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Part A

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PO -CH /NL/0236



PART A

Chancellor's (Lawson) Papers:

OPPOSITION PARTIES
POLICIES AND STATEMENTS
IN THE RUN UP TO THE
1987 GENERAL ELECTION

Disposal Directions: 25 years

Phillips

21/9/95.

PO -CH /NL/0236

PART A

Handwritten initials

FROM: H J DAVIES
DATE: 9 SEPTEMBER 1985

CHANCELLOR

Red checkmark

cc CST
FST
MST
EST
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Turnbull
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Lord

SDP/LIBERAL AUTUMN STATEMENT

I attach a copy of the Alliance Autumn Statement on which there was press commentary at the end of last week. The Chief Secretary particularly asked to see it before his speaking engagement this evening.

2. I have read it rather quickly. On first reading it seems to me there are some holes, inconsistencies and rather puzzling aspects. For example:

- I presume that their £5 billion reflation is over two years, though this is not entirely clear.
- At some points (for example at the bottom of page 4) the package itself appears to be conditional on wage restraint, at others not.
- The infrastructure proposals are extremely modest, only an additional £200 million on roads for example
- There are some dangerous hostages to fortune in the social security area, for example, continued uprating of child benefit in line with inflation and extra long-term unemployment benefit.

extra £1bn a year

- The incomes policy section is far vaguer than I had expected it would be. It appears that they aim for voluntary restraint in the first year from the basis of an appeal to people's better nature. Thereafter, they might consider an inflation tax, but there are no details of this whatsoever.

- The simulation results are, I presume, based on an incomes policy success, and if so are extremely unappealing.

3. Miss O'Mara may wish to have a closer look at the detailed commitments and the numbers.

4. In the meantime, I think we can say that the whole analysis is predicated on the success of an incomes policy, and one which is wholly unspecified. Even if this unspecified policy were to work, at the end of two years inflation is back up to 7½ per cent and rising, the balance of payments is in deficit by £5 billion and earnings are still rising at 8.2 per cent.

5. The Social Democrats say that Labour policy would be a major financial and economic disaster. They are right. But their policy is just less of the same. Only a middling sort of disaster would result, but a disaster nonetheless.

MSD

H J DAVIES

FINAL
1985

THE SDP/LIBERAL ALLIANCE AUTUMN STATEMENT 1985

THE CHALLENGE

Britain is faced with a challenge. The challenge is to get the economy growing fast enough to bring down unemployment, but to make sure that the economic growth is real and that the prospects for more jobs are not swept away by rising inflation.

The Conservatives have failed to meet the challenge. They cannot get the economy growing fast enough to cut unemployment significantly because of the depth of their commitment to the failed monetarist policy.

The Labour Party cannot meet the challenge. The growth they promise will disappear as inflation accelerates and as sterling collapses. They are imprisoned by economic dogma and trapped by the millstone of trade union sectional interests. They recoil from any serious strategy for incomes.

The Alliance, free from these constraints, will meet the challenge head on. Our policies will give Britain the growth that is needed to start reducing unemployment; they will keep a firm grip on inflation; and they will create real jobs, based on a sustained economic recovery.

THE ALLIANCE ALTERNATIVE

The Alliance alternative means investment in Britain's future, higher growth, reduced unemployment and controlled inflation. The three main elements in the Alliance programme are:

- . A £5 bn budgetary boost to expand the economy and create more jobs;
- . A firm monetary policy, including full membership of the European Monetary System, helping to stabilise sterling and preserve our competitiveness; and
- . An incomes strategy to prevent inflation wiping out the gains in jobs.

What would this mean for Britain? For our Autumn Statement, we have tested the effects of these policies on the Treasury Model which itself forecasts that on present Government policies, unemployment will still be as high as 3.1 million

by 1989. The results of our latest simulations show that a budgetary boost of £5 billion, combined with a firm incomes strategy and a steady monetary policy, would cut unemployment by almost half a million in two years. This Treasury Model simulation is based on an increase in public expenditure by a further £1 billion from our March figures. But no one should under-estimate the scale of the task. The number of people seeking work will continue to grow fast until the end of the 1980's and without further action our forecasts show that there would still be 2.44 million unemployed in 1989 (see Table 1, Technical Note). We will have to create thousands of extra jobs to keep pace with an expanding labour force, as well as to tackle the task of cutting back the number of those registered as unemployed.

But this does not tell the whole story. We believe that the longer term policies such as those set out in the Alliance Programme for Government, which will be updated and developed in our Joint Statement, "Priorities for the 1990s", to be published next year, can succeed in reducing unemployment below 2 million by the end of the decade. The effects of a reversal of the reduction of public investment which has taken place over the last ten years, of a new strategy of industrial partnership, of new policies to stimulate innovation and industrial training, and of the policies of constitutional reform and decentralisation which will bring new vigour to the economies of the regions of Britain, will make this possible. A Government in Britain which is seriously committed to co-ordinated expansion with our European and international partners to prevent the return of world recession would help to get even more people back to work.

SIX WASTED YEARS

The history of Mrs Thatcher's Government has been one of lost opportunity for Britain. After the Government took office in 1979, they plunged Britain deeper into recession than any other Western economy. Industrial production collapsed. Export industries were battered. Nearly 1.7 million manufacturing jobs were lost. On current economic policies, there is little chance of unemployment falling below three million for the rest of the decade.

The present Government has failed to reverse Britain's relative economic decline. Their policies have stayed afloat so far only because of North Sea oil. Instead of using the oil revenues and the proceeds from asset sales to develop our nation, the Government has used them to patch up the damage to output caused by recession. Manufacturing output is still 10% below 1979 levels. Britain's non-oil trade has deteriorated to an alarming degree - more than £11 billion in the red last year. Once the workshop of the

world, we are now importing £4 billion worth of manufactured goods a year more than we were exporting. As oil production starts to run down, the many deep-seated problems which still remain will come to the surface again. Inflation has risen since the last election. It is still too high. Our unit labour costs in manufacturing are rising at a worryingly high rate, while those of our competitors are rising slowly or even falling.

Although the CBI forecast shows the prospect of continuing recession, ministers dismiss industry's grave warnings as "whining". They call our economic difficulties the problems of success, and the Chancellor claims that this is the longest continuous recovery since the war. But the levels of growth achieved have been quite inadequate. It is no great achievement to get output back to its 1979 level. The stock of manufacturing plant and equipment is smaller now than it was six years ago. The number of new jobs has not kept pace with the growth in the labour force, so unemployment still keeps rising.

Even the Chancellor's so-called recovery is now slowing down. The prospect for the next two years is gloomy. Most forecasters expect growth to halve next year. And because manufacturing competitiveness is taking another battering from the rising pound, there is the real danger of another round of job losses next year.

The Government's conduct of monetary policy has been erratic and incompetent. The Chancellor has said that the reduction of inflation is the Government's central objective. "The Government's overriding aim will be to maintain monetary conditions consistent with a declining rate of growth of money GDP and inflation. Short-term interest rates will be held at the levels needed to achieve this." The consequences of this policy have, however, been disastrous.

Twice since the 1983 General Election, the Government has had to take panic action to prop up the pound: once last July, and again early this year. Interest rates have been put up to real levels not seen for fifty years. New, tighter monetary targets were imposed, to reassure financial markets. Budgetary policy was restricted still further so that it is now the most severe the Western World.

The danger now is that the Government's return to tight money and spending cuts will squeeze British industry once more in the painful vice in which it was trapped in 1979-81. Already, much of the gain in competitiveness achieved in 1983-84 has been wiped out by sterling's sharp rise this year. The Government has boxed itself into a corner and is using a high sterling exchange rate to take the strain off inflation, never mind the damaging consequences for industrial competitiveness and jobs.

LABOUR'S FALSE PROSPECTUS

The Government cannot escape from the consequences of its policies and from the damage they are causing. The people of this country want alternative policies which are effective, realistic and durable. It is clear that if they look to the Labour Party for that alternative, they will look in vain.

The Labour Party and the TUC have just produced a new policy document calling for major increases in spending to help bring down unemployment. Out of its 65 proposals, 42 would involve extra expenditure. But nowhere in their document is there a single reference to how they would tackle the problem of rising inflation which their proposals would create.

Three years ago the Labour Party, in a flash of honesty, tested their strategy of massive expansion and devaluation on the Treasury Model. The results showed that, lacking any firm monetary policy or any kind of incomes strategy, the Labour Party programme would collapse in disaster, with rocketing inflation and a huge balance of payments crisis.

This year, they produced a new package of proposals, but have refused to come clean about the costs and likely effects. Labour plans to boost spending by £8 billion and would pay for part of this by increasing taxation and national insurance by £3 billion. But they and their trade union allies have ruled out any serious pay strategy or monetary policy. They will not explain how Labour would tackle the massive sterling depreciation, balance of payments deficit and accelerating inflation which these policies would produce. Indeed, it is likely that Labour's plans would provoke a massive outflow of capital before they could do anything about cutting unemployment.

Their plans to clamp down on pension funds and unit trusts investing abroad would backfire. They would destroy international confidence in Britain. They would cut the value of people's savings and push up pension contributions.

THE ALLIANCE ALTERNATIVE:

A BUDGETARY EXPANSION TO CREATE MORE JOBS

The scope for expansion will depend on the success of our counter-inflation strategy. This issue cannot be fudged. If the rate of growth of average earnings is kept low, there will be room for £5 billion extra spending. It would be used for cutting the costs of employing people, rebuilding

run-down Britain, and giving a job guarantee to the long-term unemployed. If our strategy for earnings restraint is successful in getting inflation below our forecast, in the later years of the strategy a further expansion of the economy would be possible to get unemployment down to the two million mark and below.

Our policies of expansion, which seek to combine a dynamic private sector and a healthy public sector, are:

- A 1% reduction in all employers' national insurance contributions.

The Government's restructuring of national insurance helped some low-paid workers, but only at the expense of relatively well-paid, skilled employees in the service and high-technology sectors, for whom employers have to pay substantially more in employment costs. Our proposal would help all firms improve their competitiveness and would encourage more employment by reducing this tax on jobs.

- A £1 billion programme of public sector capital investment, concentrated mainly on construction.

each year for 3 years.

Public investment in the fabric of Britain, in new buildings and works other than housing, has fallen by a third since 1979. Housing investment has been halved. The Government's public expenditure White Paper projects a further cut of 25% in real terms in capital programmes, excluding defence. The recent National Economic Development Office (NEDO) report revealed just how much of Britain's basic infrastructure is not being properly maintained and highlighted the scale of the problems which are being stored up for the future. For instance, in many areas, the maintenance budget for roads is less than half what it ought to be to prevent further deterioration. Nationally, £2 billion needs to be spent on hospital maintenance, and another £5 billion on public sector housing. Schools, water supplies and sewerage systems all require repair, improvement or replacement.

The Prime Minister has never been able to justify her claim that infrastructure investment costs £35,000 to £50,000 per job created; most independent experts put the cost per job at well under half these figures. The Alliance would spend an extra £1 billion each year for three years to build up and help restore the nation's assets as part of our job creation programme. This expenditure would be concentrated on housing construction, renovation and insulation (£800 million) and increased spending on road building and maintenance (£200 million).

- A further expansion of the Community Programme to give a job guarantee to all those unemployed for over a year.

This would give the long-term unemployed the chance to make a contribution to their communities, as well as providing enhanced training opportunities. Special attention should be given to those long-term unemployed under 25, over half of whom have never had the experience of a proper job. Resources should be used to encourage job sharing to provide this group with at least meaningful part-time opportunities.

- Special help on benefits for the long-term unemployed under 60 and for those in greatest need.

The long-term unemployed have been discriminated against by being refused the long-term rate of supplementary benefit. The Government's recent Review still ignored this problem. We would make the long-term unemployed eligible for this benefit, which will give single people an extra £8 per week and married couples an extra £12.15 per week.

The Government's proposed family credits scheme is at best a hesitant step towards integrating the tax and benefit scheme. Our own proposals on taxation and social security go much further. Until the new system can fully benefit people in need, we will give special help to working families in poverty. We will add £500 million first to the Family Income Supplement programme, and then to the new scheme. And we will remedy the Government's deplorable failure to up-rate child benefit in line with inflation.

- A £1 billion boost to current expenditure.

This would include extra resources for education and training through a new crash programme for skills designed to break the bottleneck which threatens to throttle industrial recovery, and relaxing expenditure targets for local authorities which will create many new jobs in the personal social services and the community.

MONETARY POLICY AND THE EXCHANGE RATE

Under this Government, excessive importance has been attached to monetary policy. Monetary targets have become the be-all and end-all of economic policy without regard to the consequences for growth and jobs.

It is now time to adopt a different approach. Monetary

policy has an important part to play in supporting our economic strategy which allows real economic expansion and a reduction in inflationary pressure. This means keeping a firm grip on money supply and stabilising the sterling exchange rate to protect our competitiveness.

To do this, we would make Britain a fully-participating member of the European Monetary System (EMS). This policy is already supported by the CBI, the Governor of the Bank of England and the President of the European Commission. It is a scandal that the Government did not join at the time of the Budget. This was yet another wasted opportunity. Active membership of the EMS will be an important first step towards greater international monetary stability and towards establishing a new international monetary system based on the three major currency blocs - the dollar, the yen and the EMS.

INCOMES STRATEGY

As we have made clear, the critical challenge is to stop inflation wiping out the gains in jobs. That is why Britain must have a strategy for incomes. Holding the growth in money earnings steady at or below its present level will help to sustain a substantial increase in employment.

In the private sector, the Alliance believes that voluntary pay bargaining must reflect the economic realities facing individual firms. Moreover, we believe that it is the duty of Government to make sure that wage settlements do reflect those realities. The Alliance would seek to channel increased demand into higher output and growth through a positive incomes strategy.

We would hope to reach agreement on voluntary restraint in the first year of this strategy. But we would be prepared to introduce legislation to ensure that earnings grow less quickly than at present. Inflationary pay pressure must be contained in this way. That is the price of reflation. That is the price of creating jobs. During this period, we would establish the legislative framework for an inflation tax to be brought into operation in the second year if voluntary restraint could not be achieved.

Beyond this, more widespread arbitration in pay determination would be introduced. This would avoid the rigidities and excessive centralisation which has characterised previous pay policies. Much greater support will be given to profit-sharing schemes and these would apply to the whole workforce, and not be limited, as most are at present, to share-option schemes for management.

Public sector pay has been in the headlines recently, with the fiasco over top peoples' pay and the continuing teachers' dispute. We believe that there is a solution. This is to introduce a new, comprehensive, and long-term procedure for maintaining pay comparability. A non-inflationary pay comparability system would involve the establishment of a single, independent pay research and information body covering the whole of the public services. It would make data on changes in comparable pay available to negotiators, and would offer them access to binding arbitration procedures. This could be coupled with a commitment to employees in central and local government and the other public services to pay them a "catch-up" equivalent to the private sector's real pay increase minus last year's public sector pay norm. Such a system could be established in essential public services in return for no-strike arbitration agreements.

Pendulum Arbitration

THE SCALE OF THE TASK

The prospect for the next four years shows how difficult the task of reducing unemployment has become. Government policies over the past six years have dug us into a deeper and steeper hole out of which to climb. The gains in productivity which have been achieved are being frittered away. Of course, more could be done if those in work were prepared to sacrifice more for those out of work. We ask for such a sacrifice in our incomes strategy. At this stage, we think it unrealistic to bank on more. That does not mean we would not seek to achieve it. But winning people's hearts and minds to such policies after years of Thatcherism is not an easy task. The sooner the scale of the problem is recognised by the British people, the easier it will be to tackle it.

This Autumn Statement is a revised and up-dated version of the Alliance Budget Priorities for 1985, drawn up by the SDP and Liberal Parliamentary Parties in March. It is a background document to inform the debates at the SDP and Liberal Assemblies.

MACRO-ECONOMIC SIMULATION ON THE TREASURY MODEL OF
ALLIANCE AUTUMN STATEMENT

% Change unless otherwise shown	<u>Actual</u> 1985	1986	<u>Forecast</u> 1987
GDP : output	3.5	2.8	2.9
New Jobs Created (000's)	293.1	466.6	583.8
Unemployment (UK millions)	3.1	2.7	2.64
Inflation* (retail prices)	6.9	5.9	7.5
Current Balance of Payments (£bn)	+ 2.5	- 2.2	- 4.8
Exchange Rate (Sterling Index)	75.02	74.4	71.4
PSBR (£bn fin years)	7.1	10.7	10.8
Money Supply (£M3)	11.9	7.2	10.5
Interest Rates (3mth Inter-Bank Rate)	10.9	10.4	10.6
Average Earnings	8.3	7.7	8.2

* in the twelve months to July 1985

CHANCELLOR

FROM: P J CROPPER
DATE: 16 September 1985cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Lord
Mr DaviesLABOUR POLICY: INVESTING IN BRITAIN

The recently circulated papers suggest that the Labour Party still believes that the Man in Whitehall knows best - or perhaps the Man in the Walworth Road.

2. Forced repatriation of overseas investments and forced subscription to the National Investment Bank have much in common, but separate points can also be made:

1. Forced repatriation of overseas investments would push up the exchange rate and harm British industry. Labour is always complaining that we let the exchange rate go too high in 1980/81. But it would have gone even higher, in response to the explosive growth of North Sea oil output, if we had not abolished exchange controls. Labour's proposals are akin to restoring exchange controls and they would i) make life more difficult for British exporters and ii) boost British imports. That would be bad for jobs, not good.
2. Forced investment in the National Investment Bank would harm the pension funds and other savings under institutional management. This is axiomatic: if not, why the need for compulsion? Why does Labour not make an alternative proposition - ie. that the National Investment Bank will be required to bid

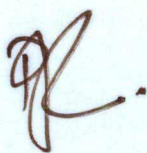
competitively in the market for the funds it needs. That would avoid the element of theft inherent in the existing proposal. There is an interest rate at which the institutions would voluntarily subscribe for NIB stock - although it might be a high one. Why, alternatively, does Labour not let the NIB borrow on central government terms, and then let the taxpayer meet the losses of the Bank if and when they occur. Maybe there would not be losses. If there were losses at least they would be visible.

3. By 1988 most of the electorate will have forgotten about the ill-fated attempts of the Wilson/Callaghan/Benn government to second guess the markets in industrial investment - if they ever knew about them in the first place. So it will be no good resting on the assertion that the Man in Whitehall - or the Walworth Road - does not know best. We will have to rely on telling people that Labour proposes to seize a chunk of each person's savings and pension funds, by force, to invest in ventures that professional investment managers would not back. And that Labour proposes to lay its hands on another chunk of peoples savings that is at present profitably invested abroad, and force it back into less profitable investments at home.

4. Is there perhaps a case for killing these proposals with kindness? Saying:

"Yes, these proposals are ingenious and a credit to a new young team, but it is very doubtful if they would really have the desired effect. If you are wanting to hold back the successful 7/8ths of the economy in order to create jobs in the remaining one eighth (which the present Government does not) then you would be more sensible to do it by direct taxation and the creation of non-jobs in the nationalised industries and the public sector. At least don't get in the way of those parts of the economy that are working smoothly."

5. One could then go on and say that if Labour rejected this advice the country would have to draw the conclusion that what Messrs Kinnock and Hattersley and the Trades Union bosses really want is to get their hands on other peoples' money in order to try their skill at large scale fund management. Not content with wanting to get control of the levers of power in Whitehall and in local government, they want to get control of the levers of power in the City too. Is this not very dangerous for Britain?



P J CROPPER

HATTERSLEY'S PROPOSALS
MORNING MEETING
AGENDA

CONFIDENTIAL

post

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CHANCELLOR

FROM: P J CROPPER
DATE: 19 September 1985

PRAYERS

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

CROPPER
→ CH/EX
19/9

HATTERSLEY'S PROPOSALS - MORNING MEETING AGENDA

You asked for an action agenda for discussion at a morning meeting.

The Purpose:

To force savings institutions to divert investment away from overseas markets, and to subscribe funds to a National Investment Bank, as a way of fostering growth and creating jobs.

The Parties Involved:

1. The members of pension funds and other savings institutions.
2. The Investment managers
3. The jobless
- (4. Labour Politicians).

What can be done to generate opposition to Mr Hattersley's plans among:

1. The members of savings institutions. They can be made to feel that their security is threatened, particularly in old age. The ways of doing this include:

a) getting journalists to harp on it constantly.

X | b) getting the institutions themselves, in their advertisements and their communications with their members, to talk about the threat constantly.

c) priming backbenchers to raise it constantly at Question Time and in their constituencies.

2. The Investment Managers. The Hattersley proposals strike at the autonomy of investment managers. These people are not very numerous, and not very important electorally, but they do move in professional circles. They should be regarded, therefore, as important opinion formers and Government ministers generally should be briefed to talk about the threat of Labour's new plans whenever they address professional groups. They should also refer to Labour's plans when addressing industrialists; "it will be your turn next".

3. The Jobless. Here we have to tackle the intellectual basis of the proposals. Will it not be the case that the forced repatriation of overseas investments will push up the exchange rate, thereby negating (precisely over the medium/long term) the advantages of lower interest rates brought about in the first instance by the increased supply of funds. Secondly, will the National Investment Bank be any more successful at creating jobs than the private sector

firms into which savings would already be going?

Labour Politicians. It is not far-fetched to argue that part of Hattersley's motivation is sheer lust for power. He wants to get his hands on the levers because he thinks he can make the railway train go faster. We have seen this before with George Brown, Harold Wilson, Tony Benn and the rest. All that happens is that the train comes off the rails at the next curve.

The fundamental argument, that the allocation of resources is best left to the market to decide, is not one for the hustings. The Prime Minister could use the argument - sparingly - because people expect basic truths from her and are prepared to listen. And they might listen if the Archbishop said it. But it will not cut much ice when set out in an average Central Office press release.

Action

1. I am not sure that I have yet seen a convincing analysis of the argument that the forced repatriation of funds will be self defeating via a higher exchange rate - or via other routes maybe.
2. The whole argument against Hattersley needs setting out with care in, for example, the briefing sheets that intermittently issue from the Whitelaw/Ingham committee.
3. Someone needs to cover the subject carefully in his/her Party Conference speech. Perhaps the Chancellor.
4. We want to watch out for Ministers accepting invitations to speak eg. at the Society of Investment Analysts dinner, and feed them with briefing material.



P J CROPPER

FROM: H J DAVIES
DATE: 25 September 1985

SIR T BURNS

cc **Chancellor**
Financial Secretary
Sir P Middleton
Sir G Littler
Mr Monck
Mr Scholar
Mr Peretz
Mr Sedgwick
Mr Kelly
Mr Shaw
Ms O'Mara
Ms Henderson
Mr Walker
Mr Pickering
Mr Cropper
Mr Lord

Ch/
Relevant to Stock
Exchange Q&A session

AWK

DAVIES
to
BURNS
25/9
NIB

NATIONAL INVESTMENT BANK

We discussed the latest proposals from Mr **Hattersley** and the extent to which they were susceptible to **economic analysis**. Subsequently the **Chancellor** asked me to pull together a note on the proposals, which might incorporate some of the material in Mr Walker's minute of 17 September and Ms Henderson's of 18 September. He suggested that I should then invite officials' comments and, in particular, ask for the missing numbers to be filled in. The **note is intended, in the first place, as briefing for the Chancellor's question and answer session on Thursday**, but it would also be circulated to Ministers here and in other Departments, and possibly also to some backbenchers.

2. In the event, though I hope I have included more or less all the points made in the two minutes to which I refer, it seemed easier to start again from scratch.

3. **There are gaps** in section 1a) 2b) and 3c) on which I would be grateful for help. But there may be other calculations which ought to be done, particularly to counter the worked example issued at the press conference, purporting to show that the funds would not have lost out by NIB investment in recent years. Could someone have a look at that please?

HJD

H J DAVIES

THE NATIONAL INVESTMENT BANK

1. The Proposal

"Pooled investment schemes" - pension funds, insurance companies, unit trusts etc. - are to be induced, by the withdrawal of "fiscal privileges", to repatriate funds held overseas and invest them in securities issued by the National Investment Bank. The Bank would, in turn, invest that money in UK companies. Though the two sides of the proposal are linked, they are in principle separable.

a) Repatriation of Funds

An incoming Labour Government would set a percentage cut-off for overseas investment by pooled investment schemes. If they held overseas assets above this percentage they would lose tax concessions. Pension funds, for example, would be liable to Capital Gains Tax, and employers contributions to pension schemes would not be tax deductible. The cut-off figure has not yet been set, but illustrative calculations have mentioned 5%. Since pension and insurance funds currently hold around [17%] of their funds (of over [£220] billion) overseas this would imply repatriation of investment totalling around [£25] billion.

