land. Any disputes are to be referred to the Lands Tribunal.

Clause 6 would extend the Bill to land owned or managed by the Crown (reflecting the Highways Act 1980).

Clause 7 provides for expenditure under the Bill. There will be limited additional costs of the same kind as those already allowed under existing legislation. Most will be met by local authorities and eligible for Rate Support Grant/Transport Supplementary Grant. The total annual expenditure under this Bill is unlikely to exceed £500,000. Since a major intention of the Bill is to simplify complicated and time consuming procedures no additional demand for public sector manpower is foreseen.

JM/PAC  
Conservative Research Department,  
32 Smith Square, London SW1

27th March 1984



Stafford file.

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STAFFORD PARLIAMENTARY BY-ELECTION

CONSTITUENCY PROFILE

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STAFFORD PARLIAMENTARY BY-ELECTION

CONSTITUENCY PROFILE

1. Background

The constituency extends from just south of Stafford to the boundary of Stoke-on-Trent and Newcastle-under-Lyme. It is bordered to the east, south and west by the Conservative-held seats of Mid Staffordshire, Staffordshire South and Shropshire North, and to the north by Labour-held Stoke-on-Trent and Newcastle-under-Lyme.

From being a county town and administrative centre Stafford has undergone a successful industrial transformation and the surrounding agricultural area has also prospered. The traditional shoe-making industry has been largely replaced in recent years by companies making computer and electrical equipment and a wide variety of engineering products. Unemployment is low by national standards. The February figures showed 4,350 out of work, representing 8.3 per cent of the population. The area has a better than average socio-economic profile with approximately 54 per cent in non-manual jobs and 65 per cent owner-occupiers.

Historically, Stafford is famous for its connection with Josiah Wedgwood, the potter, Izaak Walton, the "Compleat Angler", and the playwright Sheridan who was Stafford's MP for 26 years.

The by-election is caused by the death of Sir Hugh Fraser. Sir Hugh, a well-liked and much respected figure, stamped his imprint on the constituency and many of his ideas on community service and youth employment have become part of Government policy.

As a result of the Boundary Commission's reorganization of Parliamentary constituencies three wards were transferred - Madeley, Whitmore and Loggerheads - from Newcastle-under-Lyme. The Stafford constituency consists of 24 wards:

Baswich	Littleworth
Beaconside	Madeley
Castle	Manor
Church Eaton	Milford
Common	Penkside
Coton	Rowley
Eccleshall	Seighford
Forebridge	Swynnerton
Gnosall	Tillington
Highfields	Weeping Cross
Holmcroft	Whitmore
Loggerheads	Woodseaves

2. Electoral History

The Conservatives have held the seat since the Stafford and Stone constituency was created prior to the general election of 1950. Previously Sir Hugh Fraser had represented the old Stone division from 1945-50. He held Stafford and Stone from 1950 - 83 and the new Stafford constituency from 1983.

Recent general election results have been as follows:

February 1974

Fraser H (Conservative)	30,056 (46.8%)	Conservative Majority	8,900
Cowlishaw T (Labour)	21,073 (32.8%)	Electorate	78,110
Martin H (Liberal)	13,132 (20.4%)	Turnout	82.3%

October 1974

Fraser H (Conservative)	27,173 (45.4%)	Conservative Majority	6,328
Cowlishaw T (Labour)	20,845 (34.8%)	Electorate	78,817
Martin H (Liberal)	11,491 (19.2%)	Turnout	75.9%
Sutch D (Independent)	351 (.5%)		

May 1979

Fraser H (Conservative)	34,387 (52.4%)	Conservative Majority	13,177
Poulter M (Labour)	21,210 (32.3%)	Electorate	83,300
Burman R (Liberal)	10,049 (15.3%)	Turnout	78.8%

June 1983

Fraser H Sir (Conservative)	27,639 (51.2%)	Conservative Majority	14,277
Dunn D (SDP/Alliance)	13,362 (24.7%)	Electorate	70,570
Poulter M (Labour)	12,789 (23.7%)	Turnout	76.5%
Caruso J (Independent)	212 (0.4%)		

3. Local Government

Stafford Borough Council has been controlled by the Independent/Conservative group since 1974. Prior to 1974, the town was generally controlled alternately by Independent and Labour Councils. The Liberals have been gaining seats gradually in the borough from the Conservatives. The number of Independent councillors within the town has fallen, mainly due to boundary changes in 1979 which split two large wards into 5 smaller wards. The changes have been:

<u>Town</u>	<u>Independent</u>	<u>Labour</u>	
1974 to 1976	+1	-1	
1976 to 1979	-3	+4	Seats increased by 1
1979 to 1983	No change		

<u>Rural</u>	<u>Conservative</u>	<u>Liberal</u>	
1974 to 1976	-1	+1	
1976 to 1979	No change		
1979 to 1983	-1		

Staffordshire County Council has been controlled since 1974 as follows:

1974 to 1977	Labour
1977 to 1981	Conservative
1981 -	Labour

4. Local Government Elections

The last Stafford Borough Council elections were held in May 1983. There are no elections this year except in two of the three former Newcastle-under-Lyme constituency wards. Of the 60 seats, the Conservatives and Independents hold 35, Labour 19 and the Liberals 6. In the constituency area the position is as follows:

Wards of Stafford Borough Council (1983 Results) (no SDP)

<u>Town</u>	<u>Conservative</u>	<u>Independent</u>	<u>Labour</u>	<u>Liberal</u>
Baswich		2		
Common			2	
Coton			2	
Forebridge			2	
Highfields		1	1	
Holmcroft			3	
Littleworth		3		
Manor			3	
Penkside			2	
Rowley		2		
Tillington		1	1	
Weeping Cross		3		
	<u>0</u>	<u>12</u>	<u>16</u>	<u>0</u>
 <u>Rural</u>				
Beaconside		1		
Castle				1
Church Eaton	1			
Eccleshall	3			
Grosall	1			1
Milford	2			
Seighford	2			
Swynnerton	2			
Woodseaves	1			
	<u>12</u>	<u>1</u>	<u>0</u>	<u>2</u>
<u>TOTAL : 43</u>	<u>12</u>	<u>13</u>	<u>16</u>	<u>2</u>

By arrangement between Stafford Conservative Association and Stafford Independents Association, Independents have Conservative support. This arrangement began in 1963.

There are no County Council elections until May 1985. At the moment Labour has 48 seats, Conservatives 27, Liberals 4, Independents 3. Of the 27 Conservative seats, 3 are wholly within the constituency and two are shared with Mid Staffs and Newcastle-under-Lyme.

Wards of Staffordshire County Council within the constituency (1981 Results)

<u>Town</u>	<u>Conservative</u>	<u>Labour</u>
Northgate		1
Southgate	* 1	
Eastgate		1
Westgate		1
	<u>1</u>	<u>3</u>
 <u>Rural</u>		
Gnosall	** 1	
Eccleshall	1	
	<u>2</u>	<u>0</u>
<u>TOTAL</u>	<u>3</u>	<u>3</u>

\* By-Election in 1983. Seat retained. In 1981 Ecology Party put up creditable showing (3rd behind Labour).

\*\* No Labour candidate. Liberal in second place.

5. Local Council/Rates

It is a fair comment that the Labour controlled county have been reasonably responsible since regaining control in 1981. However, cost saving within services has probably not been tackled.

The borough council has kept rigidly to central government guidelines. No grant penalties yet incurred and spending is under tight control (some say too tight!).

Rate Statistics : Stafford Borough Council

	<u>Borough Rate</u>	<u>% inc.</u>	<u>County Rate</u>	<u>% inc.</u>
1980/81	9.7		108.5	
1981/82	13.9	43*	112.5	4*
1982/83	14.6	5	134.0	19
1983/84	14.6	0	142.5	6.3
1984/85	14.6	0	154.0	8.0

\* Increase caused by transfer of collection costs of rates to Borough. Effective Borough increase 7.5%. County figure correspondingly lower.

1981/82 was the last rate decided by the Conservative-controlled county council.

Rural areas have a Parish Precept.

Housing Rents (Borough)

	<u>Increase</u>
1982/83	10%
1983/84	0%
1984/85	0%

6. Housing/Council House Sales

Good housekeeping has kept rent increases low. Statistics for the borough are:

Population	117,300
Number of Council Dwellings	8,755
Number of other dwellings	39,934

Council house sales have been Council policy since 1974. (At periods during Labour Government - not permitted). The Government scheme was introduced with immediate effect in 1979. Since then nearly 1,000 dwellings have been sold.

No subsidy from rate fund has ever been made to council rents since 1974.

7. Employment and Industry

Patterns of employment have altered over the years to take account of the area's industrial diversification and social changes. For example, the indirect effect of the revival of the ceramics industry has meant that a sizeable number of middle and senior executives live in the constituency and commute to Stoke-on-Trent. This in turn has created a demand for good private housing in places like Eccleshall and affected village life in other parts of the constituency.

Almost all the industrial development has taken place near Stafford and particularly to the north of the town. Until recently skilled labour at relatively low wage rates was easy to come by. Today reserves are drying up. The unemployment rate of 8.4 per cent in the Stafford and Stone Travel to Work Area compares with a Staffordshire County figure of nearly 12.7 per cent and a West Midlands Regional total of over 15.2 per cent.

Business confidence appears to be on the increase, especially since the Budget with the change in VAT on imported goods particularly welcome. Businessmen, especially those working in Stoke-on-Trent are likely to question the candidate on energy prices which continue to cause concern.

At the small business level, the local Chamber of Trade is active in upholding existing trading laws. About 50 per cent of all traders are members of the Chamber and while the big stores are in favour of Sunday opening, the retailers are not. This issue may be raised during the campaign.

### 7.1 Local Industry

The major employers in the Stafford area are:

Staffordshire County Council: With some 37,000 full and part-time employees, the County Council is the largest employer in the constituency. Stafford is the headquarters of the County Council, the Staffordshire County Police, the Crown Court and the magistrates courts.

General Electric Co.: The largest single private employer with a workforce in the region of 10,000. There are a number of companies in the G.E.C. Group in the constituency, notably G.E.C. Measurements which makes meter equipment, G.E.C. Power Engineering Group which produces rectifiers, switchgear and turbines, and Dorman Diesels Ltd.

British Telecom: A major training school for telephone engineers is located at Yarnfield.

Universal Grinding Wheel: Europe's largest manufacturer of grinding wheels.

Evode Ltd.: Manufacturers of adhesives and water-proofing agents.

Taylor Woodrow Construction

Schott Group: A leading supplier of glass goods with four of their five companies based in Stafford.

British Reinforced Concrete

Lotus Shoes: The only main shoeware manufacturer still remaining in the area.

Henry Venables Ltd: Timber merchants and manufacturers.

### 7.2 Industrial Estates

There are five industrial estates. Two of them, Astonfields and St. Albans Road have been entirely developed by the council. Tollgate is private but with council assistance. Raleigh Hall near Eccleshall and an estate at Swynnerton have been developed privately.

