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PART C

Chancellor's (Lawson) Papers:

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

Disposal Directions: 25 Years

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PART C



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THE RT HON NORMAN FOWLER MP

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*PSA
with file
Labour
Costing.*

The cost of Mr Meacher

Norman Fowler MP, Secretary of State for Social Services, has today written an open letter to Michael Meacher, Labour's Social Services Spokesman setting out details of the range of promises he has made. Mr Fowler said that those promises were currently the subject of clashes between Mr Meacher and Mr Hattersley, and said that Labour should avoid raising hopes they had no prospect of ever fulfilling. He challenged Mr Meacher to make clear to the groups whose hopes he had raised that there was now no question of Labour carrying out the promises he had given.

The following is the text of the letter Mr Fowler sent today.

There was considerable public interest in the statements you made on the floor of the House on 16th July about the actions that would be taken on Social Security by a Labour Government. On 11th June, also in the House of Commons, you pledged that these would be made 'in the first year, in our first Budget'.

The three main points, which were repeated among many other spending pledges in Labour's new document 'Health for All' were:

First, to raise pensions by £5 a week for the single person and by £8 a week for the married couple;

Second, to increase Child Benefit by £3 a week;

Third, to 'extend the long-term rate of Supplementary Benefit to all of the long-term unemployed'.

Twice in the House of Commons you have indicated that the cost of these measures would be £3.5 or £3.6 billion and that they could be afforded by raising taxes on 'the top 5 per cent'. That was misleading on two counts.

First, the tax implications of your proposals could not be limited to the million families you have marked down for attack.

Second, you underestimate the cost of your proposals. Unless you were to refuse to increase other benefits - for example, widows' benefit and invalidity benefit - which are presently set in line with retirement pensions, and declined also to raise, for example, housing benefit needs allowances, the total cost of your first year proposals alone would be over £5.6 billion. That is equivalent to a rise of 5p in the £ jump in income tax across the board to pay for the social security changes alone.

There is, however, a wider matter which in view of the highly publicised conflicts between you and the Shadow Chancellor should now be clarified for the public record. That is the question of what would happen after Labour's first budget. That is what the current row in the Labour Party is all about. This is what now needs to be cleared up. The public are entitled to know what commitments you have to increase spending on Health and Social Security subsequent to your £5½ billion package.

In April 1985 you issued to the Press some details about your plans. These were reported to be 'pre-emptive' action in advance of our own social security review. You said these proposals were 'a considered response' by 'specialist work groups' you had convened. You said they formed 'part of a work entitled "Robbing the Poor" shortly to be published by Sokesman books'. A year and a quarter later no such book has appeared. This is despite the fact that again at your Party Conference last September you promised that you would 'publish our alternative programme of reform for consultation with the movement and with the public ... early in the New Year'. The New Year has passed. The next Labour Conference is drawing near. But 'the movement' and the public are still awaiting the details. You are clearly reneging on the commitments to publish that you have made.

Fortunately there is abundant evidence of your intentions on the record. Since you have been Opposition spokesman on Social Services you have made more spending promises than any previous Party spokesman. You have given these promises to disabled people, to pensioners, to poor people, to those out of work, and to families with young children. You have held out to them prospects which no Government - least of all a Labour Government - could ever hope to fulfil. It has been entirely irresponsible because you have raised expectations which you know you cannot meet. I am sure that you will take this opportunity to clarify the stages by which your further programme will be implemented and to give details of its costs. Only in that way can you put right any misunderstandings which you have caused about the Labour Party's intentions.

In order to assist the Press and public in assessing the details of your package I am attaching to this letter a list of some of your main public spending declarations. I cannot claim that even this is comprehensive. In every case I have added references to the source material from which they are derived. As you will see, all of them are public statements that you have made in your period as official Party spokesman - a period in which, if you personally and the Opposition as a whole are to retain any credibility, it must be assumed that you were speaking on behalf of the Labour Party.

All those in the groups affected by these statements are entitled to know whether you stand by them and at what stage they would be introduced by any future Labour Government. I invite you to make clear whether you now repudiate any of these promises. If you do not specifically repudiate them I will assume that you intend these to form part of the programme of a future Labour Government.

The potential scope of these statements is so far-reaching in terms of tax, national insurance and public spending that it is important that they be brought to public attention. The Shadow Chancellor is claiming that they could be financed by limited tax changes affecting the very rich. In this respect at least you have

been more honest. As the attached material shows, you have set out a range of ideas for financing your proposals by abolishing tax reliefs, for raising income tax, and for raising national insurance contributions whose merits you will doubtless be pressing on your colleagues. In view of the importance of this question I am releasing this letter and the attachments to the Press.

NORMAN FOWLER

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1. Pledges to Pensioners.

a) Earnings Link.

'For the pensioners we would restore the link with earnings'.¹

b) Immediate Uprating.

'Labour is committed already to giving pensioners an increase of £5 per week for a single pensioner, and £8 per week for a couple right across the board (at 1984-5 levels) without cutting other benefits'.²

c & d) Christmas Bonus: Off-peak travel.

'Pensioners will get a big cash rise immediately Labour gets back in power. An extra £5 a week will go to single pensioners and £8 for a couple. This "cast iron promise" was given yesterday by Shadow Social Services Secretary Michael Meacher at a Fulham by-election meeting in London ... Labour's package for pensioners will also include:

- * doubling the Christmas bonus;
- * winter premiums of £5 a week for needy pensioners and widows;
- * nationwide off-peak half fare travel for pensioners'.³

1 Hansard, 22nd April 1985, Col. 630
2 Press Release, 16th October 1985
3 Daily Mirror, 2nd April 1986

NB Financial Times of the same date reported a further pledge to raise the level of the Death Grant to an increased level of at least £200.

e) Winter Premium.

'Significantly increased help must be given to the most vulnerable in the cold winter months. If an extra £5 per week were paid automatically to all pensioners on supplementary benefit, it would cost £8.25 million a week. If we included also, as we believe we should, another 1 million pensioners and widows with resources slightly above the supplementary benefit qualification, but who are still in real need and who are unable to warm themselves adequately, that would cost another £5 million a week. If that aid were given every week from mid-December to the beginning of March, it would cost about £130 million'.¹

f) SERPS.

'I want to make it clear that in two years' time when we are in a position to do something about this, we shall re-introduce SERPS, either in the same form or in some improved form'.²

2. Pledges for Families.

a) Child Benefit.

'For families, we would retain and improve child benefit as the single most important protection against family poverty and against the poverty trap'.³

[Child Benefit] 'Would be set immediately at a rate of £14.50 per week per child, plus an addition of £7.65 per week per child living with a lone parent. It would then be improved in real terms at subsequent upratings'.⁴

1 Hansard, 6th March 1986, Col. 476

2 Hansard, 11th November 1985, Col. 329

3 Hansard, 22nd April 1985, Col. 631

4 'Do We Need a New System?', 15th April 1985, page 17

[Child Benefit] 'It is now £7 per week for each child. You could double it to £14 a child, if you abolished the married man's tax allowance. The amount of money we spend on that is about the same as the current cost of child benefit. I think that would be a lot fairer'.¹

- b) Child Benefit: Immediate Action. 'It shall be done in the first Labour budget. We shall increase child benefit by £3 a week'.²
- c) Child Benefit: Indexation. 'We object to it (cc. Government policy) for several reasons ... Thirdly, there is no commitment to index child benefit in line with prices, let alone earnings'.³
- d) One-Parent Families.
'For many years, the need for a proper benefit for these families has been obvious. A new one-parent family benefit would take this whole group out of supplementary benefit'.⁴
- e) Educational Maintenance Allowance.
'An educational maintenance allowance (of £25 per week) is paid to all 16, 17 and 18 year olds in full-time non-advanced education'.⁵

1 Tribune, February 1986
2 Hansard, 11th June 1986, Col. 340
3 Hansard, 11th June 1986, Col. 341
4 Supplementary Benefits, 15th April 1985, page 20
5 New Income Protection Plan, 15th April 1986, para 6

f) Benefit for Unpaid Work.