Schemes which reduced their overseas investment to this level over an unspecified period would retain their tax concessions. If not, the Labour Party estimates that an additional £4 billion of tax revenue would be raised.

b) The National Investment Bank

Pooled investment schemes would not be free to invest these repatriated funds where they wished in the UK. They would

still lose tax concessions unless a proportion of their funds were invested in loan stock issued by the National Investment Bank. This proportion has also not been fixed, but it would be set to ensure that the NIB mopped up most if not all of the repatriated money.

The NIB itself would be based on an existing credit institution taken over by the Government (probably Investors in Industry). Its securities would be guaranteed by the Bank of England and would offer market rates of interest. It would provide equity and term loans - some at discounted rates - to businesses in the UK, giving priority to small and medium-sized companies. Investments would be supported by a business plan agreed by the Government, management and the workforce. The NIB would also be required by Parliament to take account of a range of other economic and social objectives, for example import substitution, regional development and the promotion of social ownership. Subject to these overriding aims, it would judge investments on a commercial basis.

2. Uncertainties

It will be seen from the above brief description that considerable uncertainties remain, in four areas

- a) the coverage of the scheme
- b) the quantity of assets repatriated
- c) the tax concessions withdrawn and
- d) the investment policy of the NIB.

a) Coverage

It is clear that pension funds, life assurance companies investment and unit trusts are covered. Charities, too, would almost certainly be included. In the case of individuals, it seems likely that they would be covered in some way. The policy document refers in the analysis of overseas investment to the fact that "wealthy individuals have taken advantage of their freedom to buy villas in the

Algarve" though Mr Kinnock has said that holiday homes would not be affected.

If individuals were not included then the scope for evasion would be immense, either simply in direct investment in overseas assets, or through portable pensions. To be effective, therefore, the scheme would need to cover persons, and it would make no sense to exclude property from the calculation of overseas assets.

b) Quantity of Assets Repatriated

One illustrative calculation shows occupational pension funds with 9.2 per cent of assets overseas (as opposed to 19% in 1984). Elsewhere a worked example uses 5 per cent. This latter figure appears more prominently in the papers, and seems likely to be the planned percentage. If this were to be the number, then we calculate, based on full coverage (including individuals) and 1984 portfolios that the total sums repatriated would be of the order of [£ billion]. This compares with an annual average of outward capital flows since 1979 of [£ billion].

c) Tax concessions withdrawn

Here the published documents are very vague. It seems clear that the tax concessions attracting to the funds themselves, and to employers contributions to them, would be withdrawn in each case. The more radical option - which is evidently under consideration - would be to withdraw tax concessions also from the beneficiaries of funds which did not meet the scheme criteria. This would mean, for example, that employees' pension contributions, and lump sum payments, would also attract tax.

d) Investment Policy of the NIB

The extent to which the NIB will act as a commercial bank is unclear. This depends on the guidelines set by Parliament in

enabling legislation. They are couched in very vague terms in the policy documents. The extent of interest subsidies (and perhaps grants) which the NIB will disburse is not revealed. But it will be an interventionist operation, with control over the "investment and other decisions" made by companies receiving funds. It would therefore be an industrial strategy arm of government, rather than a credit institution.

3. Analysis

The scheme is based on three false premises

- a) That there is a shortage of funds for domestic investment and the increase in overseas investment has been at the expense of domestic investment
- b) That repatriation of funds will increase investment and output without offsetting effects elsewhere
- c) That the Government can second-guess the market and "pick winners."

a) No shortage of funds

There is no shortage of funds for domestic investment. Repeated inquiries - the Wilson Committee Report was perhaps the most comprehensive - have failed to identify a large-scale financial market failure. And private sector investment has in fact been rising particularly rapidly - up by 15 per cent last year to a record level. The analysis behind the NIB also implies that the stock of investment funding is fixed, and that a pound invested abroad is a pound less invested at home. This is false. The rate of domestic saving, which creates funds for investment, varies with interest rates. And internationally funds are generated and flow towards higher expected returns.

There is no evidence that the increase in overseas investment has been at the expense of domestic investment.

b) Repatriation increases net investment

This is false. Forced repatriation may temporarily increase the supply of investment funds. These will be channelled through the NIB. The NIB will, in search of viable projects and in pursuit of its other objectives, lend at lower than market rates. This will create subsidised competition for previously viable companies and projects, forcing them out of business.

Also, the capital outflow observed since 1979 has been the counterpart of current account surpluses. Capital inflows mean current account deficits. So that an increase in investment demand will be offset by the loss of demand for exports. It is evident that repatriation on the scale envisaged would exert significant upward pressure on the exchange rate, forcing British companies out of export markets.

c) The Government cannot second-guess the market

All the evidence shows that Governments cannot "pick winners". The National Enterprise Board was a failure. Subsidised investment implies that projects would not otherwise be viable. Few projects or companies initiated with subsidies graduate to the free marketplace. There is no incentive for them to do so.

With a mix of social, political and economic objectives the NIB is unlikely to fulfil any of its aims. The most important net effect of the scheme will be to reduce the return to savers, and particularly pension savings. If pension funds did not fulfil the scheme's requirements, and paid tax instead, then the overall net income of pension funds would be reduced by £ billion, and the return to pensioners by per cent. If the funds did meet the criteria [estimate to counter Labour calculation of no loss, calculated at present rates - how should this be presented].

But the overall economic impact of the scheme should be seen in the context of the rest of Labour's economic policy. Their stated aim of massive increases in public spending would put pressure on sterling and interest rates. The Government would be faced

with a run on sterling, and the need to lift interest rates to fund a massive increase in borrowing. The NIB scheme has been devised to address these problems. In effect pensioners and other savers will be forced to lend to the Government and to prop up the pound. The value and security of their savings would be reduced as a result. It is wrong to compare, as the Labour Party does, returns which have been earned on gilts over the past six years, with returns overseas. Savers have earned positive real returns because the Government has brought down inflation and maintained sound financial conditions. Under Labour in the seventies yields on gilts were consistently negative. That would happen again as inflation rose, and the real value of savings and pensions would be eroded.

4. Points to Make

1. There is nothing wrong with overseas investment. It is the other side of the coin of trade surpluses, partly driven by North Sea Oil. They have helped keep the exchange rate lower than it would otherwise have been. And we have built up overseas assets which will generate revenue when oil runs out. A wise precaution.
2. There is no overall shortage of funds for investment. No-one has ever discovered one, at any rate. And the idea is based on a fundamental misunderstanding about the source of investment money. Private sector investment in the UK is at record levels. Last year it rose over 15 per cent. The UK venture capital industry is proportionately as big as it is in the US, and two-thirds of the European total. The investment director of POSTEL, one of the larger pension funds acting for BT and Post Office workers said last week "There is plenty of money available in the City for long-term investment. In fact there is too much money. If the return is adequate the money is there."
3. The scheme is economic nonsense. There is no free lunch to be had. Bringing money back will increase the exchange rate, thus reducing the demand for exports. And investing

subsidised money in some companies will create unfair competition for others.

4. The real losers are pensioners and other savers. The returns earned by pension funds from the NIB will be lower than they now earn. It must be so, otherwise why would the funds not invest now in the companies the NIB will choose. If the NIB pays high interest rates and earns less, then taxpayers must find the difference. There is no other way.

5. The effects will be arbitrary and unfair. Pension funds and other institutions hold varying proportions of their portfolios overseas. Repatriation down to a uniform level will harm them unevenly.

6. It is unwarranted interference in the freedom of savers and their trustees to invest this money as they wish. A fundamental attack on the proper principles of investment management.

7. The scheme will severely damage the City of London. Investment companies will move away from London. The City's position as the world's most important financial centre, and a major earner of income for the nation, will be threatened.

8. Individuals will be forced to sell overseas assets. It is no use Labour pretending that individual people will not be affected. If they are not, then the scheme would not work at all. People will be forced to sell homes abroad. And it is a short step to the kind of controls on holidays we had when Labour were in power in the 1960s.

9. The National Investment Bank will waste public money. Governments are not successful at picking winners. It is not Whitehall's job. The NIB will invest in loss-making projects for political reasons. It will end up with a portfolio of lame ducks and half-baked co-operative experiments.

10. An enormous Quango stifling enterprise with bureaucratic controls. Few bankers with commercial skills would be attracted to the NIB. It would be staffed by bureaucrats interfering in the day to day running of businesses in pursuit of "planning agreements." The last thing industry needs.

11. Prey to political manipulation. There is little doubt who would pull the strings in deciding on investments. Labour politicians and Trade Union bosses. One Trade Union leader has already called for money for the textile industry [Mr Monck to supply reference].

12. In reality, the scheme is a nonsensical compromise designed to paper over conflicts within the Labour party, and to prevent a sterling crisis. The Left want full-blooded exchange controls. Mr Hattersley knows that would be a catastrophe. The NIB has been designed in an attempt to square that circle. And Mr Hattersley knows that there would be a run on the pound if ever he was allowed near the Treasury. He said as much in an interview with Peter Jay on 12 July "it's the problem of a Labour Government before it's elected - and certainly immediately after - to have a flight of capital out of the country." He hopes that the scheme will force pensioners to bail him out.

13. In practice, it just would not work. Labour now understands little of how financial markets work. The Times has described the scheme as "naive and simplistic". There would be widespread evasion via offshore funds and tax havens. The NIB would not find competent staff. It would not know where to invest.

14. The scheme conflicts with EC obligations. The Commission is hostile to restrictions on capital movements. The NIB itself would be a State Aid to industry. If the Commission concluded that its activities distorted competition, which would certainly be the case, the UK would be required not to put the plan into effect. Non-compliance would mean the UK being taken to the European Court.

5. Defensive Points

Q. Hasn't NEDO come out in favour of a new, state-funded credit institution?

A. NEDO has done some work on what such a body would look like, but the Council has not accepted that there is a need for it. The Government does not believe that there is. And the NEDO work is in any case on quite different lines. There is no question of forced repatriation of funds.

Q. Other European countries have similar institutions.

A. Circumstances differ from country to country. Our capital market is more highly developed than that of any other European country. And there is no correlation between the activities of such institutions and economic success. The UK was top of the EC growth league in 1983 and according to OECD forecasts should achieve faster growth than any other major EC country this year.

Q. The Association of British Chambers of Commerce recommends an industrial policy with support for key industries.

A. There is already considerable support for industry. Regional support of £480 million this year. Civil industrial R & D of £400 million and £1 billion of support for exports. But we cannot buy our way to competitive success. That depends on companies themselves, who operate best in free and open markets with low taxation.

●
CHANCELLOR

FROM: H J DAVIES
DATE: 26 September 1985

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir T Burns
Miss Sinclair
Miss Noble
Mr Folger
Mr Rex
Mr Haigh
Mr Cropper
Mr Lord

HATTERSLEY'S TAXES

I attach some hasty notes on Mr Hattersley's taxation proposals, together with an even hastier draft press release, a toutes fins utiles.

2. More work is being done by officials, commissioned by the Financial Secretary, which would allow us to produce a more considered response.

3. There is, I gather, considerable press interest in your reaction to these latest ideas, so some public production is worthwhile, particularly if you do not get a chance to say something tonight.

HJD

H J DAVIES

DARFT PRESS RELEASE

In the last two weeks Mr Hattersley has uncovered two more exhibits in the Chamber of Horrors that he calls his economic policy. Two particularly nasty specimens.

One a crooked way of raising money. The other a harebrained way of spending it.

It's a step forward in one sense. At least he now admits that money doesn't grow on trees. What we now know is that Labour would fund its crazy spending plans with massive increases in income tax.

He tries to pretend it will come from the "bloody rich" - which includes Mr Hattersley himself, of course. But we can now see that it will come from pensioners and ordinary working people.

Pensioners lose out twice. They pay 10 per cent more on income from their savings. And these savings will be dragooned into the National Investment Bank, to be dished out to lame-ducks.

Working people lose too. ^{NITB} Nearly two million people would find their tax rate jump by 10 per cent overnight.

And what is all this cash to be used for? A variety of pet projects devised by Mr Scargill and his friends, funded by the grandly titled National Investment Bank. A make-work scheme for bureaucrats in the guise of an industrial strategy.

The public response to both these plans has been - almost - unprintable. Scarcely surprising.

But I hope that doesn't put Mr Hattersley off letting us know about the rest of his plans. I think we should be told.

MR HATTERSLEY'S TAXATION PROPOSALS

1. Detail

In a speech in Ilford on 25 September Mr Hattersley outlined the following policies on taxation.

- a) Mortgage interest relief (and other items currently allowable) restricted to basic rate.
- b) Abolish Upper Earnings Limit on employees National Insurance Contributions. (£14,000 *per*)
- c) Increase income tax on individuals earning over £20,000 a year.
- d) Apply National Insurance Contributions to investment income, above an unspecified lower limit.
- e) Increase taxation on company cars and other fringe benefits. "Remuneration whether in the form of cash or other benefits - should normally be taxed on an equivalent basis?"
- f) Closing tax loopholes available to the better-off [unspecified].
- g) Increase capital taxation and make it "progressive."
- h) Introduce a wealth tax (details left imprecise).

The other sources of additional revenue are to be:

- i) A "prudent" increase in borrowing.
- j) Increased taxation from lower unemployment.

k) Savings on the Common Agricultural Policy and Trident.

l) Unfreezing of Local Authority capital receipts.

m) The NIB repatriation (see separate note).

2. Mr Hattersley's main attack on Government, which he made in the Today programme this morning is:

"Eighty-five to ninety per cent of the population are now paying more taxes than they did when Mrs Thatcher was elected."

An answer might be:

The only reason people are paying more tax is because they are earning more. What is important is take-home pay. A married man ~~with two children~~ on average earnings took home 13 per cent more in real terms last year than he did in 1978-79. In the five years of Labour government his real take-home pay rose by only half a percentage point. Under the Conservatives his real take-home pay has risen twenty times as fast. And this is not the most favourable example we could choose. A man on twice average earnings lost 1½ per cent of take-home pay under Labour, and has gained 14 per cent under the Conservatives.

[In fact Mr Hattersley seems to be quoting from an IFS study in July of this year which constructed an artificial comparison, using the Family Expenditure Survey, between direct and indirect taxation paid today, and what would have been paid had the 1978-79 tax regime been in force - with appropriate indexation uplifts and duty revalorisations. This of course takes no account of rises in real income.]

2. Points to Make

These "modest proposals" are a massive assault on the earnings of ordinary families

Mr Hattersely has an odd idea of who the "bloody rich" are. They turn out to be a very large chunk of the population indeed. The increases in National Insurance Contributions alone would hit one in seven of full-time adult males.

Pensioners and savers are the worst hit.

Improving National Insurance contributions on unearned income would hit pensioners. They would be paying National Insurance Contributions on income from savings with one hand, and drawing pension with another. What a nonsense.

The tax increases will clobber skilled workers, middle managers, rising professional people, all those whose efforts are essential to our economic success.

National Insurance Contributions on all earnings would hit people in the £18 - 20,000 range very hard. Just the people who need to be encouraged. One and three quarter million of our most valuable citizens. Someone on £18,000 a year, for example, would pay £7.50 a week more in NICs alone, about 3½ per cent of take home pay. That's a lot more than the extra increase teachers are demanding now from Government. [I wonder if Mr Hattersley has asked his wife - a head teacher on that sort of salary - about the effect of his plans on teachers morale].

A Wealth tax is the worst penalty on savings and success. This is the Labour Party's King Charles head. They have often said they would do it, and never succeeded in devising an acceptable version. But now that the Left are firmly in control, perhaps they would.

Mr Hattersley betrays little understanding of how the tax system operates. He wants to impose extra tax on individuals earning over £20,000. A couple of months ago it was families, until someone pointed out to him how many people were involved. Now he has chosen individuals. What does this

mean for the way tax operates? Now, of course, almost all families are taxed together. We have a proposal to allow married couples to exchange tax allowances, so that families with young children can pay less tax. What is Mr Hattersley's plan? He appears to deny the existence of families altogether.

~~Steeper, progressive capital taxation would do serious damage to business and enterprise. Our capital taxation reforms have had a major beneficial impact on business and wealth creation by giving people an incentive to realise capital. Mr Hattersley would turn the clock back. Further evidence that Labour is anti-business, anti-enterprise, anti-saving.~~

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Steeper, progressive capital taxation would do serious damage to business and enterprise. Our capital taxation reforms have had a major beneficial impact on business and wealth creation by giving people an incentive to realise capital. Mr Hattersley would turn the clock back. Further evidence that Labour is anti-business, anti-enterprise, anti-saving.

The NIC proposals imply a massive extension of SERPs, which the nation can't afford. High earners making increased NIC contributions would, if Labour kept SERPs as they say, store up huge benefit entitlements.

Restricting mortgage interest relief to the basic rate would affect nearly one million borrowers. Again Mr Hattersley tries to pretend that his proposals would hit just a small segment of the population. In fact 900,000 borrowers and their families would pay more - a lot more - for Labour's harebrained expenditure plans.

FROM: C R PICKERING
DATE: 30 September 1985

CHANCELLOR OF THE EXCHEQUER

Nigel
N.B.

Mr Hattersley to
Nigel

Ch.
You will enjoy this.
(Indeed you may even find
some sentences worth
quoting you can agree;
Hattersley has a real gift for
condemning himself)

KL

30/9

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Monck
Mr Burgner
Mr Moore
Mr Scholar
Miss O'Mara o/r
Mr C W Kelly
Mr Grimstone
Mr Vernon
Ms Henderson
Mr H J Davies
Mr Lord
Mr Cropper

INTERVIEW WITH MR HATTERSLEY

You asked me to circulate the attached interview with Mr Hattersley in the current edition of 'Marxism Today'.

2. It is a useful summary of Mr Hattersley's current views on economic policy. New points include:

- (i) the remarks on planning agreements;
- (ii) the impossibility of the Government picking winners;
- (iii) (I think) the promise to re-nationalise British Airways and British Aerospace.

C R Pickering

C R PICKERING

Labour's popularity ratings are up. If a Labour government wins a majority at the next election, Roy Hattersley will be chancellor of the exchequer. How does he see Labour reducing unemployment and boosting the economy? What characterises Hattersley's socialist perspective . . .

An Alternative to the Alternative-

LABOUR'S NEW ECONOMIC STRATEGY

Interview with Roy Hattersley

by Sam Aaronovitch and John Grahl

In your speeches you have been arguing the need for new economic policies for the Labour party. What is and was wrong, in your view, with the policies already put forward by the Labour party, for instance those on economic planning and industrial democracy presented jointly by the Labour party and the TUC?

If you ask me about those two specifically, I think there's very little wrong with either of them. I enthusiastically supported the joint document on industrial democracy and economic planning. It seemed to me that was the basis of a socialist economic policy. I hold the view very strongly that a socialist economic policy is about the structure of the economy and power within it. It is not about the demand management of the economy. Now, more generally, what were the main problems with our economic policy? What we proposed before the last election on how to put Britain back to work was a massive increase in generally undirected demand, and we talked about it in terms which left some of the areas at best open to discussion, and at worst with no policy to meet the actual needs. An increase in demand plus depreciation would not have achieved the aim that we hoped for. And because of that, because the British public is not as naive as politicians sometimes think, it was an incredible economic policy. The idea that we could spend and depreciate, and that would put our problem right politically as well as economically was a mistake. Now what we've done is to try to give them more force, more direction and more precision. I'll give you an obvious example. We obviously still believe there's got to be an injection of demand into the economy. We talked about a £5 billion boost at the last budget. But now we are trying to describe where it will go,



how it will be spent, so it keeps job creation here in Britain rather than exporting it to Japan. It's that sort of difference. But I've always said that we were building on the old policies rather than reversing them.

But in the economic planning and industrial democracy document, there are specific points, for example on planning agreements, which are not discussed in your speeches as far as I am aware...

You must not believe that everything I think about economic policy has been said in the last two years. I am a supporter of planning agreements. I am certainly of the belief that if we are going to give more power to workers, which is essential, it's a canon of my sort of socialism, then they have to be provided with the information that enables them to use that power sensibly. If you ask me if I want to see planning agreements, my answer is yes. My objection to planning agreements under previous Labour governments is that we've talked as if by introducing planning agreements we are going to revitalise the economy and bring socialism overnight. We've grotesquely overstated the importance of planning agreements. I'm very much in favour of them but I'm in favour of keeping them in proper perspective.

A criticism that could be made of your proposals so far is that you are offering everybody omelettes without breaking any eggs. There's going to be something for everybody, but no-one will make any sacrifices. It could sound like a very populist presentation designed to deal with the current political problems faced by the labour movement and the Labour party.

I don't underrate the importance of making the Labour party popular – as distinct from populist. My entire life in the Labour party has convinced me that we ought not to be a socialist Sunday school, or a sixth form debating society. Our object is to become the government of the country. And therefore I'm very sceptical about people who say, 'you're only doing this to win votes'. Therefore I don't for a moment step back from the allegation or compliment, or whatever you care to call it. I want to make the Labour party the head of a great national consensus which produces a majority government. But here I always distinguish between two clichés. Creating a consensus is not the same as occupying the middle ground. We have to produce a policy which is both socialist and likely to attract a majority vote, as I think Attlee did in 1945. Having said that, I don't think it's remotely right that I haven't faced the penalties of the sort of policy I want to see. The word penalties very often appears in my speeches, for example the need to tax people at the top end of the scale more. And I think that's politically necessary. These days nobody believes in omelettes without eggs. You get more political support if you say 'we are going to do all these things and they're good, but there is a balance of disadvantage'. And I do try to describe the disadvantages.

You have defined a number of priorities for a Labour government to tackle – a reduction in unemployment, modernising the economy, reducing inequality and tackling poverty, and the extension of democracy in every sphere. Is that an acceptable...

I think you mix there the ultimate objectives with the immediate policy. I believe that socialism is essentially about freedom, and the only way we can become genuinely free is to become more equal. The material equality which I want to promote is a means to allowing more people to have freedom, which is the ultimate object of a socialist society. I would like to see us measure all our policies against that aim. I'm writing a book which says that what's been wrong with the Labour party in the recent past is that we've never defined what our aim is. Pragmatism has become a major socialist virtue. Yet it hasn't prevented us from receiving all the assaults which pragmatism was supposed to protect us from, and it's stopped us from measuring our policies against anything

worthwhile. Equality and freedom – two things which I don't think can be distinguished – are the ultimate aim of my socialism. A reduction in unemployment, while that is the first essential step to making us a slightly more equal society, since unemployment produces the most desperate poverty and bequeaths it to future generations, must be seen as part of the ultimate objective.

What would be your way of reducing unemployment as a Labour chancellor?

A substantial increase in demand will be inserted into the economy. But it has to be directed in such a way that the multiplier which we all learned about 30 years ago doesn't operate in Tokyo and Stockholm more than it does in Birmingham and south Wales. Therefore we'll direct the new spending power in three phases. The first, because it's the quickest, is the job-creation measures. I have to tell you that I personally am extremely sceptical about such measures because I believe we are much better served by genuine jobs. We'll try and make sure that direct job creation is as much related to real jobs as possible.

The second phase is public investment in the infrastructure and the capital sector. Now, we'll do our best to get that working quickly as well. I propose to tell local authorities that they'd better start preparing for this in anticipation of a Labour government. They'd better start deciding what it is they want to build, and who's going to build it, because when I'm chancellor I'll have somebody who goes to Birmingham, Sheffield and Leeds saying 'we'll provide you with money quickly if you can ensure that there are jobs waiting to be done as long as the money is there'. While all that's going on we can start on the third phase, the process of reinvigorating manufacturing industry and creating the new jobs there, which is a longer term and in one sense the more important operation.

Do you have specific targets as to how much you hope to have achieved by when?

No, nor can we have. We don't know what the state of the economy will be when we're elected in two years time. I myself think that unemployment will probably be higher and certainly





not appreciably less than it is now. But since we do not know the extent of the rundown, the inflation level, the exchange rates, the idea of putting figures on things two years beforehand seems to me irresponsible in every way.

Wouldn't it be possible to accelerate the impact of the measures you've specified especially the first one, job creation, by substantially increasing taxation to finance more rapid job creation in the public sector?

There will be an increase in taxation. Certainly the richest 5% of the population will have to make a bigger contribution to the economy. Then, as we begin to expand the economy, there will be a natural increase in the tax-take. But I don't believe we can run the economy successfully by talking as if all we have to do is increase taxes on middle and lower incomes. There have to be other ways of finding money. Not least because if we are to maintain confidence both within Britain and outside, we have to run a policy that looks as if it is going to work over a medium and long term. One of the things I am absolutely determined not to do, my abiding nightmare apart from the thought of losing the next election, is to have two years in which we talk as if everything can be done easily – more taxes, a big increase in borrowing, an enormous injection of demand into the economy – and then find at the end of two years we are back where we started, that we have external and internal crises and have to wind it all down again. We are not going to do what the last Labour government did, and we're not going to do what the present French government did. We are going to do a bit more each year rather than a bit less each year.