### 7.3 Work Experience Centre

Started last year as part of the Youth Training Scheme and Community Programme, the Work Experience Centre in Stafford has the support of G.E.C. and an advisory panel with representatives from other local industries, trade unions and community organisations. The scheme now has some 500 trainees and is funded by the Manpower Services Commission and Staffordshire County Council.

## 8. The Unions

Although the area headquarters of the N.U.M. is in Stafford the current mining dispute is at the moment causing little stir. There are no pits in the constituency, the nearest being at Silverdale in the north and Hem Heath in the north east. The most politically conscious of the unions are N.U.P.E. and C.O.H.S.E. who in the past have been extremely active whenever job losses in the health service or local authority have been threatened.

It has not proved possible to form a Conservative trade union branch, perhaps, it is suggested, because there is insufficient left-wing militancy to provoke a counter-reaction.

## 9. Farming

Apart from Stafford itself the constituency is predominantly rural with agricultural issues very much to the fore. Of the 4,000 members of the Staffordshire N.F.U., representing some 90 per cent of all farmers, about 1,000 live in the constituency. About 75 per cent of all farms are exclusively dairy and the remaining 25 per cent arable, plus beef production, sheep, livestock, fruit growing etc. Of the dairy units some 15 per cent can be described as large i.e. with milk herds of between 200-300 cows, 65 per cent medium, 80-200 cows, and 25 per cent small, under 80 cows. Naturally there is considerable concern at the E.E.C.'s decision to cut back on milk production, at the same time most farmers appear to recognize that a reduction was inevitable. The Government is being criticised however for giving farmers what one described as "too strong a dose of medicine" and thereby undermining confidence. Doubts are also being expressed over the Community's long-term policy, "a small surplus is far cheaper than a small scarcity" was how one farmer put it. A number of solutions to protect the small dairy farmer are being proposed locally. The most persuasive is that he should attempt to cut costs, mainly through foodstuffs, in order to maintain income from lower output. It is pointed out that yields per cow of between 1,200 - 1,500 gallons of milk a year can be reduced by feeding less corn. What is not recommended is that the size of herds should be reduced but that in future more calves should be produced for beef rather than for milk production. Conversely, the Budget appears to have been well-received. The abolition of stock and the cut back in capital allowances is recognised to have been offset by the corporation tax advantages and, more important, by the prospect of lower interest rates. Here again the confidence factor should not be overlooked. This was well illustrated recently in the sale of a good farm in the Ranton area. Twelve months ago the price per acre would have been between £3,000 and £2,500; last month it fetched only £1,600.

Conservative supporters are also upset at a remark apparently made in London in February this year to the effect that they represent "only two per cent of the vote". Whatever the figures, the farmers claim that their support greatly exceeds their actual numbers, particularly when it comes to finance. Without wishing to exaggerate signs of dissatisfaction, it would seem that a certain amount of ego-messaging is required during the campaign. What is certain is that the candidate will be required to answer detailed questions, and the advice is that he or she should aim to visit as many farms as possible to make individual contact, rather than talking to farmers en masse at markets or other open meetings where the reception might be less sympathetic.

## 10. Education

Education is likely to play an important part in the campaign. In general the area appears to be very well provided for, both in the state and in the private sector. A new independent grammar school has been opened recently together with two preparatory schools.

The main issue is likely to be closures. A proposal to shut the Kingston Middle School and amalgamate it with Riverway is at the moment before the Secretary of State for Education, and a decision is expected shortly.

There is also a plan to amalgamate two of Stafford's six high schools - the former girls' grammar school, King Edward VI, and Rising Brook High. Feelings are running strongly on the question of bussing and the dilution of standards. There is also the proposal to close a Catholic school (see section on The Churches).

#### 11. Law and Order

There is no significant crime incidence in the constituency. Stafford is the headquarters of the Staffordshire County Police, an outward-looking authority who last summer ran an excellent youth involvement programme designed to discourage vandalism and minor street offences. Complaints have been voiced recently, however, about gangs of youths intimidating shoppers and shopkeepers in the town centre. Women say they tend to avoid the area at night and on Saturday afternoon and evening. The police admit there is a problem and have stepped up surveillance.

#### 12. Market Redevelopment

Planning approval has been granted to a private redevelopment scheme for Stafford's old Market Hall. The issue has created a certain amount of friction between the market traders and the borough council, who own the existing premises, largely due to alleged lack of consultation. The scheme has been welcomed by the local Chamber of Trade and encompasses a multi-storey car park, a new market hall, a shopping precinct and a large store.

#### 13. Health and Social Services

The new Stafford District General Hospital was opened in May, 1983 at a cost of some £7 million. At the same time a number of small hospital units in the rural areas were closed but without significant local protest. A suggestion that the regional health authority may curtail the existing ear, nose and throat medical services at the new hospital is threatening to cause trouble and the issue may develop during the campaign.

#### 14. Transport

The area is well serviced by rail and road (a main line rail service from London to Stoke-on-Trent and the M6 motorway) which is one of the reasons why new industry has been attracted to Staffordshire over the past ten years. As a result of private building development the constituency has also become a dormitory area for middle to senior rank executives who commute by car from the area to Stoke-on-Trent, Manchester, Birmingham and Wolverhampton. Conversely, bus services in the rural areas have declined and have increased in cost but this does not appear to be a major issue at present.

In Stafford itself, the traffic situation appears to be in a continual state of upheaval which provides grounds for criticism. Many of the problems would be resolved, it seems, if the go-ahead was given to the completion of a ring-road project. The borough council are in favour of a plan to pedestrianise the town centre but the county council and the bus company are dragging their feet. There are also the familiar complaints about off-street parking and a lack of understanding about the town's gyratory system with its computerised traffic lights. "People come all the way from Blackpool to see our lights!" was how one Stafford businessman ruefully described it. The issue is unlikely to develop dramatically during the campaign but should not be lost sight of.

#### 15. Historic Houses

The borough council are in the process of renovating the ancient High House in Stafford. The House is the best example in England of this type of architecture. The council are also involved in the restoration of Stafford Castle.



Trentham Gardens, in the north of the constituency, which was the home of the Dukes of Sutherland, is now being developed by the owner of Alton Towers, Mr. John Broome, as a major conference and leisure centre.

Lord Nelson of Stafford, former chairman of G.E.C. resides in the constituency at Hilcote near Eccleshall. Important landowners in the area include Lord Stafford at Swynnerton Park and the Lichfield Estate.

Shugborough, just outside the south east boundary of the constituency, is owned by the National Trust and run by the county council. It is an imposing pile with extensive grounds and a farm museum.

#### 16. The Churches

The constituency is in the diocese of Lichfield whose former bishop, Dr. Kenneth Skelton and Dr. John Waller, bishop of Stafford, both known for their left-wing views spoke at, and led, the Peoples' March for Jobs when it passed through the constituency last year. About five years ago, Dr. Skelton, who is now retired, appointed a Social Responsibility Officer in Stafford, the Rev. G. Babb, an extreme left-winger. Mr. Babb set up a community relations council although it is not apparent for what purpose as the area appears to have no ethnic or racial problems.

There is a strong Catholic element in the constituency which can be expected to question the candidate closely on national issues like abortion, euthanasia and the pill. The main local issue for Catholics is the possible closure of the Cardinal Griffin comprehensive school at Cannock, which is outside the constituency, and the transfer of children to the Blessed William Howard school in Stafford.

#### 17. Defence

There are a number of important installations in the constituency including:

- No.16 Maintenance Unit, Royal Air Force, Stafford, which is the largest spares centre for the RAF in the country.
- The regimental home headquarters and museum of the 16th/5th The Queen's Royal Lancers.
- HQ 30 Engineer Brigade, a Territorial Army unit.
- A number of Ministry of Defence establishments involved in a variety of activities including materials quality testing.

The GCHQ issue apparently caused little stir. Also the CND movement in the area appears to be dormant. There is, however, a small Peace Movement group.

#### 18. The Media

##### Newspapers

Although the Birmingham Post is on sale in the area, the national morning papers are preferred reading. There are two evening papers, the Express and Star published in Wolverhampton but with an office in Stafford, and the Evening Sentinel published in Stoke-on-Trent, also with an office in Stafford. The Express is a good, objective paper with a slightly pro-Conservative line, the Sentinel is less objective and with a decided left-wing editorial bias.

The Staffordshire Newsletter, the main weekly newspaper, is published on Fridays. It also produces Staffordshire Market, a weekly free sheet. The paper is the most influential publication in the area and normally takes a pro-Conservative line. Its circulation is 27,000.

Another minor weekly is the Market Drayton Advertiser and there are two free sheets, the North Staffs News and the Stoke-on-Trent Advertiser neither of much editorial influence.

#### TV and Radio

BBC TV Midland Region, and Central TV, both come from Birmingham. BBC's Radio Stoke is the most important sound medium. There are also two independent stations, Signal Radio, Stoke, and Beacon Radio, Wolverhampton, both largely concentrating on pop music but with significant audiences.

#### 19. Alliance

Applications have been invited and a choice will be made in mid April. There has been speculation that either Mrs. Shirley Williams or Mr. William Rodgers will apply, although Mrs. Williams has denied this. Among likely candidates is:

✓ David Dunn - Aged 38. A senior lecturer in international relations at North Staffordshire Polytechnic. Mr. Dunn, who contested the seat last year and pushed Labour into third place, was educated at Burnage Grammar School and University College, London.

#### 20. Labour

A shortlist of Labour candidates will be drawn up on April 25th and final selection will be on April 29th. Among likely candidates is:

✓ Michael Poulter - Aged 42. Has contested the seat at the last two general elections. A senior probation officer at Drake Hall prison, Mr. Poulter was educated at St. Ignatius College, London and English College and Gregorian University, Rome. He is a Staffordshire County Councillor.

#### 21. Conservative

The selection process is now well under way and a candidate will be chosen by April 5. The Chairman of the Constituency Association is Mrs. Pamela Dunbar. The leader of the Conservative group on the Borough Council is Councillor Walter Dean whilst the leader of the Conservative group on Staffordshire County Council is Councillor Rex Roberts.

The strength of the association is in the rural areas. In Stafford itself the Independents who are us under another name run a parallel organisation on borough council matters. Obviously the association having had the same Member of Parliament for over 30 years is perhaps slightly set in its ways. However, they have taken on board some new ideas i.e. in financial matters.

Like any similar association the problem of increasing paid-up membership has been compounded by the problems of success. There are approximately 30 active branches in the constituency plus another 20 smaller groups/contact points plus the Independent organisation. Although a small nucleus exists in Stafford it has not so far been possible to establish a Young Conservatives organisation throughout the constituency and efforts are being made to improve this situation.

The paid-up membership is probably at any one time in the region of 2,500. It is a happy association with keen officers who, provided they are kept well informed, can be expected to pull their weight between now and polling day.

22. Conclusion

Until the parties have selected their candidates and the campaign has got under way it is difficult to predict the outcome. With its strong tradition and current 14,000 majority Stafford must, however, be regarded as a safe Conservative seat. The main threat must be the SDP/Alliance who can be expected to put up a hard fight.

