

PO-CH/NL/0075
PART A

Part A

SECRET

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Begins: 18/7/83
Ends: 20/5/84



PO -CH /NL/0075



PART A

Chancellor's (Lawson) Papers:

**MINISTERIAL SPEECHES AND
SPEAKING ENGAGEMENTS FOR
1984**

NL/0075

PO -CH

PART A

Disposal Directions: 25 years

D. H. Jones

25/7/95

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

From
Sir Campbell Fraser
President

23/5

HM TREASURY - MCU	
REC'D.	20 JUL 1983
ACTION	Miss Jones 13/2
	Mrs. Ann
SIGNATURE	
REF. No.	

CBI
CONFEDERATION OF
BRITISH INDUSTRY

18th July 1983

Dear Nigel,

Thank you for your letter. We are all delighted that you are able to be the Principal Guest and Speaker at the CBI Annual Dinner next year on Wednesday 23rd May.

Our offices will, of course, be in touch nearer the time concerning the arrangements.

*Yours,
Campbell.*

The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Treasury Chambers,
Parliament Street,
London, SW1P 3AG



23/5.

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

4 July 1983

Sir Campbell Fraser
President
Confederation of British Industry
Centre Point
103 New Oxford Street
LONDON WC1A 1DU

A large, cursive handwritten signature in black ink, reading 'Sir Campbell Fraser'.

Thank you for your letter confirming your invitation for me to be Guest Speaker at the CBI Annual Dinner next year.

The date you suggest is fine with me and I look forward to joining you that evening.

NIGEL LAWSON

A large, cursive handwritten signature in black ink, reading 'Nigel Lawson', with a horizontal line underneath.

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

From
Sir Campbell Fraser
President

cc Mr Battisell
Mrs Jinner
Mr RIGAUEN
Mr Hall
Mrs McKenney
Mr Hard
Mr Ridley

CBI

CONFEDERATION OF
BRITISH INDUSTRY

28th June 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1P 3AG

Dear Nigel,

As I mentioned on Wednesday I would be delighted - and I know our members would too - if you were able to be our Principal Guest and Speaker at the CBI Annual Dinner next year.

The Dinner has established itself as a key event in the business calendar with around 1,200 CBI members and their guests attending.

It will be held at the Hilton, and our preferred date is Wednesday 23 May, although we could look at other alternatives if necessary.

I do hope I shall be able to welcome you as our Principal Guest, and that you will by then be looking back on a very successful first year in office.

Yours,

Campbell

Chancellor

*You are free
on 23 May
DM*

*OK
M*

CC MR BATTISHELL
MS GOODMAN
MR MAREHAM
MR LORD
MR PORTILLO

Chancellor,



CONSERVATIVE POLITICAL CENTRE

32 SMITH SQUARE · WESTMINSTER · LONDON SW1P 3HH
TELEPHONE: 01-222 9000

Are You Interested?

Await Advice? ✓

DB

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
LONDON
SW1P 3AG

HM TREASURY - MCU	
RECD.	28 NOV 1983
ACTION	Miss Young B/L
SIGNATURE	
REF No	

24th November 1983

Dear Nigel,

Each year when Sir Geoffrey Howe was Chancellor of the Exchequer, and indeed when he was Shadow Chancellor, the CPC arranged for him a meeting in The Accountants' Hall in the City of London to talk to City workers about The Economic Situation in general, and the Budget in particular. This was normally held between the Budget and the publication of the Finance Bill, on a date when Sir Geoffrey was free and the Hall available. It was timed for 5.30 to 6.45 p.m., and a cash bar was available half-an-hour before and immediately after the session. Entry was by ticket only for which a charge was made. Despite this, we never had less than 350 City workers present.

If you would like us to arrange a similar function for you, we will be very happy to do so. Should the idea appeal to you, please let me know and I will talk to Adam Ridley about suitable dates, and also set up a Sub-Committee in the City of London to make the arrangements.

Yours

David

David Knapp
Director



HOUSE OF COMMONS
LONDON SW1A 0AA

HM TREASURY - MCI	
RECD.	- 5 DEC 1983
ACTION	Mr Bathurst
	Mrs Godman
	Mr Makeham
	Mr Lord
	Mr Fortille
SIGNATURE	
REF No	

30th November, 1983

Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Great George Street,
London, SW1.

Dear Nigel,

I am delighted to hear from your Private Office that you are able to be Chief Guest at the Benton & Bowles Luncheon Forum on Wednesday, 27th June 1984.

I will, of course, write to you again nearer the time with a list of guests who are attending and to finalise the arrangements.

Yours ever,

Michael Morris

cc: Mark Lennox Boyd, Esq., MP
Bruce Rhodes, Esq.



HOUSE OF COMMONS
LONDON SW1A 0AA

HM TREASURY - MCO	
REC'D	26 JUL 1983
ACTION	Mr Battisell Mrs Dunin Mr Hard
SIGNATURE	
REF No.	

27th July, 1983

Rt. Hon. Nigel Lawson, QC, MP,
Chancellor of the Exchequer,
HM Treasury,
Great George Street,
London, SW1.

Dear Nigel,

Over the years I have organised the Benton & Bowles Luncheon Forum which is basically a Forum for leading industrialists to meet a senior politician for an off-the-record session. You will see from the enclosed list of previous Speakers that I have been very fortunate in those who have agreed to attend.

I would like to organise a Forum in February 1984 at a lunchtime any Monday - Thursday. The venue is the offices of Benton & Bowles Ltd., at 197 Knightsbridge. We meet at 12.30 for 12.45 and finish by 2.45 pm at the latest. There will be approximately 50 guests who will, in the main, be Managing Directors of companies like Procter & Gamble, General Foods and other leading consumer goods companies.

The format is a buffet luncheon followed by an off-the-record session of question and answers. It would be a very great honour if you would agree to be our next Speaker.

I look forward to hearing from you in principle and then I can agree a specific date with your Private Office.

Yours ever,

Michael Morris

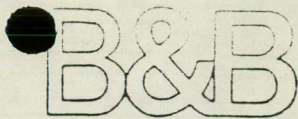
*Chancellor
February v. busy
time. Regrets? ✓
m*

Enc:



BENTON & BOWLES - FORUM SPEAKERS

Harold Wilson	1964
Edward Heath	1964
George Woodcock	1964
Professor Alan Bullock	1965
John Lynch	1965
Jo Grimond	1965
James Callaghan	1965
Reginald Maudling	1965
Enoch Powell	1965
Ray Gunter	1965
Lord Thomson of Fleet	1966
Alastair Burnet	1966
T. Dan Smith	1966
Cecil H. King	1967
Woodrow Wyatt	1968
Dr. Arthur F. Earle	1968
Desmond Donnelly	1968
Michael Shanks	1968
Michael Peacock	1968
Tom Margerison	1969
Sir Richard Marsh	1970
Edmund Dell	1970
Harold Lever	1970



Clive Jenkins	1970
Christopher Chataway	1970
Sir John M. Hill	1971
Robert Carr	1972
Sir Geoffrey Howe	1973
Joe Gormley	1973
Jack Jones	1973
Mrs. Renee Short	1973
Jeremy Thorpe	1974
Mrs. Shirley Williams	1975
Sir Keith Joseph	1975
Hugh Scanlon	1976
Sir Kenneth Berrill	1976
Michael Heseltine	1976
Len Murray	1977
Joel Barnett	1977
James Prior	1978
C.C.P. Williams	1978
Terry Duffy	1979
Sir Geoffrey Howe	1979
John Nott	1980
Dr. David Owen	1981
Francis Pym	1981
Shirley Williams	1982
Cecil Parkinson	1982
Roy Jenkins	1983

M. attach mps.
JW.

FROM : M D X PORTILLO
DATE : 6 DECEMBER 1983

CHANCELLOR

cc Mr Ridley
Mr Lord
Mr Makeham
Miss Young

INVITATION FROM CPC TO ADDRESS CITY WORKERS

I have sought Adam Ridley's advice on the assertion that the last Chancellor invariably accepted the invitation from the CPC to address a large group of city workers at some time after the Budget. Adam's recollection is that Sir Geoffrey did ^{always} accept, although on one or two occasions, last minute pressures may have forced him to send along another Minister as substitute. The gathering was thought to be useful.

2. May I suggest that you might like to accept this invitation in view of the precedent, but in your letter of reply to David Knapp, you might wish to point out that you cannot guarantee, like your predecessor, to accept the invitation every year.

Agreed -
John for
was made. etc.

M D X PORTILLO



cc Mr Baddock
Mrs Goodman
Mr Makeham
Howard
Mr Portillo

16/4

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

14 December 1983

David Knapp Esq
Director
Conservative Political Centre
32 Smith Square
LONDON SW1P 3HH

Thank you for your letter inviting me to speak about the economic situation and the Budget at a CPC City meeting.

I would be happy to do this. Could you contact my diary secretary, Donna Young on 233 5487, to discuss possible dates?

I must just point out, however, that I cannot guarantee, like my predecessor, that I will be able to accept this invitation every year.

NIGEL LAWSON



CONSERVATIVE POLITICAL CENTRE

32 SMITH SQUARE · WESTMINSTER · LONDON SW1P 3HH

TELEPHONE: 01-222 9000

Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

21st December 1983

Dear Nigel,

CPC City Meeting

Thank you for your letter of December 14th.

I am delighted you would like us to arrange a meeting in the city for you after the Budget, and I will get in touch with Donna Young as you suggest to arrange a convenient date.

Yours

David.

David Knapp
Director



cc Mr Balthwell
Ms Goodman
Mr Makeham
Mr Lord
Mr Portlie

16/4

CONSERVATIVE POLITICAL CENTRE

32 SMITH SQUARE · WESTMINSTER · LONDON SW1P 3HH

TELEPHONE: 01-222 9000

Miss Donna Young
Office of the Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1H 0ET

3rd January 1984

Dear Miss Young,

Miss Donna Young

Further to our conversation yesterday, I am writing to confirm that I have booked the Great Hall at the Institute of Chartered Accountants, Moorgate Place, London EC2, for the early evening of Monday 16th April 1984. We would like the Chancellor to come at 5.30 p.m., to talk for about 20 - 25 minutes and then to answer questions from the audience until 6.45 p.m. We are expecting an audience of about 300, and the Press will be invited.

I will be sending Mr Lawson full details of the meeting nearer the date, but I would be grateful if in the meantime you would tell him how pleased we are that he can come that evening.

*Yours sincerely
David Knapp.*

David Knapp
Director

COVERING CONFIDENTIAL

6 (P) 107

FROM: P MAKEHAM
DATE: 23 JANUARY 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Mr Battishill
Mr Folger
Mr Hall
Miss Young
Ms Goodman
Mr Ridley
Mr Lord
Mr Portillo

MINISTERIAL SPEAKING ENGAGEMENTS

I attach a forward programme of all Ministerial speaking engagements. This is based on the information on speech invitations to Treasury Ministers which we now keep on a computer system. The forward programme will be circulated regularly, every fortnight.

Peter Makeham

P MAKEHAM

MINISTERIAL SPEAKING ENGAGEMENTS AS AT 20 JANUARY

DATE 1984	MINISTER		OFFICIAL SPEECHES AND MEDIA APPEARANCES*	PARTY SPEECHES
	CHX	OTHERS		
JANUARY				
23		CST	Wilton Park Conf	
24		CST	Canadian Inst Internat Affairs	
24	CHX			Cons Trade and Ind
26		EST	Beds Soc of Accountants	
29	CHX		*Money Programme	
FEBRUARY				
03		MST	Civil Service Club	
10		CST	Nat Fed Building Trades (South)	
13		FST	Nationwide BS	
16		CST	*PEWP	
21		CST	Army Staff Coll	
24		EST	Halifax BS	
MARCH				
13	CHX		Budget	
30		MST	Devon Soc of Accountants	
30	CHX		Manchester Industrialists	
APRIL				
03	CHX		1900 Club	
04		CST		Cons Small Business
06	CHX		British Shoe Corp	
09	CHX		Internat. Assoc. Energy Economists	
10		FST	Assoc Ec Reps London	
10		MST	Drinks Marketing Club	
11		CST	Royal Coll Defence	
12		CST	Cons Ind Fund	
13	CHX			Rugby CC
16	CHX			CPC (City)
18	CHX		EEF	
MAY				
01	CHX			Richard Ottaway MP
04	CHX		Trial of the Pyx	
09	CHX			Scottish Cons Party
11	CHX			East Mids Area
12		MST		Mr Syedian
14		CST	Inst Ch Accountants	
17	CHX		AIT	
23	CHX		CBI	
30	CHX		Top Hole Club	

CONFIDENTIAL

JUNE

11	CHX		Dr Rhodes Boyson
11-22	CHX	Mais Lecture	
19	CHX	Thirty Club	
27	CHX		Benton/Bowles Lunch

JULY

02	CHX	Exxon	
11	CHX		M Macmillan
18	CHX		Selsdon Group

AUGUST

SEPTEMBER

12	CHX	Abbey National	
24	CHX	IMF	

OCTOBER

18	CHX	Mansion House	
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NOVEMBER

		[Autumn Statement]	
26	CHX		Portcullis Club

1985

09/09	CHX	Int Fiscal Assoc	
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Date to be arranged

	EST	Nat Fed Self Employed
CHX		Deutsche Gesellschaft
CHX		IOD Leicester

PM

FROM: P MAKEHAM
DATE: 24 February 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Mr Battishill
Mr Folger
Mr Hall
Miss Young
Ms Goodman
Mr Ridley
Mr Lord
Mr Portillo

MINISTERIAL SPEAKING ENGAGEMENTS

I attach the forward programme of all Ministerial speaking engagements.

Peter Makeham

P MAKEHAM

MINISTERIAL SPEAKING ENGAGEMENTS AS AT 24 FEBRUARY 1984

DATE 1984	MINISTER		OFFICIAL SPEECHES AND MEDIA APPEARANCES*	PARTY SPEECHES
	CHX	OTHERS		
MARCH				
Week 5-11				
Thurs 8		EST	Cons Euro Candidates	
Week 12-18				
Tues 13	CHX		Budget	
Thurs 15	CHX		*Jimmy Young	
Sat 17		FST		Esher C A
Sun 18	CHX		*Weekend World	
Week 19-25				
Week 20-01 Apr				
Wed 28		CST		Carshalton CA
Fri 30		MST	Devon Soc of Accountants	
Fri 30	CHX		Manchester Industrialists	
Fri 30	CHX			M Lennox-Boyd MP
APRIL				
Week 2-8				
Tues 3	CHX		1900 Club	
Wed 4		CST		Cons Small Business
Fri 6	CHX		British Shoe Corp	
Fri 6	CHX			Claybrooke Rectory
Week 9-15				
Mon 09	CHX		Internat. Assoc. Energy Economists	
Tues 10		FST	Assoc Ec Reps London	
Tues 10		MST	Drinks Marketing Club	
Wed 11		CST	Royal Coll Defence	
Thurs 12		CST		Cons Ind Fund
Thurs 12		FST		Pimlico C C
Week 16-22				
Mon 16	CHX			CPC (City)
Tues 17		FST	IOD	
Wed 18	CHX		EEF	
Week 23-29				
Week 30 - 6 May				
Mon 30		CST		Westminster YC

MAY

Tues 1	CHX			Richard Ottaway MP
Fri 4	CHX		Trial of the Pyx	

Week 7-13

Wed 9	CHX			Scottish Cons Party
Wed 9		CST		Cons City Industrial Liaison Coun
Sat 12		MST		Mr Syedian

Week 14-20

Mon 14		CST	Inst Ch Accountants	
Wed 16		CST	Institute of Taxation	

Week 21-27

Wed 23	CHX		CBI	
Wed 23		CST		Carlton Club

Week 26-3 June

Wed 30	CHX		Top Hole Club	
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JUNE

Week 4-10

[Fri 8 - Sun 20			[Economic Summit]	
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Week 11-17

Mon 11	CHX			Dr Rhodes Boyson
11-22	CHX		Mais Lecture	
Wed 13	CHX		Assoc American Correspondents	
Fri 15		CST	EEF	

Week 18-24

Tues 19	CHX		Thirty Club	
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Week 25 - 1 July

Wed 27	CHX			Benton/Bowles Lunch
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JULY

Week 2-8

Mon 2	CHX		Exxon	
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Week 9-15

Tues 10		CST	SOLACE	
Wed 11	CHX			M Macmillan
Wed 11		CST	Heating/Ventilating Contractors Assoc	

Week 1-2

Tues 17 CHX
Wed 18 CHX

Cons Ind Fund
Selsdon Group

Week 23-29

Week 30 - 4 Aug

AUGUST

Week 6-12

Week 13-19

Week 20-26

Week 27-2 Sept

SEPTEMBER

Week 3-9

Week 10-16
Wed 12 CHX

Abbey National

Week 17-23

Week 24-30

Mon 24 CHX

IMF

OCTOBER

Tues 18 CHX

Mansion House

NOVEMBER

Fri 2 CHX

[Autumn Statement]
IOD Leicester

Mon 26 CHX

Portcullis Club

DECEMBER

Tues 11 CHX

IOD

1985

JANUARY

Wed 23 CHX

John Lee

SEPTEMBER

Mon 9 CHX

Int Fiscal Assoc

Date to be arranged

CHX

EST

Deutsche Gesellschaft
National Fed Self Employed
Conservative Party Dinner

CHX



The National Union of Conservative
and Unionist Associations

32 Smith Square Westminster London SW1P 3HH
Tel. 01-222 9000 Telex 8814563

cc Mr Balfour
Mr Goodman
Mr Mackinnon
Mr Burtell

Please reply to :

39/40 St. James's Place,
LONDON, SW1

Tel : 01 - 493 3178

Howver the time we
will obviously have to
discover what the
particular subject
is
7th March 1984

See Mr Young,

This is just to confirm our telephone conversation
of the other day and that we have booked dinner with the
Chancellor on the 26th June.

The dinner will be held in the Disraeli Room
of the Carlton Club. Timing will be 7.00 for 7.30 pm.
The dinner will hopefully be over by about 8.40 pm and I
will then introduce the Chancellor, ask him to speak on
a particular subject and then be available to answer questions
from upwards of 20 businessmen who will be present.

We will need the pleasure of his company until
about 10.30 pm to make it a worthwhile discussion.

*Yours sincerely
B. de L.*

Ms. D. Young



The National Union of Conservative and Unionist Associations

32 Smith Square Westminster London SW1P 3HH
Tel. ~~01-212 9000~~ Telex 8814563

Please reply to :
39/40 St. James's Place
LONDON, SW1
Tel : 01 - 493 3178

HM TREASURY MCU	
REC'D.	8 FEB 1984
ACTION	Mr Battishead Ms Goodman Mr Makelham Mr Portillo

A date well after Budget is possible

if you are willing 8th February 1984

Be subject to date Ms.

Ivan Nigel

I recently had a meeting with Willie Whitelaw to see if I could be of any help in his additional responsibilities of coordinating Government information. As a result, he has asked me to visit him from time to time.

You may know that over the past few years, I have organised and hosted over 30 working dinners to enable Ministers to meet opinion formers and other interested parties in their particular sphere of responsibility. They have covered a wide range of subjects, including British Industry, the Arts, Sports, Trade Unions, Design, the National Health Service, problems of young people, the Common Market and Taxes.

Willie suggested that I should contact you to see if you would be the guest of honour at a dinner to meet Managing Directors or owners of medium or smaller businesses. Although you must have regular contact with the larger companies and with the City, businessmen from the smaller companies may not have the same access to you.

I write to ask you, in principle, whether you will be agreeable to do this, and then I can ring your Diary Secretary to arrange a convenient date, obviously well after the Budget.

Normally I invite up to 20 people to a private room at either the Carlton Club or Lockets, at 7.00 pm for 7.30 pm.

Informal

/continued.....

Dinner is normally over by 8.40 pm and I then introduce the guest of honour and we have 1½ hours or so for discussion.

This has proved to be an extremely valuable formula over the years, and I look forward to hearing from you as and when convenient.

Yours ever
David

The Rt. Hon. Nigel Lawson, MP



CH/EXCHEQUER	
REC.	-7 MAR 1984 113
ACTION	MR BATTSHILL.
COPIES TO	MR WITLER
	MR VOOLO.
	MR SCHOLAR.

plp.

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

7 March 1984

Dear Margaret,

I enclose the press handout wh. will form the basis of the speech which Lord Whitehorn is to give this evening to UK members of the European Democratic Group.

I am sorry about the very short notice, but it would be very helpful if you could let me know before lunchtime if there is any objection to any of the references to the economy.

I am sending copies also to Bernard Ingham and to Stephen Sherborne in No. 10.

Yours ever,

Janet Leini-Jones.

Ms. Margaret D. Mara

PS/ Chancellor of the Exchequer

SPEECH BY LORD WHITELAW TO MEMBERS OF THE EUROPEAN PARLIAMENT
KENSINGTON, 7 March 1984

You have invited me this evening to speak to you about the political situation at home. We have always said that we would need at least two Parliaments to carry through our large and ambitious programme. Our aim was completely to turn the tide with which this country was drifting, and that cannot be done quickly. In the first Parliament, we laid the solid foundations for change. In the second Parliament we are going to build upon those same solid foundations.

The resounding majority we were given in last May's Election showed clearly that we have the country's support for that consistent strategy. We will not let the voters down through a failure of will or determination to do what we always promised.

Can I take you back to the purposes for which this Government was re-elected, with that stunning majority? It was carry through the restoration of:

- our individual responsibility;
- our economic fortunes; and
- our authority in the world.