On the other hand if, after recognising those constraints, it means that after several years of a Labour government you still have a substantial pool of long-term unemployed, what would you say to them if they have not benefitted and remain in the same position as at the beginning of a Labour government?

I'd say that we failed. But I'm not going to hypothesise the second stage of my policy on the assumption that the first stage failed. I believe that by moving firmly but with prudence we can maintain a continual, though you may regard it as modest, reduction in the unemployed. And I would much rather us get to the end of the first Labour government having reduced unemployment by x, than get to two years into a Labour government where we've reduced it by x plus y, only to discover that the entire economic

prescription has come to a halt because of some ghastly crisis.

Let's turn to the issue of modernisation. You have increasingly placed a lot of emphasis on a central role being played by the National Investment Bank. It's emerging as a crucial part of your strategy. Could you just say what the NIB is and what you expect from it?

The NIB is important for three reasons. First, it's going to provide investment for manufacturing industry in a way that hasn't been provided before. There's going to be a financial institution that will work with industry, that feels part of industry, and therefore makes investment decisions related to industrial potential rather than to the accounting procedures which now normally determine whether money is available or not. And of course some of its loans will be low interest loans, and what in my experience industry wants most of all to encourage it to invest is a better return on its investment. Secondly, it is the vehicle by which we will organise our new exchange control scheme. It's very important, in my view, to repatriate the export of capital. And it would not be as desirable to us if we required the capital to come back and simply had it sloshing about in the City of London not doing anything very much. Thirdly, it will enable us to underpin the exchange rates.

If the funds available to the NIB are relatively small, then presumably its economic impact will be very limited. If on the other hand, the sums involved are very large, are there going to be takers for that scale of money, especially as you see small and medium-sized firms as the main borrowers?

The sums are going to be large. But the money will not go solely to small firms in the manufacturing sector. Part of it will be available for investment in capital projects in the public sector, for work on the infrastructure. Part of its money will certainly be available for larger projects, if the larger projects want to take money from the NIB which I believe they will. The reason I have concentrated on small firms is because all the evidence suggests that bigger companies find it comparatively easy to raise money. It is small companies which find it difficult to raise capital. I also believe that small and medium-sized companies ought to be the engine of growth in this country, as they are in other economies. The reason they are not is partly that they can't raise capital.

From what you are saying it appears that the NIB will not influence the major investment decisions in our economy which, after all, are

made by very large firms, most of them multinational in character.

First, the NIB will produce a new set of investment money – not the City of London. The City of London's monopoly, with all that that entails, has been broken. Secondly, by providing money for small and medium sized growing firms, we are protecting them from one of the things that makes them sacrifice themselves to the multinationals and giant companies. For one of the reasons small companies merge with bigger ones is they cannot raise the money to put down plant and equipment on their own. The fact that the money is there will help to reduce concentration. Thirdly, you mustn't think the NIB is the only way we are trying to break the power of the classic traditional investment institutions. The Labour party has always thought of power in terms of industry, we've not thought of it in terms of finance. More and more we now realise that power is exercised by people at one stage removed from industry itself. We have to look at the City of London and how it is governed and how it distributes its money.

Aren't you likely to be very short of industrial borrowers? There's evidence that the large enterprises in Britain are very liquid at the moment, with some sitting on cash mountains. Aren't industrial borrowers just as short-sighted, just as risk-averse, as the lenders? And therefore isn't there a need for a very large exercise in direct public investment? It might be necessary to start the programme going by using instruments such as the British Technology Group, the Scottish and Welsh Development Agencies and local enterprise boards as direct investors.

There will be more investment, I think, when it is discovered that you can borrow to invest at lower rates than in the market place. One of the reasons that GEC is sitting on a lot of money is simply that it is more profitable to do it that way because of present interest rates. But you're right. One of the reasons we want to see more done through the local enterprise boards is because we believe that sort of public enterprise has to be there to stimulate British management, which is notoriously timid.

You have given general support to the notion of indicative planning. Given the experience of the National Economic Development Council and the National Economic Development Office, how far do you think they can be useful institutions?

I think the Office has done a great deal of very valuable work. It has drawn the attention of government and companies to a lot of underlying problems which they would have been too shortsighted to see. One of the functions of the Office is to draw people's attention to the wood when they are normally obsessed with the trees. And it's very important that the Office should go on doing that. The little Neddys also do a lot of valuable work. But what I am hugely sceptical about, though it gets me into great trouble with my friends in the TUC for saying so, is the work of the Council itself. I do not believe that the problems of this country are going to be solved by 50 grand people sitting round a table on Thursday morning and coming to the conclusion that is determined by all men and women of goodwill. I believe that the Neddy solution, the idea that we can all move half-an-inch in that direction and it will produce an agreement, has done a great deal of harm.

Now, having said that, a word in this context on the industrial strategy of the last Labour government. It was based on the slogan that we would pick winners. I think it's almost impossible for government to pick winners. Every government has talked about

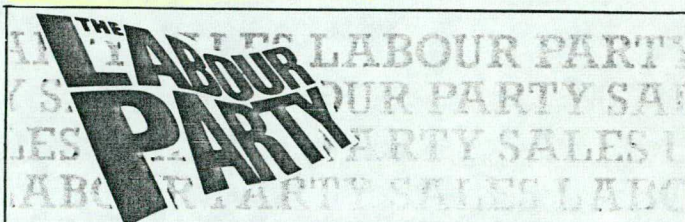
picking winners. When you ask them what the winners are, they find it very difficult to define winners which are not determined by the market. In a sense I think it's more important for government to decide where the losers are going to be and what they are going to do about them, how they are going to compensate for industry which is shrinking, how they are going to provide new jobs in areas where old industries cannot continue and cannot be established. So I don't want to see a recurrence of what happened in 1975. I certainly want to see a National Enterprise Board formed, but I want it to be doing work which we know is to be concerned with our social aims. The idea that that is double guessing industry seems to me to be totally misconceived.

In your speeches you've rejected the Morrisonian model of nationalised enterprises.

Can I just say that I've rejected the Morrisonian concept for anything other than the public utilities – gas, water, electricity. For the public utilities you have to have a centrally-run state corporation.

What's your approach to the firms that have been privatised by the Tory government? Will you renationalise?

The nationalisation programme must be determined by our priorities, not by the reverse priorities of the Conservative government. To put it at its most banal, I'm not going to waste a moment renationalising Gleneagles Hotel, and I'm not going to spend very many moments renationalising Thomas Cook. On the other hand, British Telecom in my view has, by its nature, to be run again as a single public utility. Now the form in which that



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return to public ownership is managed is something that John Smith, the Communication Workers Union and others are going to discuss over the coming year. I've no doubt at all, according to the sort of rules I lay down for myself - whether it is a national service which should be equally available throughout the country, whether the rest of the economy is very much dependent on it, whether it has a defence or civil liberties content to what it does - British Telecom comes into the category of public utilities which have to be nationally owned.

Would you add to it British Airways?

Yes.

British Aerospace?

Yes. We should take British Aerospace into social ownership, but I think we have to consider the form in which the new enterprise would be constructed. In all manufacturing industry, I would like to see a much closer involvement of all employees in management.

You have also talked about extending public ownership. Where do you see that happening?

It will have to happen in manufacturing industry. In one sense here we are back to small and medium-sized firms. Some of our most successful extensions to public ownership have been through enterprise boards, working sometimes on buyouts, sometimes on co-operatives, sometimes on companies that are semi-private but which have a very substantial local authority share in management control. In my view this is the way to expand

public ownership in manufacturing industry. You cannot have a state motor corporation in the sense that it is centrally run. I don't want to see a motor corporation which looks as if it's public, as ours did six years ago, but is more remote from its workers, and the interests of the regions, than it was when it was privately owned. The only way you can get the real social ownership that I want to see in manufacturing industry is through these small and middle-sized units.

Your specific proposals with regard to industrial democracy and increasing employee participation nearly always boil down to turning the employees into shareholders, rather than expanding the control and the influence of the employees as such.

I don't think they do. Several different things are involved. Certainly I don't think the extension of public ownership, which I want to see, could possibly be, or ought to be, an extension of nationalised corporations run as state monopolies from London. We've got to think of some models which are autonomous, which can be run through the regions, and which can be run by, or profoundly influenced by, the people who work in them. I've said there's got to be much more local authority enterprise, I've said that there's got to be more co-operatives, both consumer and producer. And I've said specifically that we've got to not only remove the disadvantages that co-ops now suffer under our tax laws, but we've got to find ways of actually promoting them. I've said there have got to be schemes where workers have shares in the companies. But I've specifically said that I'm not interested in share ownership as a bonus to middle management. It's got to be a scheme which is available to all employees, and it's got to carry with it rights to influence company policy, not just rights to draw

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some kind of dividend at the end of the year. You see I don't think you can have any one model. We are going to run a mixed economy. The mixture under the next Labour government will be slightly different in that there will be more public ownership and a bit less private. But within both the publicly-owned and privately-owned sector, I want more and more influence by the workers on management decisions. You need a variety of models to work with.

Governments attempting independent policies that go against the international current face very real constraints. That's common ground. You propose to reduce overseas investment by imposing tax penalties on institutions which hold too high a share of foreign assets. However your statements on public borrowing indicate that you will work within the constraints imposed by internationalised financial markets, rather than trying radically to shift that structure. Is that correct?

Yes. The idea that Britain alone can stick out against and beat the constraints of international markets seems to me to be pure fantasy. Now, we can insulate ourselves from them to a degree. The exchange controls scheme is one of the ways of stopping a run on the pound. We can insulate ourselves from capital movements and some manufacturing goods movements by limited import controls. But the international pressures, particularly if we are in a Western European environment where other governments are taking a different view from us, will be very substantial. And it is simply courting disaster to pretend that these people do not exist, and to pretend that they do not have power and influence. I have to strike a balance between doing what's right, and doing what's possible. And I've no doubt the balance will be moved much more in my direction if I can convince those whose confidence I need

that whilst I'm doing things that they may ideologically disapprove of, at least my arithmetic adds up. *was arithmetic? (see earlier!)*

You mentioned earlier the centrality of equality. Let's get to specifics. Women constitute half the population and are very highly discriminated against. What is there, in your approach, for women.

There are two things in it for women. First, I don't believe that those groups within the population, minorities or a majority which are at present disadvantaged, are likely to have those disadvantages ended during a period of recession. If we can move the economy forward we are more likely to provide employment opportunities and facilities for women. Secondly, though it won't be my responsibility directly, I hope that in the area of women and also ethnic minorities we are going to do the two things that socialism requires us to do in our pursuit of equality. One is to provide the formal rights – for example, rights for women to be employed in certain occupations which still, covertly if not overtly, discriminate against them. But equally, too, we are going to provide the facilities which enable the previously disadvantaged groups to take advantage of their new rights. It's no good coming to my constituency and saying that we are going to insist that women who apply for certain jobs are given a fair chance of getting them if there aren't facilities which enable the women to go to work – there's somebody looking after their kids, they've got shops open at a different times etc. *(✓ - this book is shipped up badly)*

Your speeches stand open to the criticism that they don't reflect women's needs and desires more explicitly.

My speeches are open to the criticism, and always have been, that they don't contain the fashionable phrases and buzzwords. But what I've said, for instance, about an assault on low pay – I am a believer in a statutory minimum wage – will do a great deal to assist women. I don't take the view that a statutory minimum wage will prevent women from working. I take quite the opposite view.

You have said very little in your speeches about the tax system. As a future chancellor of the exchequer that's going to loom rather large in your thinking in practice. What do you have to say about fiscal policy?

I'm not going to introduce my 1989 budget in this interview. I can't tell you now or in a year's time the actual pattern of taxes we'll introduce. I can tell you some of the things we want to see. We think that capital produces far too small a contribution to the revenue, and we'd like to increase it. We intend to increase the

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national insurance contribution all the way up the income scale so that the very rich are paying the same proportion of their income in national insurance contributions as the very poor are paying. But the idea that I can give you a fiscal package now would be gimmicky.

You've discussed your approach towards unemployment and redistribution. What policy towards incomes is implied by these plans and how would you propose to implement it?

I don't believe that in the present situation, where there is a shortage of demand, wages are making very much impact on the level of unemployment. I don't hold the Lawson view that if we stop paying wage council rates in wage council industries there's going to be a lot more jobs. But I do hold the view that if we have a big injection of demand, we talked about £5 billion last year, we have to decide how that extra spending power is going to be distributed. And the more of it that goes on men and women in existing work, the less of it will be available for new jobs. I therefore, unashamedly, want as much of it as possible to go on new jobs as distinct initially from increases in wages. I've said that openly and continually. This is one of the areas where I have talked about the penalties. Now the concentration of that extra spending power on new jobs is only possible with the agreement of the trade unions. And by the agreement of the trade unions, I don't mean trade union leaderships alone, I mean the trade union membership. I don't believe it is possible to impose that discipline on trade unions by legislation, nor by saying 'this is not a statutory policy but we'll make life impossible for your companies if they don't abide by our proposals'. I believe it has to be done as a matter of consensus. We've failed to do that, and it's been a terrible deficiency on the part of the Labour party. It's all to do with this long absence of an ethical framework within which we've operated. We've treated incomes policy as if it was the burden which bad governments heaved on the backs of workers to make them pay the price of recovery. We ought to have used it as a way of building a more decent society where the lowest paid are paid more and the highest paid are paid less and the social services are preserved, and I am going to go on arguing for that. Now whether that results in a sufficient consensus being built up for the trade unions to co-operate I do not know. If they can't co-operate, then we will have to make the best of it, there won't be as much money as we had hoped for the creation of jobs.

There's going to be a very specific problem of public sector pay, in that by the time a Labour government might come into office, there will have been some 8 - 10 years of pressure on the relative standards of public compared with private sector workers. What are you going to do about that?

Clearly the public sector workers' pay has to be gradually rehabilitated. But equally the public sector worker has to know that there is no way that can be done immediately or even quickly. Take the teachers. The teachers deserve more than they are going to get out of this dispute. Now whilst I believe they would get that under a Labour government, the teachers are not going to get the 32.5% which is what is necessary to get them back to their previous levels. We will try to give them something approaching social justice, but social justice isn't going to happen in the first year of a Labour government. It may not happen in the first five years of a Labour government. These things have to be done gradually. But they'll be better off because we believe it's right they should be.

You are traditionally associated with the right-wing current within the Labour party, a gradualist consensus approach that prevailed in the 50s and 60s. Isn't it true that the Labour leadership of those years failed to modernise the economy and ensure steady social progress? From your point of view, how much continuity do you see between the present Labour strategy and the strategies followed under Harold Wilson and Jim Callaghan?

Well far more with the strategies followed under Jim Callaghan than under Harold Wilson. I think the Callaghan government, 76-79, did a good job for socialism in a cold climate. I think from 1976 onwards we were a good government. We were doing the best we could in almost impossible circumstances. Now in the past, rather less now, I have been associated with what we call moderates, revisionists, the right wing. I've never felt myself to be part of that. I've been associated with them for two reasons. One is that many of my friends were in that category and in politics you are judged by your friends. Secondly, there are some key issues which are regarded as the judgement of left and right wing. I am unashamedly and unreservedly for the Atlantic alliance. I am unashamedly and unreservedly for British membership of the EEC. I was for EEC membership at the Treaty of Messina, which predates the Treaty of Rome. Now for 20 years in this party if you've been a NATO multilateralist and an EEC man you're on the right wing.

Now my other views are, in my view, genuinely radical socialist views. My view of society is Tawneyite, I'm a Croslandite and the book I'm trying to write now is saying that what they said about equality as being our objective is what we've failed to understand, failed to recognise and failed to pursue. I think what counts in socialism is your view on the nature of society and I want to see a more equal society. That failure represents a failing of the moderate view in the Labour party. We are not going to solve our economic problems by saying 'a bit more demand, lower interest rates, let's do what Jim Prior would do'. We are going to solve our economic problems by changing the structure of the economy. If you're telling me we have failed to do that in the past, I am agreeing with you. If you are telling me I am to blame, I am disagreeing with you.

The Left in the Labour party has gone through important change. How do you see the tendency you represent within the Labour party changing and developing. What alteration or shift in perspective appears to be taking place there, if any?

The tendency which I have been said to represent?

The tendency which you do represent, which you think of yourself as representing.

The radical Left wants to look for schemes and views and wants to deal with the overview rather than to look at next week's issue. There is a desire to return to some sort of ideological basis a sense of where we stand, and to try to measure our policies against it. I think in my part of the Labour party, whatever attraction there ever was to pragmatism, whatever attraction there was to managerial socialism has slightly gone. It's partly because it's a generational thing - in the 50s and 60s we were worried about the allegation that we couldn't run a fish and chip shop and therefore we had to prove that we could. My generation of Labour MPs doesn't have to prove that we could work for ICI because some of us have been offered jobs there when we graduated and I think we therefore feel we have an ideological role which was not expressed during the 50s and 60s. That's a great change. □

*post.**MOM*FROM: MISS M O'MARA
DATE: 12 NOVEMBER 1985

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
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Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Monck
Mr Monger
Mr Scholar
Mr Turnbull
Mr Culpin
Mr Pickering
Mr Cropper
Mr Lord
Mr H J Davies
B/09*Ch*
This looks like a
good quarry for tomorrow's
speech; unfortunately it
arrives too late for Tavy &
price and no plans (see, for
example, the price on unemployment)

MR HATTERSLEY'S LINE OF ATTACK

Re. 12/11

I attach some further points on Mr Hattersley's possible line of attack tomorrow, with suggested responses. I have discussed in general terms with Mr Davies but have not been able to clear all the material within the Treasury in the time available.

MOM

MISS M O'MARA

Stance of fiscal policy

Line of attack:

- (A) Autumn Statement with plans for higher privatisation proceeds reveals fiscal policy looser than at time of Budget. Government inconsistency.
- or (B)(i) Government should reflate economy.
- (ii) Higher spending would create more jobs than Budget tax cuts.

Defence

RHG accusing Government of undertaking reflaction he would dearly love to engineer. Can't have it both ways.

- (A)(i) Fiscal policy prudent:
- 1985-86 PSBR as proportion of GDP, at $2\frac{1}{4}$ per cent, easily lowest since 1971-72
 - still lowest since 1971-72, even when privatisation proceeds excluded
 - by 1988-89 public spending as proportion of national output (41) lowest since 1972-73 ($40\frac{1}{2}$). Even excluding privatisation proceeds (42) as low as any year before that [41 in 1977-78]
- (ii) No decisions yet taken on stance of policy in 1986-87 and beyond.
- (iii) RHG can hardly accuse Government of lax fiscal policy. Policies advocated by his Party at last election would have cost £40 billion to implement.
- ✓ (iv) If set PSBR at $9\frac{1}{4}$ per cent of GDP this year, as Labour did in 1975-76, would total £33 billion.
- (B)(i) Prudent monetary and fiscal policies will enable growth and inflation to come within point of each other in 1986 for first time since 1986.
- (ii) In very short run, higher spending may have greater effect on domestic demand than lower taxes. In longer term gains will certainly be eroded by relatively higher inflation and interest rates.
- (iii) But UK not suffering from any lack of demand. Growth of nominal demand 9 per cent in 1985 and, with falling inflation, 7 per cent in 1986. MTFs designed to ensure growth of nominal demand maintained, if wage growth slows. Need to look to supply side performance, where reduction and reform of tax and NICs already helping to stimulate enterprise and efficiency.
- (iv) US and Japan demonstrate low tax economy works better and generates more jobs than high tax economy.
- (v) Model simulations may show more jobs would result from extra infrastructure spending in very short term. In longer term, additional employment certainly eroded by higher inflation and interest rates. In any case models do not reproduce situation in real world. Need to examine effects on supply performance on which most models silent.
- (vi) Concept of measurement of "cost per job" very suspect. Calculations depend on computer simulations. Must judge infrastructure schemes on merits, not for claimed employment benefits.

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Fiscal adjustment

Line of attack:

- (i) Does forecast include fiscal adjustment? If so, why not publish?
- (ii) Government has something to hide.
- (iii) 4 per cent increase in consumers' expenditure in 1986 conceals pre-election tax bonanza.

Defence

- (i) RHG member of Government which never published fiscal adjustment.
- (ii) Forecast does, as usual, include effects of fiscal adjustment. Made clear in opening paragraphs of Autumn Statement (1.07) that follows MTFs in assuming PSBR will be set at 2 per cent of GDP, equivalent to £7½ billion.
- (iii) Ill-informed speculation about size of adjustment last year, fuelled by hon Members opposite, unsettled financial markets, despite Government health warnings. Better not to publish anything than run same risk again.
- (iv) Adjustment revealed nothing about Government's Budget intentions. Simply conventional arithmetical calculation based on early and unreliable revenue forecasts. Not foundation for operational decisions. Since 1982 "forecasting error" attached to adjustment has ranged from 50 to 250 per cent. So little predictive value.
- (v) Growth in consumption can largely be explained by forecast's assumption of 3-4 per cent growth in real earnings and by rising employment.
- ✓ (vi) During current upswing, investment risen twice as fast as consumption - reverse of position under Labour 1975-79.

Growth

Line of attack

- (i) Economy grown only 1.3 per cent since Government entered office in 1979.
- (ii) Industrial output still down on 1979 Q2.
- (iii) Growth dependent on North Sea oil.

Defence

- (i) Current upswing longest since 1945.
- (ii) Longest period of uninterrupted growth - averaging 3 per cent a year - since 1973.
- (iii) 1986 first year since 1968 when inflation and growth within one point of each other.
- (iv) North Sea oil has contributed only $\frac{1}{2}$ per cent a year to growth in current upswing, half the contribution under Labour's recovery.

Unemployment

Line of attack

- (i) Autumn Statement does nothing to solve unemployment problem.
- (ii) Government's own forecasts show unemployment will stick stubbornly at 3 million.
- (iii) Government concealing the level of unemployment.
- (iv) Improvements in unemployment trend solely effect of employment measures.
- (v) Increase in employment attributable very largely to large rise in women working part-time.
- (vi) One hour a week counts as a job.
- (vii) Higher PSBR would boost employment.
- (viii) US employment growth attributable to large budget deficit.
- (ix) Higher public spending more effective way to create jobs than tax cuts.
- (x) Government abolishing employers' redundancy rebates when redundancies rising. [1985 Q2 figures higher than Q1] CBI claim will cost employers £¼ billion.
- (xi) Why cut employment programme when unemployment over 3 million?
- (xii) Coolie economy - Abolition of Wages Councils
Job Start Scheme
Government urging cuts in real wages.

Defence

- (i) Problem of unemployment not one for Government alone. Both sides of industry have major role to play. Government's task is to set right parameters. Autumn Statement does this by keeping public spending under control, so benefit of economic growth flows to private sector.

- (ii) GAD report and published Autumn Statement contain only conventional assumptions about future levels of unemployment. Need some basis on which to calculate cost of public expenditure programmes. Government, like Labour, does not publish unemployment forecast. But with more people benefiting from employment measures and with prospect of some slow down in growth of labour supply, trend in unemployment should continue to be more favourable than over last 2 years.
- (iii) Government announced expansion of Enterprise Allowance Scheme to annual rate of 80,000 new entrants a year by end of 1986-87, at additional cost of £17.5 million - increase of 20 per cent.
- (iv) Also more resources for local enterprise agencies. (£2½ million in 1986-87) and tourism (£40 million for British Tourist Authority and English Tourist Board - increase of about 20 per cent in their funding). Will help promote enterprise and jobs.
- (v) New Job Start Scheme [paying weekly allowance of £20 for 6 months to anyone with gross income of less than £80 a week who has been unemployed ed for at least 12 months].
- (vi) No attempt to conceal true unemployment figures. May exclude some who are actively seeking work (eg married women not entitled to benefit) but these numbers fully offset by the inclusion of those who are not looking for a job (eg single parents bringing up children).
- (vii) In year to April 1985, unemployment rose by just over 160,000 (seasonally adjusted, excluding school leavers).

Since April, on this basis, unemployment has stopped rising. Main impact of expansion of Community Programme still to be felt. Extension of YTS to two years and restructuring of employers' NICs will start to have effect next year (1986).