The choice of Conservative candidate is, of course, highly important especially if he or she hopes to inherit immediately Sir Hugh Fraser's personal following. It has also been suggested that the size of the 1983 majority reflected the national trend at the time and that this might not be repeated in a by-election. Nevertheless, a substantial majority seems likely barring very unforeseen circumstances.

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JG/EJ  
28.3.84

28/3/84

SPEECH NOTES FOR STAFFORD

Tribute to Sir Hugh Fraser. Represented Stone, then Stafford and Stone, then Stafford from 1945 to 1984. Remarkable record of service to the House, the constituency and the party.

By-election takes place nearly a year after momentous victory at General Election. It has been a mixed sort of year: dark clouds of war in Middle East and Central America; continued East/West tension.

But economic recovery firmly established. Britain having passed into recession earlier than others, emerging earlier. Growth at 3% puts us top of European league. Inflation at 5% remarkable achievement. Having growth and low inflation, recipe for success, winning combination.

Productivity up - no flash in the pan. Opportunities this year as world trade recovers. All of this good news for everyone in the country - except Labour, of course.

They said it could not happen. When it did, they said it could not last. Roy Hattersley predicted inflation in double figures by end of 1983. He was only just over 100% wrong! It was the last thing he said: nothing to say on the budget. Has become Rip Van Winkle of the Labour Party. So much so that the Sun listed him as one of the thousands of people in Britain who go missing every year.

Cannot actually say that Mr Kinnock has been silent: that will be the day. But who can remember one thing that he has said?

I understand that there is a third party standing here. Sorry that Mrs Williams did not try her luck here: would have provided an opportunity for Stafford to complete the hat-trick of constituencies to reject her charms. Also against present background of events, a useful chance to ask her, as the veteran of Grunwick, what is her attitude to mass picketing?

No doubt her period as Education Secretary, when she set about the destruction of selective education and private education is well-remembered here in

Stafford, where I know you are rightly concerned about standards in schools and anxious to maintain an independent sector.

One of the things that is most important in Conservative philosophy is freedom to choose: in education, for example. In health, too. Individual choice is a vital freedom: allows people to develop their full potential.

Important strand in housing policy too. Great success of "right to buy" policies. Housing now about 60% owner-occupied - more in this constituency. People more independent when they own their homes. That's why Labour has opposed it tooth-and-nail. Independent property-owners tend to turn away from Labour.

Budget gave me opportunity to carry further another strand of policy: restoring incentives. Making it more worthwhile to work harder or find a job. £2 a week. Also measures to make economy work better: company tax changes to promote profitable investment. Abolition of tax on jobs. Ways to promote growth and new jobs.

But certain problems eg rates burden on business. Need for rate-capping legislation. And too much government adds to burden too: need to abolish unnecessary Met councils.

Way forward must be to cut burden of taxation. Means holding PE steady. Not an easy job - some increases are certain and reductions needed to balance. Prize of lower taxes, better working economy - and even, in long run, will be possible again to make modest increases in PE.

That is the way to growth. And new jobs. The problems of this country are being tackled by this government. We are radical, unafraid and determined. We are giving this country the leadership it so greatly needs.

AM/6x

(Ry)



# Members' Brief

No. 8  
29th March 1984

## THE PRIME MINISTER'S CENTRAL COUNCIL SPEECH

In her speech to the Conservative Central Council in Birmingham on 25th March 1984, the Prime Minister began by highlighting some of the achievements of the Conservative Government after its four-year first term:

- price, income, dividend and exchange controls dismantled;
- inflation down to 5 per cent;
- overmanning and restrictive practices giving way to good management;
- the biggest de-nationalisation programme ever undertaken by any Government;
- a million more home owners;
- overseas debt down;
- the nation's finances run with a sure and prudent touch;
- no deficit problem in Britain;
- nearly £1½ billion of goods and services exported every week.

The Government, she said, 'had pushed back the frontiers of socialism and advanced the boundaries of freedom'.

### Jobs and the Budget

The Prime Minister said that the problem of unemployment, which the Government was striving to solve, would have been made worse by 'spendthrift policies, bureaucratic controls, monopoly industries, high personal tax, resistance to change and a cosy inertia'. Real hope for the future lay in the return to efficient and competitive industry and commerce. Mr. Nigel Lawson's first budget had made a 'remarkable impact' because it was 'a Budget which works with the grain of human nature, a Budget which gives protection to the poor and a spur to the strong, a Budget for enterprise and jobs - a true Tory Budget.' It had charted a course for the rest of this Parliament and given the nation a choice between more public spending and lower taxation. 'This Government, in this Budget, has chosen the road for lower taxes. I believe that is what people want.' All this had been made possible by the solid foundation laid by Sir Geoffrey Howe, under whose stewardship as Chancellor 'our economy acquired a new credibility and a new respect'.

Mrs. Thatcher went on to point out that substantial investments were bringing 'new jobs in new industries throughout the land.' She added: 'We really must proclaim our success repeatedly to counter the reverse impression our political opponents constantly try to convey. As Mark Twain said, a false remark gets half way round the world before truth puts its boots on.'

### Keeping the Rate Bills Down

The Prime Minister said that ratepayers had cried out for protection against the bills inflicted on them by high-spending Labour local authorities. 'And so this Government is reasserting Parliament's ultimate responsibility for controlling the total burden of taxation on the citizens, whether levied by central or local government. Ratepayers had not looked in vain to the Government for help. 'Our policies and the radical rate-capping Bill now before Parliament have already had a salutary effect... Rate increases this coming year will average 6 per cent - the lowest since 1974.' In 1985-6, with rate-capping in operation to curb the high spending Labour councils, the Government would set fairer expenditure targets which recognised the efforts that low-spending councils had made.

### The European Community

The Government was campaigning, 'first, to bring under control the Community's spending, especially its ever-increasing spending on huge surpluses of foodstuffs; and second, to get the burden of the budget fairly distributed between the member countries'. Equity and sound finance were two good Conservative principles. The Government would continue to work hard for agreement but was determined to achieve its fundamental aims.

Mrs. Thatcher said that the issue went much deeper than the money involved: 'I have a vision of Europe which is a very long way from the Community of today. I want a fair system of financing and disciplined expenditure precisely so that we can put behind us this endless haggling over money and begin to develop the Community's full potential.' The Prime Minister said that the Conservative Party wanted the Community to be 'a driving force for freer trade, the centre of tomorrow's industries and the very latest technologies, and the home of creative endeavour and invention...' She looked forward to a Europe which would take the initiative on world problems; build a more hopeful relationship between East and West; and work in partnership with the United States ... to defend and promote the values and beliefs of Western civilisation.

'When we entered the Community we did so for more than a common agricultural policy. We went in with a vision. We still have that vision, and we shall not rest until it is realised.'

### A Radical Government

The Prime Minister concluded by pointing out that the British people had voted in 1979 and 1983 for 'a radical government, with a powerful purpose and a clear idea of where it is going.' 'They have it,' she declared. 'As we began, so we shall continue, and with undiminished vigour. For we are doing what the British people asked us to do: to change the course of history. We shall settle for nothing less. And it does very greatly matter that we succeed.'

FROM: D B ANDREN  
DATE: 3 April 1983

PS/CHIEF SECRETARY

cc PPS  
PS/Financial Secretary  
PS/Economic Secretary  
Sir P Middleton  
Mr Byatt  
Mr Monck  
Mr Lovell  
Mr P Gordon  
Ms Conn

CHIEF SECRETARY'S MEETING WITH THE CONSERVATIVE BACK-BENCH  
COMMITTEE ON SMALL FIRMS

You asked me earlier today to provide some additional briefing for this meeting and drew my attention to the early day motion put down by Mr Michael Grylls and others on the Loan Guarantee Scheme. This motion reads as follows:

"That this House congratulates the Government on the success of the pilot Loan Guarantee Scheme, and welcomes the important contribution this has made to the financing of 12,231 new and expanding small businesses; calls on the Government to develop and make this successful scheme permanent, by abolishing the Government's 3 per cent premium, and by extending the upper limit for loans from £75,000 to £250,000 so that medium-size businesses too can have access to such loan capital for expansion."

2. The Chief Secretary will have seen Andrew Turnbull's letter of 2 April which records the Prime Minister's view that she accepts the Loan Guarantee Scheme should continue but hopes that changes will be made to put more of the risk onto the banks and to bring the cost of the Scheme nearer to break-even. The difficulty is that, if interest rate subsidies are to be avoided, as they must be if we are to maintain our opposition to, for example, the Grylls groups' earlier proposals for interest rate subsidies and to the EC scheme for European Innovation Loans, major changes in the existing Loan Guarantee Scheme are required. However, if the Scheme is changed radically, there is a real risk it will no longer prove attractive to small businesses.



3. Following the Secretary of State for Trade and Industry's letter of 29 March to the Chancellor, we will be discussing various options including ending the Scheme with DTI officials next week. Meanwhile, we recommend the Chief Secretary makes it very clear that he cannot anticipate the outcome of the present review and does no more than note points being made by Conservative back-benchers. A brief background note which we prepared for First Order Questions is attached. If pressed, I think the Chief Secretary could reasonably point out that this is a DTI scheme and could seek confirmation that the points being made have been put to the Minister for Small Firms (Mr David Trippier).

4. However, the Chief Secretary may also find the following more detailed notes helpful. The early day motions speaks of the "success" of the scheme. One should not measure "success" in terms of the number of guarantees made under the scheme. The scheme was introduced because it was thought that banks were being too conservative in their lending policies. Thus, the real question is whether the scheme has changed the attitude of banks and whether this has been a desirable change. With a failure rate of around 1 in 3 and a large question mark when it comes to deciding whether loans truly represent additional lending, there must be a great deal of doubt as to how far we can describe the scheme as being "successful".

5. A suggestion that the Government should abolish the premium is unacceptable. The premium is intended to cover losses and it is not doing so. To do away with the premium entirely would lead to more loans and result in much larger public expenditures costs. It would also mean we were effectively subsidising loans to small firms. One of the obvious ways of reducing losses which is being examined by officials is to increase the premium.

6. Raising the maximum upper limit from £75,000 to £250,000 is also unacceptable. The £75,000 limit is designed to ensure the scheme is available only for small businesses. Medium-sized businesses do not in general face the same problems as smaller firms as they frequently have assets which they can pledge as

security for a bank loan. Alternatively, the bank can take a floating charge. In general, we believe that if there is a finance gap it only arises in the case of loans of below £100,000 where at times the high administrative cost of appraising proposals could mean such finance was not available in the absence of the Government's Loan Guarantee Scheme. However, even then there must be doubt as to whether it is desirable to encourage small businesses to seek loan finance rather than equity finance. In general, we believe there is no shortage of finance for small businesses seeking to raise term loans for viable projects involving sums in excess of £75,000. There are now a large number of venture capital bodies willing to lend to such firms and there have been innumerable conferences, explanatory guide, etc on the development of the UK venture capital market.

7. You also asked if we had any international comparisons on the contribution of small firms to output/employment. There has been a good deal of academic study in various countries on the contribution of small firms to employment. The most often quoted study is an MIT study which suggested two-thirds of all new jobs in the US came from small firms employing less than 20 people. It is now generally accepted that this study vastly exaggerated the contribution of small firms to employment since it did not distinguish between gross and net gains in employment. It would take too long to summarise the ensuing debate, but generally speaking most of those who have studied this area do accept that small firms make a more than proportionate contribution to the generation of new jobs.