'A universal benefit, which gave recognition to the unpaid work done by most members of society - voluntary community work, as well as work within the family - would allow a better balance between the rewards of paid employment, and rewards for tasks which have hitherto been "voluntary"'.¹

3. New Income Protection Plan.

'We would seek to bring to an end the present degrading supplementary benefit system'.²

a & c) Supplementary Benefit.

'After stoppages the average-paid worker is probably getting about £120 per week. Supplementary Benefit for a couple if they are unemployed, on a short-term rate, is about £50. But the rent is paid if they're getting housing benefit - say about £20 a week. That takes them to about half the level of the net wage of an average-paid worker. I believe that will lead to many people on benefit having more than those in low-paid work ... So a necessary corollary to increasing supplementary benefit to a decent level is the establishment of a national minimum wage. I accept the view taken by NUPE - the main advocate of this tactic - that it should be two-thirds of the national average, around £100 per week. The lowest wage should be above the level of benefit ...

(cont.)

1 Do We Need a New System, 15th April 1985, page 5
2 Hansard, 22nd April 1985, Col. 631

b) 'Next, all benefits - unemployment, retirement, sickness, widowhood - have to be paid at a level at least as high as that family would get from supplementary benefit. You should not, as we have done since 1949, pay benefits below the poverty line, and then leave people with an option to claim a means-tested benefit to top up to a higher level.

If you provided the benefits at or above the current supplementary benefit level, you could virtually scrap the supplementary benefit system and that would be a huge advance'

'If supplementary benefit scale rates were increased - as we have argued that they should be - then other means-tested benefits would also need to be increased, to give overall fairness between people in work and those not working'.²

d) Income Maintenance.

'[Income maintenance] is the base of income support for the retired, the sick and the unemployed. It provides an adequate income level, paid as of right (as National Insurance benefits are now) to adults as individuals unless an adult is able-bodied, of working age but not available for work, when an adult's dependency addition would be made to the claimant's benefit. Disaggregation would be phased-in for those over retirement age. There would be a lower level benefit for 16 and 17 year olds in recognition of reduced financial commitments'.³

1 Tribune Interview, February 1986
2 Supplementary Benefits, 15th April 1985, page 21
3 Do We Need a New System, 15th April 1985, page 18

'The income maintenance benefit is set at a uniform rate for all claimants with additions for pensioners (heating addition plus the state earnings related pension addition) and for the disabled (a disablement costs addition)'.¹

e) Pensioners' Addition.

'This is added to the Income Maintenance Benefit in recognition of increased heating costs. It would be set at £2.10 per week for the over 65s and £5.20 for those over 85 years'.²

f) Strikers Deductions.

'I give a pledge to, and I give it very solemnly, that we will end that infamous system of a £16 a week deduction in benefit that was used to deprive the miners of their basic rights, whilst at the same time stopping unjustified tax-free perks and expense account lunches'.³

4. Temporary Emergency Payments Scheme.

'A temporary emergency payments scheme would have to give a fast and flexible response to individual circumstances if it were to be effective. It would therefore need to be a local service, staffed by people trained for this purpose. So it would be quite different from the main scheme for providing basic incomes, and quite different from our present supplementary benefit scheme ... (cont.)

1 New Income Protection Plan, 15th April 1985, para 4
2 Do We Need a New System?, 15th April 1985, page 18
3 Party Conference Speech, 1985

'The scheme would be aimed at tiding people over crises, emergencies and unforeseeable sudden problems ... It would merely aim to give immediate cash help to those in urgent need, to help them get back to normal as quickly as possible ...

Unlike the basic income scheme, the temporary emergency scheme could not pay benefits according to a fixed rate. Each case would require an assessment of need, which would depend on the exact nature of the crisis. Staff would therefore inevitably exercise discretion and make individual judgements over needs.. Perhaps the best way to avoid the delays and value judgements associated with means-testing would be for payments to be made on a loan basis, but for recovery of loans not to be pursued if, on later investigation, this proved impractical...

Staff should be trained to regard a larger payment which restores normality quickly as preferable to a smaller one which results in claimants requiring temporary assistance for more than a maximum of a fortnight'.¹

5. Disabled People.

- a) 'For the disabled ... a new component is needed - a disability costs allowance - to compensate for the extra costs of living arising from disability. But it will inevitably be expensive and its implementation, as for other objectives, must depend on our economic success'.²

1 Supplementary Benefits, 15th April 1985, pages 22-23
2 Hansard, 22nd April 1985, Col. 631

'Disablement Costs Allowance - this benefit would be paid to the disabled, whether in or out of work, to help towards the costs incurred as a direct result of disability. Assessed on a degree of disability basis, it would be set at £58.40 per week for those with 100 per cent disability. If Mobility costs were subsumed into the main Costs Allowance it would be increased accordingly but Attendance Allowance would be paid in addition'.¹

'What the disability groups want is a comprehensive disability income, which on various calculations would cost around £2,000 million. Well, that's another colossal expenditure'.²

6. Pledges to Unemployed People.

'Until the problem of employment is systematically tackled, a minimum demand is that unemployment benefit should be extended beyond the present limit of one year. For those who do have to claim supplementary benefit, the scale rates for people still claiming after a year's unemployment should be at the higher (long-term) rates'.³

Immediate Action.

'It shall be done in the first Labour Budget ... We shall extend the long-term rate of supplementary benefit to all of the long-term unemployed'.⁴

1 Do We Need a New System?, 15th April 1985, page 18
2 Tribune Interview, February 1986
3 Supplementary Benefits, 15th April 1985, page 20
4 Hansard, 11th June 1986, Col. 340

7. Death Grant.

Raised to £200 (Financial Times, 2nd April 1986).

8. Housing Support: Ending Mortgage Tax Relief.

'Since its inception housing benefit has been a vicious attack on the poorest section of our society and an administrative nightmare for local authorities'.¹

'The artificial division in housing and according to type of tenure involving tax relief for owner-occupiers as opposed housing benefit for those who rent, should be ended and replaced by a single system governed by need and family size, not by type of tenure. In the interim, prior to the introduction of a universal housing allowance of such a kind, a single unified housing benefit should replace the current over-complex structure of certificated and standard housing benefit (including the housing benefit supplement where taken up by those entitled is low). The simplest option for this would be a "single taper" scheme'.²

'A Housing Allowance combines present Housing Benefit and Mortgage Tax Relief into a cash benefit'.³

'A cash benefit would be payable towards housing costs whether rented or owner-occupied, whether the claimant is in or out of work. The level of benefit would relate directly to income but only those on 1½ times average earnings would receive less assistance from Housing Allowance than they do now from Mortgage Interest Tax Allowance'.⁴

1 Cold Comfort, page 46

3 New Income Protection Plan, para 7

2 Cold Comfort, page 50

4 Do We Need a New System?, p

9. Payment and Uprating of Benefits.

'All benefits would be cash benefits paid weekly. They would be uprated annually in line with increases in prices or earnings, whichever is the higher'.¹

10. How to Pay for It: Tax and National Insurance Changes.

a) Reforming Income Tax.

'Extraordinary inequalities ... riddle the income tax system. The latter is virtually a single-rate structure, since 19 out of 20 taxpayers pay at the 30 per cent rate only, and it has almost ceased to be a progressive tax at all. What is therefore needed is a multi-tier tax structure with rates of 15 per cent, 30 per cent, 45 per cent, 60 per cent and, possibly, 75 per cent'.²

Taxation.

'There is a limit to how far you can push the vast majority of ordinary workers ... it partly links to who you take the money from... The way out of this dilemma, I believe, is to have a highly-graduated tax structure. At the moment, 19 out of 20 households pay at the 30 per cent rate. We should change that to a structure where, at the bottom, we raise the tax threshold, and start off at, for example, 15 per cent, then 30 per cent, then 45 per cent, then 60 per cent, and then more controversially, 75 per cent. I'm assuming that this would all be worked out to be revenue neutral - producing the same income tax as the present structure in total'.³

1 Do We Need a New System?, 15th April 1985, page 16
2 Guardian, 13th July 1984
3 Tribune Interview, February 1986

Reforming National Insurance.

b,c) National Insurance.