✓ Bulk of recent improvement in unemployment trend

- therefore seems to be in response to higher economic activity.
- (viii) Recent comparisons of the impact of employment and training measures affected by run-down of some schemes, such as Job Release Scheme, offsetting increased provision in Community Programme and YTS places. In most recent month - September - employment and training measures were reducing headline count by 5,000 more than a year ago.
 - (ix) Certainly increase in numbers of women working part-time has accounted for over half the increase in employment since 1983. Simply indicates flexibility of labour market in these areas. Very similar picture under Labour 1976-1979.
 - (x) One hour a week does in principle count as a job. True of employment statistics under Labour too. But 1984 Labour Force Survey results demonstrate that very few respondents work a particularly short week. Over three-quarters work at least 35 hours a week and only 3 per cent work under 9 hours a week.
 - (xi) Reflation no answer to problem of unemployment. Would simply jeopardise success in reducing inflation and would send interest rates up.
 - (xii) Job gains in US are result of enviable labour market flexibility, not unsustainable budget deficits.
 - (xiii) High public spending could only have very short term effect on employment, subsequently reversed. Tax cuts, by contrast, attack fundamental supply side problem.
 - (xiv) Redundancy rebates will not be abolished until October 1986 CBI quoting [slightly exaggerated] full year cost - Will not be felt until 1987-88. For most large firms, rebates very small part of redundancy costs. Will still be paid to very small firms and direct to employees of firms in financial difficulties. Confirmed redundancies in Q2 10 per cent down on 1984 quarterly average. (Numbers volatile from quarter to quarter).
 - (xv) Employment programme increased by about £600 million in 1986-87 and 1987-88 above Cmnd 9428 (unadjusted) figures.
 - (xvi) Government's measures designed to increase jobs at wages employers can afford and employees will accept.

(xvii) Government not advocating cuts in real wages. Slower growth would bring employment gains.

Public Spending

Line of attack

- (i) Privatisation proceeds used to balance books.
- (ii) Government hiding unpalatable decisions in Reserves
 - Social Security Review
 - Child Benefit
 - LA expenditure.
- (iii) Abolition of employers' redundancy rebates bogus.
- (iv) Why not come clean on prescription charges?

Defence

- (i) On privatisation, see separate note.
- (ii) Social Security figures for 1986-87 are best estimates of expenditure on programmes, taking account of full year effect of 7 per cent uprating this month and allowing for July 1986 uprating. Later year figures essentially baseline figures for Survey, adjusted for main estimating changes and including revised economic assumptions. But provisional and subject to adjustment in light of decisions on Social Security Review.
- (iii) Social Security programme does allow for increases in child benefit.
- (iv) Government believes 1986-87 provision for LAs attainable. But recognises long history of overspending. Taking into account in setting level of Reserve. So too for 1987-88. Figures will be reconsidered in 1986 Survey and decisions about appropriate level of provision for 1987-88 taken in July 1986 RSG settlement.
- (v) Rebates from Redundancy Fund are public expenditure. So reductions in them are reductions in public expenditure.
- (vi) For information about future prescription charges RHG will, as usual, have to await Statement by Secretary of State for Social Services. But can assure him exemptions from prescription and dental charges will remain.

Tax BurdenLine of attack

- (i) In last 7 years, 95 per cent of workers have paid more in taxes year on year.
- (ii) Highest paid 5 per cent have enjoyed £3 billion in tax cuts.

Defence

- (i) RHG suffering from money illusion. Talking in cash terms.
- (ii) Increasing tax take partly reflects increasing earnings. Real take home pay of married man with two children on average earnings up 13 per cent since 1979. Up only ½ per cent 1974-79. On half average earnings, up 12 per cent since 1979. Up only 4 per cent 1974-79, despite RHG's professed concern for lower paid.
- (iii) In real terms, Government has increased personal allowances by 20 per cent. Given greatest proportionate benefits to those on low incomes, as did Budget NIC restructuring. Cut basic rate by 3 percentage points.
- (iv) Compared with indexed 1978-79 regime, annual tax burden down £6¼ billion, with 1¼ million fewer taxpayers.
- (v) Not ashamed ~~of~~ cutting real rates of tax from 83 per cent to 60 per cent. Down from 98 per cent, if iniquitous IIS included.
- (vi) Firm control of public expenditure offers best hope for tax cuts in future, as economy continues to grow.

Monetary policy out of control

Line of attack:

- (i) £M3 growing at annual rate of $14\frac{1}{2}$ per cent; Budget target range 5-9 per cent.
- (ii) Government abandoned £M3 as indicator.
- (iii) Interest rates on average 3 per cent higher this year than last.

[per cent	
	1984 AS	1985 AS
UK base rates	$9\frac{1}{2}$ - $9\frac{3}{4}$	$11\frac{1}{2}$
Japanese 3 month rates	6.3	7.7
BUT:		
US 3 month rates	9.2	$8\frac{1}{16}$
German 3 month rates	5.95	4.8]

- (iv) Real interest rates at record levels.
- (v) Each 1 per cent rise in interest rates costs industry £250 million a year. *off - Japan*
- (vi) Average £21,000 mortgage now costs £40 a month more than this time last year.

Defence

- (i) Monetary policy is a means to end - reduction of inflation. Labour left office with inflation rising and bequeathed average of 15 per cent. Has averaged 9 per cent since 1979 and falling fast - $5\frac{1}{2}$ per cent by year end; $3\frac{3}{4}$ per cent by 1986Q4.
- (ii) With benefit of hindsight, £M3 target range set too low in Budget - with falling inflation, individuals and companies want to hold more savings in liquid form. So can view faster growth in £M3 with more equanimity, provided other indicators giving reassuring signals about monetary stance.
- (iii) Not clear, as so often, how RHG has done his calculations on interest rates. But while UK rates have remained steady since end July, both dollar and yen interest rates have risen. [DM rates have fallen slightly.] RHG may live in a world of his own. Rest of country does not.
- (iv) Should be most surprised if industry was satisfied with current level of interest rates. But hear fewer complaints about current level of inflation. Yet the one intimately linked to the other.
- (v) CBI claim 1 per cent rise in interest rates costs industry £250 million if sustained for full year. But 1 per cent on the pay bill costs industry £1 billion - UK unit labour costs rising by $6\frac{1}{2}$ per cent a year; those in West Germany ($-\frac{1}{2}$ per cent) and Japan ($-\frac{3}{4}$ per cent) are falling. Message is clear. *Push with wage?*
- (vi) Industry concerned about more than real interest rates. In 1974, when real rates reached lowest figures since War, fixed investment in economy fell. And fell in 1975 too. But last year, fixed investment in economy rose 8 per cent to all-time record and expected to rise by further 4 per cent this year.
- (vii) CBI themselves declare in latest Survey "It appears that companies are learning to live with rates of interest". *with*

- (viii) Look at other side of coin. For each 1 per cent interest rates rise, investors at building societies and in national savings and those with bank deposit accounts gain £1½ billion a year. Defrauded under Labour
- (ix) Since September's fall, mortgage rates at same level as last November. Although rates were high earlier this year, demand for mortgages has gone on rising.

Manufacturing**Line of attack:**

- (i) Manufacturing output still 9 per cent below 1979Q2 peak. Even with growth forecast in 1985 and 1986 will not return to pre-election levels.
- (ii) Manufacturing investment 14 per cent down since election.
- (iii) Manufacturing employment fallen steadily by 23 per cent since Government took office.
- (iv) Exports [not just manufacturing] forecast to rise only 2 per cent in 1986.
- (v) Manufacturing deficit worsening.
- (vi) House of Lords was right.

Defence

- (i) Manufacturing already in decline under Government of which RHG a member:
 - share of manufacturing in GDP peaked back in 1960s. Been falling ever since, under Labour as well as Conservative Governments
 - manufacturing employment peaked in 1968. *→ ? 1966*
- (ii) Trend common to all industrialised countries, even Japan. Since 1960, manufacturing's share in GDP fallen by
 - 9 percentage points in W Germany
 - 8 percentage points in US
 - 3 percentage points in Japan
 - Dutch share has actually halved
 - [UK share fallen by 11 percentage points over same 1960-1983 period.]
- (iii) But UK exporters of manufactures increased their share of world trade between 1981 and 1984 and expected to make further gains in 1985.
- (iv) Manufacturing profitability in UK 1984 higher than in any year of Labour's term. Highest since 1973.
- (v) Manufacturing productivity has averaged 3½ per cent a year under this Government (6 per cent a year since trough). Only 1 per cent a year under Labour.
- (vi) Since trough of recession, manufacturing
 - output up 11 per cent
 - investment up 32 per cent [uses H1 1985, not freak Q1]
 - productivity up 31 per cent
 - exports have reached record levels
- (vii) Decline in manufacturing employment now slower than when Labour in office. Average monthly fall of 3,000, compared with 9,000 under Labour. *with ?*
- (viii) 1985 manufacturing deficit much same as 1984. Most developed countries suffer from same rising trend in import penetration.
- (ix) For future:
 - manufacturing output forecast to increase at annual 2½ per cent in both 1985 and 1986. Will give longest period of uninterrupted growth since 1973 oil price rise
 - manufacturing investment predicted to rise 10 per cent in 1985 by DTI Investment Intentions Survey, 11 per cent by CBI. CBI predict further strong growth of 8 per cent in year to 1986 H1.

- (x) services output represents around 60 per cent of total output. That has grown by 12 per cent since 1979.
- (xi) House of Lords report ignores recent improvements in UK performance. Many claims exaggerated or simply wrong eg capacity has not been cut back sharply except where clear UK cannot complete on same scale as in past eg shipbuilding, textiles.

Privatisation

Line of attack:

- (i) Programme expanded to finance pre-election tax cuts.
- (ii) Early tax cuts dependent on BGC sale.
- (iii) Programme expanded as only way to balance books.
- (iv) Higher proceeds mean PSBR targets should be reduced on Government's own philosophy.
- (v) Government "selling the family silver".
- (vi) What will Government do when assets run out?
- (vii) Industries sold off cheaply at taxpayer's expense.
- (viii) Privatised BGC will fleece consumer.

Defence

- (i) Expansion of programme justified on merits:
 - major plank of policy to roll back public sector and promote wider participation in ownership of industry;
 - will generate long-term economic benefits;
 - gathering momentum; will run well beyond this Parliament.
- (ii) Programme.
- (iii) Current cost value of total nationalised industry assets over £90 billion.
- (iv) With schemes to promote employee shareholdings, programme has probably doubled number of individual UK shareholders - from 1 $\frac{3}{4}$ million to roughly 3 million. RHG himself seems to favour employee share ownership these days.
- (v) Even excluding privatisation proceeds:
 - PSBR below 3 per cent of GDP in 1985-86, lowest proportion for 14 years;
 - public expenditure flat in real terms over Survey;
 - public expenditure falls as percentage of GDP to 1988-89
- (vi) For future level of taxes, wait for Budget.
- (vii) For future PSBR path, wait for Budget. MTFS will be reviewed before next Budget, taking account of all relevant factors, including composition of public expenditure.
- (viii) Treatment of privatisation proceeds in national accounts accords with well-established international convention. How does RHG believe last Labour Government treated proceeds from B^P sale?
- (ix) Privatised companies increase turnover, invest more and expand asset base: eg NFC has virtually doubled investment, achieved first-ever growth in turnover in real terms, more than doubled trading profits. State ownership has reverse effect.

- (x) As companies prosper in private sector, will pay more in Corporation Tax.
- (xi) Other countries following UK's example - Japan, West Germany, Italy, Canada, Malaysia, Thailand, Turkey. Even Socialist France.
- (xii) Sale price on day of issue matter of market judgement. New issues often open at premium. Easy to criticise decisions with benefit of hindsight. Those who argue BT sold too cheaply, also charge Government with over pricing first Britoil issue. Higher offer prices for BT and Jaguar could well have produced less favourable market price and under subscription.
- (xiii) BGC, when privatised, will be subject to regulatory agency. Efficiency gains from transfer to private sector will be passed to consumer in lower prices.
- (xiv) RHG opposes privatisation but claims to espouse "social ownership within the private sector". Will he confirm a future Labour Government would take BT, BA and BAe back into public ownership? On what terms? "No speculative gain"? Compensation only for those with "proven need"?

FROM: H J DAVIES
DATE: 28 NOVEMBER 1985

CHANCELLOR

Handwritten in red ink:
M
W

cc CST
FST
Sir P Middleton
Sir T Burns
Mr Monck
Mr Grimstone
Miss O'Mara
Mr Culpin
Mr Cropper
Mr Lord

MR JOHN SMITH ON ECONOMIC AND INDUSTRIAL POLICY

You might like to look at the attached article from Tribune a couple of weeks ago.

2. It contains a number of useful hostages to fortune, such as "we have got to build an El Alamein line round some of our industries", "we have to give the local authorities more powers to be involved in economic development and to release the financial constraints" etc.

3. He also wishes to strengthen the DTI and make it "the powerful economic and industrial Ministry" because "the Treasury has been over-dominant, especially at official level". This touching tribute to Mr Monck's power over his opposite numbers will, I am sure, be appreciated. But I wonder how Mr Hattersley reacted when he read it.

4. The general impression I was left with was that, contrary to our views so far, we might not suffer much if Mr Smith were to replace Mr Hattersley as Shadow Chancellor.

Handwritten initials: HJD
H J DAVIES

CONTENTS
WITHIN

A newspaper cutting is enclosed

Q Last week the Marplan / Financial Times Survey showed that 47 per cent of companies were making no plans to expand because of the lack of markets and 25 per cent because of the high exchange rate. What do these indicators say to you about five years of Thatcherism?

A I think it reinforces the belief among industrial managers and the public at large that there have been few more disastrous periods for British industry than the period since 1979.

I keep coming across evidence that industry doesn't see any demand for its products. That's the

with the general running of the economy. If you run a deflationary economic policy, you are going to create that problem.

Secondly, the Government seems to be pursuing financial policies almost regardless of the consequence for British industry. In that connection I would say that the overvalued pound, particularly in relation to the Deutschmark, and high interest rates, are being seen increasingly by people in manufacturing as deeply inimical to the success of British industry. There is no confidence that Conservative economic policy can lead to a revival of British industry. There is more and more interest in how you plan the economy - and I think there is reviving interest in the notion of industrial planning. The time is ripe for the Labour Party over the next year or two to develop further its ideas for industrial planning - I think it is going to get a much wider audience than just the Left.

Q The collapse in output since Margaret Thatcher came to power has been something equivalent to a holocaust, much worse than anything that happened in the twenties. Motor vehicle production down 32 per cent, mechanical engineering down 18 per cent and so on. Do you

The major utilities have got to come back into public ownership

feel, from the scale of the crisis, that when Labour takes power we can spend a lot of time setting up new administrative structures?

A One can almost despair when one looks at the figures and sees the extent of the damage. There is a very big challenge facing the next Labour Government, to devise an industrial strategy that will save what we have still got. For example, take the steel industry or the car industry, we have got to build an El Alami line round some of our industries and say, "No retreats, it cannot be any smaller or it will go out of existence".

Q That sounds like an argument for tough import quotas or other import controls.

A No, no, it's a general industrial policy. First of all, we need government support for industry, and a government willing to intervene to support industry. And of course, we will need to have a much more vigorous trade policy than we have had before.

Some companies are just playing ducks and drakes with British economic interests, with the result we have now got a £4,000 million deficit on the balance of trade. That is a very, very serious problem to face any gov-

Q What do you feel about Mrs Thatcher's argument that we are going to emerge as a service economy?

A I'm not against successful service industries. But this country cannot make its economic future by setting up hamburger stalls at every street corner, with one half of the country making hamburgers and the other half eating them. These kinds of services are not internationally tradeable. We must look to manufacturing industry to provide the wealth of the country.

We want to see it provide jobs as well, but we must be realistic about the number of extra jobs we can get. It may not be as many as the number we have been able to secure in the past. It is a total delusion of the Government that you can forget manufacturing industry, that Britain can live off North Sea oil revenues, a few profitable industrial centres and a bigger service sector.

Q What would be the role of the Department of Industry in a Labour Government?

A We want to have an effective industrial and economic planning Ministry. That has always been at the core of Labour Party policy.

The general feeling has been that the Treasury has been too dominant in the whole area of economic and industrial policy. What has been lacking is an important economic department based on the Department of Trade and Industry. The idea of economic planning, of industrial intervention, of the Government taking responsibility for shaping Britain's industrial future is absolutely central to the Labour Party's beliefs and ideas.

Q Dispassionately, I'd say that the idea of a revamped Department of Economic and Industrial Planning sounds very like George Brown's Department of Economic Affairs in new clothes.

A Well, I'm very much against a DEA model. Where the DEA went wrong was that it was just a co-ordinating department.

Q Wasn't George Brown forceful enough?

A I think he was forceful enough. I think he lost to the Treasury. We've learnt from that that a co-ordinating Ministry with an overall planning role but no executive function is not likely to succeed in the British system.

We want to build on the Department of Trade and Industry, as the powerful economic and industrial ministry. That has been explicitly recognised in all our documents.

Q But, no matter what form your new Ministry takes, at the end of the day it has to go to the Treasury to ask for money. And that's when the crunch comes, isn't it?

A I foresee a situation in which there is a necessary and inevitable battle between the Treasury and the Department. Hopefully, the next Labour Government will be able to co-ordinate its policies. It's

The Treasury has been too dominant in the whole area of economic and industrial policy.

in the Cabinet that you should decide the shape of policy, not by internecine warfare between departments.

I think there is little doubt that the Treasury has been over-dominant, especially at official level, and in terms of inter-departmental power over the past 15 to 20 years. The result has been an over-emphasis on financial policy, and an under-emphasis on economic and industrial policy. That has got to be corrected, not just in terms of the relative balance of power of the Ministries, but by clear decision of government.

Q Coming back to Labour's Programme, one thing that was done thoroughly in 1973 was to cost out the policy items. I remember a senior Treasury official commenting that it was the first time a party in opposition had done such an exercise so thoroughly.

What kind of expansion in the Department of Trade and Industry budget would you be looking for over a five-year span, for example?

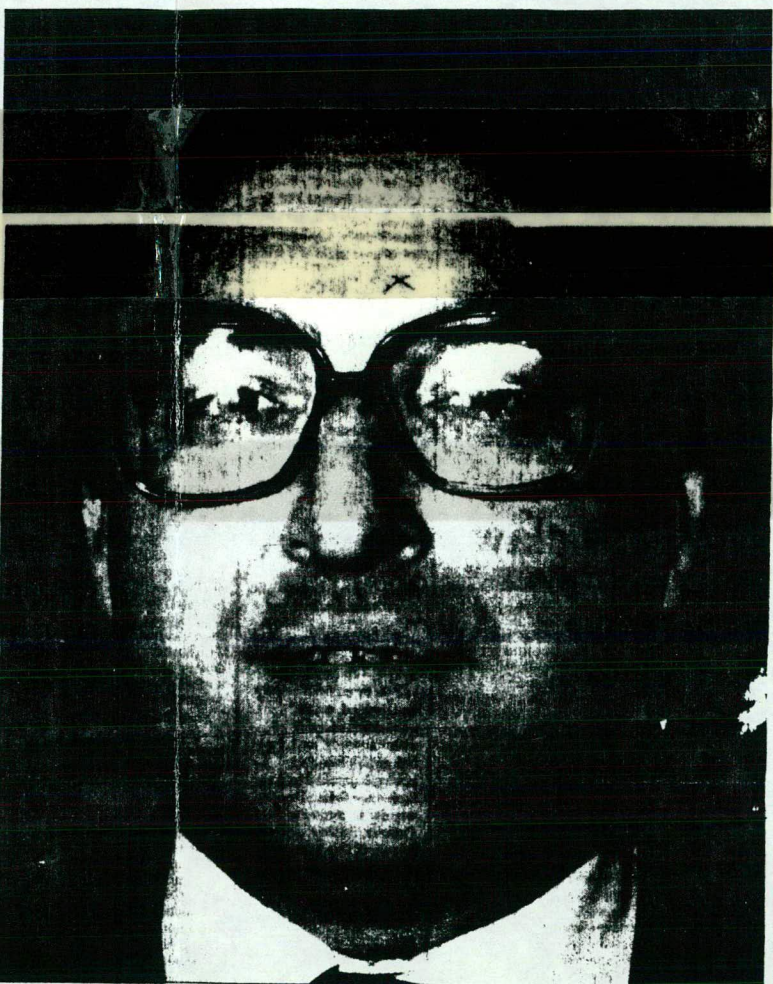
A We haven't turned our minds to that yet. I'm not so sure that it's important to cost everything in detail. Whether the Treasury approves of it or not would not be the only criterion for deciding whether we were doing the right thing.

Q But under Mrs Thatcher's Government I think the DTI budget has shrunk in real terms by something like 50 per cent.

A That is because of the destruction of regional development

THE TRIBUNE INTERVIEW

Labour's Trade and Industry spokesman, JOHN SMITH, talks to ADRIAN HAM about public ownership, planning, the Treasury, class, management, trade unions and much else besides.



'Public and social ownership needs to be more flexible and adventurous'

policy. It is because of the collapse of the whole industrial support system and the various schemes that used to support industry. Now quite clearly, there has got to be an enormous expansion of that.

Q As much as 50 per cent?

A At least, and more. It has got to be sufficient to sustain a

coherent policy of industrial intervention. And there is an addition to that of course. There is the question of taking back the newly privatised industries into public ownership. We have to allocate a budget for that. I am not too worried about getting figures down to the last £5 million as it were. You can't see ahead clearly to government. It is like an iceberg. You only see a little bit above the water. Your real prob-

lems are sometimes ones you don't foresee when you take office.

Q Which are the priorities, do you think, to bring back into public ownership?

A I think two major public utilities, have got to come back into public ownership. The first of these is British Telecom. It's the highway to in-

formation technology. It can be made the centrepiece of the strategy for taking command of this very important sector of the economy. In addition, a huge and necessary monopoly such as British Telecom cannot be left in private hands. It must be under public control and made publicly accountable.

The second one is British Gas. The daftest idea I have ever heard of is the proposed privatisation of

British Gas. We have got to fight a very vigorous campaign against it.

We have to work through our other priorities. The defence industry is important, with British Aerospace, shipbuilding and the Naval shipyards. I personally would put utilities at the top but we have to work out priorities and present them in the document on public ownership which we are committed to put to next year's Labour Party conference.

Q What about the debate in the Labour movement at present about the nature of public ownership? Where do you stand on that?

A The notion that we have to take over a whole industry, and sometimes all the problems of a whole industry seems to me out of date in some areas. It would be a lot better to get the state holding company idea which sets up a publicly owned industry, perhaps even operating in competition with other industries, or takes a stake in another industry.

It would complement the work of the National Investment Bank, which I think should stay as an investment bank. The British Enterprise Board should be used more to hold the state share. I am very interested in the idea that in this country, as far as industrial investment is concerned, we are too concentrated on debt, too little on equity.

I would like to see the government taking an equity through the British Enterprise Board or some other agency. There are a lot of exciting new ideas about how social ownership can be advanced. That is one of them.

Another one is through the local authority route. Now we published, in the Jobs and Industry Campaign, a pamphlet on local enterprise. I think it is really quite a remarkable, imaginative advance by the Labour Party, saying effectively "build socialism from the bottom up, rather than from the top down."

We have in the past got too committed to the Morrisonian, centralised, bureaucratic institution. There is a lot of scope through local authority initiatives to harness local identity and feeling. Of course there has also been a remarkable growth in industrial cooperatives.

Even in the most hostile circumstances these are growing faster than ever before. They should be given an enormous boost by the next Labour Government. So I think we are looking to a multi-faceted approach to the extension of public ownership, getting away from the rigid bureaucratic centralised image and seeing public and social ownership as a much more flexible, adventurous tool than it has been before.

Q Do you think that the distinction of roles at present in Labour's programme between what is going to happen centrally and what is going to happen at

the municipal level is clear enough?

A Well, what we have to do so far is to have to change the statutory relationship of central to local government to give the local authorities more explicit powers to be involved in economic development and to release the financial constraints.

I think myself that the role of local government in the past has been in terms of social development. They have seen their role as education, planning, housing, all things in the social area. But because unemployment has become their biggest social problem,

into the economic field.

The National Economic Democratic Council will be greatly strengthened and expanded to become

The Government seems to be pursuing financial policies almost regardless of the consequences for British industry

the economic planning council, as it were.

That is the forum where all the unions, management, government get together. Quite clearly there has got to be a role found for local authorities there, given the new job we are going to give them.

Q How much does Britain's class system stand in the way of a major change in the emphasis on industry?

A Well, it's there everywhere you turn. I used to find it very depressing to find in British industry the four different dining rooms, indicating the different grades - even the different toilets.

You know, you really got somewhere in a company if you had a key to your own toilet. If you go, say, to America, or Japanese companies, you don't find that at all.

The only reason is this class system in Britain. It has really just got to go in industry. We cannot succeed with authoritarian management in this country, it just will not work.