And this Government is working hard - and successfully - at all three. Already it has brought about a remarkable change on all three fronts. Let us take them in order.

First, restoring individual responsibility

You know as well as I that the Government took office in 1979 with the country in such a state that procrastination had been redefined: never do for yourself today what the State will do for you tomorrow. Under Socialism, we had become a largely

dependent nation rather than the independent, self-reliant people we British have always been. You know that this Government has stopped that rot. You know that this Government is pursuing policies which seek to give people the opportunity to manage their own lives and to retain more of the rewards from their own efforts, skills and enterprise.

This is because this Government believes in our people - in the overwhelming power of a free people making their own way in the world and building for their future and that of their families.

This leads me to the second task we were re-elected to carry out: to restore our economic fortunes.

We acquired responsibility for a country in which the whole tendency was to spend what had yet to be earned - to mortgage the future. Today Britain is a place where we earn our keep - where we create wealth first and spend it later.

Public expenditure is under control, We are borrowing proportionately less than any other country in Europe. We have paid off a lot of international debt. Industrial efficiency is rising. Our goods are more competitive. We are creating the wherewithall for a better life.

And inflation has been driven down to its lowest level for more than a decade. We aim to get it lower - and keep it lower - and make sound money a reality.

At the same time we are following the only route to lower unemployment - the creation of a vigorous risk-taking competitive society which provides new jobs through its ability to produce goods and services which people want to buy - and buy again and again.

This is the practical, wealth-creating way of discharging our responsibilities to the sick, the disabled, the aged and the infirm. It is one thing to feel compassionate. It is entirely another thing to practise compassion. But that is what this Government intends to safeguard its ability to do.

And so we come to the third task the Government was elected to carry out: to restore our authority in the world.

Under Margaret Thatcher our international stock has risen and continues to rise. This is because under her leadership, the world knows where Britain stands - four square for plain speaking and plain dealing. And that goes for the Western Alliance, for the European Community and for the Soviet Union and Eastern Europe.

We are a loyal ally, a positive partner and not least a resolute defender of our way of life, though determined to find a way of living in peace with the Communist bloc.

This, then, is the kind of Britain Mrs Thatcher's Conservative Government has wrought in less than five years. There is still much to do, and this Government is going to do it.



CH/EXCHEQUER	
NO.	- 7 MAR 1984
TO	Mr BATTSHILL Mr HILLER Mr Knowles Mr SCHOLAR

COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

7 March 1984

Dear Margaret,

I enclose the press handout which will form the basis of the speech which Lord Whitehall is to give this evening to UK members of the European Democratic Group.

I am sorry about the very short notice, but it would be very helpful if you could let me know before lunchtime if there is any objection to any of the references to the economy.

I am sending copies also to Bernard Ingham and to Stephen Sherborne in No. 10.

Yours ever,

Janet Linn-Jones

Mrs. Margaret D. Munn

PS/ Chancellor of the Exchequer

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We acquired responsibility for a country in which the whole tendency was to spend what had yet to be earned - to mortgage the future. Today Britain is a place where we earn our keep - where we create wealth first and spend it later.

Lowenthal is lower. Greeway forecast to be lower in 1984

Public expenditure is under control, *Our borrowing is one of the lowest among the major OECD countries* We are borrowing proportionately less than any other country in Europe. We have paid off a lot of international debt. Industrial efficiency is rising. Our goods *have become* more competitive. We are creating the wherewithall for a better life.

And inflation has been driven down to its lowest level for more than a decade. We aim to get it lower - and keep it lower - and make sound money a reality.

At the same time we are following the only route to lower unemployment - the creation of a vigorous risk-taking competitive society which provides new jobs through its ability to produce goods and services which people want to buy - and buy again and again.

This is the practical, wealth-creating way of discharging our responsibilities to the sick, the disabled, the aged and the infirm. It is one thing to feel compassionate. It is entirely another thing to practise compassion. But that is what this Government intends to safeguard its ability to do.

And so we come to the third task the Government was elected to carry out: to restore our authority in the world.

Under Margaret Thatcher our international stock has risen and continues to rise. This is because under her leadership, the world knows where Britain stands - four square for plain speaking and plain dealing. And that goes for the Western Alliance, for the European Community and for the Soviet Union and Eastern Europe.

We are a loyal ally, a positive partner and not least a resolute defender of our way of life, though determined to find a way of living in peace with the Communist bloc.

This, then, is the kind of Britain Mrs Thatcher's Conservative Government has wrought in less than five years. There is still much to do, and this Government is going to do it.

1913



CH/EXCHEQUER	
REF.	- 7 MAR 1984
TO	Mr. BATTSHILL. Mr. HILLIER. Mr. KNOWLES. Mr. SCHOLAR.

COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

7 March 1984

Dear Margaret,

I enclose the press handout which will form the basis of the speech which Lord Whitehall is to give this evening to UK members of the European Democratic Group.

I am sorry about the very short notice, but it would be very helpful if you could let me know before lunchtime if there is any objection to any of the references to the economy.

I am sending copies also to Bernard Ingham and to Stephen Sherborne in No. 10.

Yours ever,

Janet Linn-Jones.

Mrs. Margaret D. Maura

PS/ Chancellor of the Exchequer

SPEECH BY LORD WHITELOW TO MEMBERS OF THE EUROPEAN PARLIAMENT
KENSINGTON, 7 March 1984

You have invited me this evening to speak to you about the political situation at home. We have always said that we would need at least two Parliaments to carry through our large and ambitious programme. Our aim was completely to turn the tide with which this country was drifting, and that cannot be done quickly. In the first Parliament, we laid the solid foundations for change. In the second Parliament we are going to build upon those same solid foundations.

The resounding majority we were given in last May's Election showed clearly that we have the country's support for that consistent strategy. We will not let the voters down through a failure of will or determination to do what we always promised.

Can I take you back to the purposes for which this Government was re-elected, with that stunning majority? It was carry through the restoration of:

- our individual responsibility;
- our economic fortunes; and
- our authority in the world.

And this Government is working hard - and successfully - at all three. Already it has brought about a remarkable change on all three fronts. Let us take them in order.

First, restoring individual responsibility

You know as well as I that the Government took office in 1979 with the country in such a state that procrastination had been redefined: never do for yourself today what the State will do for you tomorrow. Under Socialism, we had become a largely

dependent nation rather than the independent, self-reliant people we British have always been. You know that this Government has stopped that rot. You know that this Government is pursuing policies which seek to give people the opportunity to manage their own lives and to retain more of the rewards from their own efforts, skills and enterprise.

This is because this Government believes in our people - in the overwhelming power of a free people making their own way in the world and building for their future and that of their families.

This leads me to the second task we were re-elected to carry out: to restore our economic fortunes.

We acquired responsibility for a country in which the whole tendency was to spend what had yet to be earned - to mortgage the future. Today Britain is a place where we earn our keep - where we create wealth first and spend it later.

I think Germany is now lower. Public expenditure is under control, We are borrowing proportionately less than any other country in Europe. We have paid off a lot of international debt. Industrial efficiency is rising. Our goods are more competitive. We are creating the wherewithall for a better life.

And inflation has been driven down to its lowest level for more than a decade. We aim to get it lower - and keep it lower - and make sound money a reality.

At the same time we are following the only route to lower unemployment - the creation of a vigorous risk-taking competitive society which provides new jobs through its ability to produce goods and services which people want to buy - and buy again and again.

This is the practical, wealth-creating way of discharging our responsibilities to the sick, the disabled, the aged and the infirm. It is one thing to feel compassionate. It is entirely another thing to practise compassion. But that is what this Government intends to safeguard its ability to do.

And so we come to the third task the Government was elected to carry out: to restore our authority in the world.

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We are a loyal ally, a positive partner and not least a resolute defender of our way of life, though determined to find a way of living in peace with the Communist bloc.

This, then, is the kind of Britain Mrs Thatcher's Conservative Government has wrought in less than five years. There is still much to do, and this Government is going to do it.

From: THE PRIVATE SECRETARY

(Handwritten initials)



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

3 April 1984

Dear Margaret

I attach the draft of a speech which the Home Secretary is to give on Friday to a Convention organised by the National Council for Voluntary Organisations. I would be grateful for any comments on the text by mid-day tomorrow (4 April).

I am also sending a copy of this to Alan Davies (Department of the Environment) and Ellen Roberts (DHSS). Copies of the text have also, I understand, been sent across at official level.

Yours ever

(Handwritten signature)

H. H. TAYLOR

CH/EXCHEQUER	
REC.	03 APR 1984 <i>3</i>
ACTION	<i>Mr. P. M. Dayner.</i>
COPIES TO	<i>EST. FST. EST. MST.</i>
	<i>Sir. P. Middleton</i>
	<i>Mr. Watson. Sir T. Burns.</i>
	<i>Mr. Bailey. Mr. Bathickill.</i>
	<i>Mr. Scholard. Mr. Lowells.</i>

Miss. Kelley. Mr. Menger. Mr. R. G. Allen.

Miss Margaret O'Meara

DRAFT SPEECH FOR THE HOME SECRETARY TO THE NCVO

It is a great pleasure to be asked to address your Convention. I know that this is the first time for many years that the NCVO has run a residential conference of this kind for those involved with voluntary organisations. I am sure that you are right to decide to look at the four major topics which you have chosen. Each in its way is central to your members' concerns.

I would like ~~in my remarks~~ to begin by saying a word or two - and necessary^d only a word or two - on each of these topics. I want then to set out briefly what I regard my and the Government's objects as regards voluntary bodies should be. I shall then outline what seem to me the challenges and the opportunities which we all currently face. And, finally, I shall - with, I hope, due care and circumspection - suggest how we should all try to take forward our thinking, policies and plans in the months and years ahead.

The first of your four topics is the family and community care.

Commitment to those members of our own families who cannot care for themselves and - by extension - commitment to the very young and the very old - in fact, to all who cannot cope by their own devices - has been the mainspring of voluntary activity throughout the ages. Care in - rather than out of - the community has received increased emphasis in recent years. Not so much because of resource constraints - though resource constraints there have undoubtedly been. But also because the human and social

advantages of caring for the elderly in their own or their families' homes, caring for children at risk through fostering in other people's homes, caring for and resettling ex-offenders within the community - all these have come rightly to be valued in their own right.

Voluntary organisations, with or without assistance from Government, have a role in supporting and encouraging those trends - and it is a role which they have fulfilled with determination and imagination. You will certainly want to discuss how you and we can best work together to harness and make more effective the work which is performed or planned in this area.

Secondly, you are to discuss your role in reviving communities. Here too, you have chosen a topic which concerns us all. The days have long gone when Governments and social engineers believed that uprooting and dispersing communities in the name of progress was a recipe for social and economic improvement. In all too many of our cities, here and abroad, we see that it has had the opposite effect. The emphasis is rightly now on sustaining and strengthening existing communities in both rural and urban environments. No one could be more conscious of this than I. Community involvement is at the heart of so many of our policies in the sphere of criminal justice. We and the police have been encouraging local neighbourhood watch schemes, local crime prevention panels and local crime prevention plans.

I have sought to give a new momentum to initiatives aimed at helping the victim of crime. Support for local victim support schemes is a part of this. The initiative is and must be local: but by increasing to [] a year our grant to the NAVSS, central government is helping them to perform their work. I should also like to mention NACRO's 46 schemes aimed at helping local people reduce crime and vandalism in their council estates. This is, therefore, an area in which both we in the Home Office and you, the voluntary bodies, are already closely involved and for which all new ideas and suggestions are welcome.

Your third topic is voluntary organisations and work. I shall say a little more later about the dramatic growth in government funding for and voluntary sector involvement in training and job creation. One of the areas in which much thinking still remains to be done - or at least much realistic thinking - is about the long-term implications of social and economic change on work. I hope and believe that few now seriously fall foul of the 'lump of labour' fallacy whereby it was thought that a fixed amount of work existed to be done and that the job of government, unions and others was simply to share it out - something which technological change was bound to make more difficult. But the explosion of that illusion does not in anyway detract from the need to consider how voluntary effort can both contribute to and gain from future changes in employment patterns. This is clearly a

subject which needs fuller, serious thought.

Finally, you will discuss voluntary organisations in a multi-racial society. I think that we should all, whatever our political viewpoints, seek to avoid the trap of believing that voluntary organisations can best contribute to progress in this area by campaigning rather than by practical action. Our aim should be to provide the practical social and economic opportunities which a racially just society requires. In particular, I am sure that deprivation and discontent in our ethnic minority communities will never be effectively tackled until the members of those communities themselves are more closely involved in tackling them. A question which, therefore, should concern both Government and voluntary bodies together is: how are we to ensure that more members of the ethnic minorities themselves become involved in and indeed direct voluntary effort?

I should like now to tell you briefly what I consider the Government's role should be. And let me add that the Home Office, through its Voluntary Services Unit, is the lead Department in these matters; although it is, of course, through other Departments that most Government funding is channelled.

Let me begin by making a vain protest - no less vain because I do not intend in what follows even to abide by myself. It is against the notion of a 'voluntary sector'. Your great virtue - and it is one that we should all recognise - is that you are in fact nothing

like a 'sector'. On the one hand, there is no particular unidentifiable group of functions which you should be performing come what may. On the other, you are not there to pick up the tab when government spending has to be reduced. Some voluntary organisations are heavily government funded; some not at all. Some are national, or international; some are purely local. Some are charitable bodies; some not. Some are popular and find it easy to attract private or corporate donations; others do not. I recognise, as does the Government as a whole that your strength and vitality lie not least in your diversity - and that is something which we all have an interest in preserving.

That is not just rhetoric. Far from it. It ~~seems~~^{means} that the relationship between voluntary bodies and government will change with time. And it means too that that the relationship will be radically different depending on a voluntary body's objectives.

Some voluntary bodies perform functions which the state would, in all probability, otherwise have to perform. That does not mean that government necessarily subsidises them to do so. The RNLI is an obvious example.

Some of these bodies, however, directly fulfil objectives set by government - and do so on what is in effect an agency basis.

The Community Programme has greatly extended the area of voluntary activity in which this is the case.

Some voluntary bodies enjoy the fiscal benefits of charitable status. As a result, they have to satisfy the criteria of the Charities Commission and the Inland Revenue in what they do.

Far the greatest amount of voluntary activity, of course, is unmapped, undramatic, and almost - at least by Government - unseen and unknown: and it is certainly no worse for that.

The policies which Government should pursue towards voluntary bodies of so many different sorts standing in so many different relationships with it and each other will, therefore, never be set in concrete. But, broadly speaking, they are I suggest, as follows.

It should be our aim in Government to create the conditions in which a healthy and independent voluntary sector (forgive the word) can develop. This has implications for both economic policy and for fund raising which I shall come to shortly. Our aim should be to give whatever encouragement we can to the notions of volunteering, of self-help and ^{the} community's help for others - though there will always be healthy limits on what politicians should preach ~~to~~ ~~others~~ in these matters. We should certainly seek to create a

workable partnership between the public sector and the voluntary sector in the provision of services to the community. Sometimes that will be a partnership between central government and voluntary bodies. Sometimes - far more than in the past - it will be a partnership between local government and voluntary bodies. Sometimes it will be a tri-partite relationship. I believe also that it should be a priority for all of us to ensure that the business community is more often a partner in that relationship too.

In government, we have a duty both to the tax payer and to the 'customers' - if I can call them that - of the voluntary bodies which receive public funds to see, first that we are clear and correct about our priorities in setting objectives and, secondly that these objectives are efficiently and effectively met.

It is worth turning aside at this point briefly to record how great the commitment of government funds to voluntary bodies by one route or another is. Between 1979-80 and 1983-84 total government (including MSC) funding of voluntary bodies increased by [] percent [cash figure]. That compares with a rise in prices of [] percent. The biggest increase in funds has been channelled through the Department of Employment and of the MSC, whose total funding to the voluntary sector over that period has risen by [] percent [cash figures]. There has also, of course, been a

large increase channelled through the Urban Programme and local authorities in funding for voluntary bodies, many of which are directly concerned with the needs of the ethnic minorities.

Between 1979-80 and 1983-84 the urban programme rose from [] to []

I am sure that there is much still to do in seeking new forms of and opportunities for partnership between the public and the voluntary sectors. There are some well known and valuable initiatives in the Health and Personal Social Services area. A 'pound for pound' scheme, for example, was set up offering up to £1,000,000 pounds of government money for local projects to provide alternative forms of care for mentally handicapped children who are at present in hospitals. £½ million was given to the appeal fund for the rebuilding of Stoke Mandeville Spinal Injuries Unit. Up to £800, and 99 hundred pounds a year for three years has been committed to the trust - in which the voluntary sector (the Spastics Society) is providing [-] which is to run Tadworth Court, the children's hospital which was due to close. The Opportunities for Volunteering Scheme to enable unemployed people to undertake voluntary work in the health and personal social services was started in 1982-83. Some £5m pounds is available in 1983-84 in grants to local voluntary projects through a network of 16 national voluntary organisations

to promote such work. And, finally, may I take a Home Office example. The number of places in hostels providing and running facilities for the care and rehabilitation of offenders has increased from [] in 1979-80 to some [] now.

I come now to those 'challenges and opportunities' which I mentioned earlier on. Let us be quite frank about the nature of the challenge. In the 1960s and the first half of the 1970s it was possible to imagine that economic growth would allow the pursuit of often apparently irreconcilable objectives. Public spending could be allowed to grow and taxation, interest rates and inflation could at the same time be restrained, because economic growth - so it was believed - would continue at a high rate. Monetary and fiscal laxity were permissible, so it was thought because, demand led growth of output would itself counter inflationary tendencies and effects. In the United States the 'Great Society' prevailed. In Britain, our dreams, if not our achievements, were just as ambitious.

In retrospect, that period is seen to be not a norm, but an aberration. Policies to curb public spending, borrowing and monetary growth are here to last. It is now the international consensus that governments cannot spend and borrow their way to growth and employment.

/The

The implications of this for voluntary bodies have been slowly, fitfully and still only imperfectly grasped. It is now evidently true - as it arguably always should have been - that central government must take a clear view of priorities in the allocation of public funds to voluntary bodies. It is also true that central government will have a clear, direct interest in the efficiency and effectiveness with which those funds are committed. On the other hand, the policy and practice of limited government - rather than of government which seeks to squeeze, mould and direct voluntary effort into some grand social plan - provides new opportunities for voluntary activity.

This is so in three ways.

First, this provides an opportunity for voluntary bodies to avoid becoming enmeshed in political controversy. The Government's position on this has sometimes been ~~mis~~ misunderstood. The fact is that it is in the interests of voluntary bodies themselves to avoid becoming so involved in political campaigning - however broadly that is defined - that they lose their credibility with and so the confidence of the general public. Some local authorities have used their grant giving powers for blatantly political ends. Voluntary bodies have nothing to gain from that. They have everything to gain by harnessing the voluntary spirit of private individuals and companies to their own cause.

/Secondly,

Secondly, the new climate means that Government has been prepared to look far more favourably on fiscal measures to encourage giving to voluntary bodies. Charities are now receiving [£75m] a year advantage from the tax changes introduced in this Government's budgets. The most important changes came in the 1980 budget. But they have been extended subsequently too. In 1980, we reduced the period (from six to three years) for charitable covenants. We introduced higher rate relieve for covenanted payments to charities. We increased the CTT exemption limit on gifts to charities. And we made other significant changes too, developed in future years. The full effect of these and later reforms has not as yet been fully felt.

Thirdly, the new political, social and economic climate has provided new opportunities for fund raising by voluntary bodies, quite unrelated to specific fiscal privileges. The British economy has now embarked on sustainable, non-inflationary economic recovery. That fact itself offers far greater benefits to voluntary bodies at every level of our national life than would the prospect of increased public spending. The challenge now - and it is one which is of crucial importance to all of us - is to make the best of these new conditions.

That undoubtedly means reversing a trend. Between 1975-76 and 1980-81, the latest edition of 'Social Trends' shows, the aggregate real value of donations to charities fell by almost 50%. Over that period, charities' real investment income fell by 6%, offset by an increase of 30% in the real value of fees and charges. But the really significant increase was of 77% in the value of indirect support for charities from statutory authorities. As a result of these changes, the proportion of charitable activity financed by voluntary contributions fell from 29% to 14%, while the proportion of resources derived from statutory sources - ie basically Government - rose from 7% in 1975-76 to around 12% in 1980-81.

I hasten to say that these figures, though revealing, do not reveal everything. They do not reveal the full effect of the changes which were made to encourage charitable giving in the 1980 Budget. And they do not reveal the effects of a combination of high inflation and recession, which discouraged individual and corporate donations.

However, I have no doubt that over the years there has been a tendency - entirely pragmatic and understandable - to believe that directly or indirectly Government, in some form or other, was more likely to provide new voluntary sector resources than was the private sector. To the extent that this has been true it has also been

/damaging.

damaging. As anyone involved in the humblest local voluntary organisation can confirm, seeking funds from individuals is more than just financially rewarding. For it strengthens community links and fuels new enthusiasm and a new support. Similarly, it may well be that larger voluntary organisations - local and regional as well as national or international ones - could gain more than they currently do from businesses in cash, in advice, in expertise, in contacts, sometimes in seconded personnel.