8. I am not aware of any international comparisons covering small firms contribution to output. (This is an area where there are major problems of measurement and making international comparisons). However, about 20 per cent of manufacturing output in the UK is accounted for by firms with less than 200 employees. Although some years ago it was thought that the small firms "sector" in the UK was on the decline, such evidence as is available suggests that it has been growing in recent years. Not

surprisingly small firms are much more important in some sectors than others (eg retailing and business services).<sup>P</sup> You also asked for international comparisons of measures to assist small firms taken by the governments of other countries. The University of Strathclyde have done some work in this area but there is no way I can summarise it in a few words. The only other useful study I know of is that produced by Graham Bannock for Shell in 1980. I am attaching the relevant charts, but I doubt if the Chief Secretary will find these very illuminating. I am told by DTI that they do not have any up-to-date comparisons of this kind though, like the Treasury and Revenue Departments, they do try to keep track of important developments in other countries.

9. The Chief Secretary may also like to be reminded that last Autumn the Economists Intelligence Unit produced a study which tried to assess which EC governments had done most to assist the small firm sector in a number of specific areas. The UK scored well in the tax 'league' but not so well in other areas. I am obtaining some defensive briefing from DTI on this, but the short point is that we think this study is of limited value because it involves very difficult value judgements on the importance of particular schemes.

10. I should also perhaps note that we are aware that other countries have loan guarantee schemes of various kinds. However, it would be wrong to argue that just because other countries have such schemes we must necessarily continue with ours. Except in the case of the US, other countries do not have such highly developed venture capital markets as our own and generally we think our financial markets operate more effectively than those of most other countries. We also have a wide variety of specialised private sector institutions which cater for the needs of small firms of which the best known is probably ICFC. In monitoring developments on other countries it may also be useful to note that the US experience with SFIC's (Small Firms Investment Companies) was one of the reasons this was looked at closely when the Business Start-up Scheme/Business Expansion Scheme was devised.

We have already provided you with defensive briefing explaining why it was not thought appropriate to encourage the development of SFIC's in the UK.

*D. B. Andren*

D B ANDREN

## LOAN GUARANTEE SCHEME

The LGS was introduced in June 1981 for a three year period on an experimental basis. Its aim is to encourage banks to be more adventurous in their lending to small firms. Up to 31 January 1984 about 13,500 guarantees have been issued to a value of about £450 million. The first year cost was covered by premium income, but by end-January 1984, payments made under the Scheme in respect of 'called' guarantees exceed premium income plus recoveries by £32 million.

### Line to take

- (i) Cannot anticipate outcome of review.
- (ii) Concerned about cost of scheme and high failure rate (about one in three).
- (iii) No question of raising upper limit on size of loans (£75,000). This is intended to restrict scheme to small firms.
- (iv) Although often suggested scheme has created new jobs, not clear how much of this is additional.
- (v) Not true that Treasury Ministers have decided scheme should not be continued. Must look at all reasonable options including lowering the portion guaranteed by Government (currently 80%) and ending the scheme.
- (vi) Decisions on future of the scheme and on publication of the latest Robson Rhodes report will be announced in due course by Secretary of State for Trade and Industry.

APPENDIX 2:

PUBLIC MEASURES TO PROMOTE SMALL BUSINESS IN THE 7:  
A SUMMARY

COUNTRY		DEFINITION	SUBSIDISED LOANS AND GRANTS	OTHER LOANS	EQUITY
CANADA	FEDERAL	MFG <100 Emp. Rest <50 Emp. 0.6m firms	Enterprise Development Programme (EDP): Grants for 75% of eligible project costs.  Small Business Development Bonds (1980). (Term loans from banking system benefitting from tax relief to banks.)  Grants up to 90% of cost of preliminary technical assessment and plg studies. Up to 75% for design assistance for promotional packing and literature	Federal Business Development Bank (FBDB)  Ontario Development Corporations (ODC's)	FBDB  (SBDC's)
	PROVINCIAL (ONTARIO)				
FEDERAL REPUBLIC GERMANY	BUND	Small <10 Emp. Medium 10-499 1.65 + 0.20 = 1.85m firms	European Recovery Programme (ERP) loans for start-ups, expansion, modernisation. ERP loans to Small Firm Investment Co's (KBG's). Delivery of ERP loans is through banking system. Grants of up to 40% of cost of R&D personnel for innovation.  Interest subsidies (+3%) on loans from commercial sources for start-ups and expansions. Grants for R&D.	Long term investment loans. Reconstruction Loan Corporation (KfW) and the Lastenausgleichliche bank (LAB) Deutsche Wagnis Finanzierungsgesellschaft (WFG). (Government takes 75% of losses up to DM50m in first year.	(KfW's) WFG 'Equity Loans' for start-ups. 10 years redemption free unsecured loans interest free for first 2 years. Treated as equity in bankruptcy. Repayment from 11th to 20th year.
	LANDER				
JAPAN		MFG const., tpt etc. <300 Emp. or ¥100m.* Wholesale - <100 Emp. or ¥30m.* Retail - <50 Emp. or ¥10m.* 5.4m firms.  * Net Assets	National Finance Corporation. Small Business Finance Corporation. Central Bank for Commercial and Industrial Co-ops. The Environmental Sanitation Finance Corporation. Small Business Promotion Corporation (SBPC). Equipment Modernisation Fund. Management Improvement Fund. These institutions and schemes provide loans on favourable terms (interest free in some cases) for modernisation, equipment, joint ventures, etc.	Some of the institutions in the previous box also lend at market rates.	Three small business investment companies established by the Government purchase equity and convertible loan stock in small firm capitalised at <¥100m.
U.K.		Varies by sector MFG <200 Emp 1.3m firms.	The Development Agencies (WDA, SDA, HIDB). Council for Industry in Rural Areas (COSIRA)	NRDC	NEB
NETHERLANDS		Varies according to programme. For credit guarantees: <100 Emp. for non-industrial <100 Emp. and <F7.5m T/O for industrial	Grants for export co-operative ventures max. F.125,000. Loans for R&L for manufacturing cos 200 Emp. To be replaced by Development Credit Scheme (1980). State Group Scheme for Self-employed.		Industrial Guarantee Fund.
U.S.A.	FEDERAL	Varies by sector MFG <250-1500 Emp. Other <\$2-9.5m T/O (excluding w/sale) 8m. firms.	Regular Small Business Administration (SBA) business loans, Energy Loan Programme, etc., Local Development Companies. Small Business Investment Corporation (SBIC's) eligible for 'leverage loans' guaranteed by SBA from Federal Financing Bank at one eighth of 1% above cost of funds to Treasury.  Loans for working capital at 1% above state's borrowing rate. Connecticut Product Development Corporation will pay 60% of costs against royalty.		(SBIC's)
	STATES (CONNECTICUT)				
FRANCE		L'Artisanat <10 Emp. Small 10-49 Emp. Medium 50-499 Emp. = 3.1m. firms	Fonds de Développement Economique et Social (FDES) via Crédit National and commercial banks: credits bonifiés 1.5% interest rate subsidy. Credit Hotelier, Credit Agricole, Banque Populaires: subsidised loans for artisans and unemployed starting business, interest rate as low as 6%.  Local government: primes a la création d'entreprises. Employment creation grants (new manufacturing enterprises <500 Emp. Existing rural enterprises <30 Emp. and artisanat).	Local government	Sociétés de Développement Régional, minority stakes limited to 10 years. Sociétés de Financement Régionales, Credit National (FDES), Commercial Banks: 'Equity loans' (prets participatifs) and non-voting preference shares.

COUNTRY	SURETY AND CREDIT GUARANTEES	TAX INCENTIVES FOR FIRMS	TAX INCENTIVES FOR INVESTORS	MANAGEMENT AND TECHNICAL ASSISTANCE
CANADA	<p>FEDERAL</p> <p>Small Business Loans Act (SBLA) guarantees loans from banks and other institutions at prime +1% for firms with T/O &lt;\$1.5m. State credit re-insurance scheme guarantees loans to small firms by insurance companies. FBDB and EDP</p> <p>ODC's</p>	<p>Corporation tax rate of 15% (36%) on profits up to \$150,000 for Canadian Controlled Co's. For MFG 10% (30%) MFG firms with T/O &lt;\$50,000 exempt from sales tax.</p> <p>Corporation tax rate of 10% (14% general, MFG 13%).</p>	<p>Small Business Development Companies (SBDC's) are exempt from capital tax. 30% grant is given to equity investors (tax credit for Co's) and this credit is free of income and capital gains tax.</p>	<p>FBDB: Small Business Information Service; Management Training; Counselling Assistance (CASE) Industry Trade and Commerce Field Advisory Service; Board of Directors Programme. EDP: Subsidies for Market Research; Total financial commitment is about \$C 750m.</p> <p>Ministry of Industry and Tourism: Counselling services and assistance programmes e.g., Entrepreneurial Development, Small Business University Assistance.</p>
FEDERAL REPUBLIC GERMANY	<p>BUND</p> <p>Lander Credit Guarantee Associations (CGA's) receive guarantee fund loans and counter-guarantees from ERP and Federal Government funds. ERP provides guarantee fund loans to KBG guarantee associations. LAB and ERP give direct guarantees.</p> <p>LANDER</p> <p>Each land has 4+ CGA's to which guarantee fund contributions and counter guarantees are given.</p>	<p>Income tax allowances for proprietorships and partnerships. Trading losses can be carried back 1 year to maximum of DM5m. Special concessions on R&amp;D. Tax exemption limit for VAT.</p> <p>Gewerbesteuer (Municipal Trade Tax): Income Tax threshold for individuals and partnerships is DM36,000 (1980). Capital Tax threshold is net assets of DM120,000. Overall 50% of small firms are exempted from local income and capital taxes though all pay real estate tax.</p>	<p>Favourable tax treatment of KBG's.</p>	<p>Grants and subsidies to chambers of commerce and crafts and trade associations to provide information, training and counselling services and to subsidise up to 75% of cost of private consultants.</p> <p>Assistance for training (including loans and grants for training premises) and education.</p>
JAPAN	<p>52 Credit Guarantee Associations guarantee borrowings of up to ¥70m. by small firms from commercial sources. Most borrowing secured but unsecured borrowing up to ¥2.5m. The Associations re-insure through the Small Business Credit Insurance Corporation (SBCIC).</p>	<p>Income tax allowances for proprietorships and partnerships. These businesses may opt for 'imputed' corporation tax. Small corporations with an income of less than ¥7m. are taxed at 28% (40%) and dividends carry a tax credit of 22% (30%). Special reliefs on dividend taxation for family owned businesses and for corporate taxation on co-ops. Special depreciation provisions for small firms to encourage modernisation,</p>		<p>The Small and Medium Enterprise Agency (SMEA) and Regional Trade and Industry Department provide counselling and technology services through their local offices, FOC to firms &lt;20 persons. Other governmental organisations involved include the SBPC and the SME Business Information Centre. The Government also subsidises the consulting services of trade associations and Chambers of Commerce. Business Modernisation and conversion programmes operate at a local level.</p>
U.K.	<p>Limited guarantee scheme by WDA and SDA.</p>	<p>Corporation tax rate of 40%-52% on profits of £70,000-£130,000. Start-up losses for proprietorships and partnerships can be set against taxable income from previous employment (limit 3 years). Tax relief for borrowed money invested by controlling directors. Exemption limit for VAT (£15,000).</p>	<p>Individuals may set losses on sales of shares in certain unquoted companies in year in which loss arises or following year against income chargeable to income tax.</p>	<p>Small Firm Advisory Centres (SFAC); Small Firm Counselling Service COSIRA, WDA, SDA, HIDB. Grant assistance for feasibility studies for small firms joint ventures.</p>
NETHERLANDS	<p>State guarantees for SME through commercial banks.</p>	<p>Corporation tax rate of 40% (50%) for profits under f40,000. Higher investment grants for small investments. Relief against income tax of f2,000 for self-employed profits up to f67,000. VAT deduction of f2,500.</p>		<p>Central Institute for Medium and Small Industries (CIMK) provides advice and training at subsidised rates. Government Industrial Counselling Service (RND) for manufacturing. Regional Service Centres for Small Business (RDK). University Transfer Points. Stichting O&amp;S.</p>