Equally, we need responsive trade unionism. One would hope that under a Labour Government, where it is made clear that authoritarian management will be heavily discouraged, that the door will be opened to trade unions to play a much more effective role in helping to sustain the viability of the enterprise, in being invited to help to make it successful.

development committee

PO-CH/NLO236
PCA

Minor as before



13/12
(for prayers folder)

FROM: H J DAVIES
DATE: 10 DECEMBER 1985

(HJP)

ch/ I'm not sure whether this was discussed at Friday's prayers or not

MISS O'MARA

- cc PS/Chancellor
- PS/CST
- PS/FST
- PS/MST
- PS/EST
- Sir T Burns
- Mr Butler
- Mr Turnbull
- Mr Scholar
- Mr Pickering
- Mr Cropper
- Mr Lord

AWK
13/12

HJP

LABOUR PARTY SPENDING PLANS

At our meeting on 2 December, following the Chancellor's meeting on 28 November, it was agreed that I would prepare an initial list of Labour Party spending commitments. You would use this as the basis for a costing exercise to be conducted by the official Treasury.

2. I attach a first shot, which draws very heavily on material produced by the Research Department. But I have added other commitments where I am aware of them. I think the next step is for you to distribute this to divisions with an indication of the format of the response you would like to receive and a target deadline of mid-January as we agreed.

3. Ministers might wish to be aware of how this exercise is proceeding, even though the tables attached do not yet include any costings.

HJD

H J DAVIES

EXPLANATORY NOTES

- i) The costing guidelines should be interpreted as follows:
 - 1 Indicates a commitment which should be accurately costable
 - 2 Indicates a commitment where it should be possible to give an indication of the order of magnitude of the expenditure, but may not be possible to give a firm full year figure.
 - 3 Indicates a commitment where it will only be possible to give a general indication of the additional expenditure required, and sometimes only the direction of change.
- ii) It may be useful to consult the original references for more detail of the commitment. In most cases the source material is available from EB or the Special Advisers.
- iii) The references to "A New Partnership" are to a document published in 1985, which includes few precise numbers. But the proposals therein build on earlier costed proposals in the TUC's paper "The Reconstruction of Britain" produced in 1981, and a TUC/Labour Party document entitled "Partners in Rebuilding Britain" approved by the Labour Party Conference in October 1983 and a further TUC document "Investing in the Economy" dated October 1984.
- iv) Divisions may be aware of additional commitments, and these should be added and costed where good quality references may be produced. Note that no commitments from Mr Meacher's "New Income Protection Plan" have been included since the Shadow Cabinet issued a statement to the effect that they had no official status.

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
DEFENCE	Hold defence expenditure at 5.2% of GNP in short term	1	Denzil Davies. Guardian 21.6.85
	Longer term: reduce defence expenditure towards average of European allies, as proportion of GNP	2	"

Note: Commitments also to decommission Polaris and cancel Trident, but all savings from Trident to be spent on conventional forces.

LABOUR PUBLIC SPENDING COMMITMENTS

Programme

Commitment

Costing Guideline

Source

OVERSEAS AID

Double aid (to 0.7% of GNP) within 2 or
3 years

1

Kinnock. Guardian
30.7.85

LABOUR PUBLIC SPENDING COMMITMENTS

Programme

Commitment

Costing Guideline

Source

AGRICULTURE

Take tenanted land into public ownership	2	Conference Motion 1983
Provide grants for farming activities which promote conservation	3	"
Increase public spending to develop an effective policy in rural areas	3	"

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
INDUSTRY	Increase industrial support by at least 50%	1	John Smith Tribune 8.11.85
	Public support for R&D into line with US, Japan and FRG	2	A New Partnership 8.85
	Greatly expand and strengthen NEDC	3	Smith ibid
	Lending subsidies for National Investment Bank	3	Hattersley 16.5.85
	Renationalisation of British Telecom with no speculative gain	1	Hattersley Conference 4.10.85
	Renationalisation of British Aerospace	2	Manifesto '83
	Re-establish British Shipbuilders as a public sector company with a new financial basis and adequate resources for investment	2	"
National Freight Company - part of public sector	2	"	

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
EMPLOYMENT	A new 2 year programme of education, training and work experience for all 16 and 17 year olds	2	A Plan for Training 7.84
	Raise YTS minimum from £26.25 to £36, topped up by collective bargaining	1	" and Charter for Youth 6.85
	Educational maintenance awards of £27 a week for over-16s in full time education	1	" and Charter for Youth
	5-fold increase in work preparation and training programmes for the unemployed	2	"
	Introduce quality training into CP with rates of pay in line with LA workers	2	
	Note: Kinnock costed these proposals at £6 billion - Times 16.8.84		
	Increase CP five fold (but see above)	1	Working Together 4.85
	Reduce working week to a target of 35 hours	2	"
	A statutory minimum wage set at not less than two thirds of average earnings	3	Conference Motio 83
	A new regional employment subsidy	2	New partnership 8.85

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
ENERGY	Bring Britoil back into public ownership	2	Manifesto '83
	Transfer the whole of the National Nuclear Corporation to the public sector	2	"
	Increase investment in energy conservation through a public sector insulation programme	2	A New Partnership 8.85
	Increase non-nuclear power station capacity	2	

Note: TUC/Labour Party estimate in A New Partnership of cost of these last two measures was £2.4 billion over 5 years.

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
ARTS AND LIBRARIES	Double funding for the performing and creative arts [note Buchan's own estimate of £105m]	1	Norman Buchan, FT 6.8.85
	Zero-rate performing arts for VAT purposes	1	"

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
TRANSPORT	Establish a new National Ports Authority to take ports into public ownership and to develop a new overall strategy for them.	2	Manifesto '83
	National Freight Company to form part of publicly owned sector of road haulage industry	2	"
	Increase spending on road maintenance and construction	2	A New Partnersh.
	Improve and maintain rail network, increase electrification, replace existing stock	2	"
	Improve ports and airports	2	"
	Concessionary fare schemes for pensioners (half-fare off-peak)	2	Charter for Transport 4.85

Note: The above three commitments, together with 'modernisation of the telecommunications network, were costed at £6 billion over 5 years in A New Partnership.

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
HOUSING			
	New housebuilding programme:	1	A New Partnership
	125,000 new housing starts per year		
	Programme of house renovation and repair:	1	"
	25,000 empty and hard-to-let council houses per year		

Note: New housebuilding cost estimated at £15 billion over five years in A New Partnership, and renovation and repair programme at £1.2 billion.

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
ENVIRONMENT AND LOCAL GOVERNMENT	Increase Urban Programme (by £2.5 billion over 5 years)	1	A New Partnership
	Increase investment in the sewerage system (by £1.25 million over 5 years)	1	"
	The return of £9 billion of RSG stolen from Labour Councils	1	Defence of Local Democracy - NEC statement approved by '84 Conference

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
EDUCATION	A right to pre-school education to all 3 and 4 year olds (an extra 100,000 nursery places)	1	Charter for the Under 5s 4.85
	- Note Labour estimate of cost of £60 million		
	14,000 more teachers (£60 million - Labour estimate).	1	Giles Radice - Guardian 17.4.85
	Increased in-service training (£90 million - Labour estimate).	1	"
	Increase provision for books and equipment	2	"
	Increase school building, repair and maintenance programme (£781 million - Labour estimate)	1	A New Partnership
	Phase out fee-paying schools and take action on charitable status and other tax advantages of private schools	2	Radice ibid
Substantially improve the level of student grant	2	Charter for Young People 6.85	
Designate more higher and further education courses for grant purposes	2	"	

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
HEALTH AND PERSONAL SOCIAL SERVICES	Increase resources available to NHS by 3% a year	1	NHS in Danger - NEC statement 10.83 approved by Conference 83
	End competitive tendering within NHS	1	Kinnock. Bournemouth 22.4.85
	Phase out all health charges	1	NHS in Danger - Conference '84
	End private practice and private beds in NHS	1	Conference '84
	A phased restoration of nurses pay to real levels in 1980. <u>Not</u> financed by withdrawing funds from elsewhere in NHS	1	Kinnock. Guardian 23.4.85
Increase in hospital building and repairs programme (Labour estimate £469 million over five years)	1	A New Partnership	

LABOUR PUBLIC SPENDING COMMITMENTS

<u>Programme</u>	<u>Commitment</u>	<u>Costing Guideline</u>	<u>Source</u>
SOCIAL SECURITY	Phase out TV licence fee for all pensioners	1	Kaufman. House col.482
	Increase maternity grant from £25-£200 and index-link	1	Conference '84
	Increase death grant from £30 to £200	1	"
	Increase child benefit by £3	1	Hattersley. House 20.3.85 col.881
	Increase pensions by £5 a week for single person and £8 for a couple (Note this and child benefit increase costed by Labour at £2.825 million)	1	"
	Provide the means for a voluntary, phased and increasing reduction in the retirement age (to 60 for men)	2	Kinnock. 24.6.85
	General Disablement Benefit of £58.40 a week for all disabled, without means test for 100% disabled, tapered by degree of disability	1	Manifesto '83
	Partial Incapacity Benefit for those who can only work part-time	2	Alf Morris 20.11.84
	Long term supp.ben. rate to unemployed after 1 year	1	Hattersley. House 20.3.85 Col 881

FROM: C R PICKERING
DATE: 13 JANUARY 1986

1. MISS O'MARA

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Butler
Mr Monck
Mr Anson
Mr P Kemp
Mr Burgner
Mr Gilmore
Mr Jameson
Mr Kitcatt
Mr Moore
Mr Mountfield
Mr Watson
Mr A J C Edwards
Mr Scholar
Mr Turnbull
Mr Cropper
Mr Lord
Mr H J Davies
PS/IR
PS/C&E
HF/03

*You and the Chief Secretary
may find this useful for
2nd Order this week in
the context of the publication
of the PWP. We aim to
update at
Budget time.
MAY
13/1*

* *

*Per ask Howard to
let me have a word
suggesting, in the light of this,
what global figures we
might put out on 22.
The SLS will be - noted it
SLS contain no rationalised
expenditure, wh. we will explain with
over 2 date the global figures.
M.*

LABOUR'S SPENDING PLANS

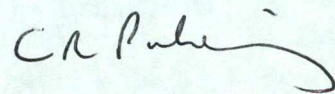
As promised, I attach a checklist of proposals for additional public spending put forward by Labour, with costings. The proposals were mainly supplied by Mr Davies, the rest by Divisions and Departments. Costings were done by Divisions, in consultation with Departments where appropriate.

2. Particular points of interest include:

- (i) Denzil Davies' proposal to hold defence expenditure at 5.2 per cent of GNP would increase defence spending substantially (see Defence (i)), whereas Labour's longer term plans imply substantial reductions (see Defence (ii));
- (ii) John Smith's proposals on R&D would produce public expenditure savings (see Industry (i));
- (iii) Roy Hattersley's proposals are perhaps of particular interest (see Industry (v) on the NIB, and Social Security (iv), (v), (vii) and (viii)).

3. It would not be appropriate to roll up the attached list into an overall total. Different costings relate to different time periods, for good reason. Some proposals are much more precise than others. Some proposals have one-off costs, others give rise to continuing costs. But it is possible to give overall costs for parts of Labour's proposals. For example, the overall cost of their commitment to re-nationalise all industries that have been privatised to date would be around £11 billion (see renationalisation).

5. EB will store these commitments and costings on our micro-computer. We have arranged with the special advisers to continue to collect such commitments and, from time to time, have costings done, which we will circulate.



C R PICKERING

LABOUR**Proposal****Source and date****Assumptions used****Cost/saving
(+/-)****DEFENCE**

- | | | | | |
|-----|--|------------------------------------|--|---|
| i) | Hold defence expenditure at 5.2 per cent of GNP in short term. | Denzil Davies, 'Guardian', 21.6.85 | Plans for defence expenditure published in Autumn Statement (AS) and current forecast for GDP(A) up to 1988-89 | +£1.5 billion 1986-87
+£2 billion 1987-88
+£3 billion 1988-89 |
| ii) | Longer term: reduce defence expenditure towards average of European allies, as proportion of GNP | 1984 Party Conference | European average for defence expenditure as proportion of GDP in 1984 was 3.4 per cent | -£4 billion 1988-1989 |

OVERSEAS AID

- | | | | | |
|----|--|---------------------------------|---|-----------------------|
| i) | Double aid (to UN target of 0.7 per cent of GNP) within 2 or 3 years | Neil Kinnock 'Guardian' 30.7.85 | a) Growth in GDP to 1988-89 consistent with AS assumptions, and 1989-90 growth slightly less than 1988-89
b) Public expenditure remains constant in real terms
c) that UN target would be achieved in 1989-90
d) UK figures for GNP and aid adjusted to take account of definitions used internationally | +£3.1 billion 1989-90 |
|----|--|---------------------------------|---|-----------------------|

AGRICULTURAL/RURAL POLICY

- | | | | | |
|-----|--|------------------------------|--|-------------------------|
| i) | Increase public spending to develop an effective policy in rural areas | 1983 Party Conference motion | | Too few details to cost |
| ii) | Provide grants for farming activities which promote conservation | 1983 Party Conference motion | | " |

iii) Take tenanted land into public ownership
 1983 Party Conference Motion
 All tenanted farm land and buildings including domestic buildings to be covered. Land valued at current (January 1986) market prices
 +£12 billion

iv) End derating of agricultural land
 1983 Party Conference Motion
 initial capital cost
 +£25 million
 Full year saving
 -£390 million

INDUSTRY

i) Increase industrial support by at least 50 per cent
 John Smith
 'Tribune' 8.11.85
 1986 PEWP provision (DTI Budget)
 +£1133 million 1986-87
 +£1345 million 1987-88
 +£1495 million 1988-89

ii) Bring public support for R&D in line with US, Japan and FRG
 'A New Partnership'
 August 1985
 i) Set 1985 and 1986 R&D expenditure to same percentage of GDP as for France, Germany, Japan and US in 1984, and equivalent split between civil and defence R&D
 -£640 million 1985
 -£460 million 1986

ii) Assume 9.2 per cent growth UK nominal GDP 1984 to 1985 and 7.6 per cent 1985 to 1986

iii) Expenditure plans for OECD Annual Review of R&D 1985

iv) Take (unweighted) average: individual countries also available

iii) Form National Enterprise Board, to further 'social aims'
 Roy Hattersley,
 'Marxism Today'
 October 1985

iv) Greatly expand and strengthen NEDC
 John Smith
 'Tribune' 8.11.85
 Increase staff by 50 per cent

Too few details to cost

Cost of strengthening £3.5 million. Cost of expanding membership negligible

v) Set up National Investment Bank

Roy Hattersley, speech
16.5.85

Lending £2 billion pa (in same ballpark as French and German equivalents). Interest subsidy of 4 per cent on 60 per cent of loans. No provision for losses from written-off loans.

+£48 million pa

RENATIONALISATION

General

a) Government buys 100 per cent stake in privatised companies

b) All shares repurchased at price at which Government sold: where more than 1 tranche, repurchased at higher price

c) Shares listed abroad can be repurchased on these terms (T. Sol's preliminary advice HMG could not enforce compulsory repurchase)

All shares sold 1984 repurchased at original sale price

Party Conference,
4.10.85

+£3916 million

Re-nationalise BT

Re-nationalise BAe

1983 Manifesto

Price of second tranche, 1985 sale, paid

+£938 million

Re-nationalise Britoil

1983 Manifesto

Price of first tranche, 1982 sale

+£1080 million

Return NFC to public sector

1983 Manifesto

Price paid = current valuation of company (which is employee-owned)

+£67 million
(NOT FOR PUBLIC USE)

Re-establish British Shipbuilders in public sector with new financial basis

Highly speculative. All warship building yards repurchased plus capital injection into BS

+£110-150 million

Re-nationalise British Gas	John Smith 'Tribune', 8.11.85) any figure might be taken as estimate) of likely sale proceeds	+ several £ millions' (see 'assumptions used')
Re-nationalise British Airways	Roy Hattersley 'Marxism Today' October 1985		
Transfer National Nuclear Corporation to public ownership	1983 Manifesto	Forecast value end 1985-86 £38 million	£25 million (35 per cent already Government-owned)
Establish National Ports Authority	1983 Manifesto	Renationalise Associated British Ports at price of second tranche, 1984	+£109 million
Immediate return to State ownership of all denationalised industries on basis of price paid at time of purchase	1985 Party Conference Motion (composite 30)	BP shares and N Sea licences excluded. Otherwise, price paid is that received at time of sale	+£11 billion (maximum)

EMPLOYMENT

- i) New 2 year programme of education, training and work experience for all 16 and 17 year olds
- ii) Raise YTS minimum from £26.25 to £36, topped up by collective bargaining
- iii) 5-fold increase in work preparation and training programmes for unemployed

'Plan for Training'
July 1984

"

'Charter for Youth'
June 1985

Chancellor announced new 2 year YTS in 1985 Budget

New YTS includes YTS minima of £27.30 first year, £35 second year. Changes would risk damaging employers' willingness to participate

Vague, but probably not far short of +£1 billion

<p>iv) Introduce quality training into Community Programme with pay rates in line with local authority workers</p>	<p>'Charter for Youth' June 1985</p>	<p>CP already pays rate for job: 1a employees often main comparator. Assume 3 months at Skillcentre rates of £70/week for 230,000 participants expected June 1986</p>	<p>+£200 million</p>
<p>v) Educational maintenance awards of £27 a week for over-16s in full time education</p>	<p>'Charter for Youth' June 1985</p>		<p>+£965million (England only, net)</p>
<p>vi) Reduce working week to target of 35 hours</p>	<p>'Working Together' April 1985</p>	<p>a) Confined to public services payroll; nationalised industries recoup through price rises/internal economies; private sector gives rise to no public expenditure costs</p> <p>b) reduces average working week by 2½ hours and loss of working hours made up 50 per cent by extra overtime (at 1½ basic rates) and 50 per cent by extra employment (at average wage in public services)</p> <p>c) Gross public expenditure cost</p>	<p>£3 billion a year</p>
<p>vii) Statutory minimum wage at not less than two thirds of average earnings</p>	<p>1983 Conference Motion</p>	<p>a) 2/3 Minimum wage £115 per week (= 2/3 average earnings April 1985). Ignore effects of minimum on average</p> <p>b) Public service payroll only (see above)</p> <p>c) Distribution of earnings in public services same as whole economy</p> <p>d) Gross public expenditure cost</p>	<p>£1 billion per year</p>

viii) New regional employment subsidy

'A new partnership, a new Britain' August 1985 (TUC/Labour)

a) Based on Labour 1976 regional subsidy ie £2 per man, per week, to manufacturing industries in Regional Development Areas

+£500 million a year

b) Extend to service industries

+£1200 million a year

ENERGY

i) Increase investment in energy conservation through public sector insulation programme

'A new partnership, a new Britain' August 1985

a) Scope for investment = £5 billion approx

£0.5-£1 billion full year cost

b) Programme spread over 5-10 years

ii) Invest non-nuclear power station capacity

a) Cost of building most recent coal-fired power station (£1.1 billion)

£1.2 billion (to industry: public expenditure cost uncertain.

b) 1900 MW capacity added

If cost fully recouped through rising prices, would add about 3 per cent to electricity prices)

ARTS AND LIBRARIES

Double funding of performing and creative arts

Norman Buchan 'FT', 6.8.85

+£105 million

Zero-rate performing arts for VAT purposes

Use FES data on "theatres, concerts and similar live entertainments". If add cinemas, art exhibitions, etc, cost would be double or treble

+£35 million

TRANSPORT

(i-iv) from 'Reconstruction of GENERAL: 1981 costings given, and Britain' (TUC, 1981) - 1986 update (indexed to GDP deflator) supported in 'A new Partnership'

i) Increase spending on road maintenance and construction

£570 million a year (1981)
 £706 million - 1986
 £2850 million over 5 years (1981)
 £3530 million - 1986

ii) Improve and maintain rail network, increase electrification, replace existing stock

£1 billion over 5 years - 1981
 £1.24 billion - 1986

iii) Improve airports

£600 million over 5 years - 1981
 £743 million - 1986

iv) Improve ports

£24 million over 5 years - 1981
 £30 million - 1986

v) Concessionary fare schemes for pensioners

Maintain 'as' more generous policies: introduce schemes in shires

£50 million

HOUSING

i) 125,000 new housing starts a year

Average cost per dwelling of £24,000

£3 billion a year

ii) Programme of house renovation and repair: 25,000 empty and hard-to-let council houses a year

Average cost per dwelling of £10,000

£250 million a year

ENVIRONMENT AND LOCAL GOVERNMENT

Increase Urban Programme by £2.5 billion over 5 years	'A new partnership ...'	£2.5 billion over 5 years
Increase sewerage investment by £1.25 billion over 5 years	"	£1.25 billion over 5 years
Return £9 billion of RSG stolen from Labour councils	NEC announced 1984 Party Conference	£9 billion

EDUCATION

i) Right to pre-school education to all 3 and 4 year olds	'Charter for the Under 5s', April 1985	+£400 million pa first 3-4 years, +£300 million thereafter
ii) 14,000 more teachers	Giles Radice, 'Guardian' 17.4.85	+£175 million pa
iii) Increased in-service training	"	+£60 million pa
iv) Increased provision for books and equipment	"	+£90 million pa
v) Increase school buildings, repair and maintenance	'A new partnership ...'	+£781 million

£250-£350 million

- a) 500,000 extra pupils for state sector: half costed at full unit costs, half at 2/3
- b) £230 million government currently spend in private schools, £80-180m

-£45 million (England only)
 -£110 million (England only)

- a) End charitable status
- b) Levy VAT on school fees

+£85 million first year
 +£125 million full year

- Restore mandatory award to 1978-79 real value
- Full year cost of designation of all courses for which applications for designations have been made since imposition of moratorium on designation in 1982-83

+£6 million pa

+£150 million 1986-87

- 1986-87 costings, showing addition to plans required to produce 3 per cent growth above GDP deflator

+£475 million

- 1986-87 estimates
- Full year savings on competitive tendering so far

+£30 million

Radice, ibid

Radice, ibid

'Charter for Young People', June 1985

"

'NHS in danger' (NEC Statement October 1983)

"

Neil Kinnock Speech 22.4.85

vi) Phase out fee-paying schools

vii) Change charitable status and other tax advantages

viii) Substantially improve level of student grant

ix) Designate more higher and further education courses for grant purposes

HEALTH AND PERSONAL SOCIAL SERVICES

i) Increase resources available to NHS by 3 per cent a year

ii) Phase out all health changes and private practice and beds in NHS

iii) End competitive tendering in NHS

iv)	Restore nurses' pay to real levels in 1980	Neil Kinnock, 'Guardian', 23.4.85	1986-87 costing	+£30 million
v)	Increase hospital building and repair	'A new partnership ...'	Use Labour's own estimate, split into 5 for 1986-87 costing	+£95 million

SOCIAL SECURITY

i)	Phase out TV licence fee for all pensioners	Gerald Kaufmann, OR 27.3.85, col 482	Present fees in force. completed	Phasing	+£325 million, full year
ii)	Increase maternity grant from £25 to £200 and index link	1984 Party Conference Motion	Implement July 1986: effects are for 1987-88		+£120 million
iii)	Increase death grant from £30 to £200	"	"		+£100 million
iv)	Increase child benefit by £3 a week	Roy Hattersley, OR 20.3.85, col 881	"		+£1450 million
v)	Increase pensions by £5 per week single person and £8 for couple	"	"		+£1650 million
vi)	Provide means for voluntary, phased and increasing reduction in retirement age to 60 for men	Neil Kinnock 24.6.85	1983-84 benefit rates; implemented immediately	assumed	+£2.6 billion

vii) Pay long-term scale rate to unemployed people after a year on benefit

Roy Hattersley
OR col 881, 20.3.85

November 1985 rates

+£500 million

viii) Abolish upper earnings limit for employees' Class I NICs and upper profits limit for self-employed's profits-related Class 4 NICs

Roy Hattersley
'Marxism Today'
1.10.85

1986-87 effects

-£680 million
(employees)
-£80 million
(self employed)

bf 42

Ch

You want to discuss this and Labour's renationalisation plans before Questions on Thursday.

FROM: H J DAVIES
DATE: 14 JANUARY 1986

CHANCELLOR

Debbie cd not find a particularly suitable time, so you may like to take this at prayer.

- cc
- CST
- FST
- MST
- EST
- Mr Butler
- Mr Scholar
- Mr Turnbull
- Miss O'Mara
- Mr Pickering
- Mr Cropper
- Mr Lord

*papers with you

DWK

Good.
 Beckford's
~~papers~~ main
 component 20.5
 M.
 AS 50% do
 had to discuss
 when to
 put this in
 order

LABOUR'S SPENDING PLANS

You asked for a global figure pulled out of the tables attached to Mr Pickering's minute to you of 13 January.