In the United States, which admittedly has a different tax structure from ours, voluntary bodies draw far more than here on corporate funds and other corporate support. In Britain, by contrast, company giving constitutes only about 5% of all charitable giving and represents under 2% of the total income of charities. Prompted in part by changes in the tax regime, over 500 business secondees are now working with voluntary bodies. But most of these are contributing through enterprise agencies ~~and~~ other means to economic rather than more purely social objectives. I have no doubt that there are many more ways in which voluntary bodies and business can work together. On the one hand, businesses in Britain are coming to realise that they, not just Government, central or local, have an interest in supporting the social and economics infrastructure within which they operate. On the other hand, voluntary bodies too, not least prompted by the efforts of the NCVO, are beginning

/to look

to look more towards business and less towards the public sector. These changes may be disturbing, even painful in a period of recession. But the economic and fiscal climate is changing fast and voluntary bodies have a strong reason to take full advantage of it.

The most recent Budget made changes which will have long-term beneficial effects on giving to the voluntary sector - and it did so not through tax breaks but through tax reforms and tax cuts. The higher rates of income tax and the worst features of capital taxes were dealt with before the last election. It is on corporate taxation - the other main fiscal consideration for those who are most likely to give to charities - that the Chancellor concentrated this time. Corporation tax rates will be cut - the main rate from 52% to 35% by 1986 and the small companies rate from 38% to 30% this year. And the National Insurance Surcharge will be ended. Both will help company profits. Similarly the investment income surcharge's abolition will help create a fiscal climate in which donors and voluntary workers alike - many of whom are retired, relatively well-off people who pay IIS - will be more willing to contribute.

The biggest changes favouring the voluntary sector are, however, not fiscal ones but rather changes in the performance of the real economy stemming principally from the fall in inflation and in inflationary expectations. Company profits have been rising fast.

Industrial and commercial companies' profits in 1983 were about 20% higher in real terms than in 1979. The latest CBI March Survey, just released, is the most optimistic for 5 years. Companies are under less financial pressure: the time is ripe to approach them with well thought out proposals for closer collaboration and greater assistance.

Nor should it be believed that economic change is of potential benefit only to the larger voluntary bodies which most easily look to corporate giving. For lower inflation and lower inflationary expectations - that is, less fear about tomorrow's price rises - have also generated a surge of consumer spending up and down the country. Consumers' real spending in 1983 was 4% up on 1982 and it continues at a high level. When people spend they are also likely to give. There are a host of ways, some traditional and some new, in which local voluntary bodies can draw on higher real personal disposal incomes. I hope that the opportunity will not be missed.

Finally, what about the future? How can voluntary bodies seize the advantages which are offered them?

This, of course, is ultimately something which you rather than I must answer. But I am sure that in the years ahead voluntary bodies must seek to involve in their activities, as workers, advisers, agents and donors,

a wider cross-section of the population than they have in the past.

For example, they must look to the workplace not just to the home when raising funds and elicit ^{ing} support. Payroll giving is widespread in the United States. I have no doubt that it could, particularly in today's economic climate, become widespread here. The NCVO have, I know, sponsored a number of pilot projects in Hampshire, Humberside and Merseyside to test out how effective regular, covenanted work force contributions could be in conjunction with existing fiscal reliefs in providing new funding for voluntary bodies. [I am able to announce today that we in Government are prepared to set this particular ball rolling in the public sector, by making possible payroll giving within the Civil Service (expand)].

There has been a good deal of misplaced gloom about voluntary activity in the years ahead. This is certainly unjustified. Voluntary bodies do not ultimately depend on any particular structure of local or national government, but rather upon themselves, upon donors and workers and upon the economic and social climate in which they exist. Today's social and economic climate is right for a long-term increase in voluntary activity. I know that all of you, with the Government, are determined to ensure that this opportunity is fully grasped.

FROM: R I G ALLEN
4 APRIL 1984

PS/CHANCELLOR (MISS O'MARA)

cc Mr Monger
Mr Rayner
Mr Martin

DRAFT SPEECH FOR THE HOME SECRETARY TO THE NCVO

I only received my copy of this draft speech at noon today. Here are a few quick comments on the paragraphs relating to tax on pages 11 and 14.

2. There are some inaccuracies in the first paragraph on page 11, and some quite important changes are not mentioned. We would suggest a redraft on the following lines:

Charities and

"Secondly, the new climate means that the Government has been prepared to look far more favourably on fiscal measures to assist encourage giving to voluntary bodies. Charities are now receiving over £40 million a year direct benefit from the tax changes introduced in this Government's Budgets. The most important changes came in the 1980 Budget. We reduced the minimum period for charitable covenants from six to three years. And we introduced higher rate income tax relief for covenanted payments to charities. In 1982 we exempted all transfers to charity from stamp duty. Last year we exempted all outright gifts to charities from capital transfer tax. We also made the costs of seconding employees to charities a tax-deductible expense. In this year's Budget we have extended this concession. The full effect of these and other reforms has not as yet been fully felt."

We are checking the £40 million figure with the Revenue (it is based on some calculations done by FP following last year's Budget).

3. I am not very happy with the main paragraph on page 14. It makes rather too much of changes which will have only a very indirect - if any - effect on "giving to the voluntary sector". I would like to see it deleted. The thought might still be retained by inserting a sentence or two into the first paragraph on page 11 along the following lines:

"Quite apart from these changes, all of which affect charities directly, voluntary bodies shall benefit indirectly from the measures already taken - or proposed in the most recent Budget - to reduce tax rates, including the higher rates of income tax and the investment income surcharge, and encourage the flow of savings and investment."

12A

R I G ALLEN

CONQUEROR
III
LONDON

National Economic Development Office

Millbank Tower, Millbank, London, SW1P 4QX
Telephone line 01-211 3486 or 3090 Switchboard 01-211 3000



what box

Miss M O'Mara
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

5 April 1984

Ben Margot,

We spoke. The attached is not straight reportage but
is I hope what you want.

you
Derek

DEREK TRUMAN

c/
Walter Marshall's Comments
as requested.

mom
5/4

Donna
M. Lord for CBI annual dinner

M.

All Government can do is set the climate for change and innovation. In the recent past management spent 90 percent of its time totally absorbed in industrial relations matters and the remaining 10 percent was concerned with taxation. The Government's previous term set the climate for change in industrial relations matters and the recent Budget coped with the tax problems. Now management can start to think about innovation and new jobs.

16/4



CONSERVATIVE POLITICAL CENTRE

32 SMITH SQUARE · WESTMINSTER · LONDON SW1P 3HH

TELEPHONE: 01-222 9000

The Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
The Treasury
Parliament Street
LONDON
SW1P 3AG

6th April 1984

Dear Chancellor,

Meeting in City of London on Monday 16th April

We are looking forward very much to your visit to the City of London on Monday 16th April, to talk to City workers and others about the Budget and the Finance Bill.

We have already sold more tickets than there are seats, so we should have a capacity audience of 400 at the meeting.

I understand from your secretary that you will almost certainly come in your official car, but if there are any problems about transport please let me know. The meeting is timed to start at 5.30 p.m. in the Accountants' Hall, Moorgate Place, EC2. I enclose a ticket with a map on the back.

We would like you to speak for about twenty minutes, followed by questions from the floor until 6.45 p.m. We hope very much that you will be able to stay on for a short while afterwards to meet some of the audience in the Bar.

Peter Brooke will be introducing you, and for the question-and-answer session Bill Stuttford will take the chair. A vote of thanks will be given by Sir David Nicolson, MEP.

The press have been invited, although from past experience they rarely come. However if you would like to issue a handout through Central Office, I am sure that this will produce some publicity.

Please let me know if there is any other information you would like. I will be in touch with Adam Ridley early next week.

Yours

David

David Knapp
Director

HP	MCU
DATE	16 APR 1984
ADDRESSEE	Mr Bathshill Mr Malleham Mr Portillo

FROM : M D X PORTILLO
DATE : 10 APRIL 1984

MR PERETZ

cc Mr Folger
Mr Makeham
Mr Lord

CPC SPEECH : 16 APRIL

I attach a draft.

*(A ~~short~~ memo
a speech on the
rights of the Folger)*
*See Budget speech that
Also: 88 amendments*

PP *J. Smith*
M D X PORTILLO

DRAFT SPEECH FOR CHANCELLOR TO CPC 16 APRIL

Mrs Thatcher's first government will be long remembered for its success in bringing down inflation. Inflation in Britain had been rising steadily almost since the Second World War. Under each successive government of either party, since 1951, the inflation rate rose higher than it had been before. The achievement of our first period of office was to reverse that trend, so that for the first time in many years the average rate of inflation under that government was lower than the average for the previous government.

When I came to frame my budget, I was acutely aware of that achievement and of the responsibility that we bear in this government, not to jeopardise that remarkable success. So the very first judgement that I needed to make concerned the appropriate monetary targets, and the appropriate fiscal stance. I had to begin early on with a clear impression of what it would be right and prudent for the government to aim to borrow. It was only having done that, that I could allow myself to think about what changes in taxes would be desirable, and how they could be achieved.

You will all know of the government's determination to continue the fight against inflation without let-up. It is ^{our} ~~the~~ primary objective. That was why in my Autumn Statement last November I allowed for the possibility that taxes might need to rise. That indicates the priority which we place on getting right both our monetary growth path, and the balance between government revenue and government borrowing.

Obviously, I was delighted that events moved in such a way as to make an increase in taxation unnecessary. Nonetheless, the figures gave me very little room for manoeuvre. That is, there was no space for reducing taxation overall for 1984-85, and so the very desirable changes that I wished to make had to balance somehow.

The first budget of a new Parliament is always a great opportunity. It enables a Chancellor to take stock and to embark on initiatives. Most importantly, it allows him to set the scene ~~with some confidence~~ for a number of years ahead.

Budgets are often seen in terms of adjustment and tuning. Budgets generally mean change. But I was keen that my first budget should also provide certainty and the promise of continuity, as much as possible. That is why we have extended the medium-term financial strategy to cover a period of 5 years. The MTFs sets out a clear and steady downward trend for monetary growth over those 5 years, and a clear path for a falling PSBR as a percentage of GDP. In the first year of the MTFs - the year that we are now in - I thought it right that there should be a marked fall in public sector borrowing.

As you know, the outturn for 1983-84 was higher than we had wanted or expected. We shall publish the final figure tomorrow. It was clear that we needed a further marked fall in borrowing, so that interest rates could continue to decline as monetary growth slowed down. That is why I established a PSBR target

for this year of £7 $\frac{1}{4}$ billion, or 2 $\frac{1}{4}$ per cent GDP. Obviously, our interest rates will continue to be affected by US interest rates, but that seemed to me to make it more important, rather than less so, that we should do everything possible to curb inflationary pressures at home.

The first budget of a new Parliament also provided us with the chance to publish a rather different sort of document - the Green Paper on public spending and taxation over the next ten years. The figures in it are assumptions, not projections. The paper is intended as a basis for discussion, not to predict what will actually happen. But it does, I think, fulfil a very important need. I understand the widespread feeling that governments do not generally look far enough ahead. There is a widely held, cynical view that governments cannot be expected to look beyond the end of the current Parliament. Looking too far ahead has its dangers certainly, but before one generation commits itself to programmes of expenditure, it should have a fair idea of the burden that it will impose on future generations of taxpayers and form some view of the consequences for them.

Some commentators had evidently expected a gloomy document. The Green Paper has been framed rather the other way around. It looks to the future in terms of the opportunities that are open to this country. It shows, for example, that if we can maintain a reasonable rate of growth and keep control of public spending, the British economy will be able to take in its stride the declining contribution of North Sea oil. Equally, continued growth and continued control of public

spending would give us the opportunity and the means substantially to reduce the burden of taxation, but even then only to around the level that we enjoyed in the mid-60s.

That is the opportunity, if as a nation we can just be strong enough and resolute enough to seize it. To continue to enjoy a reasonable rate of growth we shall need to maintain present policies, in particular the fight against inflation, and take further our reforms designed to make the economy work better. In order to maintain control over public spending, our aim must be to hold the present total in real terms. Since we know that in some areas public spending will continue to rise, either as a matter of policy or because of higher demands, we shall have to offset those increases with decreases elsewhere. That will not be an easy process.

But this is an area where a little constraint today can pay us dividends in the future. First, as we reduce the burden of taxation, so we shall provide an extra stimulus to economic growth. This becomes a virtuous spiral. Second, such a period of growth with public spending held in check, could after some years put us in a position where we could modestly increase public spending without the dangers to our economic prospects which such a move would imply at present.

We are looking forward to the responses to our Green Paper and for a thoroughgoing and intelligent debate of this very important subject. I believe that our objective of

reducing the burden of taxation is very widely shared amongst the British people, and that there will also be widespread acceptance that that objective and the control of public spending go hand in hand.

As I have already said, if we are to maintain a satisfactory rate of growth, we have to do more than just hope for it. We need to take positive measures to enable the economy to work better. I had that very much in mind in framing the tax reforms in my budget.

Anyone who studies the investment performance of British business must be very concerned at our low achievement. On any measure of success, our performance comes out worse than that of Germany, France and the United States - let alone that of Japan. And that has occurred despite the fact that our corporation tax system had been designed to encourage investment in plant and machinery and in industrial buildings. It is quite evident that whatever else those generous corporation tax allowances may have achieved, they have not led to profitable investment. On the other hand, those allowances have represented a very substantial distortion in the tax system. They have represented a bias in favour of capital equipment as opposed to labour, they have encouraged investment in certain sorts of assets but not in others which may be just as valuable, and they have led companies to put their money into projects that were tax efficient rather than into ventures that would be truly profitable. At the same time, it has only been possible to maintain such a generous level of tax allowances at the expense of a high general

rate of tax. That has led to the discouragement of enterprise and the penalising of profits. And this lack of profitability and of success has been reflected both in our rates of growth and in the rise in unemployment.

We are not in the business of forecasting unemployment. But I believe we can safely say that the substantial changes in corporation tax and the abolition of the national insurance surcharge will both improve the prospects for job creation in the future.

Any change leads to some upheaval. There will be transitional effects, and some companies will doubtless regard themselves as winners and others as losers. But I am concerned with the overall effect and with the effect in the long term. I believe that the changes we have made can make an important contribution to improving our investment performance and our company profitability. We have announced the stages by which we shall reduce both the allowances and the rates of tax and we are putting the figures for the years ahead into this year's Finance Bill. This will provide British business with a solid framework within which it can plan its future. That in itself should provide an important boost to business confidence.

The months before the budget provided us with a valuable opportunity to stand back and consider afresh the purposes of taxation and the suitability of our tax system. Fundamentally, the purpose of tax is to raise revenue for the Government. It should do so in ways which least hamper

enterprise or distort the workings of the market economy. That is the principle from which we start.

It is for that reason that I took steps to simplify our tax system, to broaden the base of tax and to reduce the rates wherever possible. I am sure that that is the direction in which we should move. The changes in the VAT base, the reduction of stamp duty, the abolition of the investment income surcharge, of life assurance premium relief and of the higher rates of capital transfer tax were all important moves in that direction. And I hope to be able to go further in future budgets.

I turn lastly to personal taxation. We concentrated our efforts on increasing the tax threshold by as much as possible. It is to me an extremely important objective to take as many of those on low income as possible out of the income tax altogether. I have three particular reasons for wanting to do so.

First, it seems to me quite wrong and very wasteful to be taxing people to whom we are also granting basic means-tested state benefits. Second, I wish to see people paying less income tax because that can have an important effect on incentives, on encouraging people to give their best, to work harder, to seek promotion and to look for a better job. And third, because lower rates of tax on low incomes affect both the poverty and unemployment traps and make it more worthwhile for those out of work to look for a job.

[Passage on poverty trap could be inserted here]

Since the election, it has been fashionable to say that the government has run out of steam, has lost its way or has become accident-prone. I entirely reject that. The term "banana skins" has come to describe any action taken by government that someone somewhere may not like. Doing things that some people may not like is a very proper part of a government's business, particularly in its first year.

It is, I believe, our duty so to organise our national affairs as to enable Britain to work better. That means looking to the future and questioning some of what we find in the present. The budget was part of that process: an opportunity to re-appraise the effects of our tax system on the workings of the economy. Norman Fowler's reviews into pensions and aspects of social security are another facet of the process.

We have today a government which is prepared to look ahead, prepared to make changes and prepared to be radical. The purpose of government is not just to mark time between elections. It is to lead. That we are determined to do.

NOTES FOR CPC

1. Macro-economic policy most important element in budget for City:

- a) Decisions on government spending shown in white paper good for inflation and interest rates;
- b) Fight against inflation continues: confirmed in decisions on monetary growth, and balance between government revenue, borrowing and spending;
- c) MTFS for five years: steady downward monetary growth, falling PSBR as % of GDP;
- d) Marked fall in borrowing for 1984-85;
- e) LTPE green paper shows way to lower burden of taxation if PE held steady. But that implies a major effort.

2. Supply side measures

"Aim to make the economy work better".

A. Removing distortions and simplifying tax

i) Company taxation

- a) Corporation tax changes: lower rates, end of stock relief, lower allowances. Britain's poor investment record, tendency to invest where tax saved, not where profits made. Profits bring growth and growth jobs.

Reduction of bias against labour. [Reference
to leasing?]

b) NIS : need I say more?

[c] "Controlled" ~~to~~ foreign companies: tax havens]

[d] Offshore funds: ends avoidance]

ii) Markets

a) LAPR removal: why encourage life assurance as savings
medium over building societies, banks etc?

b) Bank composite rate

[c] Mention building society gilts?]

iii) Individuals

a) IIS - unfair surcharge

b) CTT - brings top rate into line with income tax, down from
confiscatory level.

c) Foreign emoluments and earnings: less necessary now
60% top rate and open to abuse.

- d) Joke! Wine down, pipe tobacco duty held steady: good news since city uses wine to get adrenalin going and pipe tobacco to aid contemplation.

B. Encourage equity finance and share-owning democracy

- a) Stamp duty: also to help stock exchange compete

- b) Corporate finance package

- Relief for incidental costs of convertible loan stock issues.
- IR confirm loan stock with right of conversion into other loan stock free from Stamp Duty.
- CGT exemption on most corporate loan stock on lines of gilts exemption
- New tax regime for deep discount securities
- Eurobond interest payable gross
- Relief for discounts on bills of exchange

- c) Share Options etc

- i) SAYE limit up 100%

- ii) Gains under approved schemes will now be charged to CGT on disposal.

- d) Reduced CT rate also encourages equity finance as against debt.
- d) Privatisation: continuing theme of employee ownership in privatisation schemes.

[Could lead to plug for future asset sales?]

Peroration and press release

Inflation low, growth steady, economy working well.

But we all know it could work better: especially evident in unemployment.

Need to encourage further enterprise and hard work. Improve attitudes by higher rewards: people keeping more of their money and eg able to buy their own homes.

Budget aimed at encouragement at all levels including very low incomes.

attached → P R E S S R E L E A S E

Neil Kinnock said: "This budget does more for the City than it does for the people of Britain". Untrue. It helps people, small business, large businesses and helps the markets too. Not necessarily a terrible thing if City does like it!

It was radical. It was forward-looking. It did point the way to a lower tax burden in the future.

Essential if new jobs to grow, and growth to be sustained.

FROM : M D X PORTILLO
DATE : 10 APRIL 1984

MR PERETZ

cc Mr Folger
Mr Makeham
Mr Lord

CPC SPEECH : 16 APRIL

I attach a draft.

^c
You had this draft with you in
Washington. There's also the question
of whether you want to release the unemployed / *John Smith*
poverty trap material on this occasion. *M* M D X PORTILLO
(Revised text elsewhere in box)

MSM

13/4

DRAFT SPEECH FOR CHANCELLOR TO CPC 16 APRIL

Mrs Thatcher's first government will be long remembered for its success in bringing down inflation. Inflation in Britain had been rising steadily almost since the Second World War. Under each successive government of either party, since 1951, the inflation rate rose higher than it had been before. The achievement of our first period of office was to reverse that trend, so that for the first time in many years the average rate of inflation under that government was lower than the average for the previous government.

When I came to frame my budget, I was acutely aware of that achievement and of the responsibility that we bear in this government, not to jeopardise that remarkable success. So the very first judgement that I needed to make concerned the appropriate monetary targets, and the appropriate fiscal stance. I had to begin early on with a clear impression of what it would be right and prudent for the government to aim to borrow. It was only having done that, that I could allow myself to think about what changes in taxes would be desirable, and how they could be achieved.

You will all know of the government's determination to continue the fight against inflation without let-up. It is the primary objective. That was why in my Autumn Statement last November I allowed for the possibility that taxes might need to rise. That indicates the priority which we place on getting right both our monetary growth path, and the balance between government revenue and government borrowing.

Obviously, I was delighted that events moved in such a way as to make an increase in taxation unnecessary. Nonetheless, the figures gave me very little room for manoeuvre. That is, there was no space for reducing taxation overall for 1984-85, and so the very desirable changes that I wished to make had to balance somehow.

The first budget of a new Parliament is always a great opportunity. It enables a Chancellor to take stock and to embark on initiatives. Most importantly, it allows him to set the scene with some confidence for a number of years ahead.

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As you know, the outturn for 1983-84 was higher than we had wanted or expected. We shall publish the final figure tomorrow. It was clear that we needed a further marked fall in borrowing, so that interest rates could continue to decline as monetary growth slowed down. That is why I established a PSBR target

for this year of £7½ billion, or 2½ per cent GDP. Obviously, our interest rates will continue to be affected by US interest rates, but that seemed to me to make it more important, rather than less so that we should do everything possible to curb inflationary pressures at home.