	SURETY AND CREDIT GUARANTEES	TAX INCENTIVES FOR FIRMS	TAX INCENTIVES FOR INVESTORS	MANAGEMENT AND TECHNICAL ASSISTANCE
U.S.A.  STATES (CONNECT-ICUT)	FEDERAL  SBA loan guarantees provided direct or through banks and other institutions. Secondary market programme. Surety Bond Guarantee Programme.	Corporation tax rate of 17-40% on first \$100,000 (46%). Subchapter "S" Corporations (>15 shareholders) can elect to be taxed as partnership. Taxpayers can carry back product liability losses for 10 years (3 years).	SBIC shareholders may deduct losses on sale of SBIC shares as ordinary income. SBIC's are tax exempt provided they pay out 90% of income. Small firms share losses (section 1244 stock) can be treated as ordinary rather than capital loss <\$50,000.	Service Corporations Retired Executives (SCORE); Active Corporations of Executives (ACE) Business Management Training Management Counselling; Small Business Institute (SBI); Small Business Development Centres (SBDC's) at universities  Business Management Training and Counselling.
FRANCE	State guarantees for security issues by GEPME. Counter guarantees to 70 Sociétés de caution mutuelle by Caisse Nationale des Marchés de L'Etat (CNME). Fonds National de Garantie (CNME) guarantees bank loans including 'equity loans' for start-ups. Local authorities contribute to SDR and other guarantee funds in 13 regions.	Firms employing <10 Emp. and <F500,000 T/O may opt for fixed tax rate (forfait). Individuals or companies with T/O <Flm. may opt for simplified income and VAT assessments. New enterprises of <150 Emp. are exempt from corporation tax on undistributed profits for 3 years and for 5 years a 33% reduction in tax liability. For 12 months they are also free from advance corporation tax and for 3 years the F3,000 basic rate. Measures to encourage the issue of equity, capitalisation of reserves, the use of 'management centres' and loans to employees to set up in business.	Equity investment in French quoted and unquoted companies is deductible for income tax to annual maximum of F5,000 (for households with 2 children, F6,000).	137 Information Centres in Chambers of Commerce with start-up finance from state. Agences régionales d'information scientifiques et technique (ARIST).

COUNTRY	EXPORT ASSISTANCE	GOVERNMENT PROCUREMENT	OTHER MEASURES	SCALE AND ORGANISATION
CANADA FEDERAL PROVINCIAL (ONTARIO)	Aids to small firm export consortia	Requests Contracting Co's to subcontract small firms. Provides information for small firms on government needs. Publishes statistics.	Small Business Intern Programme. Wage subsidies for recent graduates.  Employs skill search service. Advocacy function.	Small Business Secretariat in Department of Industry, Trade and Commerce, has 14 staff; 10 Field offices, employ about 175 persons but not solely on small firms matters. FBDB: loans authorised in 1979 for amounts up to \$500,000, \$587m; equity \$18.4m.  Small Business Development Branch in Ministry of Industry and Tourism with 16 field offices. Budget £8m. ODC loans to small firms in 1978, \$4.1m.
GENERAL REPUBLIC GERMANY BUND LAUDER	Small firms receive preference under ERP loans for direct overseas investment.	Preferential treatment for small firms in bidding, subcontracting quotas.	Support for Institut für Mittelstandsforschung (SME Research Institute).	Small Business Department in Ministry of Economics with 200 staff. Budget for this Ministry alone is DM645.2m. Council for Small Business and Liberal Professions advises Ministry. ERP loaned DM975m. to SME in 1978. KFW loaned DM3.6b. to SME in 1978.  Expenditure by Lander for small firms varies (e.g. 0.3% of total budget in Bavaria, 0.1% in Hessen). In total it is estimated that the Lander spend over DM250m.
JAPAN	Overseas Development Corporation provides interest free loans for direct investment in joint ventures abroad.	Legislation requires MITI to publish government purchasing policy from small firms annually.	Equipment Leasing Agency leases capital equipment at subsidised rates to small firms which cannot afford to purchase.	SMEA is part of MITI and has 185 staff, 9,000 management advisory field staff are located at Chamber of Commerce. Loans by four main government institutions to small firms O/S 1979 Y11.4b.  1m loans to small firms guaranteed by SBCIC in 1977/78 totalling Y4.2b.
U.K.	Market Entry Guarantee Scheme provides grants repaid out of royalty if venture successful. Pick-a-back scheme for large firms to assist small exporters.		Enterprise Development Zones: less red tape, no general rates or development land tax.	Small firms Division is part of Department of Industry and has 25 staff plus 52 in 11 SFAC's. There are 130 part-time counsellors. Cost of SFAS is over £1m. per annum. Total subsidised lending by COSIRA and Development Agencies is about £3.5m.
NETHERLANDS			Economic Institute (EIM) carries out research on small firms in distributive trades and Stitching O&S provides inter-firm comparisons.	Directorate General for Commerce, Crafts and Service Trades in Ministry of Economics (EZ). Council for Small and Medium Sized Business. Credit guarantees for SME total f300m. (1978).
U.S.A. FEDERAL STATES (CONNECTICUT)		Requires 'set asides'. Reviews sub-contracting. Publishes statistics. Procurement Centre Reps. Procurement Automated Source System (PASS). Certificates of Competency (COC).  Set asides. Information. Active search.	Advocacy function.  Business Ombudsman.	SBA independent state agency has 4,400 employees, 80% in local offices. Financial year 1979 administrative expenses \$194m. (of which 17% Disaster Programmes). Net operating expenses of SBA revolving funds \$660m. Total SBA loans to business \$3.4b. (30,176 loans). Other agencies and activities involving specific expenditure on small firms are the Federal Trade Commission, Department of Commerce, Senate and Congress Standing Committees.

COUNTRY	EXPORT ASSISTANCE	GOVERNMENT PROCUREMENT	OTHER MEASURES	SCALE AND ORGANISATION
FRANCE	Credit National, UFINEX, COFISE: Loans for investment in France and abroad, including overseas stocks and joint ventures. Grants for market research, consultancy and product adaptation. Inter-government agreements to promote small firm exports.	PMI given second chance in tenders where their bid is within 4% of lowest bid from large firm. CNME will pay 90% of outstanding amount under government contracts if payment is delayed beyond 45 days (enterprises <500 Emp.). Local authorities have an official responsibility for informing PME on state purchasing. All local authorities have a state purchasing advisor.	ANVAR: Independent unquoted enterprises employing <2,00 eligible for innovation grants of 25% of R&D expenditure with maximum of Elm. Financial support for local PMI associations and educational institutions offering instruction in small firm management.	Responsible body is Delegué a la PME in Ministry of Industry which has staff of 5 but there are also specially designated staff at the Ministry of Commerce and Artisanat and elsewhere. Expenditure by Ministry of Industry on aid to Chambers of Commerce and other local activity in support of PME will be F67m. in 1980. At end-1979 F55m. had been given to SDR's towards equity investment in small firms. In 1978 (9 months) subsidised start-up loans for persons leaving employment totalled F21m. (133 cases). FDES loans to the Artisanat and Distributive Trades were expected to be F420m. in 1978 with other loans to PMI (<F50,000) totalling perhaps one quarter of that amount. FDES loans to the hotel and tourist trade through Credit Hotelier and Credit National were F356m. in 1977. There are various state or semi-state bodies including the Agence Nationale pour la Creation des Entreprises and others at local level.

Data generally relate to December 1979, UK and Netherlands to May 1980. Most countries have special reliefs from death duties for small firm owners, these as well as regional aids and aids for sectors (e.g. farming) and minority groups are excluded. Aids for which all businesses are eligible are also excluded with some exceptions (e.g. NEB in the UK). Also excluded are activities of some local authorities and some other public initiatives e.g. in Competition Law which are designed to help small firms.

used box  
[Signature]

MINUTES OF THE BACKBENCH FINANCE COMMITTEE HELD ON TUESDAY 3 APRIL 1984

The Committee was addressed by Mr Emile Woolf who spoke on the subject of tax reform.

2. Mr Woolf approved of the Budget and noted that it had concentrated on the supply side of the economy, and on lowering tax rates and widening the tax base. He was also pleased that it had given a boost to private sector job creation by equalising the labour/capital investment options.

3. However, he noted a 10 per cent increase in the money supply in 1983-84, compared with 5 per cent inflation. This could not work without an improvement in productivity. The Budget has established better incentives for employers, but the question was whether there was sufficient incentive for employees? A lot had been made of the NIS as a tax on jobs, but in his view it was no more so than PAYE. Each tax band has its own mini-poverty trap, discouraging employees.

4. In Mr Woolf's view, the problem arose because employees could see the marked difference between gross pay and take home pay. But since tax was stopped at source, and collected by the employer, it was effectively a tax on the employer. He would like to see this position formalised by introducing a tax on companies which would in many ways be similar to a payroll tax.

5. Mr Woolf then circulated the attached manuscript chart which set out the tax position of certain North Sea oilfields. (Mr Tim Eggar quickly pointed out that these figures appeared to exclude corporation tax). Mr Woolf said the chart showed that certain fields were under-taxed and others overtaxed. But his point was that if one looked at the whole private sector, one would see a similar pattern of over and under-taxation. It was wrong to tax businesses if the taxation on them changed them from being economic to sub-economic. Under the present system, companies with very different "value-added" paid the same tax. What was needed was to remove tax from the marginal businesses, and concentrate it on those that could afford to pay tax. (It seemed clear that Mr Woolf was including the PAYE paid by a company's employees as part of the tax paid by that company).