2. Taking full year costs where possible and using some by and large phasing of the commitments over a period, I come up with a number of £25.3 billion for the full year increase in public expenditure in year 1. This is not a grotesquely exaggerated number and I have indeed taken account of one or two of the savings identified in the paper (though not the eventual savings in defence expenditure which would be implied by reducing it towards the average of our European allies as a proportion of GNP).

3. In addition to this figure there are the renationalisation costs which, as Mr Pickering says, amount to a maximum of £11 billion at the moment. And on top of that one might include the commitment to take tenanted land into public ownership which adds a further £12 billion.

4. I think this £25 billion number is one we should put into circulation quite soon. The Chief Secretary may wish to use it at his press conference tomorrow. And since we can back it up with individual totals for the programmes he may wish also to use it in the debate. I could imagine an effective passage with the Chief Secretary volunteering to detail the costings of Labour's

DAVIES
→ CH/EX
14/1

M

public expenditure commitments but offering to give way to Mr Hattersley if he would rather do it himself.

5. We might discuss the way in which we should use this ammunition at the same time as we talk about Labour's renationalisation plans.

6. I have not allowed anything for support to the helicopter industry.

HJD

H J DAVIES

FROM: H J DAVIES
DATE: 15 JANUARY 1986

CHANCELLOR

bf 4/2

cc CST
FST
MST
EST
Mr Butler
Mr Scholar
Mr Turnbull
Miss O'Mara
Mr Pickering
Mr Cropper
Mr Lord

LABOUR'S SPENDING PLANS

We are meeting tomorrow morning at 9.00am to discuss the ways in which we might use the global total for Labour's spending commitments at Treasury Questions tomorrow afternoon, and subsequently.

2. I attach, as requested, a breakdown of the £25 billion figure I quoted in my minute of yesterday, together with some abbreviated notes on the derivation of the individual numbers in the list.

Is £25 billion the right number?

3. Before we go public with the number I think it is worth your while spending a moment or two to decide if it is the right one.

4. To some extent the number we use is a matter of choice. There are considerable uncertainties, and some no doubt deliberate vagueness in Labour's commitment. Since the figures are so large there is some flexibility for us to choose a number we can defend robustly, without giving up any of the announcement impact of a high figure.

5. £25 billion is by no means the largest number we could choose. For example, there is no allowance for:

ch
still with
you?
JDK

DAVIES
→
CH/EX
15/1

- Renationalisation costs (perhaps a further £11 billion)
- The public ownership of tenanted farmland (total value £12 billion)
- Restitution of the stolen £9 billion of Rate Support Grant
- A programme of coal-fired power station construction
- Industrial R&D where I have interpreted what I think is meant to be a commitment to increased expenditure in literal terms and taken it as a reduction (Note 4).

6. For the most part, therefore, this is a cautious interpretation of the financial implications of Labour's commitment. But I would draw attention to five areas where one could argue for a lower number. They are:

- Surprise*
- i) Defence, where I have taken the implications of Denzil Davies' commitment, and taken no account of the effects of Labour's long term aim to reduce defence expenditure as a proportion of GNP (Note 1).
 - ii) We have also been quite tough on the implications of a 35 hour week where we have taken the full public services cost of making up the lost hours by overtime or extra employment (Note 9).
 - iii) Similarly we have been quite robust about the interpretation of a minimum wage commitment in the public services (Note 10).
 - iv) Regional Employment Subsidy, which is unspecified in the documents, we have interpreted as a scheme on 1976 lines and applied it to services as well as manufacturing (Note 11).
 - v) On early retirement, the figure of £2.6 billion assumes immediate reduction of the retirement age for men to 60 (Note 26).

7. You and the Chief Secretary may wish to consider whether the numbers for any of these should be adjusted. Of course there

is a case, apart from the obvious one, for some exaggeration. We would be pleased to draw Mr Hattersley into a debate on the finer points of his programme. If we can get him to deny one element of it, we could be onto a winner.

Offsets

8. There are some offsets which I have ignored. In the case of public schools there is the removal of charitable status. On national insurance Labour are committed to abolishing the Upper Earnings Limit. But I think that if we are talking about gross public expenditure we need not make allowance for these offsets, which are part of the way in which the increase will be financed.

Revenue implications

9. Developing different ways of raising £25 billion in one year is an entertaining exercise. Obviously our ready reckoners do not strictly speaking apply because of non-linearity. But since there is no sensible basis on which to construct a different series I have used the numbers we give in the Autumn Statement. There are three main ways in which revenue could be raised. Basic rate, VAT, or increases in the specific duties. I am afraid we do not have any sensible way of calculating the impact on tax thresholds. In each case the figures below refer to the implications if all revenue is raised in one way. Obviously we could construct combination packages if necessary.

10. On the basic rate at £1200 million for each 1p change this spending programme would require an increase of 21p, taking the basic rate to 51p.

11. In the case of VAT they would need an increase of 27 per cent taking the rate to 42 per cent. And increasing the RPI by 13½ per cent.

12. In the case of the specific duties I calculate that they would need 32 x revalorisation. Giving the following increases:

*Public
Income*

Beer	38p a pint
Wine	£1.38 a bottle
Scotch	£9.57 a bottle
Petrol	£1.66 a gallon (taking it up to £3.55 a gallon).
VED	up £176 (to £276).

13. The RPI impact is just slightly higher than for VAT, at 13¼ per cent.

14. Obviously in the case of the specific duties the non-linearity point is most important. Labour could get away with increases of this order only if people drank the same amount of beer if it went up from 75p to 113p a pint.

The Alliance

15. We recognised when starting this Labour costing exercise that it would not be possible to do the same for the Alliance because their public expenditure commitments were far less extensive and far less precise. In a slightly longer timescale we are attempting to pull together all Alliance references to spending commitments. This work is being co-ordinated by Mr Pickering.

16. The only clear policy statement we have ^{so far} was included in the Alliance's so called Autumn Statement at the end of last year. This argued for increased public spending of £5 billion a year. It was made up as follows:

- A 1 per cent reduction in employer's NIC (£1.5 billion) *(not public spending)*
- Additional capital investment of £1 billion, mainly housing and roads
- Additional current expenditure of £1 billion, mainly on education and local authority spending
- £500 million addition to family income supplement
- Increased spending on the Community Programme and the long term unemployed which by implication totalled a further £1 billion.

17. In fact the commitments in words amounted to rather more than £5 billion. For example, the commitment to give a job guarantee on the Community Programme to all those unemployed for over a year could cost up to £5½ billion. (There are 1¼ million long term unemployed and Community Programme places cost £4,400 a year.) Also the commitment to additional benefit for the long term

unemployed is similar to Labour's proposal and that would cost £500 million.

18. So the Alliance's package could be presented as additional commitments of £9½ billion in year 1 (the unemployment benefit rate for the long term unemployed would be double counting if we assume total mopping up by the Community Programme).

19. This is clearly nothing like as good a number, either quantity or quality, than Labour's £25 billion. I would be inclined not to bother with it for the moment and hope that more hostages to fortune appear from that quarter in the coming months.

HJD

H J DAVIES

LABOUR'S SPENDING PLANS: PRINCIPAL COMPONENTS

<u>Programme</u>	<u>£m</u>	<u>Note</u>
Defence	1500	1
Aid	900	2
Industry	1133	3
R&D Offset	(460)	4
National Investment Bank	48	5
Employment - training for unemployed	1000	6
- Community programme uprating	200	7
- Educational maintenance awards	965	8
- 35 hour week	3000	9
- Minimum wage	1000	10
- Regional employment subsidy	1700	11
Energy	750	12
Arts	140	13
Transport - Roads	706	14
- Rail	248	14
- Airports and Ports	154	14
Housing - new build	3000	15
- rehabilitation	250	16
Urban Programme	500	17
Sewerage	250	17
Education - Under 5s	400	18
- teachers	235	19
- buildings and equipment	871	20
- close private schools	300	21
- student grants	125	22
Health - NHS	780	23
Social Security		
- TV licence for pensioners	325	
- Maternity and death grants	220	24
- Child Benefit	1450	25
- Early Retirement	2600	26
- Unemployment Benefits	500	27
Minor Measures	60	28
Total	25310	
less R&D	(460)	
	24850	

LABOUR'S SPENDING PLANS: NOTES

1. 1986-87 cost of commitment to hold expenditure at 5.2% of GNP. Later year costs higher, but note longer-term aim to reduce to European NATO average.
2. Commitment to double aid (to UN target) in 2-3 years. Implies additional £3.1bn in 89-90. Phasing of +900, +2000, +3100 assumed, to take account of GNP growth.
3. 86-87 cost of commitment to increase industrial support by 50 per cent.
4. R&D commitment to bring public support into line with US, FRG and Japan implies a large reduction. This is certainly not what Labour means, but we can generously give them credit here.
5. Based on assumed lending of £2 billion in year one and interest subsidy of 4% on 60% of loans. No allowance for bad debts.
6. Estimated cost of commitment to 5-fold increase in training.
7. Adjusted pay rates and more training.
8. £27 a week for over 16s in full time education.
9. Cost in public services only.
10. Public services cost only of minimum wage set at two thirds of average earnings.
11. Interpretation of uncosted commitment, based on 1976 subsidy, uprated and applied to manufacturing (500) and services (1200).
12. Mid-point estimate of cost of conservation measures only. No allowance for increased investment in non-nuclear capacity which would fall mainly on the industry and on prices.
13. Doubled funding and zero rating.
14. First year of a five-year programme.
15. 125,000 new starts a year.
16. 25,000 renovations a year.
17. First year of five-year programme.
18. 200,000 new places in nursery schools.
19. 14,000 more teachers and £60m on training.
20. £781m on school buildings, £90m on books.

21. Assumes 500,000 extra pupils in the state sector.
22. Restoration of mandatory award to 78-9 levels (could be higher).
23. £475 million from phasing out of charges, remainder real increases in pay and capital expenditure and end to competitive tendering.
24. £120 million maternity grant. £100 million death grant.
25. £3 a week increase.
26. Immediate reduction in retirement age to 60 for men.
27. Long-term rate to unemployed after a year on benefit.
28. Concessionary fares, NEDC, more grantworthy courses.

Interest Rates

4.46 pm

Mr. Roy Hattersley (Birmingham, Sparkbrook): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the imminent further increase in interest rates."

Indeed, the money market rates have increased since Question Time began this afternoon.

The matter which I seek to raise is urgent because real interest rates are already at their highest level in our history, and up to three times higher than the rates in the economies of our major industrial competitors. A further escalation in interest rates will be disastrous for investment and employment, and a catastrophe for mortgage holders, who are already paying the highest real mortgage interest rates ever recorded in Great Britain.

My next point is that the Government are directly responsible for these matters and are answerable for them in the House of Commons. The Government's responsibility for the crisis is not in doubt. First, it is the Government who have made the British economy peculiarly dependent upon the price of oil—the direct trigger for the catastrophe that we now face. Secondly, the Prime Minister and the Chancellor of the Exchequer, in his Mansion house speech and later, have both asserted that an artificially high control rate is necessary for monetary control and that they will hold interest rates at whatever level and will escalate interest rates to whatever level is necessary to hold the exchange at the artificial level that is necessary to protect their monetary policy. They have asserted that they will hold interest rates high, regardless of the other consequences for the real economy.

Therefore I submit to you, Mr. Speaker, two sentences in summary. The first is that the imminent additional increase in interest rates will be deeply to the detriment of the real economy and the householders of this country. The second is that the imminent increase in real interest rates is a matter which is directly within the responsibility of the Government. Indeed, it has been managed, manipulated and encouraged by the Government. In those circumstances, it is, in my view, essential for the House to debate this issue before the Government's folly does yet more damage to the real economy.

Mr. Speaker: The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) asks leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that he believes should have urgent consideration, namely,

"the imminent further increase in interest rates."

The right hon. Member and the whole House know that I am required to take into account the various factors that are set out in Standing Order No. 10. I have listened with great care to what the right hon. Member has said, but I regret that I do not consider the matter that he has raised to be appropriate for discussion under Standing Order No. 10, and I cannot therefore submit his application to the House.

Mr. Hattersley: On a point of order, Mr. Speaker. I understand the many considerations that you have to take into account and what you have described as the many implications of this application. I do not argue with your judgment in any way. I merely say that it will be necessary for the House to examine those many implications when the interest rate goes up tomorrow or the day after.

FROM: H J DAVIES
DATE: 23 JANUARY 1986

CHANCELLOR

Ch
Just to note at this stage. You will be having a meeting, but it has not merited the highest diary priority

cc
CST
FST
MST
EST
Mr Butler
Mr Scholar
Mr Turnbull
Mr Culpin
Miss O'Mara
Mr Pickering
Mr Cropper
Mr Lord

new conference with the computer.

*29/1
M
WT
Plank
contd
was a
mtg
to
be
held
to
launch
this.*

LABOUR'S SPENDING PLANS

We discussed my minute to you of 15 January last week. At that time we decided not to use the figures in Treasury First Order Questions, and since then no suitable opportunity has presented itself.

2. With the persistence of other distractions it seems increasingly likely that we will wish to wait until the debate on the Public Expenditure White Paper before we launch this exercise. But in case another opportunity presents itself at short notice I have looked again at the numbers.

3. I attach a slightly revised version in which I have made the following changes:

i) There is now no reference to a projected increase in defence expenditure, which seems a more realistic assumption. I have not allowed for any reductions since Labour have given no precise indications of how these would be achieved (unless we wish to get into the nuclear debate, but that is very complex).

ii) I have dropped the offsetting reduction in R&D expenditure, which is clearly a nonsense on their part.

Radner transcript

found on

DAVIES
→
CH/EX
23/1

- iii) I have written down the regional employment subsidy from £1700 million to £500 million, to make it apply only to manufacturing industry which is how it was operated in 1976.
- iv) I have reinstated the pensions commitment which was omitted in error from the previous list.
4. That takes the number from £25,310 million to £24,260 million.
5. As far as revenue is concerned we still hit a basic rate change of 20p, which the Financial Secretary rightly thought to be important. The appropriate VAT rate is 41 per cent rather than 42 per cent.
6. I would be in favour of an uneven number, and £24 billion seems as good as any.
7. We might discuss the presentation of this exercise alongside the note on Labour's renationalisation plans, at the meeting which the Private Office plan to arrange when the diary looks a little easier.

Debbie is working
on the week after next

AWK
24/11

HJD

H J DAVIES

LABOUR'S SPENDING PLANS: PRINCIPAL COMPONENTS

Programme

Aid	900	1
Industry	1133	2
National Investment Bank	48	3
Employment - training for unemployed	1000	4
- Community programme uprating	200	5
- Educational maintenance awards	965	6
- 35 hour week	3000	7
- Minimum wage	1000	8
- Regional employment subsidy	500	9
Energy	750	10
Arts	140	11
Transport - Roads	706	12
- Rail	248	12
- Airports and Ports	154	12
Housing - new build	3000	13
- rehabilitation	250	14
Urban Programme	500	12
Sewerage	250	12
Education - Under 5s	400	15
- teachers	235	16
- buildings and equipment	871	17
- close private schools	300	18
- student grants	125	19
Health - NHS	780	20
Social Security		
- TV licence for pensioners	325	
- Maternity and death grants	220	21
- Child Benefit	1450	22
- Pensions	1650	23
- Early Retirement	2600	24
- Unemployment Benefits	500	25
Minor Measures	60	26
	<hr/>	
Total	24260	
	<hr/>	
	<hr/>	

LABOUR'S SPENDING PLANS: NOTES

1. Commitment to double aid (to UN target) in 2-3 years. Implies additional £3.1bn in 89-90. Pasing of +900, +2000, +3100 assumed, to take account of GNP growth.
2. 86-87 cost of commitment to increase industrial support by 50 per cent.
3. Based on assumed lending of £2 billion in year one and interest subsidy of 4% on 60% of loans. No allowance for bad debts.
4. Estimated cost of commitment to 5-fold increase in training.
5. Adjusted pay rates and more training.
6. £27 a week for over 16s in full time education.
7. Cost in public services only.
8. Public services cost only of minimum wage set at two thirds of average earnings.
9. Interpretation of uncosted commitment, based on 1976 subsidy of £2 a head per week, uprated in line with inflation and applied to manufacturing industries only.
10. Mid-point estimate of cost of conservation measures only. No allowance for increased investment in non-nuclear capacity which would fall mainly on the industry and on prices.
11. Doubled funding and zero rating.
12. First year of a five-year programme.
13. 125,000 new starts a year at £24,000 each.
14. 25,000 renovations a year at £10,000 each.
15. 200,000 new places in nursery schools.
16. 14,000 more teachers and £60m on training.
17. £781m on school buildings, £90m on books.
18. Assumes 500,000 extra pupils in the state sector.
19. Restoration of mandatory award to 78-9 levels (could be higher).
20. £475 million from phasing out of charges, remainder real increases in pay and capital expenditure and end to competitive tendering.

21. £120 million maternity grant. £100 million death grant.
22. £3 a week increase.
23. Pensions increased by £5 per week (single) and £8 (couple).
24. Immediate reduction in retirement age to 60 for men.
25. Long-term rate to unemployed after a year on benefit.
26. Concessionary fares, NEDC, more grantworthy courses.

LT4.7

LABOUR'S
SPENDING &
PLANS



FROM: A W KUCZYS
DATE: 27 January 1986

*PHP
overtake*

b/f 4/2

b/f 4/2

b/f 19/2

AWK
→
DAVIES
27/1

Debbie
*where do we
stand on a
meeting on Opposition
policies A?*

MR H J DAVIES

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Mr F E R Butler
Mr Scholar
Mr Turnbull
Mr Culpin
Miss O'Mara
Mr Pickering
Mr Cropper
Mr Lord

T.

LABOUR'S SPENDING PLANS

The Chancellor was most grateful for your minute of 23 January. He is far more comfortable with this recomputation. We will be arranging a meeting to decide how best to launch this.

2. Meanwhile, the Chancellor thinks the Minister of State is on to a good thing with the transcript of Mr Giles Radice's broadcast (Mr Norgrove's minute of 22 January). The Chancellor has particularly noted the passage which reads:-

"I know exactly how much our programme would cost. But of course there's not much point in saying what it's going to cost now because we are not in power at the moment and in three years' time ... it might cost a lot more. On the other hand things may have changed and we may need to do different things."

AWK

A W KUCZYS

FROM: R A L LORD

DATE: 17 FEBRUARY 1986

cc. Chancellor
Financial Secretary
Minister of State
Economic Secretary
Mr Cropper
Mr Davies

Loed
EST
17/2

*X is a...
debate
to EST...
claim that...
said 750bn*

CHIEF SECRETARY

I attach a note from CRD on Hattersley's reference to Labour commitments of £50bn in a speech by the Party Chairman. A copy of the speech is also attached.

2. There is a case for trying to lay to rest any number which distracts attention from £24bn. at the earliest opportunity. On the other hand, there seems little danger, should Hattersley be inclined to push this point, in leaving the rebuttal until the Debate. I see that Hattersley was today again calling on councils, health authorities, British Rail and other public bodies to prepare plans for increased spending programmes for implementation should Labour win the next election. One can be grateful to the RHG for reminding us that the cost of electing Labour can only increase...

RL

R A L LORD

CONSERVATIVE RESEARCH DEPARTMENT

32 SMITH SQUARE · SW1

MEMORANDUM

From Andrew Dunlop

To (see below)

14th February 1986

I attach a copy of a letter sent to John MacGregor by Roy Hattersley, in which he makes a number of specific challenges.

While it is clearly a matter for the Treasury to respond to the detailed questions of how the total figure of £24 billion was arrived at, Mr Hattersley's letter also refers to a speech made in August 1985 by the previous Chairman (a copy of this speech is also attached).

Mr Hattersley's letter claims that Mr Gummer had costed Labour's programme at £50 billion - a figure which he had challenged at the time. He challenges Mr MacGregor to explain the difference between the £50 billion and the latest figure of £24 billion.

The following points can be made to rebut Mr Hattersley's claims.

- X | 1. The figure used was £39 billion not £50 billion as Mr Hattersley's letter states.
2. The speech made it quite clear that this figure referred to Labour's 'past promises', not those made since 1983.
3. The figure of £39 billion also took into account nationalisation proposals whereas Mr MacGregor's figures do not.
4. It took the Labour Party a whole Parliament to run up a bill of £39 billion, there is still plenty of time for them to build on their current total of £24 billion before the next General Election.

[If you want to substantiate this last point you might wish to refer to an interview in this weeks Tribune in which Michael Meacher says he will be trying to persuade his colleagues to increase the Labour Party's commitment on NHS resources from a 3 per cent rise to a 5 per cent rise per annum.]



AJD/CO

to: Mr Harris
Mr Dobbs
Mr Davies
Mr Lord
Mrs Chaplin



Puttick

Can you return to me.

HOUSE OF COMMONS
LONDON SW1A 0AA

13 February 1986

Sea MacGregor,

In the House of Commons yesterday you said "The Opposition's public spending commitments are much more specific. It is difficult to keep track of each one, but we are doing our best. We are costing them as fast as we can We are costing them even at the risk of overheating our calculators. The figure is enormous. Leaving out one-off promises and pledges on renationalisation, and considering only the cost of continuing commitments, the total amounts to £24 billion." (Column 984) Would you be so kind as to let me know how that figure has been calculated? I take it from your statement that all the work has already been done and therefore you will have no difficulty in letting me have your detailed costings in time for them to be considered during the public expenditure debate next Thursday.

I take it for granted that you will let me know:

- 1 The specific commitments included in your costings.
- 2 The cost you attach to these commitments and how they have been determined.
- 3 The time scale over which you assume the commitments will be carried out.
- 4 Whether these costings are net of savings to the Exchequer from such things as the consequent reduction in unemployment.

Will you also let me know whether your costings have been carried out by the Treasury - and therefore are underwritten by the civil servants who made them - or if they were made in Conservative Central Office?

I ought to remind you that during the first week of August the Chairman of the Conservative Party said in a public speech that he had costed Labour's programme and that the figures - carefully worked out by a Party official - amounted to £50 bn. I wrote to the Chairman on the 8 August asking him for costings and on the 13th of that month an official from his office replied, acknowledging my letter and saying that it would be drawn to the Chairman's attention on his return from holiday. I still await his substantive reply.

HATTERSLEY
COT
13/2

I would be grateful therefore if you would let me know how the discrepancy of £26 bn (more than 100% on your figures) has arisen.

I am releasing the text of this letter to the press.

*Yours sincerely
R. Hattersley*

Rt Hon J MacGregor MP
Chief Secretary to the Treasury
Great George Street
LONDON
SW1



CONSERVATIVE PARTY
NEWS
SERVICE

Press & Public Relations
Department.

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

Conservative Central
Office.

32 Smith Square,
London SW1P 3HH

JOHN SELWYN GUMMER MP

Release Time:

13.00 hrs Saturday 3rd
August 1985 456/85

Extract from a speech by JOHN SELWYN GUMMER MP (Suffolk Coastal), Paymaster General and Chairman of the Conservative Party, at the Saxmundham Fete, (Brook Farm), on Saturday 3rd August 1985.

When Labour and the trades unions launch their joint manifesto next Tuesday, it is Neil Kinnock who has to go to TUC headquarters. That's the give-away. The power lies with the trades unions - that's where the money comes from.

It also gives the lie to the new "partnership". A Labour Government would act at the trades unions' bidding. A Labour Government would deliver all to the trades unions and could expect nothing in return. That's a shabby one-sided compact.

It is the Socialist version of give and take. Labour gives and the unions take. The trades union bosses will take away ~~all the rights~~ that have been given to their members by this Conservative Government:

Take away the right to vote in union affairs

Take away the right not to strike.

Take away the right not to be a member of a union.

They will take away the union ticket of anyone who steps out of line - and they won't give Britain anything. There will be no agreement on wages, no removal of restrictive practices, no improvement in productivity, no reduction in stri

/.....There is

There is nothing here to solve Britain's problems. It is straight back to the winter of discontent. Straight back to trades unions rule. Straight back to bankruptcy and the begging bowl. Straight back to beer and sandwiches at No 10 - this time with Arthur Scargill in attendance.

To cap it all Kinnock would not only have Scargill on one shoulder - he'd have Ted Knight and Derek Hatton on the other. There would be more powers for Labour local authorities to abuse. Our protection for ratepayers would be snatched away - leaving them to be fleeced by the strutting army of militant Marxists, populating many of our inner city Town Halls.

But of course, this isn't the real manifesto. It couldn't be. It doesn't stand up. There are no figures, no facts which could make it work.

Labour has a secret manifesto which they won't dare reveal on Tuesday. I am going to reveal it for them now. The pretended manifesto is based on Labour's past promises which would cost £39,000 million. They have said and done nothing to reduce that bill. Indeed, every sign is that even this massive figure goes up with every policy statement.