The first budget of a new Parliament also provided us with the chance to publish a rather different sort of document - the Green Paper on public spending and taxation over the next ten years. The figures in it are assumptions, not projections. The paper is intended as a basis for discussion, not to predict what will actually happen. But it does, I think, fulfil a very important need. I understand the widespread feeling that governments do not generally look far enough ahead. There is a widely held, cynical view that governments cannot be expected to look beyond the end of the current Parliament. Looking too far ahead has its dangers certainly, but before one generation commits itself to programmes of expenditure, it should have a fair idea of the burden that it will impose on future generations of taxpayers and form some view of the consequences for them.

Some commentators had evidently expected a gloomy document. The Green Paper has been framed rather the other way around. It looks to the future in terms of the opportunities that are open to this country. It shows, for example, that if we can maintain a reasonable rate of growth and keep control of public spending, the British economy will be able to take in its stride the declining contribution of North Sea oil. Equally, continued growth and continued control of public

spending would give us the opportunity and the means substantially to reduce the burden of taxation, but even then only to around the level that we enjoyed in the mid-60s.

That is the opportunity, if as a nation we can just be strong enough and resolute enough to seize it. To continue to enjoy a reasonable rate of growth we shall need to maintain present policies, in particular the fight against inflation, and take further our reforms designed to make the economy work better. In order to maintain control over public spending, our aim must be to hold the present total in real terms. Since we know that in some areas public spending will continue to rise, either as a matter of policy or because of higher demands, we shall have to offset those increases with decreases elsewhere. That will not be an easy process.

But this is an area where a little constraint today can pay us dividends in the future. First, as we reduce the burden of taxation, so we shall provide an extra stimulus to economic growth. This becomes a virtuous spiral. Second, such a period of growth with public spending held in check, could after some years put us in a position where we could modestly increase public spending without the dangers to our economic prospects which such a move would imply at present.

We are looking forward to the responses to our Green Paper and for a thoroughgoing and intelligent debate of this very important subject. I believe that our objective of

reducing the burden of taxation is very widely shared amongst the British people, and that there will also be widespread acceptance that that objective and the control of public spending go hand in hand.

As I have already said, if we are to maintain a satisfactory rate of growth, we have to do more than just hope for it. We need to take positive measures to enable the economy to work better. I had that very much in mind in framing the tax reforms in my budget.

Anyone who studies the investment performance of British business must be very concerned at our low achievement. On any measure of success, our performance comes out worse than that of Germany, France and the United States - let alone that of Japan. And that has occurred despite the fact that our corporation tax system had been designed to encourage investment in plant and machinery and in industrial buildings. It is quite evident that whatever else those generous corporation tax allowances may have achieved, they have not led to profitable investment. On the other hand, those allowances have represented a very substantial distortion in the tax system. They have represented a bias in favour of capital equipment as opposed to labour, they have encouraged investment in certain sorts of assets but not in others which may be just as valuable, and they have led companies to put their money into projects that were tax efficient rather than into ventures that would be truly profitable. At the same time, it has only been possible to maintain such a generous level of tax allowances at the expense of a high general

rate of tax. That has led to the discouragement of enterprise and the penalising of profits. And this lack of profitability and of success has been reflected both in our rates of growth and in the rise in unemployment.

We are not in the business of forecasting unemployment. But I believe we can safely say that the substantial changes in corporation tax and the abolition of the national insurance surcharge will both improve the prospects for job creation in the future.

Any change leads to some upheaval. There will be transitional effects, and some companies will doubtless regard themselves as winners and others as losers. But I am concerned with the overall effect and with the effect in the long term. I believe that the changes we have made can make an important contribution to improving our investment performance and our company profitability. We have announced the stages by which we shall reduce both the allowances and the rates of tax and we are putting the figures for the years ahead into this year's Finance Bill. This will provide British business with a solid framework within which it can plan its future. That in itself should provide an important boost to business confidence.

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10 DOWNING STREET

From the Private Secretary

12 April, 1984

(Pup)

Dear Margaret.

CH/EXCHEQUER	
REC.	12 APR 1984 ✓ 12
ACTION	Mr A. Smith
COPIES TO	CST. PST. MST. EST.
	Sir P. Middleton
	Sir T. Burns
	Mr Battishill

SCOTTISH PARTY CONFERENCE SPEECH

*Mr. Folger
Mr. Portillo.*

The Prime Minister will be addressing the Scottish Party Conference on Friday, 11 May. She would like to include a passage on the evidence that recent productivity increases are not a "flash in the pan". I would be grateful if you could provide a note discussing recent productivity performance, the arguments advanced in support of the thesis that after the recent surge productivity increases will decelerate, and evidence to support the argument that rapid growth in productivity could be sustained. The material need not be in speech form as we will have to edit it to fit in with the text.

Could this reach me by Wednesday, 18 April.

*Yours sincerely
Andrew*

(Andrew Turnbull)

Miss M. O'Mara,
HM Treasury



Press & Public Relations
Department.

Phone: 01-222 0151/8
01-222 9000

Conservative Central
Office.
32 Smith Square,
London SW1P 3HH

RT. HON. NIGEL LAWSON, M.P.

Release Time: 15.30 Hours/WEDNESDAY 326/84
9th May, 1984

Speech by the Rt. Hon. Nigel LAWSON, M.P., (Blaby), Chancellor of the Exchequer to the Scottish Conservative Party Conference in Perth on Wednesday, 9th May 1984

PLEASE CHECK AGAINST DELIVERY

This year's Budget was firmly in line with the strategy that we have been pursuing consistently since 1979. We have resisted every invitation to abandon our policies, to chuck them away and throw in the towel before they had even been given a chance to work. Time and again we were told that our policies could not work. We were told that we could not bring down inflation, and certainly not by the policies we were pursuing. But we did. And then we were told that even if we had brought down inflation, it was at the cost of perpetual decline and recession. I remember the expression used: "a self-perpetuating downward spiral".

In spring 1981, 364 economists got together to write a letter to the Times saying that our policies could not succeed. And that was remarkable in itself, because never before had it been known for so many economists to agree on anything. And when they did agree in such numbers, they got it wrong. No sooner was the ink dry on their letter than the economy began to recover: hesitantly at first, then more and more strongly.

When we had inflation down and growth in the economy, we were told it could not last. Mr. Hattersley predicted at the time of the last election that inflation would be 10 per cent at the end of 1983. Of course, it turned out to be half that.

So this year's Budget was a Budget that built on our success. Inflation is around 5 per cent. And at the same time the economy is still growing strongly. Last year our rate of economic growth put us at the very top of the Common Market league table. This year we shall be at or near the top again. Britain has not enjoyed low inflation and steady growth at the same time since the 1960s. Today we do enjoy that winning combination.

/There are many other

There are many other signs of success too, and a great deal of good news about the economy. The balance of payments is healthy. Productivity has improved year by year. Britain has moved firmly into the computer age, so much so that we have already passed Germany in the use of microchips. We now have the fastest growing integrated circuit industry in Europe. And among the more traditional industries, last year's house building figures for the private sector were the best for a decade.

Jobs, of course, remain an area of acute concern. But there are some hopeful signs there too. The number of people in work is now rising again, after falling steadily for years. Between March and December last year, the number of people at work rose by an estimated 200,000. And the number of people working in the service industries - from barmaids to computer programmers - rose by well over a quarter of a million.

The Budget

The twin themes of my Budget were to continue to reduce inflation - for our ultimate objective can be nothing less than stable prices. And to introduce a series of tax reforms to help the economy to work better, which is the only route to more jobs.

Maintaining the fight against inflation - to which this Government is unequivocally committed, let there be no doubt about that - means that we have to keep firm control over Government borrowing, Government spending, and the money supply. The need to reduce still further Government borrowing meant that, in this year's Budget, any cuts I made had to be paid for by increases in other taxes. And no tax increase is ever popular. But, in this way, I was able to raise the personal tax allowances by 12½ per cent - very much more than inflation - allowing people to earn more before they start to pay income tax.

The Budget took no fewer than 850,000 people out of tax altogether - 100,000 of them widows. The married couple's allowance is now at its highest level, allowing for inflation, since the War, and most married couples will pay at least £2 a week less in income tax. Those in work will keep more of what they earn. And for those out of work there is more incentive to find a job.

We introduced a number of reforms to simplify our taxes, because I believe the tax system should in principle be as straightforward and as comprehensible as possible.

I thought it right to take a careful look at some of the reliefs in the tax system.

/They may be

They may be very welcome to those who gain from them, but since nothing in life is free, they have to be paid for by taxpayers in general. For example, the relief on life assurance premiums costs £700 million year, and that means we all have to pay more tax than we would otherwise need in order to finance it. I judged it right to begin to phase out that relief and so leave people free to decide where to put their savings without worrying about distortions in the tax system.

But at the same time I removed another unnecessary and highly unwelcome distortion of a different kind: the investment income surcharge. It was an unfair tax which made an invidious distinction between investment income and earned income. It bore particularly heavily on the old and was an unfair imposition, especially on retired small businessmen who had put their life savings into their business rather than into a pension plan. We can all be glad to be rid of it.

I made a number of important changes to company taxation, too. Too often, British business has not been putting its money into projects that earn good profits. On any measure, British companies have been getting a worse return on their investment in new projects than their competitors in France, Germany or the USA - let alone Japan. I have little doubt that that was partly because the old tax rules encouraged companies to put their money where it would save tax, and not where it would truly make the best economic return. The changes announced in the Budget will give companies less generous tax allowances for investment, but in return the profits they earn on their investments will be taxed at a much lower rate. Profits are the dynamo of growth and the provider of jobs.

And just to help those jobs on their way, I also abolished Labour's tax on jobs - the National Insurance Surcharge. It was a bad tax, and I am glad to see the back of it.

As well as getting the tax system right, we need to make the way in which we collect taxes as modern, efficient and fair as possible. A lot of work has been done on this by the Keith Committee.

Today we are announcing to Parliament how we intend to act on their recommendations, with a view to publishing draft legislation in due course.

/Public Spending

Public Spending

As I have said, our economic prospects today are better than they have been for a very long time. But that does not mean that Britain is in the clear, and that we can relax our grip. In the Budget I tried to focus people's minds, as Mr. Campbell has done again today, on the subject of Government spending. In the past, we have far too often failed in our attempts to control it. Some previous Governments have forecast faster growth in the economy, and planned their spending accordingly, and committed the money only to find that the growth they expected did not occur. Other Governments seem hardly to have looked ahead at all. Too often they allowed the amount the Government was spending to lurch upwards. Twenty years ago public expenditure - the whole lot of it - came to about £10 billion. Today it stands at about £140 billion. Of course, there has been a lot of inflation in between, but even taking account of that, Government spending today is very nearly twice as much as it was only twenty years ago. During our five years of office, we have struggled to contain this Leviathan. And now we do indeed have it under control. Since 1981-82 it has been gradually falling as a share of national output.

The failure to control Government spending over many years has had the most damaging consequences for the British economy. Rising levels of Government spending have meant an increasing burden of taxation. Twenty years ago a married man would not start paying income tax until his earnings were a little under half of the national average. Today, he pays tax if his earnings are only a third of the national average.

And, whenever Governments lacked the resolve to finance public spending in an honest way, they borrowed too much instead, thus pushing up interest rates.

So it is of the very first importance that we now hold the level of Government spending, after allowing for inflation, where it is today. If we can do just that, then as the economy grows in the years ahead, we shall have the room to reduce Government borrowing still further and at the same time cut taxes. And as we cut taxes, as we give people back the incentive to work harder and give of their best, then we can expect the economy to thrive. We shall have an excellent chance of establishing, to turn our critics' gloomy phrase on its head, a self-perpetuating upward spiral. But if we fail now, or stop trying, if we allow Government spending once again to rise as it has done so often in the past, then all we have achieved would be put at risk.

/Nationalised

Nationalised Industries

Finding new ways to spend money is easy. But finding places where you can save money, that is a much more difficult proposition. Mr. Campbell was quite right to call our attention to the level of subsidies which we are still having to pay to some of our nationalised industries. The sums of money involved are very large indeed. British Rail, for example, last year received around £950 million from central Government. And the taxpayer paid out almost as much on the National Coal Board - no less than £900 million. It would be unrealistic to think of doing away with these subsidies altogether. One of the reasons that we support British Rail financially is that it provides a service to some rural areas which for social reasons clearly require transport of some kind. And some of the money that we pay to the coal industry is to help men in those areas where pits have to be closed and where jobs are disappearing.

But we do well to remember just how much those subsidies are costing us. Getting on for £2,000 million to the coal industry and the railways. That is equivalent to the cost of reducing the basic rate of income tax by some 2 pence in the £. Or the cost of increasing all the main personal tax allowances by about 10 per cent, which would enable us to take nearly a million more people out of tax, and cut the married man's tax bill by another £2 per week.

Nor is that all. On top of what we spend on the nationalised industries, the Government gives a lot of help in the private sector too. The Department of Trade and Industry spends £1,600 million a year on various aids to British industry.

Again there is a good case to be made for the money that we spend. But again it is right to make people aware of just how much we do spend. We are always being urged to spend more on British industry. I can only say that every penny we spend has to come from somewhere. There is always a queue of companies looking for Government handouts. But there is an even larger - if quieter - constituency of British businesses and British businessmen that wants lower taxation and the chance to make its own way in the world.

There have been two prongs to our policy towards the nationalised industries. First, to back the managements in their efforts to put their businesses on to an economic and commercial basis, working within tight financial disciplines set by the Government.

/The process

The process for many has been painful, as you in Scotland know full well. The British Steel Corporation, for example, has had to reduce its manpower by over 100,000 in just 5 years, in order to enable it to compete successfully and stay in being.

At British Leyland, the company's improved performance is bearing fruit. Two years ago it made a trading loss of over £300 million. Last year it traded profitably. No-one seeks to disguise the problems that are involved in bringing our long-established nationalised industries to a position where they can stand on their own two feet. The Government has a duty to help them through the difficult period of adjustment. But it also has a duty to the great mass of taxpayers who cannot forever be asked to bear the cost of uneconomic activity whether in steel, ships, cars or coal.

The second prong of our policy is to introduce competition where there has hitherto been monopoly, and to put State-owned companies back into the private enterprise sector wherever we can. The results of this programme have already been substantial. It has brought benefits to the taxpayer in the subsidies that we no longer have to pay. To the management of those companies, who are now able to do their job free from interference. To the workforce, who can take shares in their companies, and so benefit directly from their own efforts. And benefits to the customers, who receive a much higher standard of service from companies that are now forced to compete for the first time.

Education and Health

The motion we are discussing today calls on us to save money in the nationalised industries and to make use of those savings in health and education and tax cuts. Like anyone else here I should like to see higher standards both in education and in health care. As our economy grows, as prosperity spreads amongst our people, and as people find that they have more to spend, it is only natural that they will demand better standards for the treatment of the sick and better standards for the education of their children .

But that raises two important points. The first is, if extra money needs to be spent, does all that money have to be channelled through the State? I think the answer to that is clearly "no".

/Even today,

Even today, what the nation spends on health and education is a combination of money spend by Government on the one hand, and by individuals on the other. These matters are so important to people that there is a very natural tendency for some, perhaps for very many, to wish to supplement what the State provides by making provision of their own, and as our prosperity increases, that trend it likely to grow. It is vitally important that we defend that freedom, that freedom to choose, which is so often threatened by Labour.

The second point is that we must ensure that what the State does spend - the £15,000 million that we are spending on health and the personal social services and the £12,000 million that we are spending on education - should be spent as effectively and as efficiently as possible. It is not enough just to throw money at our schools and our hospitals. We must constantly be on the lookout for the best way of providing the education that parents want for their children and the service that patients want from the National Health Service.

So I would say to Mr. Campbell, you are quite right to seek savings wherever we can make them in the nationalised industries. And you are quite right to wish to see much of that money devoted to cutting taxation. But the Government's responsibility to the taxpayer, in addition to reducing the burden of tax, is to ensure value for money and efficiency in every penny that we do spend. That rule and that duty apply just as strongly to the money that we spend on health and education as to the money that we spend on the nationalised industries.

This motion - and many of the excellent speeches that we have heard today in this debate - have identified what I believe will be one of the crucial political issues in the next few years: the level of Government spending. The debate on how much we should spend is already well under way, and the Government has done what it can to inform it and to encourage it by coming forward with our Green Paper on public expenditure and taxation into the 1990s.

That Green Paper looks ahead. It emphasises the need to see where our money is coming from before we decide how to spend it. And it shows that if we can exercise restraint in Government spending over the years ahead, we can make real progress in reducing the burden of tax generally, and in taking those on the lowest incomes out of income tax altogether.

/We do not

We do not need to cut our spending overall. But we do need to stick to our published spending plans, which allow for increases year by year in line with prices generally - but no more than that. That in itself will be far from easy. It means that if on some things we find we need in fact to spend more, then on others we shall have to find ways of making savings, ways to spend less so that we can keep the balance.

Looking at the economy today, we have every reason to be optimistic about the future. But in the past we in this country have had an unfortunate habit of spoiling things at the first signs of success; of chucking away years of toil and achievement, either because we haven't the patience to see it through, or because short-term considerations get the better of us. Now that we can see better times ahead, now that we can probably find the elbow room to reduce taxes, I have little doubt that the Government will be deluged with demands to spend a bit more here and a bit more there in this or that good cause.

We shall have to resist many of those pleas. It will give me no pleasure to do so, because there are many deserving causes on which we should all like to spend more. But we can only spend what we can afford, and if we spend more than that, we know from bitter experience where that leads.

I am not saying that the Government can never spend more than it does today on the things that people want. I can imagine a day, some years from now, when our economy is strong enough to enable us to increase Government spending without putting at risk all that we have achieved. But that day is not yet. For some years we need firm restraint if we are to reap the full prize of lower taxation and a dynamic economy, capable of creating the new jobs that we all want to see.

The way ahead is still not easy. If the Government is to succeed it will need your understanding, your help and your support. I call on this conference to give us its backing today and to keep faith with us in the years ahead.

I commend the motion to the conference.

END

(Handwritten initials)

FROM: P MAKEHAM
DATE: 11 MAY 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Mr Battishill
Mr Folger
Mr Culpin
Miss Young
Ms Goodman
Mr Ridley
Mr Lord
Mr Portillo

MINISTERIAL SPEAKING ENGAGEMENTS

I attach the forward programme of all Ministerial speaking engagements.

Peter Makeham

P MAKEHAM

MINISTERIAL SPEAKING ENGAGEMENTS AS AT 10 MAY 1984

DATE 1984	MINISTER		OFFICIAL SPEECHES AND MEDIA APPEARANCES*	PARTY SPEECHES
	CHX	OTHERS		
MAY				
Sat 12		MST		Mr Syedian
Week 14-20			Sunday Express article*	
Mon 14		CST	Inst Ch Accountants	
Wed 16		CST	Institute of Taxation	
Wed 16		FST	Inst Pers Management	
Week 21-27				
Tues 22		FST	Times Conf on Budget	
Wed 23	CHX		CBI	
Wed 23		CST		Carlton Club
Week 26-3 June				
Wed 30	CHX		Top Hole Club	
Thurs 31		FST	Ch Accountants Dining Soc	
JUNE				
Week 4-10				
[Fri 8 - Sun 20]			[Economic Summit]	
Week 11-17				
Mon 11	CHX			Dr Rhodes Boyson
Wed 13	CHX		Assoc American Correspondents	
Fri 15		CST	EEF W Mids	
Sat 16		FST	Brit North America Comm	
Week 18-24				
Mon 18	CHX		Mais Lecture	
Tues 19	CHX		Thirty Club	
Week 25 - 1 July				
Tues 26	CHX			Conservative Party Dinner
Wed 27	CHX			Benton/Bowles Lunch
JULY				
Week 2-8				
Mon 2	CHX		Exxon	
Tues 3	CHX			Bow Group

MINISTERIAL SPEAKING ENGAGEMENTS AS AT 10 MAY 1984

DATE 1984	MINISTER		OFFICIAL SPEECHES AND MEDIA APPEARANCES*	PARTY SPEECHES
	CHX	OTHERS		
Week 9-15				
Tues 10		CST	SOLACE	
Wed 11		CST	Heating/Ventilating Contractors Assoc	
Wed 11	CHX			SW Surrey CA
Week 16-22				
Tues 17	CHX			Cons Ind Fund
Wed 18	CHX			Selsdon Group
Week 23-29				
Mon 23	CHX			West Mids CA
Week 30 - 4 Aug				
AUGUST				
Week 6-12				
Week 13-19				
Week 20-26				
Week 27-2 Sept				
SEPTEMBER				
Week 3-9				
Week 10-16				
Wed 12	CHX		Abbey National	
Week 17-23				
Week 24-30				
Mon 24	CHX		IMF	
OCTOBER				
Week 1-7				
Mon 1		FST	Ass of Economic Reps in London	
Wed 3		FST	Wider Share Own Council	
Fri 5		EST	De Zoete & Bevan	
Week 8-14				

MINISTERIAL SPEAKING ENGAGEMENTS AS AT 10 MAY 1984

DATE 1984	MINISTER		OFFICIAL SPEECHES AND MEDIA APPEARANCES*	PARTY SPEECHES
	CHX	OTHERS		
Week 15-21				
Mon 17		FST	Institute Ch Accountants	
Tues 18	CHX		Mansion House	
Week 22-28				
Wed 24	CHX		Clothing EDC	
NOVEMBER				
Thurs 1		EST	Ass. Corp Treasurers	
Fri 2	CHX		[Autumn Statement]	
Mon 5	CHX		IOD Leicester	Harry Greenway MP
Fri 16		FST	Institute of Bankers	
Thurs 22		FST	Croydon Ind Club	
Mon 26	CHX			Portcullis Club
Wed 28		FST	Fulham Business	
DECEMBER				
Tues 11	CHX		IOD	
Wed 19	CHX		Stock Exchange	
<u>1985</u>				
JANUARY				
Tues 15	CHX			Birmingham CC
Wed 23	CHX			John Lee MP
JULY				
Wed 3	CHX		Coningsby Club	
SEPTEMBER				
Mon 9	CHX		Int Fiscal Assoc	
<u>Date to be arranged</u>				
	CHX		Deutsche Ges Fur Ap	
		EST	National Fed Self Employed	
	CHX		East Mids Area	

SECRET

From: P M RAYNER
Date: 11 May 1984

CHANCELLOR

cc: Chief Secretary
Mr Bailey
Mr Watson
Mr Norton

MR MACKAY'S SPEECH

You asked about Mr Mackay's remarks yesterday to Scottish Conservatives on NHS charging. A report from the Telegraph is attached.