6. Mr Peter Viggers asked whether Mr Woolf should not take a "green field" view of national insurance also. Mr Woolf agreed, but said that national insurance contributions did not have the same impact on incentives.
7. Mr Nick Budgen asked Mr Woolf whether he thought that the Chancellor thought that the containment of inflation was less important than before and had therefore decided that he could live with 3 or 4 per cent, and had become indifferent to the way in which inflation redistributes wealth. Mr Woolf agreed that it looked as though the Chancellor had settled for 3-5 per cent inflation, and the abolition of stock relief tended to demonstrate that the Chancellor regarded that as his objective.
8. Mr Nigel Forman asked whether Mr Woolf was in favour of fiscalising national insurance. Mr Woolf said he was in favour of bringing it together with income tax, and of abolishing corporation tax one day. Mr Forman wished to know further how you could get high productivity and higher employment. Mr Woolf replied that if you restructured the tax in such a way that the margin bore no tax burden at all, you would achieve that effect.
9. Mr Ralph Howell thought that we should broaden the indirect tax base and means test child benefit.
10. Mr Barry Henderson thought that Mr Woolf's ideas would be harmful since they would encourage marginal economic activity and discourage profit. Mr Anthony Beaumont-Dark thought that we already acted on the margin through enterprise zones and regional aid, and those were paid for at the expense of successful companies. Mr Woolf retorted to that that it had to be recognised that PAYE was a tax on companies. It was said of the British Steel Corporation during its worst days that it was losing £1 million a day. But that failed to recognise that it was paying £1 million a day in PAYE.
11. Mr Budgen picked up a remark made by Mr Woolf and asked him whether he thought that the fact that there had been no revolution in this country as the burden of taxation has risen could be accounted for by the fact that we had a very large black economy. Mr Woolf agreed that the black economy was probably very much larger than estimated by the Inland Revenue. That demonstrated the lengths that people would go to to work without having to pay tax on their earnings.



M D X PORTILLO

Distribution: Ministers  
Advisers  
PPS  
David Hunt MP  
Hon. Mark Lomas MP

Gross Revenues, Gross Profits & Taxes as percentage of Direct Costs

	(1) Piper	(6) Murchison	(14) Ninian	(21) North Cormorant	(28) Tartan
Gross Revenues	172.8	142.1	133.5	125.9	110.5
Direct Costs	100	100	100	100	100
Gross Yield	72.8	42.1	33.5	25.9	10.5
Taxation	19.7	16.5	14.3	13.1	3.5
Residue <sup>o</sup>	53.1	25.6	19.2	12.8	7.0
Assume:					
5%: Overheads	15	15	15	15	15
10%: Profit					
Under Taxation	38.1	10.6	4.2	-	-
Over Taxation	-	-	-	2.2	3.5*

<sup>o</sup> Available for overheads and profit.

\* Uneconomic due to external factors; over-taxation limited to actual tax borne.

House of Commons Select Committee on Energy: "The system should be progressive to take account of the large differences in unit costs and profitability in the North Sea. The tax level should be carefully designed so that high-cost fields which are viable on a pre-tax basis remain so on a post-tax basis."

**STAFFORD  
CONSERVATIVE & UNIONIST  
ASSOCIATION**

Castle Street,  
STAFFORD, ST16 2ED  
Telephone: Stafford 52273

**President:**  
Mr. R. Statham, CBE  
**Chairman:**  
Mrs. G. M. Dunbar, OBE  
**Hon. Treasurer:**  
Mr. R. Venables  
**Secretary & Agent**  
Alan Marshall

WILLIAM (BILL) CASH

Bill Cash, born 10th May, 1940, is a solicitor. He is married to Bidy. They have three children - two sons, William, aged 17, and Sam, aged 12, and a daughter, Letitia, aged 10.

Mr. Cash, who lives in farming country just over the Constituency border at Upton Cressett, Bridgnorth, was educated at Stonyhurst College and at Lincoln College, Oxford, where he read History.

He qualified as a solicitor in 1967, and since has been in private practice as a solicitor and Parliamentary lawyer advising on legislation.

He has been closely associated with the campaign to stop child pornography, and in improving and reforming small business and trade union legislation. He has advised on E.E.C. legislation affecting Britain's interests, the Telecommunications Bill, the Cable and Broadcasting Bill and the Police and Criminal Evidence Bill.

He is Chairman of the Simpler Laws Group of the Centre for Policy Studies. He was Secretary of the Bow Group Home Affairs Committee 1977-81.

Bill Cash is a director of the Community Task Force, a member of the Heart of England Tourist Board which includes Staffordshire, a Board member of Ironbridge Gorge Museum Trust, Chairman of a Shropshire and Staffordshire Independent Schools Action Committee, and is Vice Chairman of a County Council school.

His interests include music and gardening, and in the sporting field he has played cricket for a Staffordshire Cricket Club.

Mrs. Cash, who has worked in school care, is an active member of voluntary organisations including fund raising for the Red Cross Society.

5th April, 1984.

(pwa)

FROM : M D X PORTILLO  
DATE : 6 APRIL 1984

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr Ridley o/r  
Mr Lord o/r

GALLUP SURVEY ATTITUDES TO THE BUDGET

You might be interested in the attached tables which show public attitudes to the Budget as measured immediately afterwards.

CONFIDENTIAL

M D X PORTILLO



TABLE 5 DO YOU THINK THAT NIGEL LAWSON IS DOING A GOOD JOB OR A BAD JOB AS CHANCELLOR OF THE EXCHEQUER?

	VOTING INTENTION						SEX			AGE				CLASS		
	18+															
	ALL	CONS	LAB	LIB	ALLIANCE /SDP	OTHER	DONT KNOW	MEN	WOMEN	18-34	35-44	45-64	65+	ABC1	C2	DE
BASE	1003	377	357	81	99	7	82	484	519	332	174	329	168	395	315	293
GOOD JOB	57	82	35	57	47	72	46	55	59	57	56	57	60	65	56	48
BAD JOB	26	3	49	32	25	0	32	27	25	24	26	29	25	16	29	36
DON'T KNOW	17	15	16	11	28	28	22	18	16	20	18	14	15	19	15	16
B) DO YOU THINK THE BUDGET IS A FAIR ONE OR NOT?																
FAIR	60	89	39	56	42	35	49	59	61	63	60	58	61	68	62	49
NOT FAIR	36	8	59	37	50	52	43	37	34	33	38	37	35	28	36	46
DON'T KNOW	4	3	3	7	8	13	8	4	4	4	3	5	5	5	2	6

TABLE 6 BEARING IN A MIND THE COUNTRY'S ECONOMIC PROBLEMS, DO YOU THINK THAT THE BUDGET IS TOO TOUGH, NOT TOUGH ENOUGH OR ABOUT RIGHT?

	VOTING INTENTION							SEX		AGE				CLASS		
	18+									18-34	35-44	45-64	65+	ABC1	C2	DE
	ALL	CUNS	LAB	LIB	ALLIANCE /SDP	OTHER	DONT KNOW	MEN	WOMEN							
BASE	1003	377	357	81	99	7	82	484	519	332	174	329	168	395	315	293
TOO TOUGH	23	5	40	26	25	25	28	24	22	24	21	26	20	15	25	32
NOT TOUGH ENOUGH	10	9	8	12	13	15	14	10	9	11	10	9	9	12	9	8
ABOUT RIGHT	60	83	42	52	52	48	47	57	62	60	58	60	60	66	60	51
DON'T KNOW	7	3	10	9	10	13	11	8	7	6	11	6	11	7	6	9
B) HAS THE BUDGET MADE YOU MORE FAVOURABLY INCLINED OR LESS FAVOURABLY INCLINED TOWARDS THE GOVERNMENT?																
MORE FAVOURABLY	21	40	6	20	9	10	12	22	20	20	24	16	29	25	18	18
LESS FAVOURABLY	30	7	51	38	35	25	30	28	31	24	27	34	34	22	32	38
NO DIFFERENCE	47	52	42	41	53	66	50	48	47	55	48	46	35	51	48	42
DON'T KNOW	2	2	1	1	2	0	8	2	2	1	0	3	2	2	2	2

TABLE 7 DO YOU APPROVE OR DISAPPROVE OF THE FOLLOWING MEASURES IN THE BUDGET?

	VOTING INTENTION						SEX			AGE				CLASS		
	18+															
	ALL	CONS	LAB	LIB	ALLI ANCE /SDP	OTHER	DONT KNOW	MEN	WOMEN	18-34	35-44	45-64	65+	ABC1	C2	DE
BASE	1003	377	357	81	99	7	82	484	519	332	174	329	168	395	315	293
A) PRICE OF WINE DROPPED BY 13P A BOTTLE																
*****																
APPROVE	64	74	56	61	62	47	53	59	68	68	68	61	57	69	61	59
DISAPPROVE	26	18	32	32	30	27	29	32	20	26	24	27	26	22	28	29
DON'T KNOW	11	8	12	7	9	26	18	9	12	6	8	13	17	9	11	13
B) INCREASES IN THE PRICE OF PETROL																
*****																
APPROVE	20	29	14	13	25	10	14	25	16	25	18	15	26	27	17	15
DISAPPROVE	75	67	80	83	71	90	78	69	79	71	79	79	67	68	79	80
DON'T KNOW	5	4	6	4	5	0	8	5	5	4	3	6	7	5	5	6
C) REDUCTION IN THE STAMP DUTY ON HOUSES AND SHARES																
*****																
APPROVE	77	88	65	85	83	87	58	78	76	76	82	76	74	85	78	64
DISAPPROVE	12	6	18	7	4	0	27	11	12	11	11	14	10	8	12	17
DON'T KNOW	12	6	17	9	12	13	15	11	12	13	7	11	16	7	10	19
D) INCREASES IN THE PRICE OF BEER AND SPIRITS																
*****																
APPROVE	46	61	29	55	48	33	45	43	50	47	53	44	44	61	40	33
DISAPPROVE	44	28	63	37	43	54	42	49	39	46	39	47	40	31	49	56
DON'T KNOW	9	10	8	7	9	13	13	8	11	7	8	9	16	8	11	10
E) INCREASES IN THE PRICE OF CIGARETTES																
*****																
APPROVE	55	67	41	66	61	37	51	53	57	58	60	52	50	69	50	43
DISAPPROVE	38	27	53	31	32	50	37	39	38	36	34	41	41	25	43	50
DON'T KNOW	6	6	6	3	7	13	12	8	5	6	5	7	8	6	7	7

TABLE 7 DO YOU APPROVE OR DISAPPROVE OF THE FOLLOWING MEASURES IN THE BUDGET?