That means 24p on income tax and double V.A.T. to 30 per cent.

Labour plans to nationalise a large number of key industries. They will tax you to pay for it and tax you again for the losses they will make.

Then they are after your pension. They want to bully your pension funds into investing, not where it helps you, but where the Socialistse want to spend money.

Thousands of millions of pounds taken from your pension funds so that Labour gets the money for their plans - and that cuts their return and your pension. Labour plans cut peoplés' pensions.

And if you bought a British Telecom share or shares in any other privatised company, then look out for Labour's thieving hands. Over 1½ million people own British Telecom shares. Half of them stand to lose £1,000 or more each - stolen by a Labour Government.

You can see why they prefer to keep hidden this secret manifesto.

It strikes at every family in the country. And there is more to come.

Labour has not yet decided by how much to cut the mortgage tax relief to pay for even wilder schemes.

All they will say to house owners up and down the country is many of them get too much help to buy their own home!

Tuesday's manifesto is bad enough. It gives power to the unions, power to the union militants, power to the Town Hall tyrants, power to everybody except the people.

But the secret manifesto, Labour's real plans, are much more terrifying. It amounts to the most extreme Left wing programme ever proposed by a Labour Party in Britain.

The mask of Kinnock has slipped in Congress House and the face of Scargill has begun to appear.

ENDS

Ch/ This is a backbench brief

prepared by Central Office.

CST is suggesting some amendments, and then it should be issued tomorrow

cc Chancellor

Miss O'Mara

Mr Cropper

Mr Hard

Mr Davies

(handwritten initials)

1. LABOUR'S SPENDING PLANS: THE STORY SO FAR

For the last two and a half years the Labour Party has been living in a fool's paradise. Labour spokesmen have made a series of extravagant promises about the money they plan to spend if they were ever to return to office. And yet at the same time as these extravagant commitments are being made - often in shameless attempts to buy votes - Mr Hattersley has tried to maintain that Labour has a credible economic policy which would not involve a large rise in taxation, borrowing or inflation.

O.K.
1 folder it
That X
will be
attached
etc.

The tension between these two strands of Labour 'policy' has now reached breaking point. Labour's promises would cost such an enormous sum that they could not possibly be paid for without massive increases in taxation.

Spoke to Paul Peaker. He will check that Central Office are doing this
Shuk
6/3

This fact was exposed in the debate on economic policy and unemployment in the House of Commons on 12th February by the Chief Secretary, Mr John MacGregor. Referring to the public spending commitment, he said:

'It is difficult to keep track of each one, but we are doing our best. We are costing them as fast as we can ... even at the risk of overheating our calculators. The figure is enormous. Leaving out one-off promises and pledges on renationalisation, and considering only the cost of continuing commitments, the total amounts to £24 billion' (Hansard, Col. 984).

John MacGregor went on to explain the implications of spending plans on this scale ~~for taxation~~. ^{for taxation} He ~~first~~ ^{But John} asked Mr Hattersley if he "could confirm that a Labour Government would not increase the basic rate of income tax. 'Of course' responded Mr Hattersley.

In that case, ^{Mr} ~~John~~ MacGregor went on:

"If he chose to finance the programme through Value Added Tax, he would need an increase of 26 percentage points, taking the rate to 41 per cent. The effect on pensioners and those on low incomes would be colossal and the effect on inflation would be likewise" (ibid.)

Mr Hattersley refused point blank to confirm or deny the £24 billion figure or to explain how Labour's commitments could be financed.

In the debate on the Public Expenditure White Paper on ~~Thursday~~ 20th February, the Chief Secretary ~~tried~~ ^{tried} again to persuade Mr Hattersley to explain how Labour planned to finance the £24 billion programme or, if he recognised that that was impossible, which elements of it would be dropped. ^{On the same} ~~Again~~ Mr Hattersley refused to reply, ^{he tried} trying to buy time by asking to see a full list of the commitments, ~~and to know whether the work on costings had been carried out in the Treasury or by Conservative Central Office.~~ It was clear that Mr Hattersley did not believe such detailed costing existed.

In the face of his continued refusal to respond, ^{Mr} ~~John~~ MacGregor wrote to Mr Hattersley on 26th February explaining that the costings

had been carried to by Treasury officials, in consultation with the relevant spending departments. He pointed out that: 'It is not unusual for the Treasury to be asked to provide costings of policy proposals made by those outside Government'. Furthermore, he provided Mr Hattersley with a full list of the commitments and the relevant references to Labour Party documents, a list subsequently printed in Hansard (3rd March 1986, WA, Cols 29-31):

- * Nearly half the money - £11 billion - would be used to prop up loss-making industry
- * They would spend £300 million in the abolition of private schools
- * They want £48 million for their National Investment Bank in which no-one would invest voluntarily
- * And another £1 billion is needed to enable them to bring in a national minimum wage. The effect of this on industry - and jobs - would be devastating.

In his letter Mr MacGregor explained that:

'The £24 billion represents the cost of your programme in a single year; almost all these commitments are ongoing, and the cost of some of them will escalate over time'.

Mr Hattersley's response is awaited with interest.

MR KINNOCK'S INCOME TAX PROPOSAL

Issue

Mr Kinnock has suggested that future Labour Government would raise additional £3 billion in income tax from top 3-5 per cent of taxpayers. Would reduce tax on those earning £6,500 or less. (Times 24 February.)

Line to Take

Leader of Opposition's comments show how far he is out of touch with reality. To raise £3 billion from top 5 per cent of taxpayers would mean ~~all the higher rates of income tax would have to go up to 80 per cent.~~ *a tax rate of 80% on all taxable income above £16,200 a year.*

Background Note

Top 5 per cent of taxpayers are those currently liable to higher rates of tax (about 1 million tax units counting husband and wife as one). Higher rates currently apply to taxable incomes above £16,200 (ie after deduction of allowances and reliefs). Equivalent gross income is £20,000 to £25,000 and upwards.

Higher rates in excess of basic rate currently yield about £2 billion. To bring in an additional £3 billion all higher rates (currently 40-60 per cent) would have to go up to 80 per cent.

£3 billion would enable a 25 per cent reduced rate income tax band of about £3,000 to be introduced. This would reduce the marginal tax rate for those earning about £6,500 and under. All taxpayers would benefit from the lower tax rate charged on the first £3,000 of income.

PS/Chancellor
cc Sir P Middleton
1. Becket
2. RJP

DAVIES
CH/EX
18/2

Ch/Comments tonight
AOK
18/2

FROM: H J DAVIES
DATE: 18 FEBRUARY 1986

CHIEF SECRETARY

cc Mr Butler
Mr Turnbull
Miss O'Mara
Mr Grimstone
Mr Culpin
Mr Lord

REPLY TO MR HATTERSLEY

I attach a draft reply to Mr Hattersley which has been agreed by officials.

2. You should note that it is important to say only that officials helped with the costings and not that they underwrite the figure of £24 billion, which was added up by us. But Miss O'Mara is quite content that the existing draft describes what was done.

2. You may or may not wish to discuss the difference between £24 billion and £39 billion. But I would on balance want to knock the point on the head at this stage.

3. As for publicity, Mr Culpin believes that it is perfectly acceptable for the letter to go from you on Treasury notepaper. He thinks it would not qualify for COI distribution - which I am not sure we would want anyway - but that it would be quite acceptable to leave copies in the Gallery of the House.

HAD
H J DAVIES

Read over to PS/CST
AOK
18/2

1. I had thought about
omitting the section which
is the next page. This, because
is unbalanced in letter, makes
the end of Summary; Summary, because
is 'out of' when it is published
that is that the £24 bn is
an amount which is
used for budgetary purposes.
Other letters

DRAFT LETTER FROM CHIEF SECRETARY TO:

Roy Hattersley MP
House of Commons
SW1

Thank you for your letter of 13 February.

As you say, we have a debate on public expenditure in the House on Thursday of this week, which will provide an excellent opportunity to discuss our spending plans and your own. I shall be happy to give you more details than of the way in which the figure of £24 billion, to which I referred last week, is made up. Though I have to say that I was surprised by the implication in your letter that you have not done these calculations for yourself.

You asked who did the costings. The answer is that they were carried out by civil servants in the Treasury in consultation with the relevant spending departments. It is, as I am sure you know, normal practice under Governments of whichever party for the Treasury to cost Opposition policy proposals.

You also asked how the £24 billion can be reconciled with a figure of £50 billion which you say was quoted by John Selwyn Gummer in August of last year. First, the figure John quoted was £39 billion, not £50 billion as you say (I attach a copy of the relevant

passage in his speech of 3 August for ease^{of} reference).
Secondly, it is clear from the context that he was
talking about Labour's past promises, not undertakings
made since 1983. And that he was including the cost
of renationalisation, *which I explain in no.* I have excluded that since
we still await an answer from you to the question
of which industries you will renationalise and on
what terms. I would be more than happy to add the
cost of your renationalisation plans to the £24
billion as soon as you give us the answer. You might
like to note that repurchase of all the privatised
concerns at their current market value would cost
over £13 billion.

As you did, I am releasing the text of my letter
to the press.

JOHN MACGREGOR

LETTER FROM
HATTERSLEY

Ask Mr Davies for
a complete version

Ch
Now corrected.
Were you otherwise
content?

AWK
25/2
y.k.

FROM: H J DAVIES
DATE: 24 FEBRUARY 1986

RWF

CHIEF SECRETARY

Approved by
Miss
w/med PS/CST
AWK
@X

cc Chancellor
FST
MST
EST
Mr Butler
Mr Turnbull
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Pickering
Mr Cropper
Mr Lord

Mr Lilley MP
Mr M Lord MP
Mr R Harris CRD

LABOUR'S SPENDING PLANS

I attach a draft letter to Mr Hattersley, as we agreed at Prayers on Friday morning. I have suggested that you enclose with it a list of the £24 billion worth of expenditure, together with references to the relevant commitments. I have simplified the note slightly - but if we want the press to use it there is a case for leaving some detail in. I have left the letter simple, as we agreed, but I do think that you might ask him for the commitments he has abandoned, since this allows you to suggest a neat symmetry between your answer to his question and his answer to yours.

2. I expect that Mr Hattersley will now start to knock some of the individual commitments and argue about phasing. That is as expected, and there is clearly some scope for him to do so. But it is, I think, on the whole favourable to the Government and it will not be easy for him to argue himself too far away from our number.

3. I thought it better in the letter not to raise the absence of commitments on renationalisation etc, or the question of the tax consequences of expenditure on this scale. We could do so,

but we do need further material for our follow up. That will probably start at the next Treasury Questions. Mr Lilley and Mr Lord will be arranging for appropriate questions to be put down this week.

4. Mr Culpin can give this material to the Gallery, as he did with the last letter. Weekend World have not yet come back to me on the subject, but obviously once your letter is released there is no problem about their having it.

5. As a separate exercise, I am putting together a slightly longer piece describing the Labour commitments and their attempts to disown them over the last couple of weeks. I shall be discussing with Mr Robin Harris of Central Office how this should be used.

HJD

H J DAVIES

DRAFT LETTER FROM CHIEF SECRETARY TO**Rt Hon Roy Hattersley MP
House of Commons
London SW1**

In the debate on the Public Expenditure White Paper in the House last Thursday I listed some of the Labour Party's public expenditure commitments which form part of the £24 billion of additional expenditure in a full year to which you are pledged.

You declined to say whether or not you held to the commitments I listed and, instead, asked me to give you a full list of the undertakings which amount in total to £24 billion. There was not time on Thursday for me to answer your question in full. And perhaps you felt that you were not able to respond at once to mine. But I am sure you would agree that these issues ought quickly to be resolved.

I therefore, for my part, attach to this letter a list of the components of the £24 billion of additional spending to which I referred, together with a list of the relevant references to Labour Party speeches or documents. I hope you find this helpful, since you have clearly not yourself monitored the commitments made by your colleagues. As I said in the House, these costings have been carried out by Treasury officials, in consultation with the relevant spending departments.

In return, perhaps you will now be good enough to answer my own question. If this is not Labour's programme, which elements in it will be abandoned?

I am releasing this letter, and attachments, to the press.

JOHN MACGREGOR

LABOUR'S SPENDING PLANS: PRINCIPAL COMPONENTS

		<u>Notes</u>
Aid	900	1
Industry	1133	2
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- TV licence for pensioners	325	22
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- Pensions	1650	25
- Early Retirement	2600	26
- Unemployment Benefits	500	27
Minor Measures	60	28
Total	24160	

LABOUR'S SPENDING PLANS: NOTES

1. Commitment to double aid within 2-3 years of taking office. Phasing of +900, +2000, +3100 assumed. (Neil Kinnock in the Guardian 30 July 1985).
2. 86-87 cost of commitment to increase industrial support by 50 per cent. (John Smith in Tribune 8 November 1985).
3. Based on assumed lending of £2 billion in year one and interest subsidy of 4% on 60% of loans. No allowance for bad debts. (NIB described by Roy Hattersley, in a speech in London on 16 May 1985,)
4. Estimated cost (in 1986-87 prices) of commitment to 5-fold increase in training for adult unemployed. (Charter for Young People June 1985).
5. Adjusted pay rates - in line with Local Authority workers - and more training. (Charter for Young People June 1985).
6. £27 a week for over 16s in full time education. (Charter for Young People June 1985).
7. Cost in public services only. (Working Together April 1985).
8. Public services cost only of minimum wage set at two thirds of average earnings. (Conference Motion 1983).
9. Interpretation of uncosted commitment, based on 1976 subsidy of £2 a head per week, uprated in line with inflation and applied to manufacturing industries only. (A New Partnership, A New Britain - TUC/Labour document, August 1985).
10. Mid-point estimate of cost of conservation measures only - mainly a public sector conservation programme. No allowance for increased investment in non-nuclear capacity which would fall mainly on the industry and on prices (A New Partnership).
11. Doubled funding of performing and creative arts and zero rating for VAT. (Norman Buchan, Financial Times 6 August 1985).
12. 1986 Update of commitments in 'Reconstruction of Britain' (TUC 1981) Supported in 'A New Partnership'.
13. 125,000 new starts a year at £24,000 each. (A New Partnership).
14. 25,000 renovations a year at £10,000 each. (A New Partnership).
15. First year of a five-year programme to increase Urban Programme by £2.5bn over 5 years, and sewerage investment by £1.25bn over 5 years (Public Investment in the Economy - TUC October 1984, endorsed in 'A New Partnership a new Britain').
16. 200,000 new places in nursery schools. The Charter for the Under 5s (April 1985) recommended a right to pre-school education for all 3 and 4 years olds. Assumes 80% take-up.

17. 14,000 more teachers and £60m on training. Labour's own estimates, quoted by Giles Radice in the Guardian 17 April 1985.
18. £781m on school buildings, £90m on books (as Note 17).
19. Assumes 500,000 extra pupils in the state sector (Charter for pupils and parents).
20. Restoration of mandatory award to 78-9 levels. (Charter for Young People June 1985).
21. £475 million from phasing out of charges, remainder real increases in pay and capital expenditure and end to competitive tendering. (NHS in Danger - NEC Statement, October 1983).
22. Hansard 27 March 1985 - Mr Gerald Kaufmann.
23. £120 million maternity grant, £100 million death grant (1984 Conference Motion).
24. £3 a week increase. (Roy Hattersley, Hansard 20 March 1985). But note new proposal by Michael Meacher to double child benefit. Would cost another £1.9 billion.
25. Pensions increased by £5 per week (single) and £8 (couple). (Hattersley, Hansard 20 March 1985).
26. Reduction in retirement age to 60 for men. (Neil Kinnock 24 June 1985 at TGWU Conference).
27. Long term rate of supplementary benefit to unemployed after a year on benefit (Hattersley, Hansard 20 March 1985).
28. Concessionary fares, strengthening NEDC, more grants to other bodies.

15
Pls attach this
to H. J. Dawies'
Minute 10.3.86
to Chancellor

" Labour's Spending
plans: MR
Neuberger's
repty "

Thanks
J

(Week ending 8th March 1986)

1. Public Spending. The Labour Party has revealed yet again its capacity for self-deceit. Stung by Mr John McGregor's revelations about the Labour Party's £24 billion public spending programme, Mr Kinnock's chief economic adviser Henry Neuberger has been moved to try and dismiss these figures. Among his most notable assertions are:

- First, that Mr McGregor had failed 'to identify any cuts that Labour would make - for example in cancelling Trident'

Shadow Defence Secretary, Denzil Davies has said that in the short-term a Labour Government 'would hope to hold defence expenditure at 5.2 per cent' of GNP (The Guardian, 21st June 1985).

Neil Kinnock has said: 'I don't think anybody yet can make an adequate assessment of the cost consequences of removing ourselves from nuclear dependence and adopting conventional methods including high technology. If the consequence of getting effective defence is additional expenditure, we owe it to ourselves and to our country and the Atlantic alliance to ensure that we are not failing in that respect and that will be the case' (Times, 26th May 1984).

- Second, that 'the list also includes some highly speculative items of capital spending ... it includes, for example, an impressively precise figure of £154 million for ports and airports' (Labour Weekly, 7th March 1986)

Far from being speculative figures, all items of capital spending listed have been taken from a five year £30 billion programme proposed by the TUC and endorsed on many occasions by the Labour party.

Shadow Employment Secretary, John Prescott, has commended the 1984 TUC statement 'The Reconstruction of Britain' which, he says, 'states that an extra £30 billion of public expenditure over a five year period could put right a huge backlog of work; housing maintenance work, and the transport, energy and communication industries' (Planning for Full Employment, September 1985).

The TUC/Labour Party statement 'A New Partnership. A New Britain', which was unanimously endorsed by the Labour Party Conference, states that 'we support the programme set out by the TUC in "The Reconstruction of Britain"' (September 1985).

Mr Neuberger has himself inadvertently given the game away. he admits that 'some items like increases in the urban programme ... are definite and correctly identified'. This is hardly

surprising as the cost for the Urban Programme, like all other items of capital spending, is that outlined in the TUC programme.

Perhaps Mr Neuberger's confusion can be explained by a remark made by Shadow Industry Secretary, Mr John Smith, who has said: 'I'm not sure that it's important to cost everything in detail' (Tribune, 8th November 1985).

Prayers folder

LABOUR'S SPENDING
PLANS: MR NEUBURGER'S
REPLYFROM: H J DAVIES
DATE: 10 MARCH 1986

CHANCELLOR

cc CST
FST
MST
EST
Sir T Burns
Mr Scholar
Miss O'Mara
Mr Culpin
Mr Pickering
Mr Cropper
Mr Lord

Mr P Lilley MP

~~for the office~~
discuss
@ pm

LABOUR'S SPENDING PLANS: MR NEUBURGER'S REPLY

I attach a copy of Mr Neuburger's article on our £24 billion claim in last week's Labour Weekly, and a Central Office note.

2. It is a very thin riposte; we have clearly come closer to the bone than we thought. Mr Hattersley is going to find it very difficult to argue the number down.

3. After a digression on the failure of the MTFS Mr Neuburger makes four criticisms of our numbers:

- i) We do not allow for offsetting savings on other programmes. The only one quoted is cancellation of Trident. But there is quite a good answer to this, (as the Central Office note says) and I doubt whether Mr Kinnock will wish to push too far the line that other programmes will be financed from savings on defence.
- ii) We have put into a first year number items which would build up over a period of years. He has a debating point only here. We have not said this was a first year number, but a full year number, and one likely to be repeated. It is true that the aid number is the first year of an escalating programme. But this argues for a higher full year number. We were trying to be generous in planning the aid commitment. Just shows what thanks you get.

x two-KJ

iii) We did not allow for increased tax revenue. Nor we have. We were talking about gross public expenditure. But the claims of tax offsets are wildly exaggerated.

iv) Some of the numbers are 'speculative'. Yet they come from a document recently endorsed by the Front Bench (see Central Office note again). And the TUC may not be best pleased to see their work described in this way.

4. In fact I think we can take this article as an admission that we are very close to the mark. And there are a couple of useful hostages to fortune. In particular the penultimate paragraph which says 'there is an enormous leeway to be made up on public spending, and Labour will be trying to make it up as fast as possible.

5. We might discuss the use to be made of this at Treasury Questions at your morning meeting on Wednesday.

419

H J DAVIES

Mister Macgregor,
just can't count...

AS the government's policies are seen more and more to be failing, it turns increasingly to the expedient of attacking Labour policies. This is by no means new. Since it abandoned the doctrine of TINA in its pure form, it has defended its practice by a form of abuse which caricatures and denounces Labour's policies.

In particular, it invents large numbers which it says are the sums of money Labour plans to spend. It then claims either that this will be massively inflationary or that it will result in massive tax increases - quite frequently both.

Till last year, this number was usually put at around £50 billion. Last week, in a letter to Roy Hattersley, the chief secretary John Macgregor cut the number in half. He gave the figure as £24,160 million.

Before examining the figures in detail it might be worth remembering the argument. When the government promulgated the medium term financial strategy in 1980, it said that public expenditure lay at the heart of Britain's economic problems. When we look at the argument it can be seen to be a heart rather like the smallest of a set of Russian dolls.

Its story goes: in order to control inflation you have to control the money supply. To control the money supply without excessive rise in interest rates, you have to control the public sector borrowing requirement. To control the PSBR, you have to restrict public spending if you are not to have increases in taxes.

Nearly all these arguments are fallacious. The money supply has nothing to do with inflation. The PSBR has nothing to do with the money supply. Cutting public spending does little to reduce public borrowing.

Since the start of the MTFSS, the government has overshot its targets on the money supply and public spending. It has pushed up taxes and interest rates. In spite of this, inflation has fallen, although the main reason is the fall in world prices. For the first time for at least 10 years, Britain has the highest inflation rate of the five biggest industrial countries.

It is, of course, inconsistent - even in terms of this argument - to claim both that Labour's spending plans are inflationary and that they will lead to massive tax increases. The government is trying to imply that we would finance the spending by increasing VAT. Increasing VAT was, of course, the way that the Tories

pushed inflation to over 20 per cent in 1980.

To turn to Macgregor's figures, these are a concoction of long term commitments, invented figures and some genuine plans. In addition they fail to identify any cuts that Labour would make - for example in cancelling Trident - or to allow for the savings that would arise as a result of putting people back to work.

It is clear that the figures are meant to refer to the first year of a Labour government - the £90 million allowed for overseas aid indicates that is the first year of a three year increase.

Given this, it is absurd to include the largest item - £3,000 million for a 35 hour week in the public sector. Equally the £1 million for a statutory minimum wage assumes a very rapid implementation.

It also fails to allow for the increased tax revenue which would accrue from increased pay in both the public and private sector. When this is allowed for it is unlikely that a statutory minimum wage would be a cost to the exchequer at all.

The list also includes some highly speculative items of capital spending like those derived from a 1981 document from the TUC. It includes, for example, an impressively precise figure of £154 million for ports and airports.

Some items like increases in the urban programme, increases in child benefit and extension of unemployment benefit to the long-term unemployed are definitely ad correctly identified.

The total of such correct items comes to well under half of the £24 billion. When allowance is made for the reductions in the spending on unemployment benefit as a result of putting people back to work, as well as other savings and additional taxes from the rich, the impact on public borrowing will be very much less even than this.

That does not mean that we know yet what will be the scale of borrowing by Labour in its first year. Clearly there is an enormous leeway to be made up on public spending and Labour will be trying to make it up as fast as possible. How fast that is will depend on the economic circumstance of the time.

What is clear is that Macgregor and his colleagues don't have a clue how to run the country's finances or how to assess our plans to do so.

HENRY NEUBURGER

HATTERSLEY'S REPLY

THE RT HON ROY HATTERSLEY MP



HOUSE OF COMMONS
LONDON SW1A 0AA

10 March 1986

CHIEF SECRETARY	
REC.	10 MAR 1986
ATTENTION	Mr H. Davies
COPIES TO	CX PSTMST EST Mr Butler Mr Turnbull Mrs O'Mara Mr Pickering Mr Lord Mr Scholard

Point-by-point rebuttal plus items with rebuttal plus what are the figs num?

See Chief Secretary Mr Culpin

On Thursday 27 February 1986 I received from you a paper which purported to justify your assertion that you had costed "Labour's programme". It claimed to be a vindication of your House of Commons statement that the programme totalled £24 bn.

The 28 items on your list can be classified under four headings:

1. Pure Invention
2. Gross Distortion
3. Simple Error
4. Correct Calculation

I give below two examples under each heading. I will gladly, if you wish to pursue the details of this argument, make a comment on each of the other 20 items.

The letter which I received on the 6 March, and your previous letter to me on this subject, raise an issue of principle. In each of your letters you tell me that the inaccurate figures in your paper have been prepared by Treasury officials. If that is true, you have implicated the Civil Service in a highly misleading exercise.