2. Apparently Mr Mackay made these remarks off his own bat. He was cautious about asking for official briefing for a party occasion. Officials simply provided him with briefing on what had been said on charging and the current position. But instead of sticking to repeating previous Government statements, he put things in his own words. The result was that he went rather beyond what had previously been said.

3. I imagine you will want to take this up with Mr Mackay. I attach a draft letter.



P M RAYNER

SECRET

DRAFT LETTER FROM: CHANCELLOR

TO: JOHN MACKAY MP, Scottish Office

I was disappointed to see from today's press coverage that you felt it necessary to go as far as you did in replying to yesterday's conference motion on ~~NHS~~ charges. (a)

*Attached
MSP* | I recognise that what you said derived from the pledges given by the Prime Minister during the General Election. But our aim has been to try to avoid giving these too much new life, pending decisions on future NHS charging policy. As you will know from Peter Rees' letter of 23 February to Norman Fowler, which was copied to George Younger, we are reviewing charging precisely to see what our policy should be for the longer term. We have therefore tried to deal publicly with charging issues by referring back to the past pledges, as Kenneth Clarke did in a recent debate. However, assuming you have been correctly reported, your words appear rather to have extended the validity of the past pledges. (b)

*Attached
MSP* |

*Surely we
can't accept
that* |

It is difficult to strike the right note in this area, and you may well have been under some pressure in the debate. But I hope you will find it possible to be slightly more cautious in future in this sensitive area until our longer term policy is established. (c)

what Europe has achieved, is achieving and—most important—can achieve in the future.”

His message that a new-style Europe emerging is expected to form a major part of the Tory's European election strategy when it is officially unveiled by Mrs Thatcher later this month.

Building peace

Sir Geoffrey pointed out that the anniversary of the D-Day landings in Europe will fall only days before Polling Day as a vivid reminder of the peace a united Europe has helped build.

He emphasised that a reinvigorated Europe will play a far larger role on the world stage.

“We want to make of the Community not just a force for stability, democracy and prosperity in Europe, but for liberty, peace and civilised relations between nations around the world.

“We want greater unity in Europe to help strengthen Western security and to open up new avenues of contact between East and West.”

Sir Geoffrey made it clear that Mrs Thatcher's tough negotiating stance within the EEC is a sign of the Government's belief in Europe's future. That was why she would not accept “a quick fix or a short-term fudge” on the issues which divide the Community.

He said: “It is because of our commitment to the future of the Community, not in spite of it, that we have pursued our policies so tenaciously. And future generations in all Community countries will thank us for it.”

whom a new Jerusalem means bombing helpless people in Afghanistan, suppressing the working-class in Poland, the Gulag Archipelago, the abuse of psychiatric hospitals and other ghastly obscenities.”

Mr Rifkind, who visited Moscow last year, emphasised that there should be talks with the Kremlin and he explained that the Russian leaders are a hard-headed realistic group of men who seek to advance the interests of their country by any means short of war.

Negotiations, he said, gave an opportunity to Western politicians to point to the Soviet human rights record

The conference overwhelmingly passed a motion calling for a sustained dialogue with the Soviet Union

“I hope all our work for Ravenscraig will not be destroyed by what is going on,” he said in reference to the threat to coal supplies to the plant from picketing.

Skilful police

Mr Younger also spoke of the courageous and skilful way in which the police were doing all in their power to uphold the law and to ensure the people who wanted to work were free to do so.

He told conference that prospects for Scotland were now the best for many years. Scotland was now starting to lead the world in making computers, microchips and electronic systems as once it led in shipbuilding and heavy engineering.

Mr Fraser assured conference: “We will take prosecution for the supplying and trafficking in hard drugs to the High Court to ensure that those convicted of this evil trade find they are exposed to the full range of sentences the High Court can impose.”

The debate was marked by strong attacks on Mr Scargill and Mr McGahey and the miners' pickets outside the Ravenscraig steel plant and pits which are still working.

Above the law

The attitude of Labour leaders towards violence on the picket lines and what many representatives saw as inadequate support of police by Labour spokesmen in the Commons, also figures in the debate.

Mr RONALD PATERSON, North Tayside, said certain groups and individuals clearly considered themselves or their cause to be above the law.

Conference endorsed the motion calling on the Government to reaffirm that no one should be above the law.

Mr Paterson, moving, said some civic authorities were openly hell-bent on lawlessness, while certain ethnic interests seemed more concerned with promoting disorder and attacks on police methods than with co-existence.

“Some among organised labour also have much to answer for, actively inciting law-breaking and aided and abetted from within the House of Commons itself,” he said.

“The Government should ensure that the law is enforced fairly but with vigour, regardless of the political, industrial, financial or numerical clout of the offender.”

NHS charges rejected

CHARGES for patients in National Health Service hospitals were opposed by Mr JOHN MACKAY, Scottish Office spokesman on the Health Service, and rejected

Mr MacKay said there were certain key aspects of the Health Service which should not easily be given away, including a free hospital service.

Going into hospital was a time of concern and additional costs for patients and their families, and it would be wrong to impose charges on top of those worries.

“Charges in hospital and for visiting the doctor are concepts we do not want to see in our Health Service.”

Conference endorsed a motion asking the Government to make sure that the increased resources given to the Health Service are used in areas of need by the privatisation of ancillary services.

But the second part of the motion calling for contributions by patients towards non-medical hospital services was overwhelmingly dismissed.

Dr LIAM FOX, chairman of West of Scotland Young Conservatives, said expansion of health services had important implications for other spending programmes.

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CENTRAL RESERVATIONS OFFICE

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Post Ho
JOHN I
(029.





FROM: LYNDA ROUSE
DATE: 2 August 1983

CHANCELLOR

cc Chief Secretary
Financial Secretary
Ms Seammen MR B. Hiskill
Mr Ridley
Mr Lord Mr Allen.

Mr Anson
Mr Bailey
Mr Watson
Ms Seammen
Mr Rayner ✓ 15/2

DHSS PLEDGES

I attach a list of pledges in the DHSS area given during the election campaign. This has been prepared by CRD.

In particular, at a Press Conference on 7 June, Mr Fowler said that price protecting unpledged benefits would be "our aim in the future", He also said that there was "no question of a downward review" of published spending plans on NHS, and no plans to cash limit the family practitioner service. The Prime Minister referred to published spending plans for the NHS as 'Not a promise but a firm commitment' (Edinburgh, 31 May).

In an open letter to Brynmor John, the Prime Minister said there were no plans to make any changes to the basis on which child benefit is paid or calculated.

Lynda Rouse
LYNDA ROUSE

The Prime Minister

20 May - open letter to Brynmor John:

- a) By now you will have been able to study the Conservative Party Manifesto and you will have seen our firm commitment to protect retirement pensions and other linked long-term benefits against rising prices.
- b) Apart from retirement pensions, the benefits mentioned in the Manifesto pledge include widows and disability pensions, and invalidity benefits. You can therefore be assured that pensions will continue to be protected.
- c) ... There are no plans to make any changes to the basis on which the benefit is paid or calculated. (child benefit).
- d) Nor are there any plans to change the earnings-related component of the state pension. The 1975 Act was in fact brought on to the Statute Book with the full support of Conservative Members.

26 May - Harrogate

We Conservatives have always believed that the sick, the elderly and the disabled must be properly cared for. That has been part of the Conservative tradition for a century or more. Yet still our opponents try to spread the hoary old allegations that the Conservatives are out to dismantle the Welfare State. (page 10)

31 May - Edinburgh

Last year pensions went up faster than prices. The pensioner will keep the extra. There will be no claw back. And we will continue to protect pensioners against rising prices. Each year the pension will be increased by the amount by which prices have actually risen. ... (page 4).

I said it last year. "The Health Service is safe with us". I have no more intention of dismantling the NHS than I have of dismantling Britain's defences. And if you look at our public expenditure plans for the next three years, there it is in black and white. These are the figures: £700 million more for the NHS this year - another £800 million more for the NHS next year, and another £700 million the year after that. Labour knows these facts. They are there in the book. All budgeted for within a sound financial policy. Not a promise but a firm commitment. (pages 5-6)

June - Birmingham

We promise to protect the pensioner against rising prices for the next Parliament too ... Mr Chairman, I make another pledge tonight. We will maintain the National Health Service in the future as we have always in the past. (pages 16 - 17)

Mr Chairman, I've said it before and I'll say it again, and I'll go on saying it until the message sinks in. "I have no more intention of dismantling the National Health Service than I have of dismantling Britain's defences." (page 18)

7 June - Fleetwood

We have more than protected the retirement pension against rising prices. We repeat that pledge. We'll carry it out with integrity. (page 7)

We shall continue to maintain the National Health Service. (page 8)

15 June - Daily Express

Question

Would you agree that there needs to be a substantial gap between what a man gets by working and what he can get on social security benefits?

Answer

There ought to be, I quite agree. It is one of the problems.

Question

How do you propose dealing with it?

Answer

It is one of the problems where social security has gone up in proportion with inflation. And that really is why we put personal allowances up. It is a thing that I constantly have to have in mind. It would not give an undertaking that unemployment pay would be price protected in the same way as pensions.

Rt Hon Norman Fowler

19 May - Sutton Coldfield

This Government is devoting over 40% of public spending to health, social security and social services. In other words what we have done is to guard the interests of some of the most vulnerable people in our society in spite of the worst recession since the 1930s. We have shown our commitment. That commitment remains, as does our commitment to rebuild the economy and to secure the resources for social provision.

26 May - Institute of Indian Culture, London

Let me repeat that the Conservative Party is entirely committed to the National Health Service and to its development. Above all we want to see the provision of better services for patients.

2 June - Sutton Coldfield Girls School

The Conservative Party maintains a clear and unequivocal commitment to the National Health Service. We have absolutely no intention of turning our back on the National Health Service which successive Conservative governments have helped to build up. Our aim is to develop the National Health Service further so as to provide a better service to patients. It is the interests of patients which come first....So let no-one doubt our commitment to the National Health Service. It is established by our record. But what we also want to achieve is the best value for money we spend.....Our priority is the patients and that is why we have made it our purpose to improve efficiency throughout the Health Service.....

4 June - Four Oaks, Sutton Coldfield

The Conservative Party is committed to the National Health Service. There is no question of us turning our backs on the National Health Service.....

Equally, we are committed to guarding the interests of the elderly. We will continue to price-protect pensions.

7 June - Press Release Party Conference

At the beginning of the election campaign I set out the Conservative Party's commitment to the National Health Service. I repeat that commitment today. Successive Conservative Governments have helped to build up the National Health Service. Our aim will be to achieve a better health service and to ensure that as much money as possible goes to direct patient care.....

Pensions have kept ahead of prices, not fallen behind. We are committed to price protecting the pension in the future.

We do not intend to change the basis of child benefit

PENSIONS

Press conference 7 June 1983

1. Mr Fowler: "It has always been our pledge in our position that we will keep the pension in line with prices but ... [we are not] going to return to earnings or prices, whichever is the higher. ... If you have that kind of situation it means that when prices rise higher than earnings then the increase, as far as the ... wage-earners contributing, is going to be proportionately more."

RETIREMENT PENSIONS EARNINGS RULE

BBC Radio 4 "Money Box" Programme 21 May 1983

2. Mr Fowler: "I would have liked to have moved faster, I would like to have got rid of it but we have other obviously competing claims on the social security budget. But we are pledged to remove it and that we will do We are pledged in the Manifesto to remove it as soon as we conceivably can."

LEVELS OF SOCIAL SECURITY BENEFITS

Press conference 7 June 1983

3. Mr Fowler: "The 'pledge benefits' ... basically are the pension benefits, retirement pensions, widows' pensions, war disablement pensions, war widow's pension, industrial disablement pension, attendance allowance, invalid care allowance, supplementary pension and long-term benefits of that kind. Unemployment benefit is not a 'pledge benefit' and never has been and nor is child benefit [but] we have managed to price protect those benefits as well and that would be our aim in the future."

OCCUPATIONAL PENSIONS-EARLY LEAVERS

Press conference 24 May 1983

4. Mr Fowler: "On early leavers we are quite determined to make progress. We prefer to make progress by voluntary agreement [but] if we cannot make progress by voluntary agreement ... legislative powers would be taken to protect the interests of the early leavers. I can make the pledge absolutely unequivocal."

DEATH GRANT

BBC Radio "Election Call" Programme 17 May 1983

5. Mr Fowler: "I can't give you a pledge that we are going to increase the death grant for everyone as a general benefit throughout the country. It's a matter of priorities."

NATIONAL INSURANCE CONTRIBUTIONS

Press conference 24 May 1983

6. The Prime Minister: "No one could give any promise about not increasing the NI contribution. The whole of the pensions and social security/national insurance system is on a pay-as-you-go basis. The money that is paid out in pensions and benefits this year is the money that goes in NI contributions this year and as you increase the outgoings you have to increase the incomings."

BBC Radio 4 "Money Box" Programme 21 May 1983

7. Mr Fowler: "I very much hope that we will be able to keep the contributions at very much the same level because clearly it is a very real imposition on the working population, and this is the balance that any Government has to hold."

THE UNIFICATION OF THE TAX AND SOCIAL SECURITY SYSTEMS

Press conference 24 May 1983

8. Mr Fowler: "We are attracted to the idea [of the Tax Credit Scheme]. But ... on the basis that was proposed in the 1970s the cost of £1.2 billion has now gone up to £5 or £6 billion and we simply believe that in present circumstances there are other social priorities and we simply cannot make pledges of that kind of expenditure. We have always put it forward on a no loser basis. We will keep it under review but we cannot make that kind of commitment to that kind of spending at this stage."

COMMITMENT TO THE NHS: WAYS OF FINANCING THE NHS

The Prime Minister on "Panorama" 31 May 1983

1. "We have no intention of changing the finance of the National Health Service... it will continue to be financed by taxation."
2. Question [Sir Robin Day]: "Do you stand by your statement of last October, Prime Minister: 'The National Health Service is safe with us. The principle that adequate health care should be provided for all regardless of ability to pay must be the foundation of any arrangements for financing the National Health Service?'"
PM: "Yes".
3. "Our performance in the NHS is better than that of the last Labour government and I would no more think of dismantling the National Health Service than I would think of dismantling our defence forces."

Press conference 24 May 1983

4. Mr Fowler: "Privatising the health service in the sense of seeking to find a new way to finance it by compulsory private health insurance - that we have ruled out.... We intend to continue to finance [the Health Service].... in basically the same way it is done at the moment."

Press conference 7 June 1983

5. Mr Fowler: "Successive Conservative Governments have helped to build up the National Health Service and our aim will be to achieve a better health service and to ensure that as much money as possible goes to direct patient care. So our commitment to the National Health Service is undoubted."

SPENDING ON THE NHS

Press conference 7 June 1983

6. Question: "Are you pledging today to carry on spending more than is required [to meet the cost of demographic change and medical advances] or are you going.... to cut back to only what's required?"

Answer: Mr Fowler: "We have set out our spending plans in the Public Expenditure White Paper and those plans, as the Public Expenditure White Paper says, will be subject to further consideration and upwards review if that is necessary. But we are not making a commitment on the amount of money we'll be spending above what is in the Public Expenditure White Paper.... There is no question of a downwards review taking place on the Public Expenditure White Paper figures that we have already published." Mr Clarke: "I think we can probably say that we spend as much as is necessary to maintain a good National Health Service of which we can be proud."

CASH LIMITS FOR FPS SERVICES

Press conference 7 June 1983

7. Question: [plans to cash limit the FPS Service?]

Mr Fowler: "No."

Mr Clarke: "The answer is no. The study being carried out by Binder Hamlyn into the financing of the family practitioner services will be advising us on how best to predict the level of expenditure on the FPS and how best to control it to make sure that people are properly accountable for the public money. But there is no commitment whatever to cash limiting the service."

PRESCRIPTION CHARGES

Oral HC reply 10 May 1983 (Hansard Vol. 47 No. 112)

8. The Prime Minister: "If he [Mr Foot] looks at the full quotation from the press conference [in 19 campaign] he will find a sentence, which I will remember delivering, to the effect that no responsible Government could ever promise not to increase prescription charges. I repeat that now. The important thing is that the exemptions remain."

The Prime Minister on "Panorama" 31 May 1983

9. "I was quite clear [in 1979] that no Government could give that undertaking [not to put up prescription charges]. I could not give that undertaking now, and do not. I gave two undertakings then. One was that I would not put, or not institute charges for stays in hospital nor for going to the doctor. I repeat those pledges.. Those are the ones that we can give."

Press conference 24 May 1983

10. The Prime Minister. "No responsible Government, no responsible Opposition, no responsible politician could rule out the possibility that prescription charges will rise. So I wouldn't dream of ruling it out."

THE PRIVATE SECTOR

(a) Use by NHS of the private sector

Press conference 31 May 1983

11. Mr Fowler: "The criterion is that health authorities make use of the independent sector when it can contribute economically and effectively to the care of National Health Service patients. That is the criterion We are not in the business of subsidising the private sector, but we are in the business of encouraging and stimulating the independent sector just in the same way as we are the voluntary sector."

(b) Tax concessions on private health insurance

Press conference 7 June 1983

12. Mr Fowler: "It would be something for a future Conservative Government to consider, but there are no plans at the moment."

NHS PAY

Press conference 24 May 1983

13. Mr Clarke: "With over a million staff we have got to deal fairly with our staff; at the same time we have got to keep within what can be afforded and not to spend money at the expense of patient care."

S E C R E T



cc PPS
Sir P Middleton
Mr Bailey
Mr Anson
Mr Scholar
Mr Watson
Mr Hart
Mr Norton

Treasury Chambers, Parliament Street, SW1P 3AG
Mr Spackman
Mr Colman o/r
Mrs Holmands
Mr Rayner

Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

23 February 1984

Dear Secretary of State

PUBLIC EXPENDITURE REVIEWS

When we had a word a little while ago with the Prime Minister, we agreed that three aspects of health spending should be reviewed. The purpose of this letter is to say how I see the scope of these three reviews.

In each case the aim of the review would be to examine the scope for improved control and public expenditure savings both in the longer term, and in the immediate future. I would hope to see specific proposals emerge which we can then confidently put forward to our colleagues. In the process of so doing I hope that the reviews will identify possible immediate savings as well as any immediate action which could and should be taken now to secure longer term improvements. The reviews should be radical, but consistent with the wider approach we are now trying to promote to greater financial control and responsibility in the field of primary care.

It was agreed that each review could be conducted jointly by the DHSS and the Treasury. If possible I think there should be an agreed joint report to us both on each review by DHSS and Treasury officials. As far as immediate savings are concerned, recommendations should be submitted to us both in time for the findings to be taken into account in the next public expenditure survey. Work on longer term savings can no doubt continue after that, if necessary, but nevertheless I would wish it to be carried out promptly.

The first subject area to be covered is the contractual relationship between the NHS and the contractor professions in the family practitioner services. I know that you already have in hand a fundamental

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review of the pharmacists' contract; I am grateful for Kenneth Clarke's letter of 17 January about this. The public expenditure review would not duplicate or take over this work, but rather would extend its radical approach to the other contractor professions. In the case of general practitioners, for example, the review might look at whether the arguments that led to item of service payments and direct reimbursements are still valid, as well as whether the system has become too complicated. For dentists, there is the fundamental issue of whether the item of service basis of remuneration is producing the results we would wish. We cannot expect to achieve everything at once, and in some areas we will be able to build on work already in hand. But I would certainly expect to see, for each professional group, a clear plan for how we intend to go forward.

The second area for review is the PPRS including its impact upon prescribing practice. Again, I am aware of work already in hand here, and in the case of the PPRS of the changes which have recently been made to the scheme. We shall have to look at these again in the light of the report of the Review Board on Non-Competitive Government Contracts. The public expenditure review would however need to consider more fundamental changes than have been made so far. Action taken so far has altered some of the parameters of the scheme without affecting its basic mode of operation: the new review will need to consider that. For example, it should consider the justification for reimbursing any promotional expenditure by drug companies, an issue to which I drew attention in my letter of 29 November 1983 to Kenneth Clarke: though the timescale for making any further changes will have to take account of what has been said on this in Parliament and to the industry. But I do not think that it is sensible to look at the PPRS in isolation from our wish to see more effective and more economical prescribing practices. We need to be sure that the form of the PPRS will not frustrate attempts by doctors to prescribe economically by reference to the price of individual drugs. We agreed that it was most important to bring about changes here to promote prescribing of cheaper drugs and to discourage unnecessary prescriptions.