	VOTING INTENTION							SEX		AGE				CLASS		
	18+				ALLIANCE /SDP	OTHER	DONT KNOW	MEN	WOMEN	18-34	35-44	45-64	65+	ABC1	C2	DE
	ALL	CONS	LAB	LIB												
BASE	1003	377	357	81	99	7	82	484	519	332	174	329	168	395	315	293
F) ROAD TAX TO BE RAISED FROM £85 TO £90 A YEAR																
APPROVE	28	38	20	25	20	10	23	32	24	27	28	25	34	36	23	21
DISAPPROVE	67	57	73	72	74	90	68	63	70	69	68	69	57	59	70	73
DUN'T KNOW	6	5	7	3	6	0	9	5	7	4	4	6	10	5	7	6
G) NO TAX RELIEF ON NEW LIFE ASSURANCE POLICIES																
APPROVE	29	35	25	28	30	32	25	31	28	28	28	28	34	30	29	28
DISAPPROVE	54	50	57	61	51	55	53	55	53	55	61	55	40	55	56	49
DUN'T KNOW	17	16	19	11	19	13	22	15	19	17	11	16	25	15	15	23
H) TAX RATES STAY THE SAME BUT THE LEVELS AT WHICH TAX IS PAID IS RAISED																
APPROVE	68	81	55	74	73	72	51	68	68	68	74	68	62	78	64	59
DISAPPROVE	23	12	34	23	17	15	34	25	22	22	21	25	24	14	28	30
DUN'T KNOW	9	7	10	3	10	13	15	7	11	10	6	7	14	7	8	12
I) VAT TO BE ADDED TO TAKE-AWAY HOT MEALS																
APPROVE	19	35	8	12	15	23	11	19	19	21	23	14	23	27	15	13
DISAPPROVE	76	59	89	86	81	77	81	76	76	75	72	81	72	67	80	84
DUN'T KNOW	5	6	4	2	4	0	8	4	5	4	5	5	5	6	4	3
J) VAT TO BE ADDED TO HOME IMPROVEMENTS																
APPROVE	17	23	11	24	20	24	8	20	15	16	20	16	20	21	15	15
DISAPPROVE	77	71	84	71	74	76	86	75	80	79	78	79	70	74	80	78
DUN'T KNOW	6	5	5	5	6	0	7	5	6	5	2	5	10	5	5	7

TABLE 8 IF WE HAD A LABOUR GOVERNMENT RATHER THAN A CONSERVATIVE GOVERNMENT, DO YOU THINK THAT THE FINANCIAL AND ECONOMIC SITUATION OF THIS COUNTRY WOULD BE BETTER, WORSE OR ABOUT THE SAME AS IT IS?

	VOTING INTENTION							SEX		AGE				CLASS		
	18+				ALLIANCE /SDP	OTHER	DONT KNOW	MEN	WOMEN	18-34	35-44	45-64	65+	ABC1	C2	DE
	ALL	CONS	LAB	LIB												
BASE	1003	377	357	81	99	7	82	484	519	332	174	329	168	395	315	293
BETTER	25	2	58	17	10	39	11	27	23	25	22	26	26	15	26	37
WORSE	40	75	6	36	44	15	29	42	38	37	45	37	45	53	37	26
SAME	30	20	31	41	42	46	44	26	34	34	29	31	21	28	32	30
DON'T KNOW	5	3	6	6	3	0	16	6	5	4	4	6	8	4	4	7

B) AND SUPPOSING WE HAD AN ALLIANCE GOVERNMENT OF THE SOCIAL DEMOCRATS AND THE LIBERALS, DO YOU THINK THAT THE FINANCIAL AND ECONOMIC SITUATION OF THIS COUNTRY WOULD BE BETTER, WORSE OR ABOUT THE SAME AS IT IS?

BETTER	18	5	19	43	48	39	12	20	17	16	20	17	23	18	20	17
WORSE	25	38	22	12	4	15	20	26	25	30	25	25	18	25	30	21
SAME	37	36	36	40	37	46	41	35	39	38	34	37	39	42	31	37
DON'T KNOW	19	20	22	6	11	0	28	19	19	15	22	21	20	15	19	24



# Conservative Central Office

## South Eastern Area

Francis House Francis Street London SW1P 1DE  
Tel. 01-828 2987/8

Central Office Agent: JOHN LACY, CBE  
Deputy Central Office Agents: MISS AUDREY HELLIAR TONY GARRETT

1/5.

Rt. Hon. Nigel Lawson, MP.,  
11 Downing Street,  
London, S.W.1

9th April, 1984

Dear Mr. Lawson,

### South West Surrey By Election

Thank you very much for agreeing to speak at a meeting which is being held on Tuesday, 1st May in South West Surrey. The venue for this meeting has yet to be finalised and the final details of the engagement will be sent to you in due course direct from the South West Surrey Campaign Headquarters, 30 The Borough, Farnham, Surrey (Tel: 0252 716655).

I am sending you a copy of the Profile of the Constituency, the railway timetable, maps, etc.

Thank you once again for agreeing to speak on behalf of the Conservative Candidate.

Yours sincerely,

Audrey Helliar,  
Deputy Central Office Agent.

cc. Mr. G. McEvoy,  
Miss P. Stocken

H.M. TREASURY - MCU	
DATE	10 APR 1984
ACTION	Mr Portillo Mr Battishell Mr Makellam
SUB.	
REF No.	

GENERAL ELECTION RESULT - 9th JUNE 1983

	Votes	%
Macmillan (Conservative)	31,067	59.7
Scott (Liberal/Alliance)	16,716	32.1
Williams (Socialist)	4,239	8.2
<hr/>		
Conservative majority	14,351	27.6
<hr/>		

Electorate: 69,875  
Poll: 74.5%

SWINGS: 3.8% Soc to Con; 2.2% Con to Lib; 6.0% Soc to Lib

II REDISTRIBUTION

The constituency of South West Surrey was mainly the Farnham constituency before redistribution in 1983. The Parishes of Seale and Tongham (1,727 electors) were transferred from the Farnham constituency to the Guildford constituency.

The Parishes of Alfold, Burbridge, Hambledon and Hascombe and Dunsfold (3,204 electors) were transferred from the Guildford constituency to the Farnham constituency.

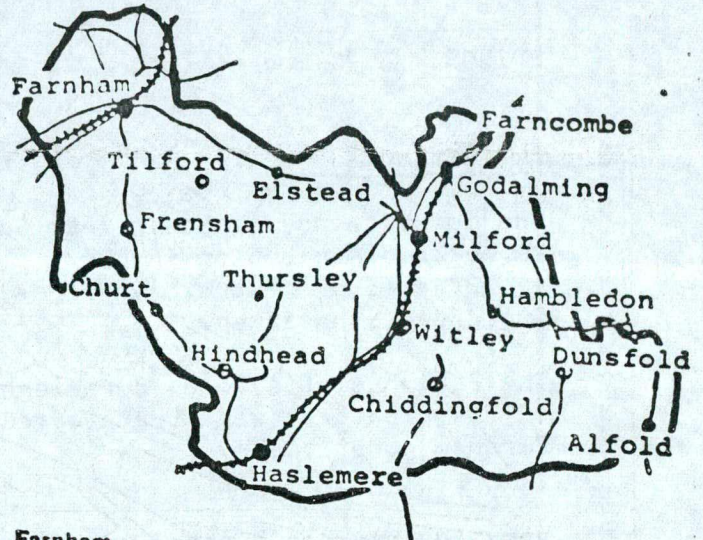
III PREVIOUS GENERAL ELECTION RESULTS FOR THE FARNHAM CONSTITUENCY

<u>February 1974</u>		<u>October 1974</u>		<u>May 1979</u>	
	%		%		%
Con	25,686 49.9	Con	23,885 49.9	Macmillan M (Con)	30,127 58.4
Lib	19,224 37.3	Soc	8,305 17.4	Davies P W (Soc)	7,497 14.5
Soc	6,347 12.3	Lib	15,626 32.7	Raynes P (Lib)	13,638 26.4
Ind	251 0.5			Bradford S (CPV)	204 0.4
<hr/>			<hr/>		
Con Maj	6,462 37.6	Con Maj	8,259 32.5	Peel R (UCP)	170 0.3
<hr/>			<hr/>		
Poll: 82.9%		Poll: 71.8%		Con Maj	16,489
<u>Swings:</u>		<u>Swings:</u>		Electorate: 73,251	
0.3 Soc to Con		2.5 Con to Soc		Poll: 79.1% (51,636)	
10.6 Con to Lib		2.3 Lib to Con		<u>Swings:</u>	
10.6 Soc to Lib		4.6 Lib to Soc		5.7 Soc to Con	
				7.4 Lib to Con	
				1.7 Lib to Soc	

IV SOUTH WEST SURREY CONSERVATIVE ASSOCIATION

<u>Agent</u>	<u>Chairman</u>	<u>Hon Treasurer</u>	<u>President</u>
Gerry McEvoy 30 The Borough Farnham Surrey 0252 716655 (Home: 0252 725548)	Peter E Brewer 49 Ridgway Road Farnham Surrey (Home: 0252 716569)	H K Thomson 16 Pine Bank Hindhead Surrey (Home: 042873 5916)	Mrs A Wetherall MBE Whispering Streams White House Walk Heath End Farnham Surrey (Home: 0252 24017)

**THIS IS SOUTH-WEST  
SURREY**



John Lacy  
Central Office Agent  
12 March 1984

**Farnham**  
Badshot Lea  
Hale and Upper Hale  
Heath End  
Rowledge  
The Bourne  
Weybourne  
Wrecclesham

**Haslemere**  
Grayswood  
Shottermill

**Frensham**  
Dockenfield  
Tilford

**Milford**  
Witley  
Brook  
Worinley

**Hindhead**  
Beacon Hill  
Churt

**Chiddingfold**  
Godalming  
Charterhouse  
Farncombe

**Elstead**  
Peper Harow  
Rushmoor  
Thursley

**Hambledon**  
Busbridge  
Hascombe

**Alford**  
Alford Crossways  
Dunsfold



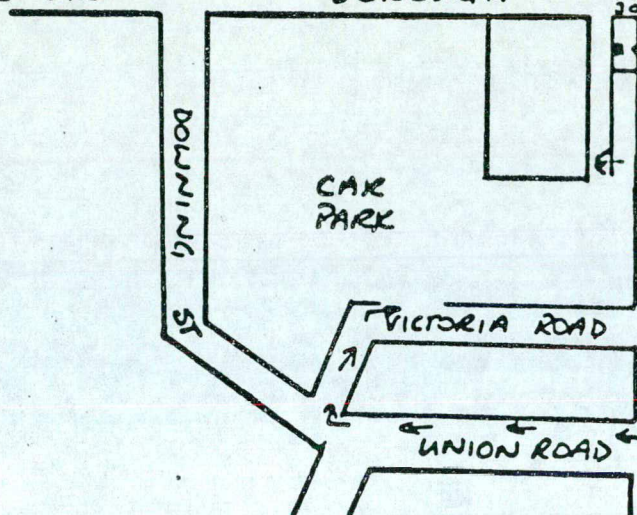
# FARNHAM



WEST STREET

BOROUGH

EAST STREET



--- Steps leading to Conservative Office  
 ..... Alleyway

MONDAYS to FRIDAYS

Table with columns for station names (Waterloo 55, Wimbledon 51, 55, Surbiton 55, Woking, Brookwood, Ash Vale, Aldershot, Farnham, Bentley, Alton) and departure times for various services.

MONDAYS to FRIDAYS—continued

Continuation of the Monday to Friday schedule table, listing station names and their respective departure times.

SATURDAYS

Table showing departure times for Saturdays, including stations like Waterloo 55, Wimbledon 51, 55, Surbiton 55, Woking, Brookwood, Ash Vale, Aldershot, Farnham, Bentley, and Alton.