'National Insurance in Britain is a wonderful way that the Tories have found for making the working class pay for their own benefits. There is a very low threshold, now about £35.50 and a ceiling at about 1½ times average earnings. Everyone in that area ... has to pay quite a high rate - 9 per cent flat rate poll tax'.¹

New "Progressive" Tax Structure.

The Plan would be financed by either:

- a) A National Insurance contribution system which abolished the present higher income ceiling and replaced it with higher contributions of, say, 11 per cent and 13 per cent as income rises PLUS a progressive Income Tax rate levied at, say 15 per cent, 30 per cent, 45 per cent and 60 per cent, according to personal income level; or
- b) An amalgamated National Insurance and Income Tax levied on a progressive basis on all personal income at rates of, say, 15 per cent, 30 per cent, 45 per cent and 60 per cent'.²

c) Higher National Insurance.

The figure of 27 per cent, even if true, is the peak ... It is not such a shockingly high figure, or indeed intolerable

d) Higher Treasury Supplement.

We would restore the Treasury contribution to a significantly higher figure.³

1 Tribune Interview, February 1986

2 Do We Need a New System?, 15th April 1985, page 17

3 Social Security Bill, Standing Committee, 25th February 1986

e) Ending Mortgage Tax Relief.

The scheme ... proposes the amalgamation of the present systems of housing benefit and mortgage tax relief ... the lowest point at which mortgage relief would begin to be reduced would be $1\frac{1}{2}$ times average earnings.¹

f) Abolition of MMTA - The Married Man's Tax Allowance.

'The additional cost of provision for children can be set off directly against savings made from abolition of the married man's tax allowance and additional personal allowance'.²

Taxation of Child Benefit.

g) Taxing Child Benefit.

'We do need a better integration between income tax and the social security system, but based on an income tax system which is graded in its structure so that the lowest paid are either out of tax altogether or they pay a low rate a low rate of 15 per cent and above that 30, 45 and 60 per cent.

If you had that you could pay a universal benefit like child benefit to everyone but then concentrated on those in greatest need without a means test by taxing it, and that would be a far better way of ensuring that we retain universality but at the same time concentrated on those who really need it'.³

1 Letter to The Times, 20th April 1985
2 New Income Protection Plan, 15th April 1985, page 2
3 Newsnight Interview, 18th June 1985

h) Tax on Sugar.

'The Government are already taxing cigarettes and alcohol heavily and surely they should now be taxing sugar'.¹

i) Reducing Perks.

'If the true cost of the private fiscal welfare state - the whole range of personal tax reliefs and allowances - and the private occupational perks welfare state were assessed with a view to distributing the benefits on a more equitable basis, the costs of this scheme could be covered'.²

'Against these costs, we must put savings to Family Income Supplement, the Married Man's Tax Allowance and Additional Personal Tax allowance (no longer needed because of the new child arrangements). There would be massive savings to the host of passport benefits necessitated by inadequate benefit scale rates'.³

1 Hansard, 25th March 1985, Col. 154
2 Do We Need a New System?, 15th April 1985, page 19
3 Do We Need a New System?, 15th April 1985, page 19

11. Health Spending.

'The fundamental underlying problems of the NHS ... cannot be solved without increased funding on a par with other countries'.¹

a) Health.

'We would increase resources in the health service by 3 per cent a year over and above inflation ... That is my bottom line. Given the way the Tories have hammered the service, I must persuade my colleagues that 3 per cent is the minimum and it needs to be nearer 5 per cent per year increase in resources ... An increase of 3 per cent would give about £500 million extra in real terms, about £3,000 million over a five year term'.²

b) Prescription Charges.

'We will reduce prescription charges immediately and phase them out altogether'.³

Dental Charges.

'Labour will reduce the present high dental charges'.⁴

c) Hospital Building.

'Hospital building ... would not be my top priority, but certainly we need some increases'.⁵

1 Guardian, 20th July 1984
2 Tribune Interview, February 1986
3 Health for All, July 1986, page 5
4 Health for All, July 1986, page 13
5 Tribune Interview, February 1986

More Building.

'I think there are two kinds of health institution which are greatly lacking in the health service. There are a few private hospices for the mentally ill and I would be in favour of building some of those. Nursing homes for the elderly are almost all in the private sector ... All this is in addition to the obvious requirements for better primary care, more health centres, ancillary services and ancillary workers, social work professionals, more hospitals'.¹

d) Drugs Bill.

'We would also cut the drugs bill by an extra £100 to £200 million a year by a much bigger cut in the target rate of return and promotional expenditure'.²

e) Ending Disparities in Provision.

Resource Allocation.

'I think we need more resources, discriminatorily placed into areas of greatest need to bring down those classes and regional differentials'.³

1 Tribune Interview, February 1986
2 Press Release, December 1983
3 Tribune Interview, February 1986

f) NHS Administration.

'Labour will reverse the top-heavy centralisation of power in the National Health Service, and we will reverse the crude political patronage and blatant partisan loading of health authorities. We will strengthen the CHCs and we will inject a real element of democratic accountability into the administrative structure so that local services are generally responsive to local demand and consumer complaints'.¹

g) Community Care.

'All Parties are in favour of community care ... If a Labour Government did it for real, we would want to have an expansion in the number of workers providing care, but we would also want to be assisting and supporting ordinary people looking after elderly or dependent relatives, and giving them some financial recognition for doing so. It has been estimated that the cost of care provided by families to dependent relatives is of the order of £5,500 million each year. We virtually provide nothing for them. So a third priority would be to provide some financial support for carers. That is a big and costly priority'.²

1 Hansard, 5th July 1984, Col. 485-6

2 Tribune Interview, February 1986

h) Alcohol Abuse.

'The next Labour Government will act positively and quickly by instructing all the appropriate statutory authorities to commit themselves to securing provision of the range of services required, including basic information and education, counselling, the availability of de-toxification, rehabilitation hostels and suitable accommodation. They must also ensure this approach is successful by regular reviews of the existing services in every region with the ultimate aim being the development of a fully-integrated and comprehensive range of services, spanning both the statutory and voluntary sectors involved'.¹

i) Drug Abuse.

'A national policy to combat drug abuse might include the following proposals: the list is by no means comprehensive ...

Increased finance to ensure the above recommendations would be implemented. The Standing Conference on Drug Abuse estimates a minimum requirement of £20 million (on present day costs)'.²

j) End Low Pay.

'A necessary corollary to increasing supplementary benefit to a decent level is the establishment of a national minimum wage. I accept the view taken by NUPE - the main advocate of this tactic - that it should be two-thirds of the national average, around £100 per week'.³

1 Cold Comfort, page 18
2 Cold Comfort, page 46
3 Tribune Interview, February 1986

Private Health.

k) Private Sector in Health.

- l) 'I believe the private sector in the health service is causing significant damage to it ... First of all, yes, we have to reduce pay beds in the NHS. I would reintroduce the health services board that was there before'.
- m) 'I would reduce the tax reliefs that have been given to private health insurance companies, to employers'.
- n) 'I would change the contract for consultants who now have an incentive to work not 9/11ths but 10/11ths and still do private sector work. I would like to return to a system of 9/11ths minimum, but I would also like to persuade more consultants to work full-time in the NHS - and this includes financial incentives to full-time consultants'.
- o) 'We all also need a board which would regulate building and expansion outside the NHS'.

'Another weapon in our armoury is to say that hospitals in the private sector should have the necessary minimum facilities, say in radiography and so on, the kind of back-up services which a lot of them don't have because they are parasitic on the NHS. Either they would have to obtain that or they would have to close. The objective would be a range of pressures which would minimise and squeeze the private sector ... my objective would be to squeeze the private sector. Then after six months, or a year, see how far we have got, and squeeze again, maybe in a different direction, but keep on with the objective'.¹

1 Tribune Interview, February 1986

p) Nationalising Private Hospitals.

'Why don't we in the National Health emergency which we will inherit, take into public ownership their private hospitals and their private clinics when there are long NHS waiting lists?'¹

q) Checking NHS Co-operation with the Private Sector.

'We can be expected to reverse ... the contracts made with private health institutions for the care of NHS patients, and the provision of tax relief to encourage the sale or lease of NHS land to private interests'.²

r) A "Conscience Tax".