The third area for review is that of NHS charging policy generally. It goes without saying that this is a highly sensitive area, which will need to be handled with care. But the Government's policy of seeking ways of financing a higher proportion of essential public services other than from taxation requires us to look at NHS charges, although we all recognise that our Election pledges may rule out some of the major changes for this Parliament. We do need to be clear in our own minds, however, about the charging options which are worth considering for the future.

There are some charges not ruled out by our pledges, which the review should consider for possible introduction in the shorter term. I have particularly in mind cost-related charges for drugs. Quite apart from the possibility such charges offer for raising increased income, they could have a strong and beneficial influence on prescribing practice. There are links too with the review of contractual relations with the practitioners.

If you agree, I suggest that we should ask our officials to begin work on these three reviews forthwith. Given the sensitivity of the subjects we need to keep the circulation of the papers as limited as possible.

S E C R E T

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I am sending copies of this letter to the Prime Minister, and to
the Secretaries of State for Scotland and Wales.

Yours sincerely

J. G. Greville

J- PETER REES

[Approved by the Chief Secretary]

S E C R E T

CH/EXCHEQUER	
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ACTION	
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	PS/TR
	MR MONCK
	MR LOVELL

MR HANKESTER
 MR HALL
 MR LORD
 MR MONROE .

Speech given by

MR ROBIN LEIGH-PEMBERTON

Governor of the Bank of England
 at the Annual Dinner of the Equipment Leasing Association
 on Wednesday, 16 May 1984

EQUIPMENT LEASING ASSOCIATION SPEECH

Mr Chairman, Ladies and Gentlemen, may I first express my warm thanks for your delightful hospitality here tonight; and then thank you even more warmly for both the compliments you have paid to the Bank in making it the subject of this toast, and to myself for inviting me to respond to it on this the twelfth annual dinner of your Association.

Rather than look back to past speeches and past events, it is probably more attractive on an occasion such as this to look to the future. Visionary expectations or even prophecies of doom usually excite most interest after dinner; they have the important advantage that one cannot be proved wrong, at the very least until the next morning.

So, what of the future? If I remember correctly, Benjamin Franklin once said that there was nothing so certain in this world as death and taxes. Well, the substantial changes introduced by the Chancellor in his Budget may well have proved Benjamin Franklin wrong. You, Mr Chairman, have naturally spoken about these changes and their impact on the leasing industry, and in view of their major effects I shall do so also, in a few minutes. But before I come on to their particular impact on leasing I think it may be useful if I first review the broader picture - the impact of the corporate tax changes in the Budget both on the overall financial position of companies, and on the scale of their investment.

I do this because it seems to me right to start, as you did Mr Chairman in your penetrating analysis, by recognising that, important as the impact of the proposed removal of first year allowances will be for the leasing industry, it will not be the only significant influence in the period immediately ahead and does not discriminate against the leasing industry. Indeed, I do not think that any such discrimination would have been justified. I am very conscious of the benefits that the leasing industry has brought to UK business, especially during the difficult years of recession when many firms have been unable to obtain the immediate benefit of tax allowances on new plant acquired for the business.

The starting point for the Budget was the objective of stimulating efficiency, enterprise and employment. One important way of achieving this was to reduce the discouragingly high rate of corporation tax. Another was to remove the artificial inducement to

investment which resulted from the high rates of capital allowances. The case for these had been reduced by the containment of inflation at a moderate level and the improvement in the financial position of companies. Despite the reductions which are proposed, capital allowances will still be, on average, more generous than depreciation at normal commercial rates for most assets; and with our current rates of inflation they will not be dissimilar to replacement cost depreciation. These changes do, of course, involve some reduction in the implicit fiscal subsidy to investment, but this will, by the same token, reduce the extent to which investment decisions are taken on the grounds of their fiscal impact rather than the underlying rate of return. In addition, one benefit of the proposed reductions in the rate of corporation tax is that they go a long way towards eliminating the fiscal discrimination against equity relative to debt finance, so encouraging companies to strengthen their balance sheets by raising equity finance where appropriate. I think that, overall, these measures when fully implemented will provide an environment more conducive to the longer-term development and health of UK industry, and there will be encouragement to enterprise which will arise from a lower tax rate on corporate profits than applies in any of our major competitor countries.

The scale of investment by UK companies creates, of course, the demand for the financing you provide, but in return the availability of finance for investment on attractive terms through leasing increases the scale of investment which industry is able to undertake. Thus over the last few years leasing has made a notable contribution towards sustaining investment by British industry; indeed, Mr Chairman, your Association has done a great deal of useful work in informing as well as educating both ourselves in the Bank and those in Government about this contribution. Last year about 12% of total new investment was financed by leasing. While the growth in lease finance over the 13 years that your Association has existed is a remarkable achievement, it also reflects the particular tax system which has been in force during this period and the low level of profitability of the corporate sector - a situation which is now, happily, showing a sharp improvement. Leasing seems likely to continue to play a significant role, which will be particularly important as we continue along what appears to be a more sustainable path of recovery than we have seen in the recent past, with most forecasters predicting that growth in GDP will continue this year at around 3%.

The strongest element in the growth of demand has, until recently, been consumer spending; but investment is - at last - recovering, albeit from a low base with manufacturing investment in 1983 having been nearly 40% below its 1979 level. Industrial profitability has also recovered significantly from the very low levels of the early 1980s, helped by some excellent productivity gains. But the prosperity of industry in the longer term is bound up with the growth of productive investment of all kinds, and the erosion of our

productive capacity that must have occurred needs to be reversed through an increase in capital investment. We began to see signs at the end of last year that some recovery in investment is at hand. This is most welcome, for an adequate level of investment will be crucial for the sustained growth we all look for.

Some stimulus to capital spending will be provided by the financial incentive to bring forward investment plans created by the pre-announcement of the planned reduction in corporation tax and first-year allowances, although this will inevitably be tempered by the physical, practical and financial constraints on companies' ability to accelerate large capital expenditure programmes. I also believe that in the longer term the Budget changes are likely to have favourable consequences for our economy. I will not go further into the reasons now; indeed I fear that my excursion into the niceties of corporation tax may have tried your patience after such a splendid dinner. For tonight let me just say that I am hopeful that investment will increase and that leasing will have an active part to play in financing this investment.

I said earlier that fiscal changes are not the only significant influence on your industry. Even the Chancellor does not have a monopoly of influence over the future demand for lease finance. The economy has its own dynamics and as our economic recovery continues it was to be expected that even without the tax changes more companies would have moved into the tax-paying bracket and thus find themselves less reliant on lease finance. In addition the liquidity of companies is now improving and they may not need quite so wide a range of borrowing facilities as in the past.

Indeed, the improvement in industrial and commercial company liquidity has been a remarkable feature of the recovery, with the growth in financial assets of major companies outstripping the growth in both their stocks and fixed assets. On the one hand it is comforting to know that the financial position of companies is healthier and that the finance is not being used, for instance, to build up stocks or working capital after the significant improvement in stock control over the last few years. But on the other hand it would be worrying if the caution which has perhaps been caused by the pain of the recession were to limit unduly the will to exploit the investment opportunities available to make good use of these resources. This is of concern because companies need to remain competitive with their counterparts in other countries. This is only likely to occur if we maintain a high level of profitable investment, accepting if necessary the risks so long as these are commensurate with the size of the business concerned. Above all, investment must be boosted in the development and production of technologically advanced goods which can compete with overseas products on price, quality and reliability. Without such investment our competitiveness is likely to decline. Thus although UK industry's productivity improved last year, our overall cost

competitiveness, ignoring exchange rate fluctuations, probably declined compared with that in countries such as Germany, the USA and Japan. In short, our costs probably rose faster than those of our strongest competitors abroad - principally because of the rate of increase of earnings. Companies need to be very attentive to their unit labour costs if the substantial gains that have already been made are to be fully realised.

What then of the prospects for your business? I believe that leasing is likely to offer attractive rates of finance during the current year for the productive investment which is so important to the health of our economy, but the Budget changes have significant implications for the leasing industry in the longer term. While these changes, which apply to all companies, will reduce the subsidy given to investment in fixed assets as well as reducing the discrimination against direct costs such as labour, the leasing industry and, indirectly, banking, will be among those most significantly affected. The reductions in capital allowances will have the effect of greatly increasing the amount of investment which lessors would wish to finance if there were sufficient demand. But demand is unlikely to reach this level. As you remarked in your speech, Mr Chairman, this will probably lead to greater competition and encourage greater innovation and sophistication in the structuring and marketing of leases written.

The developments which are likely to flow from the Budget draw attention more generally to the importance of the continued maintenance of high standards among lessors. In the bracing and competitive environment which is likely to follow, it is quite likely that price competition will quickly develop; indeed leasing margins appear already to have started to fall. The quality of leasing books has in the past been high and care will be needed that standards are not compromised or business taken on at too fine a margin in response to greater competitive pressures.

It is perhaps an exaggeration to liken lessors to the man who, having paddled his canoe along a relatively smooth, placid river, suddenly enters into a long stretch of rushing, white water containing rocks - some seen and some unseen. The adept canoeist picks his course safely through the white water, though not without the benefit of a hard hat and built-in buoyancy. So I am sure that those who negotiate the turbulence will see the changes having a significant effect on business and on competition between lessors.

Leasing has traditionally offered a number of advantages which are not necessarily associated with taxation. Not only is leasing an additional source of finance, but its nature is similar to that of a term loan and I hope that it will continue to offer fixed interest rate terms for a significant proportion of assets. Leasing can also offer a degree of flexibility which is not necessarily available with other forms of finance. But to satisfy customers, lessors will not

only have to offer the right price but also service and advice of a high standard in order to attract business in a sector no longer constrained by the volume of supply.

With these prospects and against the background of the discussions in the City about regulation, I welcome the steps your Association has taken in setting up its own code of practice. I hope that the members of your Association, Mr Chairman, will continue to appreciate the work that has been done in this area and that the Association will continue to be alert to the needs of its members and customers as well as maintaining and developing your code of practice. The point is particularly important given the changes facing the industry and the need to keep customers aware of the effect of those changes on their future rentals.

The leasing market has developed considerable sophistication and expertise over the last few years and has made a major contribution to the financing of UK industrial investment, particularly in recession when corporate profits were low and interest rates high. But change brings new demands, for which the expertise gained in equipment finance should provide a solid launching pad for the future. The City of London has traditionally been a major source of finance for industry, and its reputation in matching this finance to the needs of its customers is second to none. If I survey the whole range of financial services offered by the City, I find that all concerned are coping with change either in a shifting economic environment or for other reasons, and that they are adapting their practices accordingly. I hope - no, I think I can go further and say, I know - that you will fully match up to this tradition and will continue to promote both leasing and other sources of finance on advantageous terms for industrial and commercial companies. Your tradition of innovation will undoubtedly be maintained and, as with much of UK industry and commerce, the efficiency and quality of the services you offer will become as important as their price. I look forward with confidence to the significant contribution which you will make to economic recovery, and to prosperity in the longer term.

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FROM: A P HUDSON
DATE: 18 May 1984

PS/CHANCELLOR

c/
OK?
MOM
18/5

2 small changes,
on pp 2 & 6, but
otherwise fine.

- cc PS/CST
- PS/MST
- PS/EST
- Sir P Middleton
- Sir T Burns
- Mr Cassell
- Mr Monger
- Mr Battishill
- Mr R I G Allen
- Mr Makeham
- Mr Lord
- Mr Portillo
- PS/IR
- Mr Culpin
- Mr Page

FINANCIAL SECRETARY'S SPEECH TO THE TIMES CONFERENCE ON THE BUDGET

1. I attach the final draft of the Financial Secretary's Speech, for the Chancellor's approval.
2. The Financial Secretary is most grateful to Mr Allen and Mr Portillo for the work they have put in on the speech.
3. The speech will be delivered at 9.30 am on Tuesday (22 May). It would be helpful to have the Chancellor's comments as soon as possible on Monday morning, so that any necessary changes can be made and the text given to The Times by early afternoon on Monday.

APH

A P HUDSON

TIMES CONFERENCE ON THE BUDGET, 22 MAY

You all know the old saying - which is trotted out to begin every speech on taxation - that only two things in this life are certain. Death and taxes. Sadly, there is a lot of truth in it. In all civilised societies the Government has to provide some services which no-one else can supply: at the very least, defence and policing. And taxes have to be raised to finance that spending.

This Government believes that a free market tends to produce the most efficient allocation of resources. That is our starting point, and a number of conclusions about what sort of tax system we should have follow from it.

First, though taxation is an important instrument of economic policy, it should apply in such a way that it neither kills off economic activity, nor in general promotes one sort of activity in preference to another. The tax system should be neutral, or to put that in a still clearer way, the economy should function as much as possible as though taxation did not exist. At the same time we want to create a simpler tax system, one which is easier to understand. People and businesses should respond to stimuli within the system, not to stimuli imposed by the Government.

From this notion of neutrality it follows that the tax base should be as wide as possible and the rates of tax as low as we can get them. If some goods and services, some activities, some categories of people are in the tax net, but others are left out, then that itself imposes a distortion, a position which is less than neutral. Economic activity will of course tend to shift towards the areas exempt from tax. If tax rates are high, then even if they are broadly and neutrally applied, they will tend to choke off economic activity.

So these are the main principles we start with: neutrality and simplicity, a broad tax base and as low rates of tax as possible.

You can trace these ideas through the Budget measures. They are there in our changes to personal taxation - in the switch from income tax to VAT, for example, and in our moves to a more even-handed treatment of savings. But today I wish to concentrate on the taxation of business, and show the thinking which lies behind our Budget proposals. In particular, I wish to concentrate on the proposed changes in corporation tax rates and capital allowances. It is these that are the most far-reaching and radical of the proposals directly affecting business.

I don't want you to forget the other changes such as the abolition of stock relief and of the NIS and the changed ~~postponed accounting~~ arrangements for VAT. ^{on profits.} But I shall refer to these today only in passing.

And I certainly don't want you to forget this year's other changes, aimed directly at reform of the capital markets. Those are also of great importance to all businesses. We halved stamp duty and that substantially reduces what the Stock Exchange Chairman called "the single most important deterrent to direct investment in shares". We made important improvements in the treatment of share options and that too should constitute a welcome stimulus to the equity market, as well as making it easier for British companies to attract and hold really key executives. Abolishing the investment income surcharge, that outdated penalty on investment and enterprise, also puts the acquisition of shares on a more equal footing with other forms of saving. On the loan finance side the proposed CGT exemption for new issues of certain capital bonds, will bring their treatment broadly into line with Government securities.

All these, and several further minor measures too, builds on this Government's success in establishing a sound financial and monetary environment, and further promotes the revival of the capital markets. These budget proposals will reduce distortions between loan and equity finance, and will encourage the capital markets to operate with greater efficiency and flexibility. And most importantly, they will increase the flow of savings into the company sector.

The old system

Let me remind you of the position before the Budget. Our nominal rates of tax on companies were very high. A "small companies" rate of 38 per cent. A main rate of 52 per cent. And an even higher marginal rate - $55\frac{1}{2}$ per cent - for companies moving from the small companies rate onto the main rate.

But at the same time as some companies laboured under high nominal rates of tax, many were able to take advantage of the rules to shelter/ ^{their profits from} corporation tax entirely. Only one-third of companies regularly pay corporation tax, and a third never pay it. The revenue yield to the Government was relatively modest: in 1983-84 about £4 billion in total from mainstream corporation tax, compared with £6 billion from petroleum revenue tax alone, £31 billion from income tax and £15 billion from VAT.

Thus we faced the worst of both worlds - on the one hand, a low revenue yield and, on the other hand, a system of high nominal rates which frequently deterred people - including foreign companies - from setting up business in the UK.

The paradox of high rates of tax and relatively low yields is explained by two factors in particular. Low profitability in British business. And a series of very generous allowances - particularly

On capital investment - built into the tax system. These allowances were designed to stimulate investment. But since they also reduced the tax yield, it follows that they had to be paid for by much higher rates than would otherwise have been necessary. Businesses very naturally and rationally took tax considerations extremely seriously when deciding where to put their money. The low yield of corporation tax is to some extent a tribute to their prowess in sheltering their profits by taking advantage - through leasing arrangements for example - of the capital allowances built into the system. But by the same token the lack of pre-tax profitability amongst British companies has been an indictment of the tax system, which has encouraged investment whether profitable or not.

The UK system before Budget Day offered probably the most generous tax subsidies in the world to certain types of investment. It was assumed that this would mean more and better investment in the UK than in competing nations. Yet this has not been the case. Certainly investment activity here has not exceeded investment among our competitors. Even for machinery and plant, which received the most generous increase of all we have not out-performed our competitors. Data from 1970 to 1981 show that investment as a proportion of GDP was much the same here as in the other "big seven" OECD nations.

More disturbingly, the assumption that tax incentives meant better investment has been proved alarmingly wrong. On any measure, the

productivity of Britain's business investment has fallen far short of our competitors - below Germany, France and the USA, let alone Japan. The real pre-tax rate of return in manufacturing, for example, averaged 6 per cent in the UK over the period 1976-1980 compared with 16 per cent in Germany and 18 per cent in USA and Canada. Figures of output per unit of the net capital stock also support the proposition that capital has generally been poorly used in the UK compared with other countries - in manufacturing, for example, on this measure capital has been used only about half as effectively as in Germany and the USA. In a competitive world - and in the UK external trade accounts for some 30 per cent of total output - it is clearly detrimental to companies and to the nation to have resources so inefficiently used.

There is nothing virtuous or of benefit to the economy in investment for its own sake. Investment pre-empt resources which could be used elsewhere and therefore involves a sacrifice of current satisfactions. Such a sacrifice is only worth making if a capital project yields a return. From the nation's point of view, it is only productive if it makes a ^(worthwhile) return ^{pre-tax as well as} ~~both post-tax and pre-tax~~. Previously too much investment has not done so. Though there are many reasons why the UK has made poor use of capital it is hard to escape the conclusion that a tax regime which subsidised and encouraged projects with low returns has been an important contributory factor.

Before the Budget most new investment in plant and machinery attracted a 100 per cent first year allowance and industrial buildings an initial allowance of 75 per cent. These allowances of course represented a much faster rate of write-off for tax purposes than the assets' true rate of depreciation, or the way in which they would be treated by the company for accounting purposes.

So, some projects went ahead even though their pre-tax rate of return was very low or - in the case of some projects financed by borrowing - even negative. It was their post-tax rate of return which made them attractive to the company. Companies quite naturally became involved in the pursuit of tax efficiency rather than in seeking truly profitable projects into which to put their money.

As I say, that was a rational commercial decision given the tax conditions. But the result is bound to have been to reduce the quality of our investment and that is critical to our ability to compete in world markets. I believe it has played an important part in our failure, over many years, to compete more effectively in international markets.

apart from this failure to meet fundamental objectives, the old system of corporation tax had other deficiencies. First, it treated different kinds of investment very differently. Some investments received a substantial subsidy through the tax system; others bore a substantial penalty. Secondly, by providing incentives for capital investment, whether or not this was profitable in pre-tax terms, the system encouraged the replacement of labour by machinery and equipment, even where there was no economic case for doing so. Thirdly, it encouraged debt financing as opposed to equity.

In summary, under the pre-Budget system, investment decisions were frequently governed by the tax rules - and hence by the professional tax adviser and, indirectly, the politician - rather than by the businessman. And the tax adviser and the politician, were pushing business towards investment decisions with a poor rate of return - often investment for its own sake - and in the process probably adding to the country's major problems of poor competitiveness and high unemployment.

It may have come as something of a shock to the British public, brought up to believe in the unquestioned virtue of all business investment, to hear that principle challenged by Government. But I sense that in the business world the shortcomings of the system were well understood and the Budget proposals have therefore immediately struck a chord with business opinion.

The Budget proposals

This brings me to the company tax strategy on which the Government is embarked. I would make two preliminary points. First, the proposed changes - though radical - work within the existing imputation system of corporation tax. I think it is right to do so, and I note that the overwhelming majority of responses to the 1982 Green Paper on company taxation were also in favour of preserving the imputation system. Secondly, and a point to which I shall return, we wanted to set out the changes clearly over a number of years both to reduce uncertainty and ease the transition. This marked a considerable departure from conventional budgetary decisions, which are normally taken only one year in advance. But the medium-term approach to policy is a distinguishing characteristic of this Government - familiar in a number of areas from the MTFs to the privatisation programme.

Central to the company tax proposals is the reduction of the high nominal rates of corporation tax to which I have already referred. It is only companies which make profits - and cannot shelter these profits - which pay tax, and so high rates of tax tend to penalise the successful. The corporation tax system in effect has until now been taking away from the profitable and using it to subsidise investment by a wide range of companies, whether successful or not. It has imposed a higher tax burden on companies investing in labour than those insisting in plant and equipment. And it has diverted some

● our best talent into even more imaginative ways of obtaining the benefits of the overgenerous reliefs. That is the curious money-go-round which our proposals aim to eliminate.

The result will be - is designed to be - to encourage profitable companies by allowing them to keep a very much larger share of their profits. This Government is happy to put the word "profit" back into the national vocabulary. It is profits which demonstrates our success against world-wide competition; it is profits which provide the main engine of growth in our economy; and it is profits which will create new opportunities and new jobs.

Our proposals are designed to reduce or eliminate the distortions in the system which I have described.