I make clear that I have no objection to civil servants costing programmes which have been prepared as alternatives to those supported by the Government. It is clearly important that, in anticipation of a change of Administration, each department prepares to operate the programme which it will have to implement under the new Prime Minister. But an honest calculation of cost - which is necessary for the Civil Service

Continued:

HATTERSLEY
→
CST
10/3

to prepare itself for such a change - is quite different from the distortions and pure fabrication which appear in what you call 'Labour's Spending Plans: Notes'.

Anyone who has been involved in the production of these figures has been implicated in a party political exercise. The obvious incompetence of the operation, as witnessed by the ease with which the assertions can be disproved, does not change the disreputable nature of the intention. I expect such conduct from the Conservative Central Office. It is not what I expect of the Treasury.

I have, in consequence, sent a copy of this letter to the Head of the Civil Service, with a request that he examines first the honesty of your claim that these figures have been prepared by the Civil Service and secondly (if it does turn out that you have told the truth) the propriety of the Civil Service taking part in the sort of fraudulent exercise which I describe below:

1 Pure Invention

- a) Items 17 and 18 purport to cost a number of educational proposals described in the Guardian on the 17 April 1985. Item 17 claims that the Labour Party proposes to spend £235 m on teachers. No such figure appears in the article. Nor can such a figure be substantiated from anything which appears in that article. On building and equipment, the figure £871 m appears in your cumulative list. Again no such figure appears in the article nor is there any figure by which it can be justified. The article is headed "Labour Pledges £200 m Boost for Schools". Your calculations have increased that to £1106 m. (I attach a copy of the article) A text of the speech was issued. It contained no reference to the figures you quote.
- b) Item 4 estimates the cost of a commitment "to a five fold increase in training for adult unemployment" and claims the source of that commitment to be the "Charter for Young People" published in June 1983. The "Charter for Young People" makes no reference to "a five fold increase" and the only adult training it refers to is for 18 - 24 year olds.

2 Grotesque Distortions

- a) Item 8 costs the introduction of a minimum wage at £1 bn in the public sector and relates that policy to a decision taken at the Labour Party Conference in 1983. The Labour Party's most recent motion on the minimum wage was passed last year at the Party Conference in Bournemouth. It supersedes all other resolutions. The operative sentence of the 1985 resolution reads: "Conference calls on the National Executive to consult on proposals for the implementation of a statutory national minimum wage"

To interpret that as putting such a policy in place in a

Continued:

single year is clearly preposterous.

- b) Item 7 claims that the introduction of a 35 hour week would cost £3 bn and claims that the Labour Party was committed to such a policy in the document "Working Together". The operative sentences are "Technological change will have an enormous impact on people's lives. It can provide great opportunities. The working week could be reduced - at least to our target of 35 hours."

To interpret that as a commitment so to reduce the working week in the first year of the life of a Labour Government is arguably even more preposterous than the example quoted immediately above.

3 Simple Errors

- a) Item 1 correctly asserts that we are committed to doubling Aid within 2-3 years of taking office and assumes that at the end of the third year the cost will be £3100 m. Table 3.2 of the Government Public Expenditure plans 1986/87 - 1988/89 shows the cost of the net Aid programme as £1.133 bn.
- b) Item 13 and item 14 claim that the policy document "A New Partnership A New Britain" commits the Labour Party to 125,000 new housing starts a year and 25,000 renovations a year. In fact that document contains no such figures but refers to a principle set-out in a previous document. The cost which you quote for renovation work is wrong. The real figure (according to the Department of the Environment's own publication) is not £10,000 but £4,900 - less than half of the sum you quote.

4 Occasional Accuracy

As with the items above I gladly give two examples of where, whoever produced these figures, actually obtained an accurate result. We do propose to increase child benefit and we do propose an extension of unemployment benefit to the long term unemployed. These were costed last year at the figure you suggest.

In addition to the specific errors described above your notes are riddled with other discrepancies. I have already referred to the habit of assuming that the aim had become a policy and that the policy would be implemented in a single year. Items which affect the level of unemployment are not, as far as we could work out, costed net of the savings that a reduction in unemployment brings about. Indeed you do not make clear whether the costs you quote are net costs or if they are the gross costs of the programme or a combination of the two.

These are all examples of inadequate work which I am reluctant to attribute to the Treasury. You will understand, therefore, why I say that not only is the total figure

Continued:

which you quote, and many of its constituent parts, untrue, but that it is difficult to believe that the Treasury has been party to this work.

Since false figures have also been published in Hansard as a written parliamentary answer, I am asking the Speaker's advice on what can be done to correct the record.

I have followed your precedent in releasing this letter to the press on the day of its posting.

Yours sincerely
R. A. H. H.

Rt Hon John MacGregor MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Labour pledges £200 m boost for schools

By Andrew Moncur, Education staff

LABOUR leaders yesterday presented their education "bill of rights," and promised to foot a £200 million bill to meet the immediate needs of schools.

Mr Giles Radice, shadow education spokesman, introduced a Labour package to deal with "crisis areas" in the schools system, caused, he said, by the Government's aversion to public spending and the penny-pinching of the Conservative-dominated shires.

Mr Radice said that Labour would provide £50 million for 14,000 more teachers, £60 million for in-service training, and £90 million for books and equipment, with

Kinnock rebuff for Meacher, page 2

the emphasis on new technology. The figure for extra staff takes into account savings achieved by employing out-of-work teachers.

Mr Radice and Mr Neil Kinnock, the Labour leader, affirmed the party's commitment to abolishing the fee-paying sector and the Government's assisted places scheme, taken up by more than 17,000 children.

In the run up to the county council elections on May 2, they were launching a document setting out the party's plans for improving primary and secondary education—Labour's Charter for Pupils and Parents.

It marks a significant turn for Labour, which is now carrying the fight to the Tories on the issue of school standards.

The future of the private schools is dealt with in a single paragraph: "In a divided and class-ridden society, the introduction of a fully comprehensive school system, together with the phasing out of fee-paying in the private education sector, are the only ways of providing equal opportunities for all."

Pressed on the timetable for phasing-out, Mr Kinnock said: "Quickly. I am prepared to amend that to very quickly."

Mr Radice said that Labour was committed to abolishing fee-paying schools, and it would also take action on the charitable status and other tax advantages of private schools.

The independent schools responded by pointing out the problems of absorbing more than 500,000 fee-paying pupils into the state system.

The fee-paying sector em-
Turn to back page, col. 6

pledges school boost

Continued from page one
employs more than 90,000 people, including nearly 50,000 teachers, and has the vast majority of boarding places needed for 21,000 children of service families.

The Independent Schools' Information Service said that a survey of 1,054 schools in 1983 had shown that although they received £22.5 million a year as a result of their charitable status, they spent £33 million on scholarships, bursaries, and fee remissions.

Mr Kinnock said the Government's education record amounted to a betrayal of the national interest and of individual needs.

"The Tory response to the demands for reform is at best cosmetic, but more frequently complacent," he said. In particular he criticised Conservative-controlled county councillors as the worst providers in key areas, including nursery education and teaching staff levels.

The charter sets out the rights of pupils, including the right to pre-school education. At all stages they should be taught in classes small enough to allow for individual attention, it says.

It also upholds the right of all 16-year-olds to choose high-quality education and training, for at least two years, to meet their needs.

The charter says that parents should be fully informed and involved in their children's education, and should be represented on governing bodies. They should know that education is free and should be able to express preferences for the schools they wish their children to attend.

The document says that by squeezing resources the Government has hindered progress in raising the level of achievement in schools.

Reports by HM Inspectorate have revealed that standards overall are not satisfactory in 25 per cent of lessons, and that there is a shortage of books in 20 per cent of lessons in primary schools. Up to 1.4 million pupils are still in classes of more than 30 pupils, and 130,000 are in classes of more than 35.

"For the vast majority of pupils, in state schools, the present Government's policies are an attack on the standards of their education and an assault on their future prospects," the document says.

hjt

FROM: H J DAVIES
DATE: 11 MARCH 1986

CHANCELLOR

cc CST
Mr Cropper
Mr Lord

LUNCH WITH MR TEBBIT: OPPOSITION SPENDING PLANS

You are lunching today with Mr Tebbit.

2. As I mentioned this morning Mr Harris of Central Office asked me about the costing of Alliance spending plans. He said the Chairman was thinking of using the first results of that exercise in his speech at the Central Council this weekend.

3. We are agreed that it would be better to launch the numbers from the Treasury, after the Budget. The £24 billion has gained in credibility because we have been able to say that it was produced by Treasury officials (whose disinterested brilliance is, of course, not in doubt). And we put a lot of effort into ironing out as many bumps as possible. The Alliance figures are not yet firm enough. The CRD number is not the one we shall wish to use. And we have not yet made up our minds how we should handle the relationship between the Alliance's and Labour's plans, or the major differences between the SDP and the Liberals.

4. We would therefore prefer the Chairman to steer clear of producing any specific numbers this weekend. As for Labour, Mr Hattersley has now replied to the CST's challenge. I shall be putting up a note on his letter later today.

WJ

H J DAVIES

FROM: H J DAVIES
DATE: 11 MARCH 1986

CHIEF SECRETARY

- cc ✓ Chancellor
- FST
- MST
- EST
- Sir P Middleton
- Mr Butler
- Mr Gilmore
- Mr Mountfield
- Mr Turnbull
- Mr Scholar
- Mr Culpin
- Miss O'Mara
- Mr Pickering
- Mr Savage
- Mr Cropper
- Mr Lord

ASAP?

1. HJD is doing a draft for me to send to Mr. Tisdall ch/ Do you want us to arrange 'x'?

2. No final copy yet. Mr Culpin will write draft letter. Mr Pickering is in possession.

LABOUR'S SPENDING PLANS: MR HATTERSLEY'S LETTER OF 10 MARCH

Mr Hattersley wrote to you again yesterday and released his letter to the press. Subsequently there was a point of order in the House today from Mr Radice and a number of exchanges. I understand that the Speaker stood well back and would not be drawn on the question of the use of civil service for this exercise or the correctness or otherwise of your Written Answer to Mr Chope.

DAVIES
→
CST
11/3

2. Mr Hattersley has also written to Sir Robert Armstrong about the propriety of using civil servants for using costing opposition policies. Mr Butler will be advising Sir Robert on his reply. He thinks that in responding to Mr Hattersley you can say that Treasury officials answered factual questions at your request and that the head of the civil service will be replying about the points Mr Hattersley makes about use of the civil service in this way. Incidentally Mr Pickering has dug out some useful examples of speeches in the House made by opposition members when in government which give costings of Conservative policies. I attach them for interest.*

3. On the substance of the letter, although Mr Hattersley has discovered one or two bugs in the system the £24 billion figure

* note at end

survives more or less unscathed. Comments on the individual issues follow before I consider how we should respond.

Education

4. Mr Hattersley makes two points. He claims that we have invented a figure of £235 million for expenditure on teachers and says that that figure cannot be substantiated from anything which appears in the reference article in The Guardian. On this he is wrong. That figure represents £60 million on training and £175 million on teachers. £175 million is $\pounds 14,000$ (Mr Radice's number) x £12,500, (which is the annual cost of employing a teacher.) So far so good.

5. On building and equipment there is a problem. That figure is made up of £90 million from Mr Radice on books and equipment and £781 million derived from "the Reconstruction of Britain" a TUC publication in 1981, subsequently re-endorsed by the Labour Party. It says that they would spend "£625 million over five years" on school buildings. This has been revalued in the Treasury but, unfortunately, the fact that it was a five year commitment did not emerge in the summary figures produced at the end of the exercise. In total, then, our education number is £625 million too high. (Note also that HE have discovered that the figure for educational maintenance awards to 16-18 year olds in full time education is not net of the reduction in child benefit implied, but this is a more debatable point).

Training

6. Mr Hattersley says that the Charter for Young People does not include a commitment to a five fold increase in training for adult unemployment. It is true that it does not include those words, but it details a "comprehensive programme for training all 16-18 year olds" which was in "A Plan for Training" published in July 1984 by the Labour Party and the TUC. We refer to the Charter for Young People which details the commitment but the Plan for Training says "a five fold increase in MSC work preparation and training programmes for unemployed adults". So I see no cause for concern here, or reason for reducing our figure.

628
233
392

7. Minimum wage and 35 hour week. There are two points. First, Mr Hattersley tries to imply that these are not really commitments. But secondly he says that it would be unrealistic in the first year of a government. Yet we have made it clear that our £24 billion is not meant to represent the first year cost of Labour's programmes, but rather a full year cost, most of which would be repeated year by year.

Aid

8. Here there is a slight problem, but one which in fact works in the opposite sense to that implied by Mr Hattersley. The figure of £3.1 billion quoted in the notes is incorrect. AEF thought that they were giving the total expenditure implied, not the increase resulting from Labour's policies. There are two separate commitments. First to increase spending to the UN target. That would cost £1.7 billion today. And second to double aid spending within 2-3 years. That would cost £1.33 billion today. The number we have in is £900 million. So though we can expect some clarification from Mr Hattersley we should, on this account, increase the total by £233 million.

£390m
← high level.
← £23 3/4 m.

Housing

9. Here he claims that our cost quoted for renovation work is wrong. And refers to a DOE document arguing that the cost is only £4,900 per dwelling. But that figure applies to all local authority dwellings, whereas the estimate in "The Reconstruction of Britain" specifically refers to "empty and hard to let council houses". This is a reasonable figure for such dwellings which will, of course, be more expensive to deal with than the average.

Next steps

✓
✓
10. In the light of this we need to consider how to reply. I think we must rebut the specific points Mr Hattersley makes. And we must point out that a very large proportion of the total remains undisputed. Since he offers to provide comments on the other 20

items I think we should invite him to do so. It might seem odd for us not to at this stage.

11. I discussed this with Messrs Lilley and Lord this afternoon and they agree that it might be useful if we had a letter in circulation before this week's Treasury Questions which asserted that nothing Mr Hattersley had said so far casts doubt on the overall total of £24 billion. I think that on the basis of the information we have so far we can do that. I therefore attach a draft on these lines.

12. Since Mr Hattersley does have a habit of answering letters we ought to be ready for further disputation. Mr Butler has agreed, in the light of what this letter has thrown up, divisions should once again check the costings they have produced, to ensure that there are no further hostages to fortune. There is a further question of whether we should publish any correction to the answer you gave Mr Chope. Mr Butler thinks, and I agree, that we are not in that territory at the moment.

Line to Take

13. At Treasury Questions I think we might emphasise the following points:

- i) Nothing Mr Hattersley has said causes us to wish to revise our overall estimate of £24 billion as the full year cost of Labour's spending commitments
- ii) A huge proportion of the figure is not contested by the opposition in any way
- iii) The arguments Mr Hattersley has put forward show that he is not as familiar as he should be with the Labour Party's own plans and commitments
- iv) Mr Hattersley has still not told us what he thinks the number should be

v) If he thinks it is lower than £24 billion Labour party spokesmen have been making promises to the electorate which they have no intention of fulfilling.

14. I think the Chancellor plans to send a copy of this note to the Chancellor of the Duchy.

HJD

H J DAVIES

If you are pressed further in the House or the civil servants point you could ask Mr. Hattersley to explain where Mr. Callaghan got his figures from. They have an official look to them.

in a recent speech promised huge across-the-board additions to public expenditure and the borrowing requirement in the housing sphere. I should be happy to quote the whole of the hon. Gentleman's speech, but I shall take just one of his bright ideas which would have cost hundreds of millions of pounds. The hon. Gentleman promised a maximum mortgage rate. Obviously he saw what happened to the Leader of the Opposition when she promised one. The hon. Gentleman talked of an adjustment of the composite rate of tax on building societies as if that would not cost anything. In fact, the cost of reducing the mortgage rate to, say, 9½ per cent., to pluck a figure from the air—the rate suggested by the Leader of the Opposition—would be nearly £600 million gross.

The Opposition's irresponsibility does not stop at housing.

Mr. Michael Latham: Will the right hon. Gentleman give way?

Mr. Barnett: I thought that I might have provoked the right hon. Lady the Member for Finchley (Mrs. Thatcher).

Mr. Michael Latham: Surely the right hon. Gentleman took some elementary interest in the point before making it. Does he not realise that it is cheaper to help people into owner-occupation than to build new council houses for them? That was the point made by my right hon. Friend.

Mr. Barnett: I hope that the hon. Gentleman, who appears to understand these matters, recognises that a reduction in the mortgage rate applies to everyone with a mortgage. That means that it would cost approximately £600 million gross.

As I said, the Opposition's irresponsibility does not stop at housing.

Dr. Colin Phipps (Dudley, West): Tell us more.

Mr. Barnett: I shall be happy to do so. If their words have any meaning, the Opposition would substantially increase expenditure on defence, the police, Northern Ireland, agriculture, fisheries, forestry, construction and pensions, to list but a few.

Mr. Patrick Jenkin: Where does the right hon. Gentleman get his evidence

that we have urged increased public expenditure on pensions?

Mr. Barnett: If the right hon. Member for Wanstead and Woodford is going back on what he and his party previously said on pensions, I note that.

Mr. Patrick Jenkin: Quote it.

Mr. Barnett: The Opposition have a policy to have twice-yearly increases in pensions. [Interruption.] Of course they do. Are they now going back on it? I am interested to note that. I have not noticed anyone else on the Opposition Front Bench deny what I said about any of the programmes I have mentioned.

Merely to balance the increase in expenditure promised by the Opposition would require the right hon. Gentleman's cuts in transfer payments and elsewhere to be pretty speedy.

Will the right hon. and learned Member for Surrey, East tell us how he proposed to balance the books, and where and how quickly he would make the cuts of which he talks so freely?

Sir John Langford-Holt (Shrewsbury): The right hon. Gentleman is quite rightly drawing the attention of the House to the fact that the decisions that the Government make about future activities are based on the figures available to the right hon. Gentleman but not published. In order that I, my right hon. Friends on the Front Bench or anyone else in the House may arrive at meaningful decisions, will the Chief Secretary ensure that all the figures necessary for such decisions are made available to hon. Members, whether they are yet published or not?

Mr. Barnett: All the figures on public expenditure are expressed in very great detail in the current White Paper, which I am sure the hon. Member for Shrewsbury (Sir J. Langford-Holt) has read from cover to cover. I see him nodding. He will no doubt have taken careful note of the observations made on the document by the Expenditure Sub-Committee. He will not need any further enlightenment from me.

The right hon. and learned Member for Surrey, East and his right hon. and hon. Friends invariably seem to relish the prospect of huge and unspecified cuts, about which he talks so freely. Speaking

[Mr. Biffen.]
 dimensions, did they then foresee that a Minimum Lending Rate of 15 per cent. would be necessary to secure its financing?

The Prime Minister: I think the answer is clear to the hon. Gentleman. If it had not been for the depreciation of sterling—and I agree with what the Leader of the Opposition said about the confidence factor there—it would have been much easier to finance the borrowing requirement of the Government than it is today. It is this interaction between the depreciation of the sterling rate and the need to sell gilt-edged which is responsible for some of the problems we have on the Minimum Lending Rate. That is why it is important and essential that the Minimum Lending Rate should not stay at its present level for a moment longer than necessary.

Mr. Leon Brittan (Cleveland and Whitby) rose—

The Prime Minister: I come to public expenditure. The Conservatives have made many proposals for reductions—for example, in housing. The housing subsidies are about £1,080 million. Let us assume that £300 million were cut off that. That is not an unreasonable assumption. For council house tenants it would mean an increase of £1.80 a week on rents.

Let us suppose that the second item in the catalogue of the right hon. and learned Member for Surrey, East was adopted, namely, to get rid of food subsidies. That would add 4.8 points to the food index.

Let us suppose that the third item put forward by the right hon. and learned Gentleman were carried into effect, namely, to abolish the transport subsidies. That would save £561 million and would have the effect of doubling the fares on British Railways.

At the end of this exercise, the right hon. and learned Gentleman would have saved £1,267 million. What the consequences would be to the pay policy if we doubled fares, put up prices on food in the way that he suggests and increased the rents, I hardly dare think.

But that is not the end. The right hon. and learned Gentleman wants to save £10 billion, not just a measly £1

billion. That is not the end. The tax credit scheme would cost a minimum of £3 billion. It means that the right hon. and learned Gentleman would be down £2 billion before he started on this exercise if the tax credit scheme was introduced. The old-age pension is going up next month at a heavy cost, to £15.30 for a single person and to £24.50 for a married couple. Would the right hon. and learned Gentleman touch that, or would it be left untouched?

I say to the right hon. and learned Gentleman that he could not cut public expenditure by £10 billion. He could not cut it by 10 per cent. He said that he would reduce it by from 60 per cent. to 50 per cent. He could not do it, he knows that he could not do it, and he is trying to deceive the House when he says that he would do it.

The right hon. and learned Gentleman asked me who started the increase in public expenditure. I can tell him. It was he and his right hon. and hon. Friends who started the increase in public expenditure. I am in favour of high public expenditure. Anyone who travels round the country and sees the need to refurbish our inner cities, sees the need for new housing stock and sees all the other needs that have to be met must be in favour of providing more public expenditure. But we have to face, and to face reluctantly but nevertheless necessarily, as I have said on many previous occasions, that we have to create the wealth before we distribute it. Therefore, we are giving the first priority to manufacturing investment.

I finish by saying that it is essential that we maintain the value of our currency. It is essential that we give priority to industrial investment. Our chosen instruments for this purpose—and there is none better—are the social contract and giving priority to manufacturing itself. We have as an obligation and as our objective the need to overcome inflation, to improve the status of workers in industry, to have social policies which will protect those in need and to preserve the social cohesion of our country.

The Opposition would go back to 1973. They would tear the country in two. The country is not divided now, as it was in 1974. There are millions of people in the country who understand

seriousness of the situation and who will succeed. Millions of people are looking to the Labour Government to succeed. We shall not waver, and we shall bring the country through.

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DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO:

Rt Hon R Hattersly MP
House of Commons

Thank you for your letter of 10 March.

I note that you have written to the Secretary to the Cabinet about the propriety of using civil servants to cost policy proposals. He will be replying to you himself. My own position is perfectly clear. Treasury officials answered factual questions on the implications of Opposition proposals at my request. I regard that as perfectly proper.

X
I have looked carefully at the detailed points in your letter, and I am grateful for the clarification they bring to this exercise. But before I deal with them in turn, I should say that they do not cause me to revise my overall estimate of the cost of Labour policies, which remains £24 billion. I am reinforced in this view by the fact that you have not attempted to offer your own rival estimate of the cost of Labour's spending plans.

There is one important point about the costings that you have misunderstood. I did not say that the figure represented spending in the first year of Labour government. I recognise that, although

you have asked local authorities to prepare for an immediate jamboree, you would not be able to get into full swing straight away. The figure I quoted is the full-year cost of Labour's programme - though most of it, of course, is ongoing. So the points you make about the minimum wage and the 35 hour week fall away, and the costings, of £1 billion and £3 billion respectively, stand.

For the rest, I am prepared to accept your undertaking that education spending would be lower. The £235 million figure on teachers represents £60 million on training (Mr Radice) and 14,000 additional teachers (Mr Radice again) costed at £12,500 a year. I am surprised you are not aware of the cost of this commitment. The remainder is £90 million on books and equipment (Mr Radice) and an increase in building, repairs and maintenance of schools - it is the present day cost of a commitment to spending of £625 million in 'The Reconstruction of Britain'. If you would prefer a smaller annual figure, perhaps we can agree on £200 million, giving £525 million in total under these headings.

On training (your point 1b) I am afraid you have not checked your sums carefully enough. The 'Charter for Young People' sets out the details of a programme which it says derives from 'A Plan

for Training' published in July 1984. That summarises the commitment as 'A five-fold increase in MSC work preparation and training programmes for unemployed adults. So the £900 million under that head stands also.

You have helpfully clarified the Labour Party's commitment on aid, which has been expressed in various different ways. Since we are looking at the full year cost of doubling the aid programme this means that our figure should have been £1,133 million, an increase of £233 million over the £900 million we have so far allowed.

The last item concerns housing. You say the cost of renovations is wrong. It is not. 'The Reconstruction of Britain' talks of renovation of '200,000 empty and hard-to-let council houses' over a period of 8 years. The DOE estimate of £4,900 is an average for all properties. Empty and hard-to-let council houses are far more costly than average. Our judgement, after some thought, was that £10,000 would be a reasonable, and certainly not overstated, figure.

There are 20 other items on which you have not commented. I can only assume that you think they are correct. But if you have comments on them I would be more than happy to take them into account.

May I say how pleased I am that we are at least -
with your help - getting close to a true picture
of the economic policies Labour will be putting
before the public at the next election.