'We want to reduce the entire scale of the private sector and put the money and resources back where they belong. And one way to do that would be a "conscience" tax on private patients who can well afford it'.³

s) End Competitive Tendering.

'The programme includes issuing directions, shortly after the election of a Labour Government to all Health Authorities to stop competitive tendering, and to cancel existing timetables for tendering. As contracts come up for renewal Health Authorities will be directed to make arrangements to provide ancillary services in-house'.⁴

1 COHSE Conference, Daily Telegraph, 27th June 1984
2 Press Release, December 1983
3 Daily Mirror, 27th March 1986
4 Speech to NHS Managers, 17th April 1986



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Roy Hattersley MP
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London
SW1A 0AA

31 July 1986

Dear Roy,

Last February, following exchanges between us in the House, I sent you a list of Labour pledges with their costs attached. At that time the cost of Labour's spending plans, excluding nationalisation and one-off promises, totalled an extra £24 billion in a full year. In March I made some adjustments, one up and one down, to the costing in the light of points you raised leaving the total broadly unchanged.

There has been considerable public interest in this matter ever since. In the House I made it clear that if you informed me that any of the items were no longer Labour Party policy, I would of course make the necessary adjustments to the totals. Since then, rather than reduce these totals Labour pledges have increased them.

... I have therefore looked again at these costings and enclose a revision which now takes the full year cost of Labour's policies to over £28 billion.

I would like to make two points on these figures. First, to finance a programme on this scale would require an increase in the basic rate of income tax to 53 p in the pound or, if you were not prepared to do it that way, in VAT to at least 43 per cent. This is clearly insupportable. I assume that you will now be making clear which items you would propose to drop.

Second, this total excludes the additional cost of a large number of pledges by Michael Meacher. On Tuesday of this week Norman Fowler wrote to him and provided a list of 24 spending pledges. I have listed separately the additional cost of six of Michael Meacher's clearest pledges which would add a further £7 billion to the total full year cost, bringing it to £35 billion.

For example, while you want to increase child benefit by £3 at a cost of £1,450 million, Michael Meacher has pledged to raise it by a further £4 to £14 at a further cost of £1,800 million, or £3,250 million in all. I must ask you to clarify whether we should indeed add these additional "Meacher" pledges to the total or whether you have now managed to establish that his statements on social service matters should be ignored. I await a clear answer on that important matter.

In view of the previous interest I am making this letter and attachments available to the press.

Yours sincerely,

John

JOHN MacGREGOR

COMMITMENT

COSTING

million

1. Overseas Aid	1,460
2. Industry	590
3. National Investment Bank	50
4. Training for unemployed	750
5. Community programme training	240
6. Educational maintenance award	730
7. 35 hour week	3,250
8. Minimum wage	1,100
9. Regional employment subsidy	500
10. Energy	170
11. Arts	110
12. Roads and Rail	950
13. Housing: new build	3,130
14. Housing: rehabilitation	250
15. Urban programme	510
Sewerage	260
16. Under 5s	470
17. Teachers	230
18. Buildings and equipment	250
19. Close private schools	360
20. Student grants	470
21. Health	760
22. Free TV licence for pensioners	320
23. Maternity and death grants	220
24. Child benefit	1,450
25. Pensions	1,650
26. Early retirement	3,000
27. Unemployment benefits	530
28. Minor measures	50
* 29. Councillors' remuneration	40
* 30. Education throughout life	1,940
* 31. Wage subsidy	1,450
* 32. Expand public services	1,000
TOTAL	28,240

** MEACHER COSTINGS

* 33. Double Christmas bonus	110
* 34. Winter premium	180
* 35. Child benefit	1,800
* 36. Supplementary benefit	5 020
* 37. Drug abuse	20
* 38. Cut drugs bill	-150
TOTAL	6,980

* Newly identified commitment

** Additional to social security items 24,25, and 27 pledged by Roy Hattersley.

NOTES

1. Commitment to increase aid to 0.7 per cent of GNP (Roy Hattersley, in a speech to Overseas Development Institute, 9 June 1986).
2. 1986-87 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 17 May 1985).
4. Estimated cost (in 1986-87 prices) of commitment to 5-fold increase in training for adult unemployed. ('A Plan for Training', TUC, July 1984, endorsed in 'Charter for Young People', June 1985).
5. Adjusted pay rates - in line with Local Authority workers - and more training. ('A Plan for Training' TUC July 1984 endorsed by 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 a week, uprated in line with inflation and applied

to manufacturing industries only. ('A New Partnership, A New Britain' - TUC/Labour, August 1985.)

10. Commitment to increase spending on public and private sector conservation programmes by £525 million over 4 years, uprated in line with inflation. ('The Reconstruction of Britain', - TUC, October 1981, endorsed in 'A New Partnership, a New Britain - TUC/Labour, August 1985.)

11. Doubled funding of performing and creative arts. (Norman Buchan, 'Financial Times', 6 August 1985.)

12. Update (to 1986-87 prices) of commitments in 'Reconstruction of Britain' (TUC October 1981, endorsed in 'A New Partnership', TUC/Labour, August 1985.)

13. 125,000 new starts a year at £25,000 each. ('Reconstruction of Britain' endorsed in a 'New Partnership', TUC/Labour, August 1985.)

14. 25,000 renovations a year at £10,000 each. ('Reconstruction of Britain' endorsed in 'New Partnership' TUC/Labour, August 1985.)

15. First year of a five-year programme to increase Urban Programme by £2 billion over 5 years, and sewerage investment by £1 billion over 5 years, uprated in line with inflation. ('Reconstruction of Britain' endorsed in a 'New Partnership' TUC/Labour, August 1985.)

16. Right to pre-school education for all 3 and 4 year olds. ('The Charter for the under 5s', April 1985). Assumes 80 per cent take up.
17. 14,000 more teachers and £60 million on training. Labour's own estimates, uprated in line with inflation. (Giles Radice in 'The Guardian', 17 April 1985.)
18. Commitment to increase spending on school buildings by £625m over 5 years, uprated in line with inflation. ('Reconstruction of Britain' endorsed in a 'New Partnership,' TUC/Labour, August 1985. £90m on books and equipment. (Giles Radice in 'The Guardian', 17 April 1985.)
19. Assumes 500,000 extra pupils in the state sector. ('Charter for Pupils and Parents', 1985).
20. Restoration of mandatory award to 1978-79 levels and abolition of parental contributions, (Education throughout Life, January 1986).
21. £600m for phasing out of charges and ending private practice in NHS. (NEC statement, October 1983). £100m for real increase in capital spending. ('Reconstruction of Britain' endorsed in a 'New Partnership' TUC/Labour, August 1985) £60m for end to competitive tendering. (Neil Kinnock in a speech at Bournemouth, 22 April 1985).
22. Hansard 27 March 1985 Col 482 - Gerald Kaufmann.

23. £120m maternity grant, £100m death grant. (1984 conference motion.)
24. £3 a week increase. (Roy Hattersley, Hansard, 20 March 1985, Col 881).
25. Pensions increased by £5 a week (single) and £8 (couple). (Roy Hattersley, Hansard, 20 March 1985, Col 881).
26. Reduction in retirement age to 60 for men. (Neil Kinnock, 24 June 1985, at TGWU conference.)
27. Pay long term scale rate to unemployed after a year on benefit. (Roy Hattersley, Hansard, 20 March 1985, Col 881).
28. Concessionary fares. ('Charter for Transport', April 1985). Strengthening the NEDC. (John Smith, Tribune, 8 November 1985).
29. Implementation of Widdicombe proposals on councillors' remuneration. (Speech by John Cunningham at LAMSAC conference, 23 April 1986).
30. Universal adult education entitlement at £1740, assuming 1½ full-time equivalent take-up. Remainder for more overseas students, awards for part-time students, science and technology conversion courses, and expansion of distance learning. (Education Throughout Life, January 1986).