SUNDAYS

Table showing departure times for Sundays, including stations like Waterloo 55, Wimbledon 51, 55, Surbiton 55, Woking, Brookwood, Ash Vale, Aldershot, Farnham, Bentley, and Alton.

MONDAYS to FRIDAYS

Table showing departure times for Mondays to Fridays, including stations like Alton, Bentley, Farnham, Ash Vale, Brookwood, Woking, Surbiton 55, Wimbledon 51, 55, and Waterloo 55.

MONDAYS to FRIDAYS—continued

Continuation of the Monday to Friday schedule table, listing station names and their respective departure times.

SATURDAYS

Table showing departure times for Saturdays, including stations like Alton, Bentley, Farnham, Ash Vale, Brookwood, Woking, Surbiton 55, Wimbledon 51, 55, and Waterloo 55.

SUNDAYS

Table showing departure times for Sundays, including stations like Alton, Bentley, Farnham, Ash Vale, Brookwood, Woking, Surbiton 55, Wimbledon 51, 55, and Waterloo 55.

A From Waterloo dep 2305, table 67 B Arr 3 mins earlier C From Ascot dep 2323, table 67

Conservative Central Office  
West Midlands Area

*Pls put in a file  
for visit + add  
CRO Brief on 5  
when it comes.*



18 Milverton Terrace, Leamington Spa, Warwickshire, CV32 5BA.

Telephone: Leamington Spa (0926) 27296/7/8

LW/LW

12th April, 1984.

*Dear Nigel,*

We are very grateful to you for promising to come to Stafford on Tuesday, 17th April, to address a meeting in support of our candidate, Bill Cash. This will be held in the Riverway School, Riverway, Stafford, commencing at 8.0 p.m.

From a telephone discussion I had with Michael Portillo, I understand you are likely to travel by road, and that you will wish to return the same evening. I would be grateful to have confirmation of your travelling arrangements and also to know whether you will wish to dine in Stafford after the meeting so that I can make the necessary plans.

I thought you would find it helpful to have some background information before you make your visit, and I am, therefore, enclosing copies of three Newsline that we have issued so far, a copy of Bill Cash's biographical notes as produced for the Press, and a copy of his introductory leaflet.

If you are in need of further information, no doubt Michael or one of your secretaries will telephone me on the Central Office private line which is 0785 - 212233.

Kind regards,

*Yours sincerely  
Bob*

R.H. Nigel Lawson, M.P.,  
Chancellor of the Exchequer,  
Treasury,  
Parliament Street,  
LONDON,  
SW1P 3AG.

**BILL  
CASH**  
THE RIGHT MAN FOR STAFFORD

**BILL CASH** is 43, married with three children, lives nearby, and is a solicitor. He was educated at Stonyhurst and at Lincoln College, Oxford.

His message to you is that he will fight for the interests of all constituents in both town and country.

He believes that the Government must continue with its aim of defeating inflation, and creating an increasingly healthy economy.

There are no easy solutions to the problems which confront Britain, but after the sacrifices of the last five years, job prospects are now at their brightest for ten years; inflation is at its lowest for 17 years; and output and investment are rising. He believes that only this Government with the policies it began in 1979, can build a safer, stronger and more prosperous Britain.

**Bill Cash** believes that Law and Order must be upheld, violence stamped out, and criminals brought to justice. He is in favour of the restoration of the death penalty.

As our M.P., he will offer Stafford those same qualities of principle, dedication and concern, that were the hallmark of his predecessor, Sir Hugh Fraser.

**Bill  
CASH**

**CONSERVATIVE**  
on  
**THURSDAY, 3rd MAY**

If you would like to contact **Bill Cash** or offer help ring 0785 - 52273 or call at his Election H.Q., Castle Street, Stafford. (behind the Windmill)

---

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PLEASE DISPLAY THIS IN YOUR WINDOW

**BILL**

**CASH**

**THE RIGHT MAN  
FOR  
STAFFORD**

RESTRICTED

FROM: P F CHAMBERS  
DATE: 12 April 1984

MISS M O'MARA

SECURITY ARRANGEMENTS, 11 DOWNING STREET

Mr Joce has once again brought to my notice two security breaches which occurred recently at No.11.

The extracts from the Custody Guards' records quoting brief details of the breaches are attached.

I pass them on to you for whatever action you consider appropriate.

~~David~~

Do you want to loan  
a word?

M.

~~Margaret~~

Not much.

David

P F CHAMBERS

5-4-84

0250

Chancellor's study, files containing  
confidential papers which were also  
apparently Cabinet Papers, were  
found on this patrol. Study locked  
and key kept in my possession  
overnight and handed to messenger  
in the morning.  
Papers found by Mr Nash

W. Nash  
Name

4/4/84

0230

Chancellor's study  
Confidential papers on clerk. I locked  
study and handed the key to the  
messenger.

M. J. Val



FROM: M D X PORTILLO  
DATE: 13 APRIL 1984

CHANCELLOR

cc Mr Scholar (Economic  
Mr Folger draft only)

PRESS RELEASE FOR STAFFORD BY-ELECTION

I have written you two alternatives: one dealing with the Labour Party and its attitude to the miners' dispute; the other with more run of the mill economic matters. It may be that you find the one concerning the miners too trenchant or that it will be inappropriate by next week.

*Briefing for MISC  
101 suggests you  
wouldn't want to see this*

2. Perhaps you could let me know whether you would like speech notes for the occasion.

*With a hand-out for Monday's CPC speech & for Wednesday's COTF speech, I would think I need a hand-out for Tuesday's week.*

M D X PORTILLO

*are on the notes on with plenty of topical issues - but see helpful. SLO for Portillo on something on Monday. M*

DRAFT PRESS RELEASE FOR CHANCELLOR AT STAFFORD BY-ELECTION


The job of the official Opposition is not just to oppose the government, but also to show to the country that it would be fit to form an alternative government if a general election were called.

The Labour Party has failed that test - absolutely. Nothing demonstrates that more clearly than their conduct during the miners' dispute.

On all the important issues raised by the mass picketing of the pits, they have had nothing to say. No opinion to give, no leadership to offer. Asked whether men who want to work have a right to work, they have kept their counsel. Asked whether mass picketing by thousands of men is intimidatory, they have remained mum. Asked whether the miners have a moral right to express their views in a national ballot, the Labour leaders have held their tongues.

This opting out, this refusal to commit themselves, this dereliction of duty would be bad enough. But Labour has done much worse. Embarrassed by their own divisions, they have turned on the police. Mr Kinnock's motto could be, "When in doubt, placate your left-wing." And what better to placate them, than an attack on the forces of law and order?

That the Labour Party is still the slave of the trade unions, is clear enough. That the policies of a Labour government



would be dictated by the militants is beyond doubt.

But the length to which Labour will go to gratify its masters is still appalling.

In a party that aspires to govern, it is unworthy. In one who would be Prime Minister, it is impossible. But there is little danger of either. These are matters that the British public will keep in its memory.

DRAFT PRESS RELEASE FOR CHANCELLOR AT STAFFORD BY-ELECTION  
(Alternative)

The economy is doing well. The recovery is well under way. Today we have strong growth and low inflation. That is the "winning combination" that I have often spoken of. But unemployment is still too high. That is a sign that our economy could work better. Our policies are designed to help it do so.

What happens in our economy is the product of the actions of millions of people. So to make the economy work better, we have to help them to succeed and make it more worthwhile for them to do so. The changes in the budget point in that direction. By raising the personal tax allowances, we leave people with more of their own money. That makes it more worthwhile for people out of work to look for a job, and more worthwhile for people in work to work harder, gain promotion or look for a better job.

We want people to have something to show for their success. That is why our housing policies are designed to make it easier for people to own their own home. And easier too to move to where the jobs are.

The success of our economy also depends on the performance of our businesses. And British business still needs to do better. On the whole, British companies have put their

money into projects that have not made enough profit for them: not nearly as much as their competitors in France, Germany and the USA - let alone Japan. That needs to change, because profits are what provide growth and growth can bring new jobs.

We undertook a major reform of company taxation in the Budget. We did so because the old rules seemed to encourage companies to put their money where it would save tax, and not where it would truly make the best profit. Our new system will give smaller tax subsidies, but also much lower rates of tax so that companies can make higher profits.

I believe that can help Britain to produce new jobs. And to help us on our way, we have abolished Labour's hated tax on jobs, the national insurance surcharge.

People in this country still pay too much tax, and many people on low incomes are today caught in the income tax net, who should not be there at all. The present burden of tax is not only unfair on those people, it is an important drag on our economy. We must reduce that burden further.

We can do so in the years ahead. But only if we keep government spending firmly under control. If we can just do that, as the economy grows, we shall have the room to cut taxes. And as we cut taxes, we can expect the economy to grow faster.

Fortunately, we do not need to cut our spending. But we do need to hold it tightly where it is.

On some things, we shall clearly need to spend more. But that means, that on others we shall have to spend less to keep the balance. Our economy desperately needs a few years of such tight restraint, a few years in which to get the burden of tax down to the sort of levels we had twenty years ago.

If we can do so, the economy will work better, and we can enjoy steady growth year after year. And then we should find ourselves in a position where some modest increase in government spending would once more be possible without great harm to the economy. But only if we keep that spending under firm control over the next few years.

Donna - to note  
M. Waite will  
TB



The earlier version of this  
note went missing.

The 1st 3 days next week  
cd be quite busy  
getting things done before  
your holiday. And the  
CST will be away.

On the other hand it is  
Recess; & the PM will  
be in Portugal.

That

I will do that - as I  
indicated on the  
typical original! M.



17/4.

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Chancellor

Stafford By-election

Sir Anthony Garner has been pressing all day for you to say "yes" to visiting the by-election on Tuesday 17 April, to address a meeting in the evening. 2hrs journey.

Urgent answer required as other ministers cannot be slotted in until your position known!

MDXP 10/4.





Many apologies - I  
just forgot to  
send this to you.  
M.



# H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 .....

M D X Portillo  
Special Adviser

*OK - psk fix  
Frank & Mike  
don't  
M.*

CHANCELLOR

Stafford By-election

Sir Anthony Garner is very anxious that you should go to the Stafford by-election (as well as Surrey) if at all possible. The only date that you could possibly do is Tuesday 17 April, so far as I can see.

Reaction?

M D X PORTILLO

10 April 1984

5.00 pm Dept; Euston  
8.00pm Mr; Riverway School  
Riverway, Staffs.

FROM : M D X PORTILLO  
DATE : 16 APRIL 1984

MISS C ASH

cc Miss Young

STAFFORD 17 APRIL

Could you please meet the Chancellor near Stafford in order to bring him back to London?

Leave M6 motorway at Junction 13 (Stafford) and follow signs to Stafford. Road (A449) will lead you back under the motorway. Proceed along A449 for  $\frac{1}{4}$  or  $\frac{1}{2}$  mile to first layby on left and wait there. Please be in position at 9pm and expect us 9.15-9.30pm.

Many thanks.



M D X PORTILLO