First, and foremost, by abolishing initial and first year allowances for capital investment, we bring the tax treatment of capital assets in general more closely in line with a typical depreciation profile. The new system, when fully in place, will thus treat fixed assets in a more even handed manner. Companies will be encouraged to find projects which are commercially efficient rather than merely tax efficient. This means, of course, that many investments will need to pass a stiffer test than under the old system. But while the cost of capital will rise at the margin because of the reduction in allowances, some highly profitable projects will do better under the new system

because of the reduction in the rate of corporation tax.

The reduction in capital allowances will also substantially reduce the artificial incentive to replace labour with machinery and equipment. That distortion at a time of high unemployment is particularly damaging. We also took the opportunity in the Budget to abolish the National Insurance Surcharge, which constituted another tax distortion working against the retention of existing workers and the employment of new labour. By tackling both NIS and the bias against labour in the corporation tax system, I believe that the Budget can have a marked effect in increasing the relative attraction of keeping existing jobs and of creating new ones.

The proposed changes in capital allowances are designed to reduce the discrimination between different assets and sectors, leaving the market to determine the most efficient allocation of resources between them. They are certainly not intended as an attack on manufacturing industry, an allegation which has been made by the Government's opponents. Rather they remove the disadvantage which other sectors have suffered under. More efficient use of resources by companies also means a better and more balanced use of the resources of the nation as a whole.

Secondly, reducing the rates of corporation tax will deal in large measure with another unwelcome distortion: that in favour of debt

●ainst equity. The bias arises because interest payments are fully deductible in arriving at taxable profits, while dividends are only partially offset - via the imputation system - leaving corporation tax on distributed profits payable to the extent that corporation tax exceeds 30 per cent. So from now on the bias is eliminated for companies paying the small profits rate and, for other companies, the bias will be small once the main rate has dropped to 35 per cent.

Handling the transition to a new tax system is always difficult, and of key importance. As I have said, the Budget set out reduced rates of corporation tax for a number of years ahead. We thought it essential in making changes to give British business certainty for the future. That is why the new rates - 30 per cent for small companies and the reduction in four stages to 35 per cent for the main rate - are built into this year's Finance Bill. Phasing out the first year and initial capital allowances over the same period as the reduction in the main rate of corporation tax seems to us a sensible and practical way to proceed.

Over the period to 1988-89 as a whole the corporation tax changes by themselves are expected to be revenue neutral. But both this year and next the Government will lose revenue from the reduced rates of tax faster than it gains revenue by restricting the capital allowances and abolishing stock relief. That is a price we are happy to pay in order to obtain as smooth a transition as possible. Once the

●ansitional period is over, I am confident that the effect of the measures will certainly not be to increase the tax burden on industry. Indeed in the 1990s when the effect of the corporation tax changes have fully worked through, companies should benefit very considerably from the new system, and that is without considering the continuing benefit from the abolition of the NIS. In particular, I believe the lower tax bite on profits will stimulate firms to undertake more innovatory expenditure and activity and so raise economic performance generally.

Our businesses do not live in an isolated world and it is important to assess the changes proposed against company tax systems applying in other countries. The main rate at which company profits are taxed will be significantly lower in the UK than in any of our major competitors. For example, in France the rate is 50 per cent; in West Germany, 56 per cent; in the Netherlands 48 per cent; in the United States, 46 per cent; and in Japan, 42 per cent. By 1986 - on the conventional assumption that scrap value is about 10 per cent - expenditure on plant and machinery in the UK will be written off against tax within about 8 years and the write-off period for industrial buildings will be 25 years. In competitor countries the comparison varies between one sort of asset and another but, in general, our write-off periods will be comparable with those overseas. So I believe the overall effect is to make Britain an attractive place for both domestic and overseas investors.

Peroration

From all that I have said I think it will be clear that we see the far-reaching changes in corporation tax as being of great significance in our economic development. Taken in the context of the stable financial framework provided by our MTFS, the changes are addressed to some of Britain's most intractable problems: low profitability in business, lack of competitiveness and high unemployment. Our solutions are radical: a major reform of the allowances and very substantial reductions in the rates of corporation tax. We look forward to seeing higher quality investment, and therefore better use of the nation's resources. That will improve our competitiveness and profitability, and feed through into sustained economic growth.

The changes in the Budget are much more than routine tinkering with the tax system on a care and maintenance basis. They should be seen as part of a wider strategy of tax reform. They are supported in this Budget by other changes which will be of benefit to businesses by encouraging markets and improving the flow of finance to the corporate sector. The corporation tax changes themselves follow a very careful analysis of the operation of the tax system and a thorough re-appraisal of its rationale and economic effects. In the process we have overturned a number of conventional wisdoms.

I believe the new regime offers business a tremendous opportunity to plan with certainty for the future and to take decision-making

back to the boardroom, away from the tax planners, and from Whitehall and Westminster. To those thinking of investing in the UK from overseas it means a simpler system with much lower rates of tax than elsewhere. For those established here, it means that the rewards for success are greatly increased.

The Budget opens a new deal for companies and makes Britain a better place to do business. Companies will need to stand back and assess the new system, and some may need to make adjustments. But I know that business will seize these new opportunities. In the past governments have been legitimately criticised for ignoring success and bolstering failure. This Budget marks a break from that, towards a dynamic economy with worthwhile incentives for profitability and success.

Hand by

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405



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20 May 1980

Speech by the Chancellor of the Exchequer,
the Rt Hon Sir Geoffrey Howe, QC, MP, at
the Confederation of British Industry's
Annual Dinner held at Grosvenor House, London
on Tuesday, 20 May 1980.

PRESS OFFICE

H M TREASURY

PARLIAMENT STREET

LONDON SW1P 3AG

01-233 3415

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Your presidency will be remembered above all for the leadership, undemonstrative but strong, which you have provided at a vital stage in the development of the CBI. Building on the foundations laid by Lord Watkinson, you have helped to bring the organisation to the very centre of the national stage. Confident that, at the youthful age of 57, you still have much to contribute to the future of British industry, I offer you, on behalf of this distinguished company, warmest congratulations on a presidency of real distinction.

But you would be the first to acknowledge the debt that you owe to our late, dear friend, John Methven.

As Minister of Consumer Affairs in Ted Heath's Cabinet, it was my great good fortune to appoint John to his first public office, as Director General of Fair Trading. So, from time to time, I used to tease him - and hugely boost my own morale - by claiming that I was the man who invented John Methven.

It was an absurd claim, of course. For, more than anyone else, John was his own man.

And, more than anyone else, he transformed the CBI into a fighting organisation, heeded now with equal respect, by Ministers, by union leaders, by Whitehall - and by the people.

How we shall all miss the candour of his advice, the clarity of his advocacy, the courage of his convictions - and, most of all perhaps, the quiet passion of his patriotism.

That was never more evident than when John Methven told your last annual conference:

"If ever a nation stood poised between remorseless decline and real success, between poverty and prosperity, between disintegration and moral recovery, then it's Britain on the eve of the 1980s. In the starkest terms, I'm saying to you that we are drinking in the Last Chance Saloon."

How is it that Britain, once the world's greatest industrial power, now faces this stark choice? Is it solely because of bad economic management by Government? Because Governments have got their forecasts wrong? Because Governments have made a mess of managing demand? Because Governments have made a mess of fixing the exchange rate? Is it Governments alone that are responsible for 20 years of relative decline?

It would, in many ways, be easier if it was only Governments that were to blame. And, of course, Governments do have crucial responsibilities about which I shall have more than a word to say in a moment.

But as for Governments being alone to blame?

No. On the contrary, it has long been one of the besetting sins of our society to try to shift on to Government responsibilities which properly lie elsewhere. To use Government as an alibi for bad or irresponsible economic behaviour. And then to expect Government to clear up the resulting mess: a task far beyond the capacity of any Government, so long as the underlying causes remain untreated.

In too many respects we have cherished illusions of that kind.

We have acted as if we could have high and ever-rising living standards without paying attention to our ability to compete with other countries, especially in manufacturing.

Some trade union leaders indeed have even argued that the ability of an employer to compete, or even to pay, was none of their business, and that their concern was solely with the living standards of their members.

It reminds me inevitably of an observation by one of my 19th century predecessors, George Canning:

"In matters of commerce the fault of the Dutch was giving too little and asking too much."

Today, that earlier version of the Dutch disease has settled far too widely over here.

We have been giving too little in productivity and asking too much by way of reward. Too often we have allowed profits to be squeezed, on the assumption that Government would help out by printing money, by depreciating the currency or, in the last resort, by nationalising the business so that jobs could continue at the taxpayer's expense. Nationalisation, it has too often been thought, removes the market barrier to wage increases. And the nationalised sector has often set an example that others have followed. The illusion has been that we can make our labour more and more costly, without pricing ourselves out of a job.

And, of course, the charm hasn't worked. How could it? The evidence is before our eyes, in the decline of our living standards relative to those of other industrial countries. We have only to contrast what has happened to living standards in Germany or Japan. They had to enter the post-war world without the luxury of any illusions at all.

And so we have reached the 1980s with an economy in which market forces are too weak. With a nationalised sector and public services which are too large. And with weakened management in the enterprise sector. By many international standards our public services are still good. But the motivation for public service that is critical to an economy with a large public sector has gravely weakened. The consequences were dramatically illustrated in the declining months of the last Government. That is the counterpart of the weakening of industrial management, which has resulted from the wrong kind of trade union activity.

Another facet of these illusions, but perhaps also one of its causes, has been too much loyalty to class and too little identification with national success - too little patriotism. Low key patriotism may have helped us bring an empire successfully to independence. It has made us less than sufficiently ashamed of our relative economic decline.

Despite all the complaints, paradoxically we have one of the most egalitarian, one of the fairest of the large industrial societies. Yet our overseas friends in particular often think our economy is hampered by too much class distinction.

What they mean, I suspect, is that it is hampered by overtones of antique class loyalty. There are, of course, two sides to all that. There is, for instance, far too much determination to remain working class, and not enough of the ambition to become bourgeois to which our foreign critics are accustomed. The stress on maintaining a local authority tenantry, without the freedom of ownership, and on the fostering of comprehensive schools, not for reasons of educational efficiency but as a piece of social engineering, are all part of this. So too is much trade union solidarity and resistance to change in working practices, and the endless attack on any form of so-called elitism: though if we look at our European neighbours, we see how well other countries have been served by elites of administration, and elites of management. Disdain for elitism has all too often been an excuse for failure.

No less damaging, of course, is all the affectation about having the right accent or the right address. The reluctance, sometimes affected - all too often very real, to work in industry. What kind of a society is it (and I mean no disrespect to Sir Monty Finniston and his colleagues) that feels obliged, 200 years after the start of the Industrial Revolution, to appoint a committee to improve the public status of the engineer.

Some of the illusions of which I have been speaking can influence our insight into very real problems, simply by the effect they have upon our terminology. For many people, the word "competitiveness", for example, has come near to meaning simply a lower exchange rate.

I fully appreciate, of course, the extent to which the present exchange rate is a source of worry. But I have to advise you that it is not, to any great extent, under my control. Insofar as it is, then it could only be influenced downwards - as Denis Healey found in 1977 - at the cost of undermining the tight monetary policy that is fundamental to success in the fight against inflation. Once the exchange rate begins

to fall the price of imports is bound to rise. All too often in the past this has set off a further inflationary demand for higher wages. In the past Government policies have accommodated this. Production costs have risen. Any gains in competitiveness have been quickly wiped out. Competitiveness must again come to mean getting down costs, improving quality and marketing skill.

Even today, fortunately, many companies are continuing to advance in both home and export markets. Your President-elect, Ray Pennock, told us at NEDC, two weeks ago, that ICI increased the volume of its exports in 1979 by some 10 per cent. The scale of their success enabled them indeed to make a pay settlement that dwarfed the recent changes in the value of the pound. That enables me with confidence to offer congratulations and best wishes to the CBI as well as to Ray Pennock for the two years that lie ahead of him. I don't for a moment suppose that growth in exports was easy or necessarily as profitable as the company would have liked. But if we can get inflation down, more profitability will of course return to both existing and new business.

In that context, let me assure you too that I know very well how strongly you feel about the high interest rates we are having to endure in the first phase of our battle against inflation. I share these feelings. Our Medium Term Financial Strategy makes it clear that we mean to rely less heavily on interest rates in future. But it would be wrong for me to make rash predictions about when they will come down.

True, the figures for monetary growth over the last 10 months are back within the target range.

That is encouraging. But last month's banking figures show that growth of bank lending is still excessive.

Caution now means that the prospect of sustainable lower rates is brought forward - to the benefit of industry, house-owners and the economy as a whole. My caution should not be misinterpreted as pessimism. I have no doubt that it will be possible to reduce interest rates later in the year. And it was to bring forward this prospect that we have cut public spending and borrowing as much as we have.

Let me, in that context, say a word about one final illusion - that this Government is so pre-occupied with monetary policy that we believe, or have ever believed, that pay and pay bargaining are unimportant. On the contrary, large catching-up pay settlements in the public sector promised by the previous Government, for example, have played a major part in determining the level of public services we can now afford. And the levels of pay settlements more generally crucially affect the level of output and unemployment.

During the coming year the rate of inflation will be falling. So we need pay settlements below the rate of increase in the Retail Price Index. Many of those

reported to your data bank are in line with that. That's essential, if we are to keep inflation on a downward trend without continuing increases in unemployment such as that announced earlier today. But while the private sector of industry - and especially manufacturing industry - feels the squeeze, it would be quite wrong if the public sector did not also play its part in the process of bringing the rate of pay increases down. Everyone who works in the public sector must accept that as essential over the coming year.

The Government's responsibility is to reduce the rate of monetary growth, so that inflation comes down. That's a long, hard process. It is for everyone involved in pay bargaining to decide whether their role is to make that task longer and harder or quicker and easier. For moderation in pay demands is not doing a favour to the Government but helping those who work in industry to keep their employment and to prosper.

As you know, Mr. President, that is one of the subjects which we have now discussed several times at the National Economic Development Council. And which we are willing and anxious to discuss, in that forum or any other, with the TUC and with anyone else who is willing to listen.

I don't find it easy to understand the complaints that the Government has slammed the door on the TUC. That we don't consult them. Won't talk to them. I have made it very clear how much importance I attach to those discussions. And that I am always ready - often at short notice - to consult about specific decisions. My colleagues and I did so, for example, about the economic and social consequences of BSC's difficulties.

One encouraging development at recent NEDC meetings has been the agreement of the CBI and TUC to take important problems away for joint discussion, including your proposed guidelines on the introduction of new technology and your proposed joint examination of alternative economic policies. I welcome these initiatives. For bilateral discussions between the CBI and TUC are an acknowledgement that much of the responsibility for improving economic and industrial performance lies with industry.

That's why I think the work you are doing on communications within industry is so important. For the workforce will understand the company's problems and opportunities - in reality, their problems and opportunities - only if they are discussed with them. And only you can set that under way.

Restoring the health of our economy very largely depends on the help you can give in changing attitudes and restoring a sense of realism throughout industry.

John Methven understood this perhaps better than anyone and devoted much of his considerable energy to putting this message across.

John knew - as Ray Pennock too has often reminded us - that management could only get the message across if it established effective two-way communications with all who work in industry.

And that is a task in which we all must share.
Let me close by quoting again from John Methven's
last conference speech:

"It's not good enough to be part of the
silent majority. It's time to be part of
the articulate leadership. It's time to
communicate and evangelise. Yes, evangelise.
Let us all be evangelists for economic

reality ... for greater efficiency and
competitiveness ... for creating the
conditions for wealth and prosperity ...
and for saner, more humane industrial
relations."

And let us all say 'Amen' to that.



Speech lasts
for about 1/2 an
hour - 2
minutes, as an
after-dinner speech,
heads rather
more

c
I know that this is meant to
be a major speech but I do
wonder whether you want quite
such a technical piece on
money so early on. If the House
found the monetary section of your
Budget speech being going, I
suspect this audience, after
dinner, will find it even harder
to take in.

humour, applause
more, & fewer
lines, & fewer
figures.

MOM

Front Street - 1875
32 to ()
v. good. have
PSE work on
4,100



18/5/84

H M Treasury
Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233

Sir Peter Middleton KCB
Permanent Secretary

Chancellor

The CBI Speech

I attach a draft based on work by Mr
Mackham. It contains contributions from many
hands including Sir T Gums, Mr Gattisell, Mr Schlar
and Mrs Homax. There is probably too much stuff:
but I think you prefer it that way.

We shall need to look at the first part, which
is designed with this week's conditions in mind, when
we see how markets develop next week. But the
message is, I think, the one we want to get
over.

P
Ch 18/5

Draft Introduction

is on which
 Sadly this ~~will be~~ the last occasion ^{on which} [that you will be addressed by] Sir Campbell Fraser
~~has addressed you~~
 as your President: his energetic leadership will be missed - no more will we hear
 about the trials and tribulations of Dundee Football Club. ~~His one flaw is his~~
~~association with economists.~~

Note: It has been hard to turn up suitable references to Sir Campbell Fraser. His company, Dunlop, has sustained massive losses while he is due to receive £137,000 in compensation for loss of office when he retires. He is a speaker who frequently jokes about his time in the RAF and Dundee Football Club. He is also closely associated with the Society of Business Economists (founder member and past Chairman).

His successor, Sir James Cleminson, is a much quieter character, Chairman of (successful) Reckitt and Colman, who is referred to later in the speech in the context of his evidence to the TCSC. He is much more in sympathy with the Government's macro-economic policy than Sir Campbell Fraser.

Check: / ^{was}
 No impress. ^{due}
 Sir CF speaks before us. ✓

Possible Quotations

1. Story by Denis Healey

One of my predecessors, as Chancellor of the Exchequer, found it difficult to compose his own after-dinner speeches and therefore delegated the task to his private secretary.

After some years, the worm turned, and when the Chancellor was making his annual speech at the Mansion House, he read it as follows:

"My Lords, Your Grace, My Lord Bishop, My Lords Sheriffs, Ladies and Gentlemen.

"The problem which faces us today is perhaps the most daunting which has ever faced our nation in its island history. Unless we can find a solution in the coming months I see nothing but catastrophe ahead. There are only three possible ways of escape from the dangers now confronting us ..."

(Then he turned over the page and read out ...)

"From now on, your're on your own, you bastard!"

2. Profits

"It is a socialist idea that making profits is a vice; I consider the real vice is making losses"

Winston Churchill

3. Government

All governments like to interfere; it elevates their position to make out that they can cure the evils of mankind"

Walter Bagehot

"If it were not for the necessity of taxation, the business of government regarding Agriculture, Commerce and Manufactures would be very easy indeed, - all that would be required of them would be to avoid all interference"

David Richardo

"Though the profusion of government must, undoubtedly, have retarded the natural progress of England towards wealth and improvement, it has not been able to stop it"

Adam Smith

4. Dinner

"A dinner lubricates business"

Walter Scott (1745-1836)

→ Pl insert from pl's own remarks regarding

[After reference to Sir Campbell Fraser retiring]

1. It is particularly important in the presence of Campbell Fraser that I should start by quoting a text. Better still, two texts. First ~~text~~:

But have no fear, I do not intend to preach a sermon. And I have left my chancellorial robes at home

"A very good Budget overall for the competitiveness and enterprise of British industry and commerce".

Second:

"Rising activity is apparent for all sizes of firms and the broad sectors alike" latest results "pointing to a further substantial rise in output" and investment continuing to rise well into 1985".

And I very much agree with the CBI.

Not my words but those of the CBI. ~~But they are words with which I agree.~~

Since ~~the~~ there have been various alarums of transactions. But it is important to see things in their proper perspective.

Thorn-wood's bank after

2. Domestic monetary policy continues to be well on track. After much discussion - taking account of developments in the financial system - we concluded that a balanced monetary policy should give equal weight to broad and narrow definitions of money. This was a recognition of their different functions. One tells us about changes in the liquidity of the economy. The other about current transactions. Taken together they should provide an effective warning system against pressure on prices.

3. ~~So it is a source of comfort~~ that ~~the two~~ target measures are ~~both~~ growing at rates which are comfortably within the ranges ~~set~~ set at Budget time.

4. We do not ~~as everyone knows~~ try to control the money supply on a month by month basis. ~~Our success has~~

* Insert I almost said: "I agree with the CBI for once". Let me just say that I am happy to find myself in agreement with you. Because the relationship between the CBI and the government, like so many of the best friendships, has not suffered from an overdose of harmony. It makes those moments of agreement that much sweeter to both parties! (at any rate,)

~~been based on ensuring~~ that the inevitable fluctuations from month to month do not drive us away from the desired trend. ~~One particular aspect of this month by month irregularity is that~~ ^{for example,} £M3, the measure of broad money, tends to be influenced by irregular movements of the PSBR. This was the case last year. At this stage it was running relatively fast, but finished the year comfortably within the target. ^{I usually now go on to mention M0, M1 and M2. But at a recent dinner some of those present took out their road maps, so that has persuaded me to cut short my remarks about the famous M's.}

5. The ~~Public Sector Borrowing Requirement~~ ^{PSBR} is ~~being~~ ^{being} successfully reduced as a proportion of GDP. But each year it is front-end loaded. The pattern of spending and receipts means that borrowing is much higher in the first half of the year than the second. Over the past 5 years it has been twice as high on average in the first six months. This year, because of the timing of some of the budget measures, that pattern will be accentuated - with very heavy front-end loading indeed. The path of broad money will be smoother than this, but it is possible that we will see some of the same pattern as last year. ~~So it is a pleasant surprise to have such a comfortable outcome for M0 and £M3 so far.~~

6. Other indicators have to be seen against this background. The ^{effective} exchange rate ^{of sterling against all currencies} has been remarkably steady at a time of considerable currency turbulence associated with the \$. ~~It goes without saying that the rate to which I refer is sterling's effective rate against all currencies - this is what~~ ^{It is that measurement that} matters nowadays. You can get a completely wrong impression by ~~simply~~ ^{looking at} ~~concentrating on~~ the dollar rate. ^{alone} ~~It is the trade weighted index against all currencies which provides the most useful guide.~~ ~~And~~ ^{By} and large, the effect on sterling of the general rise in the dollar has been offset by a fall in other currencies.