31. Subsidy to employers who take on long term unemployed. (Employment Committee First Report, 1985-86, endorsed by Roy Hattersley, Hansard, 19 March 1986 col 310).
32. Increase public service employment in nursing, mid-wife and home-help services. (Roy Hattersley, Hansard, 19 March 1986 col 310).
33. Michael Meacher, 'Daily Mirror', 2 April 1986.
34. Winter premiums of £5 a week for needy pensioners and widows. (Michael Meacher, Hansard, 6 March 1986.)
35. Raise child benefit to £14 a week (Michael Meacher in Tribune, February 1986). Cost is excess over item 24.
36. Proposal that unemployed couples on supplementary benefit should receive 70 per cent of the average net wage (including housing benefit) and that unemployed, retirement, sickness and widows' benefits should be raised in line. (Michael Meacher, Tribune, February 1986.) Cost is excess over items 25 and 27.
37. Increase funds to combat drug abuse. (Michael Meacher, 'Cold Comfort' December 1984.)
38. Cut drugs bill by reduction in rate of return and promotional expenditure. (Michael Meacher, 'Cold Comfort' December 1984.)

PWP



Ch

2 letters from Hattersley:

Handwritten notes in red ink:
(i) letter
Have a copy of letter
No (a) as
just with
inches
(b) as
(ShV)
✓

— the one to you crossed with CST's letter (which went off this morning)

— and an immediate riposte to the CST's letter.

You may want to discuss with CST at 5.00pm?

AWK
31/7



HOUSE OF COMMONS
LONDON SW1A 0AA

31 July 1986

CHIEF SECRETARY	
REC.	31 JUL 1986
INFO.	Mr Tyrre
FST	CX Mr Butler
MST	Mr Culpin
EST	Mr Watson Mr Turnbull
	Mr Bocking Miss O'Mara

Mr Peter Middle

*Mr Cropper
Mr Tyrre
Mr Gabs*

John Chief Sec

Your letters grow increasingly silly. As you know the Shadow Cabinet has agreed a firm framework for public expenditure setting out our priorities for reductions in unemployment and poverty. Your fantasy figures convince no-one.

As I have pointed out this morning in a letter to the Chancellor, your Government has no hope of success in the next General Election if its sole policy is to attack the Labour Party. I ask you the same question as I asked the Chancellor. Do you have any positive or constructive proposals for the future?

*Jan saah
R. Hattersley*

Rt Hon J MacGregor MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG



HOUSE OF COMMONS
LONDON SW1A 0AA

CH/EXCHEQUER	
REC.	31 JUL 1986 2/17
ACTION	MR TYRRE
COPIES TO	CST, FST, MST, EST SIR T BURNS
	MR SCHOLAR
	MRS O'MARA
	MR CULPIN MR CROPPER

31 July 1986

John Chancellor.

During the last few weeks you have been remarkably silent. Unlike some of your colleagues you have not resorted to falsifying the Labour Party's proposals to disguise your own lack of policy for putting Britain back to work and attacking poverty. Unlike some of your colleagues, you have not fired off letters full of distortion and inaccuracy which reveal as much about this rattled Government's lack of self-confidence as they reveal about its innumeracy and incompetence. In fact you have said nothing and done nothing.

I am sure you will agree that the Government cannot have any serious hope of success at the next election if it relies solely on attacking the Labour Party. But that is all that your Cabinet colleagues seem able to do. So, where are your positive proposals for the future?

The next Labour Government will reduce unemployment in this country by one million in two years. This will not only be an attack on the tragedy of mass unemployment, but also mean an improvement in the quality of our public services - our hospitals, schools, homes, roads and railways.

What specific plans do you have to reduce unemployment between now and the general election? By how much will it be reduced over the next twelve months?

Last week the Government shamefacedly announced the poverty figures at a time when it hoped that they would pass unnoticed. They revealed a level of poverty in this country which is a disgrace to a civilised society. And they coincided with a niggardly increase of 40p in the single pension which is an insult to every pensioner in this country. As a first step towards reducing poverty and hardship the next Labour government will increase the single pension by £5 a

week, the married pension by £8 a week, child benefit by £3 a week and introduce a proper rate of benefit for the longterm unemployed.

What specific increases in pensions and child benefit do you intend to implement during the next twelve months? What specific help do you intend to give to the longterm unemployed between now and the next General Election?

I look forward with interest to your detailed reply to these four questions.

*Yours sincerely
R. Stott*

Rt Hon N Lawson MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON
SW1

672/14

FROM: ROBERT CULPIN
DATE: 1 AUGUST 1986

CHANCELLOR

cc CST
FST
EST
MST
Mr F E R Butler
Mr Scholar
Miss O'Mara
Mr Cropper
Mr Tyrie

HATTERSLEY

Letter as discussed.

ENC.

cc
ROBERT CULPIN

CHANCELLOR

cc Chancellor

Mr Selman

12/2

Chief Secretary

Mr Preece

Financial Secretary

The Dyrie

news report on independent audit for Labour economic policies

transcript from: BBC Radio 4, Today (7 am News), 1 August 1986

NEWSREADER: The row over the Labour Party's proposed spending plans has taken a new turn with the suggestion from the former Labour Cabinet Minister, Mr Merlyn Rees, that the Party's programme should be put to an independent audit. Mr Rees' proposal follows an argument between the Chief Secretary to the Treasury, Mr John Macgregor, and Labour's Shadow Chancellor, Mr Roy Hattersley about the real cost of Labour's economic programme. Mr Macgregor has revised his estimate saying Labour's policies would cost more than £28 billion not the £24 billion he'd previously said. The immediate reply from Mr Hattersley was that this was growing increasingly silly. He said Mr Macgregor's fantasy figures convinced no one.

JSC
 Ken
 program
 audit
 words.
 M.

Rc
1/8

THE SUN SAYS

A super Sun offer to Roy

THIS morning The Sun offers a helping hand to the Labour Party.

Treasury Secretary John MacGregor estimates that the Socialists' spending plans would cost the nation £28 billion. This would mean raising income tax to 53p in the pound.

Roy Hattersley, Labour's Shadow Chancellor, says the figures are a "silly fantasy."

Yet he refuses to give his own estimates.

We assume that he is not being coy. He genuinely does not know.

As a public service, The Sun has prepared a list of the eight leading auditors in the world for our Socialist friends.

They are:

Price Waterhouse, 32 London Bridge Street, London SE1;

Touche Ross, Hill House, 1 Little New Street, London EC4;

Thornton Baker, Fairfax House, Fulwood Place, London WC1;

Arthur Andersen, 1 Surrey Street, London WC2;

Peat Marwick & Mitchell, 1 Puddle Dock, London EC4;

Coopers & Lybrand, Plumtree Court, Plumtree Street, London EC4;

Binder Hamlyn, 8 St. Bride's Street, London EC4;

Deloitte, Haskins, Sells, 128 Queen Victoria Street, London EC4.

Mr Hattersley and his boss Neil Kinnock are hereby invited to select the firm they trust most.

Then, if they provide the details of their plans, we shall commission the auditors to work out the exact cost.

We shall gladly pay the fee in the cause of truth.

Over to you, brothers.

Labour benefits 'deceit' by Treasury

By Peter Hildrew, Social Services Correspondent

The Chief Secretary to the Treasury, Mr John MacGregor, was last night accused of "wilful deceit" for suggesting that Labour was pledged to spend an extra £7 billion on benefits.

The Shadow Social Services Secretary, Mr Michael Meacher, dismissed any such idea as "absolutely ludicrous" in a letter to Mr MacGregor. Mr Meacher said it was childish of the minister to peddle allegations which he knew were not correct.

Labour's immediate benefit plans would cost £3.6 billion, to be funded by taking back tax concessions which the Conservatives had given to the richest 5 per cent of the population. Anything further would depend upon growth in the economy.

The package comprises an extra £5 per week for a single pensioner or £8 for a couple; an increase of £3 in child benefit, and payment of the higher supplementary benefit rate to the long-term unemployed.

Mr Meacher said it was a fantasy to suggest that he was pledged to spend £5 billion on supplementary benefit alone, and by doing so Mr MacGregor could only be intending to mislead.

The letter adds: "Certainly, after your government has cut social security benefits by £14 billion since 1979 (independent House of Commons library estimate) and has pushed up the numbers in poverty to the highest level since the 1930s, there is a strong case for giving more to the helpless victims of the government's policies."