7. Private sector credit has, ~~not surprisingly,~~ been growing fairly rapidly ⁱⁿ which is what you would expect as the recovery broadens ~~out.~~ ~~The important point is that we are running a~~ ^{out} fiscal policy ~~which over the year will~~

- much of it in the Lawson household,
2 1 fear -

leaves room for ^{that} ~~the~~ growth in private borrowing. In that respect we differ from the US, whose high deficits lie behind the present rise in world interest rates. ^{we differ} And from previous UK Governments whose ill-judged attempts to hurry recovery along ended invariably in higher inflation.

8. The recovery continues at a healthy pace. ~~At Budget time I was accused of optimism. Now some are accusing me of pessimism. The fact of the matter is that, as we expected,~~ ^{we} are seeing a period of sustained growth resulting from following responsible policies. ^{There are} Those who scrutinise the numbers to find secret signs of monetary reflation ^{because they claim} ~~in the belief~~ that you can only get growth by fiscal irresponsibility. ^{but they} have been confounded. Tell the tale of the 364 economists here.

9. Recent developments ~~in the economy continue~~ ^{since the budget have been} in line with ~~our expectations at the time of the Budget.~~ ^{what we expected.} The Treasury forecast growth of GDP of 3% for this year has become the generally accepted view. ^{The} Recent ~~consumption~~ ^{in consumption} growth ~~is~~ ^{has not been} as rapid as ~~it was~~ in 1983 but there are clear signs, reinforced by your recent survey, that investment is set to grow briskly. And ~~we see that~~ ^{recovery} export growth has responded well to the ~~welcome~~ ^{recovery} growth of world trade.

10. We are now ^{a little more than} 3 years on from the trough of the last business cycle. ^{from last trough} It has become popular to describe ~~that~~ ^N recovery as gradual or modest, ~~and~~ yet the growth of GDP estimated between the trough in 1981 and the end of 1983, is not very different from the average experience of the previous three cycles. And the signs are that on this occasion, the upturn has much further to go. The key to sustaining recovery remains continued low inflation.

11. The annual inflation rate as measured by the RPI has been fairly flat over the past few months and the prospect of ^{a modest} ~~some~~ decline through the rest of this year remains good. ~~It is sometimes observed that~~ ^{has been} the normal pattern ~~is~~ for inflation to rise once ^a ~~the~~ recovery ^{was} ~~is~~ firmly established - ~~but of course that is an important factor that in past~~

~~years often brought recoveries to an end.~~ The best and most secure way of continuing along the recovery path is to maintain the fight against inflation. ~~It is the favourable prospect for inflation that~~ ^{leads us to anticipate} ~~lies at the heart of the expectation of~~ ^{expecta} ~~sustained recovery of output.~~

12. ~~Lest it should be thought that I am~~ ^{In case you think me too} ~~completely complacent,~~ ^{long is} ~~I have to say~~ ^{for me add} that developments in the US have been less favourable than we hoped. American ^{rather} rates have risen by [1½]% in the last 2 months. The reason for this, the US deficit, is so widely ^{recognised} ~~accepted~~ that I need say no more about it.

13. The ~~consequent~~ rise in our own interest rates was unwelcome but some flexibility is ^{essential to} ~~an integral part of~~ our monetary arrangements. ~~It is essential~~ ^{Flexibility is needed} to keep the economy on track and is quite consistent with a long-term downward trend. Moreover, ~~it~~ ^{in interest rates, the recent rise} was not a significant setback. Our short term interest rates are, after all, ^{when} ~~virtually the same as they were~~ ^{early in March}. ~~It says a lot for our own policies - and the confidence they inspire in the markets - that since US rates moved up the rise in UK rates has been limited to [½]%, and the margin between our rates and US rates - both long and short - continues to widen. They are~~ ^{now} ~~presently~~ over 2% lower than comparable American rates.

14. We have always recognised that we cannot isolate ~~completely ourselves~~ from events elsewhere. But by sticking to ~~the~~ ^{our} policies ~~set out in the MTPS~~ we can make the most of what freedom of action we have. ~~as relative UK and US interest rates testify.~~ ^{When America squeezes, Europe is support to catch a cold. I can tell you that in Britain at least our approach is as clear-headed as ever.}

15. I do not need to tell you about the foundations of this success - the encouragement of free markets within the framework of financial discipline set out in the Medium Term Financial Strategy. But it is essential not to forget them as things pick up.

virtually the same as they were when the CBI survey was carried out. [for typist's clarification only]

when
was carried out.

see below
CHECK

Such are the external threats to our recovery. But these are dangers at home, too.

16. ~~Indeed it is more important now than ever. In many ways the recovery period is the one of greatest danger for soundly based growth.~~ There is the temptation ~~to push things along too quickly.~~ ^{to relax} ~~to slacken~~ a little and to lose some of the hard-won gains of the past five years. After the war, Governments became over-ambitious and encouraged expectations which could not be met. The reward for those policies was higher inflation and higher unemployment under each successive government. ~~But some unrealistic expectations remain.~~

17. I ~~hope~~ that all of you ~~here~~ today will join me in the ~~determination not to revert to post-war attitudes.~~ We ~~will~~ not fall into the traps of ~~losing control of spending more and more public money~~ and to couple that with growing restrictions on individual freedom and of the free working of the economy. You, I hope, will not relax in any way your determination to manage your own companies and of our determination to improve quality and efficiency.

Put this as intro to para 19 over ref

18. ~~So~~ the conquest of inflation remains the Government's first priority. Knowing this ^{can} gives you ^{both} the confidence to expand and a sound basis for containing costs. ~~Even inflation down to 5% from 15% in the 1970's means prices would double every 14 years. That is not good enough. My objective is stable prices. I know that some critics don't take this aim seriously. But that just shows how deeply embedded are inflationary expectations: only 3 or 4 years ago, 5% inflation seemed to them just as unattainable. I'm not saying we shall reach stability quickly or easily but that is definitely where we are heading. That is why I restated and extended the Medium Term Strategy in the Budget. And why we have set out some even longer term options in the Public Expenditure Green Paper.~~

AK notes

Reducing inflation to its present level is a substantial achievement. But we need to go further. My ultimate objective is stable prices.

To some, stable prices sounds unattainable, because we have lived with inflation for so long ^{that} it is hard to imagine anything else. But when the government first took office in 1979, 50% inflation struck most commentators as equally unattainable. The conquest of inflation has a lot to do with changing such expectations. Reaching stable prices will not be easy, but we have a clear medium term strategy. And we have the resolve, ^{just} and that is just as important.

Public spending and tax cuts

Para 17 in here

19. ~~I referred earlier to the post war attitudes. Part of that process was the belief that ever increasing levels of public spending could be sustained.~~ Control of public spending is central to this government's objectives - central to our chances of getting taxes down to an acceptable level; central to our drive to stimulate initiative, incentives and growth; and central to our determination to halt the steady encroachment of the public sector on the rest of the economy.

Some people have said that our aim of holding public spending constant in real terms over the next three years is unambitious. ~~Quite honestly, this is pretty naive.~~ *Just look at the record of the last twenty years.* ~~Public spending has risen on average 3 per cent a year in real terms. In cash terms it shot up from £10 billion in 1963/4 to nearly £140 billion this year. As a share of GDP it rose substantially, right up to 1982-83. To achieve our aim will require tremendous determination. There are huge pressures~~ - political, demographic, ^{and} technological, ~~you name it~~ for increases in spending. ~~Our Green Paper sets them out - and does so (not easy, this) without at the same time itself reinforcing the pressures.~~

There - who say this are out of touch with reality.

Over the last 20 years

But we have tamed the beast.

20. ~~I believe we have turned ~~the~~ corner on public spending.~~ Since cash planning was introduced, three years ago, we have kept our cash spending within the totals we then set ourselves. Public spending has gradually begun to decline as a share of GDP. We intend to go on that way. We are determined to do so.

21. That means that anyone who agrees with us, ^{and who still} ~~and also~~ proposes an ^{particular} increase in ^{spending} ~~expenditure~~ must also suggest ways ^{to reduce spending} ~~in which decreases in expenditure~~ elsewhere ~~can be achieved.~~

a few people who have not quite got the message, however. But having the CBI with us means a lot, and look forward to seeing the results of the work you have been doing on capital ^{we} and current spending.

22. ~~Of course, let us not forget that~~ There is nothing intrinsically virtuous about capital spending or intrinsically sinful about current spending. ~~Repairing our infrastructure may be just as good as building from scratch in terms of the services provided~~ ~~and a whole lot better if~~ ~~the same result is achieved~~ at much lower cost.

(This does sound like a sermon after all!)

Current expenditure on

(provide the services we need just as well)

and may achieve

Either 19 or not at all

23. The fundamental lesson of the post-war period is the inescapable connection between public spending and taxation. This is the message of our Green Paper, which documents the way in which rising spending has driven taxation up year after year. That process must stop, so that with the growth which we are now seeing in the economy, taxes, like public expenditure, will continue their recent fall as a proportion of GDP. That means, again, keeping the lid on public spending as we are determined to do. We welcome CBI support.

Supply side

24. Control ^{ling} ~~of spending~~ ~~is not just~~ ~~important as part of the MTPS~~ ~~it also~~ means the removal of dead hand of government. ~~The second essential aim of the~~ strategy ~~is to make markets work better~~

(and reducing taxation are also important in helping the economy to work better.)

That is

our

(have been replaced)

~~Over many years~~ ~~Governments have in the past replaced the market mechanisms by state ownership.~~ ~~We look to~~ ~~privatisation and transferring~~ ~~sectors of economy to market discipline.~~ We are also ~~introducing competition alongside state agencies~~ ~~and finding ways to give value for money to the taxpayer.~~

Over many years

Our

(programme is returning important)

making

the

the nationalised industries compete and give better

We are reducing wherever they have grown up.

~~Monopoly powers have in the past increased.~~ ~~We are encouraging a framework within which businesses can plan better and competition flourish~~

~~through~~ ~~our employment legislation and competition policies~~ ~~Governments have in the past prevented the market mechanism working~~

are providing business

~~properly either directly through regulations and controls or through the~~

~~distorting side effects of tax and social security system.~~ This government has ~~also~~

acted on deregulation, abolished controls, reduced or removed subsidies, and started to tackle the distortions created by the tax and social security systems.

25. The tax strategy announced in the Budget forms an essential part of improvements in the supply side of the economy. Poor returns on investment have been at the heart of Britain's problems. Compared to other competitor countries we have had consistently lower pre-tax rates of return on fixed capital in manufacturing. For example, it averaged 6 per cent here between 1976-80, compared with 16 per cent in Germany and 18 per cent in the USA and Canada. The problem has not been too little investment, but too little of the right quality. The hard truth is that, compared with the US, Germany, and Japan we have made poor use of our investment producing less output per unit of capital than those with whom we compete in world markets. . Of course there are many reasons for this but no-one can doubt that a tax regime which subsidised and encouraged projects with poor returns - indeed which in some cases turned a pre-tax loss into a post-tax profit ~~of quite respectable proportions~~ has been ~~a~~ ~~the~~ contributory factor ~~in our relative performance.~~

~~So what will the corporation tax~~ ^{changes} ~~do? A number of things. They~~ will reduce the past bias in favour of debt financing as against equity.

~~Something which I am sure will be welcome to many companies represented here tonight.~~ ^{That is welcome.} Together with the ending of the National Insurance Surcharge they will

reduce the bias against employment and reduce the cost of people relative to machines inherent in the old system. Most important, they will encourage the search for higher quality investments with better pre-tax returns ~~and not dependent solely on their tax advantages.~~

is complete to the new system, our rates of capital allowances will still be comparable to those in most other countries but our corporation tax rates will be lower than those of [all] our main competitors. As your President-elect, Sir James Cleminson pointed out in evidence to the Treasury and Civil Service Committee, the 1984 Budget changes will make the UK an increasingly attractive country in which to work and invest.

That is what the changes are all about. And that must not be lost sight of. I know some of you had become attached to the 100 per cent first year allowance. But I also know, from my own contacts with businessmen since the Budget, that the combination of smaller allowances and much lower rates of tax is for most businesses, much more attractive. But we cannot have it both ways. That is why the suggestion of 25 per cent allowances but on a straight line, rather than a 'reducing balance basis' is a dangerous illusion. For this is not just a matter of technical detail: it goes to the heart of the changes. On a straight line basis 25 per cent, allowances effectively mean writing off capital expenditure over four years instead of eight. And that is obviously more costly in revenue. *And that would make it absolutely impossible to bring* Instead of being able to bring the corporation tax rate down to 35 per cent in 1986, we could only afford, on that basis, to reduce it to around 40 per cent. And that, I believe, would be a great pity - and, for very many companies, a great disappointment.

Profits

The government's wish to see improved

26. Profitability was the key to the changes in company taxation. ~~businessmen to put their money where it will make profits not save tax - we want good investment, profitable investment. These reforms will improve the quality of investment, they will encourage more employment. Most important they will rehabilitate the role of profits.~~ "Profits" ^{was} ~~were~~ a dirty word in politics - ~~yet~~ another ^{aspect} ~~part~~ of our post war attitudes. ^{But} The only way in which a free enterprise economy can succeed is by ^{encouraging} ~~giving~~ profits their rightful place and rewarding them properly. ^{It is another subject on which both we in Government and you in business need to change public perceptions.} ~~I know I'm preaching to the converted on this. [I wonder if there's a way of getting over to people not just how important profits are, but just how low they've been.]~~ Perhaps ^{it would help to} we should encourage presentation ^{the} ~~of~~ rates of return ^{which} ~~rather than~~ absolute figures which are misunderstood. Then people ^{could} ~~can~~ see that returns in industry have in the past been lower than they ^{themselves} would have accepted ~~to~~ on their Post Office savings. \$

You will find I have a lot to say about profits. Although this is not a sermon there are a lot of profits in it.

Repeal

27. I am of course greatly encouraged by the improved financial position of companies - the gross trading profits of all industrial and commercial companies have risen by about ~~a quarter~~ between 1981 and 1983 as a whole. Retained profits have been rising even more strongly. There has been a marked improvement in company liquidity. Now we see an improvement in the net real rates of return - forecast by the CBI to reach 8 per cent in 1984 and 1985.

28. This recovery in profits is to be welcomed - it is essential, it provides ^{the} basis for higher investment. The very poor profitability of British industry in the past has been one of our major problems. And even this present improvement still leaves profits below the levels enjoyed in the late 60s. ^e ~~The profitability of British industry will determine pace at which new jobs develop in the future.~~

And it is increased profitability that will enable new jobs to be created.

Productivity

29. Higher profitability reflects the success of British industry in adapting and responding to the challenges of the world recession. In particular, it reflects your achievements on productivity. Output per head up 3 per cent ^{a year} in 1982 and 1983, up 6 per cent ^{a year} in manufacturing. There have been major breakthroughs in some industries: output per head in chemicals has risen over 16 per cent above its 1979 peak, engineering productivity is over 11 per cent up. There is mounting evidence that these gains in productivity are continuing. The CBI prediction is that manufacturing productivity will rise at above 5 per cent pa to the end of next year.

30. Yet we cannot be complacent on this. As the recent CBI survey said "the recovery will only be sustained in the longer run provided we can continue to improve our performance and make further gain in competitiveness."

There is plenty of scope for improvement - in 1982 our productivity levels were generally well below those of the US and Germany, so we have a long way to go to match the best practice of our competitors, who are of course themselves improving all the time. And productivity is just part of the story.

~~Unit wage costs depend on earnings as well - the fact that~~ unit wage costs are now rising at about 4 per cent ^{That is because} ~~shows that~~ earnings rising well ahead of inflation ^{and that is} ~~are~~ offsetting these productivity gains. By contrast, unit labour costs fell in the US and West Germany in 1983. The CBI leadership has drawn attention to the fact that we are still losing competitiveness relative to major competitors -

so there can be no let up in our drive to improve productivity. And no let up in getting the message across that those who secure excessive wage increases put at risk their own jobs, the jobs of others and the job prospects of the unemployed.

31. These gains in productivity reflect the new climate of realism within industry - the determination to be competitive and the recognition that no government can bail companies out. Such gains in productivity will create the jobs of the future. Experience shows us that, in the long run, rapid technical change creates more jobs than it destroys. That was the lesson of automation some decades ago, that is the lesson of the USA and Japan.

"Britain Means Business"

32. In 1977, the CBI published "Britain Means Business" for their first annual conference. It set out ~~eight~~ ^{five} prime objectives ~~for~~ ^{to be} for government, ~~some for~~ ~~industry.~~ ~~What progress have we made?~~ ^{Let us now go through that shopping list.}

33. First was "defeat inflation". Here the record speaks for itself. Firm financial policies have brought inflation down - at round 5 per cent down to its lowest level since the 1960s. And ^{it's} set to fall further. ^{So let's put a tick by that one.}

34. Second was "cut taxes". We ~~have cut~~ ^{started on} income tax. The absurdly high top rates were reduced to more normal international levels; we've cut the basic rate to 30 per cent; ^{more recently we raised} and raised the thresholds in real terms. We have even abolished some taxes. The National Insurance Surcharge has gone - that's worth £3 billion a year to industry. So has the Investment Income Surcharge. And the new framework for business taxation will mean a dramatically lower rate of corporation tax for companies, while leaving capital allowances in line with those of our main competitors. Tick again.

Marvellous phrase that. I have a mental picture of business bowed down under a sort of giant rucksack

35. Third was "lighten government load on business". ^{tightened the load. We've got the rucksack down to a small overnight bag.} Well we have certainly ~~done that.~~ Apart from the tax measures I have just mentioned, controls have been abolished - on prices, dividends, hire purchase and foreign exchange and lending. The weight of regulations and government interference has been considerably lightened in ~~the~~ many ways. And we've brought public spending under control and reduced the size of the Civil Service. ^{So British business is now travelling light.} Another tick there.

36. Fourth was "restore profitability". That's something no Government can guarantee, of course. But the climate of low inflation and steady growth has rejuvenated business confidence. You have responded by improving efficiency, cutting costs and raising profits. The company tax changes encourage business to pursue profits and reap the rewards. ^{Profits are up} ~~In real terms industrial and commercial~~ company profits (net of stock appreciation) were some 20 per cent higher in 1983 than the level in 1977, and your own CBI forecasts are for pre-tax returns to rise even faster this year.

~~Next~~ Fifthly,

37. ~~Next~~ "reform our pay determination system". What Government can do, we have done. The legal framework has been improved. Firm financial policies

A

Now I am not saying that the government is going to sit back contentedly and rest on its laurels - or ^{on} any other part of its governmental anatomy ^{for that matter,} We shall go on working hard to keep inflation down, cut taxes further, cut the burden on you from an overnight bag to a toothbrush, help profits ^{to rise} so fast that you'll need to order new graph paper and maintain our grip on the public sector. And anyway, having got through one shopping list, I do not underestimate your ability to devise another. So, we shall go on earning the ticks, don't you worry. The government will go on doing its bit.)
[But at some point you are on your own, as the ~~skunk~~ ~~said~~ chipmunk said to the skunk when the wind changed.

You may remember that in "Britain Means Business" you had another three items on your list.

have created the climate of low inflation and the knowledge that excessive pay claims will not be underwritten. We have encouraged responsible pay bargaining in the public sector. ~~But this is an area where we need to look to you for firm management and leadership.~~

So whoever is keeping the score card, please chalk up five ticks for the visiting team.

→ Insert (A)
38. Sixth "increasing productivity and efficiency". ^{Well} Only you can bring about the changes that are needed here - and you have been doing very well. ~~For our part, we've provided the stable framework of government you asked for. Together the results can be seen in record levels of output per head - 23 per cent above the level at the end of 1980, improved cost competitiveness and a determination to hold onto hard-won improvements at all costs.~~

39. Seven: win back markets at home and broad. ^(Again Britain) ~~we~~ are making progress. Manufactured export volumes are rising: 10 per cent higher in the first quarter of 1984 than the last quarter of 1983. ~~And with the recovery in world trade, there are renewed grounds for optimism.~~

And eighth, you listed
40. ~~The final priority was to~~ "create jobs." This rests on all that has gone before. The foundations have been provided. ^{Damn good solid ones.} ~~Above all a confidence in the continuation of responsible fiscal and monetary policies in which business can compete and plan ahead with assurance.~~ ^{And} Now we are seeing the first fruits - the number of people in work is estimated to have risen by about 200,000 between March and December last year. That makes us all happy.

^{in government}
41. We ^e have done what is in our power to ~~do~~ ^e promoting an environment in ~~which~~ enterprise, risk taking and the search for profitable business ~~is~~ encouraged ^{to} ~~and~~ ^{to} reward ~~them~~ ^{to} them. ~~And~~ And we shall keep on doing it.

42. Now its up to you, and your members up and down the land, to earn the profits to win the markets, to create the jobs and show that, once again, Britain really does mean business. It's over to you. And since I have now come to the end, it's over and out.