"But we have made absolutely clear that there is an unequivocal distinction between what we know can be afforded at the outset and what may or may not be affordable at a later stage."

Leader comment, page 10.

FINANCIAL TIMES

Call to audit Labour plans

BY OUR POLITICAL EDITOR

TREASURY ministers have seized eagerly on a personal suggestion by Mr Merlyn Rees, Labour former Home Secretary, that the party's public spending proposals be independently audited.

Mr John MacGregor, Chief Secretary to the Treasury, said he would be happy to see an

Treasury sustains spending challenge

By Philip Webster, Chief Political Correspondent

The Government yesterday continued its efforts to embarrass the Labour leadership over its spending programme as Mr John MacGregor, the Chief Secretary, said that it could cost even more than the £28 billion figure which he cited last week.

At the same time Mr MacGregor said he would be happy to subject his costings of Labour's plans to independent audit, provided Labour put its own calculations to the same scrutiny.

Mr Merlyn Rees, the former Labour Cabinet minister, suggested an audit last Friday to stop the "deceit coming from Tory ministers".

Mr MacGregor said that if Mr Roy Hattersley, the Shadow Chancellor who has dismissed the Treasury's costings as silly and fantastic, told him which of Labour's commitments were not to be implemented he would take them off the list.

He said he had not included in his calculations a lot of the pledges made by Mr Michael Meacher, Labour's chief spokesman on social services.

"Until Roy Hattersley controls this unguided missile called Michael Meacher which seems to be directed at his own spending plans the overall figure would be a lot greater than £28 billion", he said.

Last night, Mr Meacher said spending "promises" attributed to him worth £7 billion were "ludicrous". He wrote to Mr MacGregor that the only commitments he made concerned pensions, child benefit and the payment of supplementary benefit

That had been costed at £3.6 billion, Mr Meacher wrote.

Ask these people to compare as Hattersley's £3.6 billion?
P.S. For the Labour we have a copy of the letter - (£240m + 770m) 2/24

FROM: ROBERT CULPIN
DATE: 5 AUGUST 1986

CHANCELLOR

cc CST
FST
Miss O'Mara
Mr Towers

LABOUR COSTINGS

*Thanks.
This is v. clear & v. good.
(I had not seen it before)
We must pursue this
matter @ any
opportunity.*

*2. X is a good thought to give
unattributed to some poor diary
journalist (in C. Field) who
is working out August.
"When is your audit?"*

Mr Allan's note of 4 August.

2. I am not sure where Mr Merlyn Rees first suggested an independent audit. But the authoritative text is this handout - issued on Friday without embargo.

3. If they have any sense, accountants will now offer to do the audit for a fat fee, especially as the Sun has volunteered to pay.

3. There is, incidentally, still no sign of the letter from Mr Meacher to the Chief Secretary which we read about in Monday's papers. Since our other challenges seem beyond him, should we offer a simple one - can the man manage to get a letter delivered?

ROBERT CULPIN

RT HON MERLYN REES MP FOR MORLEY & SOUTH LEEDS speaking to his Constituency Party on 1 August 1986, said:

Everything that happens in the House of Commons indicates that the government is clearing the decks for a General Election. This does not mean that one is imminent; it means that the Prime Minister could ask the Queen for a dissolution whenever it suits the purpose of the Conservative Party. This is to win at the polls.

So look next session for uncontentious legislation and particularly to a 'give-away' budget. It is all called 'window dressing' and the Tories have won that way before. In the short run such methods can hide and the truth of unemployment, /of a growing economic crisis caused by the fall in the price of oil. Since 1979 oil revenues have kept this country going. Oil revenues have fallen and will remain that way for some time.

The Conservative Party is preparing for a General Election. After our Party Conference this must be our aim - not only at the top but in every constituency. Organisation matters.

X | Above all, however, we must put our prepared policies to the electorate well in advance of the General Election. Where expenditure is concerned we should put our policy to independent audit. Without that we will have the current deceit coming from Tory Ministers.

No-one knows the result of the next General Election; it could, for example, be that the Tories will have a different leader.

What we do know is that Labour will gain many seats and the Tories will lose particularly in the Midlands, the North, Wales and Scotland. No amount of window dressing will alter this.

I have been in the House of Commons for nearly a quarter of a century and I have seen many changes, not least in the type of person

elected. After the next General Election there will be many more new members on all sides.

Now the Tories are telling us that the new Labour MP's are terrible people, not good types as in the past. I recall what they said about Gaitskell and Bevan; it is the same old story.

It leads me to suggest that if you think the 1983 General Election was nasty, be ready for a nastier one in 1987 or 1988.

In 1983 the Tories were set to win seats, this time they are set to lose. It will be a nasty three weeks.

CONFIDENTIAL

FROM: A G TYRIE
DATE: 5 AUGUST 1986

CHANCELLOR

2nd

Good

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State

The Research Department has sent me this Liberal Party release which shows that the Alliance are taking the threat of a "£28 billion-type exercise" quite seriously.

2. Judging from some internal Alliance material which has come to hand the SDP in particular have made an enormous effort to reduce their spending commitments. They are likely to respond to anything we issue with a detailed costing of their own which may well muddy the waters.

3. I shall put up more detailed advice with tables and notes cleared by divisions in early September.

I have already
told him you want to see
Whatever material
is available on your return

AA
5/8

Already done
AA
5/8
pp

M-may

A G TYRIE

Did you remember
him as I was at
your, psc do so, with
copy of Mr. Min? & admin.

TYRIE
→
CH/EX
5/8

PRESS RELEASE

PARLIAMENTARY

LIBERAL PARTY

HOUSE OF COMMONS LONDON SW1A 0AA

Contact: Jim Dumsday, 01-219 4773

RELEASE TIME:

For immediate release, Monday July 28, 1986

LIBERALS SET END OF YEAR DEADLINE FOR COSTING ELECTION PRIORITIES

Liberal Parliamentary spokesmen have been given an end of year deadline for indicating their spending priorities in order that they can be included in a costed Alliance package of measures to put before the public at the next election.

Liberal leader DAVID STEEL said after a special all day meeting of the Parliamentary Liberal Party yesterday: 'There is no way that we are prepared to go into the next election with an uncosted programme like the Labour Party. We have agreed that by the end of this year spokesmen must indicate key areas of what they regard as essential spending so that they can be costed as part of a total package that makes economic sense.'

The move is a further step in a consultative process by the Alliance parties to cost their policies and assess priorities.

At yesterday's meeting Treasury spokesman DAVID PENHALIGON presented a paper outlining the possible Public Sector Borrowing Requirement for an Alliance Government after the next election because of reduced revenues resulting from the fall in oil prices and the taking out of proceeds from further privatisation, which the government had built into its economic forecasts.

He warned colleagues that their hopes for increased spending on programmes relating to their portfolios had to be measured against a responsible economic target and that priorities would have to be decided collectively.

The meeting also laid the foundations for a new political strategy involving a pre-election offensive against the Labour Party aimed at target groups and at overall areas of weakness.

END

entirely done
plus 15
26/8

FROM: A G TYRIE
DATE: 6 AUGUST 1986

CHANCELLOR

[SDP] home - admin
work with Law & text
[Signature]

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Minister of State
- Mr Cropper
- Mr Ross Goobey
- Mr Turnbull
- Mr Scholar
- Ms O'Mara
- Mr Pickering

I have just received a minute from Alex asking if I could prepare an analysis of Liberal/SDP costings on your return from holiday.

2. I attach a copy of an advanced draft of the costings. I have split them into three columns not two. Divisions are checking these now. I am intending to put a final version with a statement on how to use the material when I get back from holiday on 1 September. I hope this is early enough.

2. minister

TYRIE
→ CH/EX
6/8

AGT

A G TYRIE

Ch

This is where Andrew had got to when he went off to the Hindu Kush. The presentation of this is going to be difficult: three separate numbers will carry nothing like the impact of "£28 billion".

AA
27/8
Pse fix a mtg with
CSI, admin & Mr Lilly
to discuss how this &
of the Labour hand
(with the Jones on back - slow -
& relevant).
YS.

SDP PUBLIC SPENDING COMMITMENTS

	FULL YEAR COST £m	NOTES
INDUSTRY		
British Technology Group	50	1
New credit scheme	100	2
Extend Loan Guarantee Scheme	30	3
EMPLOYMENT		
Community Programme	1335	4
Careers Advisory Service	10	5
HOUSING	250	6
LOCAL AUTHORITY CURRENT EXPENDITURE	670	7
EDUCATION		
Nursery	180	8
Education Benefit Post 16	160	9
SOCIAL SECURITY		
Child Benefit	480	10
Single Parent Addition	100	11
Long Term Supplementary Benefit	530	12
Maternity Grant	170	13
Basic Benefit	4575	14
Abolish Standing Charges	540	15
	—————	
	9180	
	—————	

SDP'S PUBLIC SPENDING COMMITMENTS: NOTES

1. Expansion of BTG - assumes build-up at roughly the same rate as disposals have taken place over the past six years. (p.1.4)*.
 2. Subsidised credit administered by banks for investment, helping companies "restructure and become more competitive". SDP costing. (p.1.2, 1.4).
 3. Extend to maximum of £250,000 ceiling on individual loans. Assume 3 times levels of spending announced in 1986 Budget on basis of (i) 70% guarantee; (ii) premium payable to Government of 2½ per cent; (iii) unchanged failure rates.
 4. Commitment is to expand the Community Programme to provide a job guarantee to all those unemployed for over a year. Cost assumes ½ to ¾m extra places, supervisor to non supervisor ratio 1:9, average length of stay nine months, proportion of participants taken off count 80%. Benefit savings netted off. This costing net of £665m in Lib/SDP costing.(p.1.2).
 5. Expansion of careers service proposed. Cost equivalent to an increase of about 12½% on present expenditure of £80m. (p.4.4).
 6. Government premium to cover 25% of the cost of interest and principal repayment on loans to build housing to rent. (Owen Building Societies Association 8 May 1986). Assumes 100,000 new dwellings p/a, at cost per unit of £35,000. 4% index-linked rate of interest.
 7. As costed by SDP. (p.1.2). Assume £330 million overlap with "Nursery" and "Education Benefit post 16" (See 8 and 9 below).
 8. Commitment within 5 years to provide all children under
- * All references are to page numbers in the SDP's policy handbook "The Only Way to a Fairer Britain" (February 1986) unless otherwise stated.

Completed

5 with at least 1 year's educational experience.
(p.4.3).

9. As costed in "Tertiary Education for All", uprated to 1986-7 prices. Would provide an average of £10 per week, net of child benefit, for about half the 16-18 year olds in education. (p.4.4).

Complains
10. Commitment to increase Child Benefit by 25% in 1985-86 and maintain its real value in future. This costing net of £200m in Lib/SDP. (p.4.7).

11. Assumes minimum increase specified by SDP of £5 per week on One Parent Benefit (successor to single parent addition). (p.4.7).

12. Long term supplementary benefit for everyone unemployed for more than one year. (p.4.8).

13. Increase in Maternity Grant from present £25 to £300 net of proposed tax.

14. The Basic Benefit would substitute for 4 existing means-tested benefits - Supplementary Benefit, Family Income Supplement, free school meals and Housing Benefit - but at a higher level. Dr. Owen in his book "A United Kingdom" puts the extra cost of the new benefit at £4160m at 1984-85 prices. Costing is uprated to 1986-7 prices. In fact the SDP proposals, as currently designed (p.4.7-4.8), would cost far more - perhaps as much as £26 billion more than - current spending on the benefits it would replace. The assumption made here is that the cost of the benefit would be constrained to the levels assumed by the SDP.

→ low Gov. subsidies
Discuss
15. Abolish standing charges for gas, electricity and some telephone services. (Owen in reply to OAP. 15.5.1986). Assume that abolition is not funded by increased in other charges, that all pensioners are reimbursed the cost of basic 'phones. £300m for gas and electricity, £240m for telephones.

LIBERAL PUBLIC SPENDING COMMITMENTS

	FULL YEAR COST £m	NOTES
OVERSEAS AID	1460	1
ENERGY		
Reducing sulphur and nitrogen oxides	300	2
Combined heat and power systems	250	3
Alternative energy sources	45	4
Phasing out nuclear power stations	500	5
New fossil fuel power stations	900	6
TRANSPORT		
Road by-pass construction	50	7
Revenue support	75	8
Inland Waterways	10	9
Capital investment on railways	35	10
SOCIAL SECURITY		
Pension	3250	11
ENVIRONMENT		
Council house sales discretion	50	12
Replacement of council houses sold	1300	13
EDUCATION		
Open university	10	14
CITIZENS RIGHTS		
Legal Aid	110	15
Police location incentive	50	16
Legal services commission	20	17
STATE SUPPORT FOR POLITICAL PARTIES	15	18
EMPLOYMENT	140	19
JOBS PACKAGE	1650	20
	10220	

LIBERAL PUBLIC SPENDING COMMITMENTS: NOTES

1. Liberal Party is committed to increasing overseas aid to 0.7% of GNP over 5 years. This is the full annual cost after 5 years making no allowance for increases in GNP. (p.19-20).*
 2. Cost is for pilot projects on reducing emissions of sulphur and nitrogen oxides. Full-scale programme could cost £2.5bn over ten years. (p.16).
 3. Commitment to support combined heat and power systems. Assumes 5 schemes at a cost of £500-£1000m per city. Full year cost after 5 years. (p.17).
 4. Commitment to support alternative energy sources. Assumes doubling of present spend. (p.16-17).
 5. Full year cost of phasing out existing nuclear power stations. (p.17).
 6. £900m is first full year cost in 1990. Thirteen new fossil fuel power stations (minimum capacity 900 MW each) would be necessary to replace closed nuclear capacity. Total cost £8 billion over 10 years.
 7. Road by-pass construction. Costing allows for LA bypass schemes. 1st year 1987-8.
 8. Commitment to increase revenue support for public transport. Assumes 5% increase on 1985-86 provision. (p.18).
 9. Based on British Waterways Board's past experience and feasibility studies.
- *References are to "These are Liberal Policies" (January 1986), unless otherwise stated.
10. Capital investment on railways (P.17).

11. Cost of 25% increase in retirement pension at estimated 1986 rates of benefit. Savings from abolishing SERPS, which Liberals also propose, would become substantial only in the next century. (Liberal response in September 1985 to Green Paper on Social Security (Cmnd.9512).
12. Local authorities to be given right to decide whether or not to sell council dwellings and terms of sale. Loss of receipts in 1986-87 estimated at £50m. (p.15).
13. Commitment to make financial provision to replace council dwellings sold. Average capital receipt from dwellings sold = £10,000. Average cost of new dwelling = £24,000. Number of dwellings expected to be sold in 1986-87 = 70,000. Additional funds needed to replace sold stock = £14,000.
14. Increase funding for Open University, Open Tech. and University of the Third Age. Assume Open University restored to 1983-84 level, in real terms: Open Tech. to 1985-86 in real terms (both peak years). No data available on University of Third Age.
15. (i) Raise income and capital limits for legal aid eligibility. Assume 85 per cent eligibility. (ii) Extend legal aid to Industrial Tribunals.
16. Incentive to police officers to live in the areas for which they are responsible. Assumes half police not living in quarters receive extra allowance of £1000 a year. (p.15).
17. Provide 80 law centres in England and Wales, proportionate number in Northern Ireland. Assume cost supply-led.
18. Basic expenses for Parliamentary candidates estimated at £10m. (p.7). Financial support for Opposition Parties: Houghton proposals revalorised £5m. (p.9).
19. Extend adult training: assume 50 per cent increase in existing expenditure.
20. Includes expenditure on housing, environment, transport,

are there any points on English N.?

communications, health and social services, other major projects, youth training, adult retraining, project support. (p.9). Calculated by netting off items mentioned above from the Liberal £4 billion p.a jobs package, and the £2 billion public sector capital spending total in the SDP/Liberal list.

Ch?

ALLIANCE PUBLIC SPENDING COMMITMENTS

	FULL YEAR COST	NOTES
	£m	
SCIENCE	85	1
EDUCATION		
End assisted places scheme	-50	2
SOCIAL SECURITY		
Increase in FIS	200	3
Heating allowances	100	4
Child benefit	200	5
HEALTH AND PERSONAL SOCIAL SERVICES		
Employment and Innovation Fund	100	6
Generic substitution	-20	7
EMPLOYMENT		
Double CP	665	8
Transform YTS	400	9
TRANSPORT		
Road equivalent ferry tariff	10	10
PUBLIC SECTOR CAPITAL SPENDING	2,000	11

Total	3,690	

NOTES

1. SDP/Liberal "Jobs and Competitiveness" (March 1986). Their own costing.
2. SDP policy documents 10/2/86, page 4.3: these are Liberal policies, January 1986, page 14. Assumes phased withdrawal over 7 years as existing pupils work through school. Will reach £50 million by 1988-89.
3. "Jobs and Competitiveness" March 1986. SDP/Liberals own costings.
4. "Jobs and Competitiveness" March 1986. Their own costings.
5. "Jobs and Competitiveness" March 1986. Their own costings.
6. SDP policy documents 10/2/86 page 4.1; these are Liberal policies, January 1986, page 9. Spread over 3 years. £100m is first year cost; will rise £230m in 1988-89.
7. SDP policy documents 10/2/86 page 4.1; these are Liberal policies, page 15. Savings uncertain. SDP claim £100 million per annum. DHSS say savings amount to less than £20 million now that the select list is in force.
8. "Jobs and Competitiveness" page 4 March 1986. Net cost of doubling CP - takes into account Budget increase. SDP's job guarantee, worth £2 billion, has this £665 million netted off, see SDP table, employment.
9. "Jobs and Competitiveness" page 12, March 1986. Comprehensive and vocational education programme for 16-19 year olds.
10. Scottish Alliance manifesto 1983. Assume that tariff would mean an increase in Government subsidy to Calmac, at present £13.6m.
11. Alliance 1986 Budget commitment. Assume £2 billion reduction of Liberal jobs package.

CH4 NEWS
LABOUR
COSTING

PPS/Chancellor

Are you agreeable to such an appearance in principle, subject to sorting out a convenient date?

I told you that, subject to the Chancellor's view, the CST was agreeable in principle. C4 News have not yet had
FROM: R K C EVANS a response
DATE: 19 AUGUST 1986 from Mr Hattersley.

- 1. MR PICKFORD
- 2. CHIEF SECRETARY 36/2

Stirling 19/8

- cc PPS
- Mr F E R Butler
- Mr Scholar
- Miss O'Mara
- Mr Culpin o/r
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey
- Press Officers

Jim Hattersley 1/9.

CST

You will remember the earlier C4 News bid for a 5 minute debate for which we offered the FST.

Jim 1/9.

CHANNEL 4 NEWS: LABOUR COSTINGS

ITN, Channel 4 News has rung the press office to enquire about the possibility of you appearing on C4 News to debate the costs of the Labour Party's spending plans with Mr Hattersley.

2. C4 News realises that such a debate depends on both you and Mr Hattersley being available at the same time during the holiday season. I have told them that you are now away until 1 September and that I will put the request to you as soon as you return.

3. Contact: Damien Green 637 2424 ex 2610.

Richard Evans
Ch

pwP
CST material

RICHARD EVANS

OK for CST to do this?

Yes... He will
will be answered to
points on the Jones paper. I have
one or two thoughts on this.

AA
1/9.

cc Cunniff
Chief Secretary
Parliamentary Secretary

Mr. Schwan
Mr. Dyrie
Re
48

NORMAN TEBBET - INTERVIEW ON TORY'S YEAR (EXTRACT ON COST OF LABOUR PROGRAMME)

? July

✓

Transcript from: BBC 2 TV, Newsnight, 31 August 1986

INTERVIEWER: What about the other figure of very underprivileged people in the community which was revealed in official Government statistics just at the end of last week; that as for the people who are living in poverty, or that is to say near or at the officially defined poverty line, the number has increased by 50% since 1979?

TEBBET: Well first of all I don't know that there is such a thing as an officially defined poverty level. I've never seen that expression officially. I think what you mean is the number of people who live near or under the supplementary benefit level and whom we pick up through supplementary benefit.

And certainly that's a large and a distressingly large number. But I think that that's again a matter of where one sets the level. I'd like to see the level of benefits for those in real need probably rather higher. I think we all would. And certainly we'd like to see far less people dependent on benefit in that way. But once again, that depends on many factors other than just what the Government does. We've had this week, as you know, Norman Fowler's compilation of the luny policies, promises, of Michael Meecher. And when you put those together with those of other of his colleagues we've priced them out again today. And it's £28 billion a year of extra public spending in promises even if one keeps aside from Mr Meecher's rather balmier policies, which are another £7 billion. Now who would be in poverty if all those promises were kept? It sounds great but we'd have a bankrupt country staggering into the sort of problems which they're staggering into in Australia today because they're following the old Labour Party policies.

TEBBET: Coming back to your own very sound and sane policies; when you say that you'd like to see more money given to those in genuine need does

that mean that you've also, like opinion polls and political party canvassers in by-elections, detected a change in the public mood at the moment which says that people are willing to make sacrifices, perhaps even accept tax rises rather than tax cuts if the money is going to help ?

TEBBET: Of course, but what are people being asked in those polls? On the one hand they're being asked if they would be willing to forego a penny or tuppence off income tax. And on the other hand they're being offered the prospect of better schools, better health service, better roads, better buses, a free television for old age pensioners, more pensions, more of everything. Now a penny off income tax is about a billion in public expenditure. But Michael Meecher's promises are alone about £7 billion. So we're not actually asking them the right question.

If you ask them the right question it is will you buy the Labour Party's programme which would mean 53 pence in the £ income tax as the standard rate. Now ask them that question and you'll get a rather different answer.



FROM: A P HUDSON
DATE: 5 SEPTEMBER 1986

CHANCELLOR

cc Mr Culpin
Mr Cropper
Mr Tyrie
Mr Ross Goobey

SPEECH ON LABOUR/SDP - TAX POLICIES

I attach what turned out to be a fairly full outline of the speech on Labour and SDP tax policies. Once you have had a chance to look at it, perhaps we could discuss it with Robert Culpin and one or more of the Special Advisers, before I turn it into a full draft.

2. You have two speeches on Friday in the North West, both for 20 minutes and both to businessmen: lunch in Crosby, and dinner in Hazel Grove. My feeling is that it would be better to do the tax speech at lunchtime, which gives us a better chance of media coverage, and jokes about the SDP's short tenure in Crosby.

3. Do you want me to work up anything for the other speech? Perhaps the same themes as in the CBI Scotland speech, but with references to the North West?

A P HUDSON

Visit of the Rt.Hon. Nigel Lawson M.P
Chancellor of the Exchequer
to the North West Area on Friday, 12th September 1986.

Miss Kail
01-11-86
0925-35933
X221/217

ITINERARY

tickets ✓
VIP suite

- 8.40 Depart London Heathrow
- 9.20 Arrive Manchester Ringway Airport to be met by Ministerial car and driven to the National Premium Bond Centre at Lytham car
- 10.30 Arrive National Premium Bond Centre, Lytham, for visit to "Ernie". car
- 11.30 Depart Lytham for Crosby car
- 12.45 Arrive Waterloo Rugby Club, St. Anthony's Road, Blundellsands, Liverpool 23 for Crosby Association businessmen lunch. There will be approximately 80 businessmen present and they would like you to speak for about 20 minutes and take questions on a subject of your own choice. Tel: 051-924-4552

The meeting will be open to the press unless you desire otherwise.

- 14.15 approx. Leave Crosby for Liverpool. Transport can be arranged if required. 10.15
copy ✓
- 14.45 Photo call with the prospective Conservative Candidates for Liverpool -

Broadgreen	-	Cllr. Mark Seddon
Riverside	-	Mr. Stephen Fitzsimmons
Mossley Hill	-	Mr. Warwick Lightfoot
Garston	-	Mr. Paul Feather
Walton	-	Mr. Iain A. Mays
West Derby	-	Mr. J.E. Backhouse

The photo call will be followed by a visit to the Albert Dock complex on the river front. This complex has been built largely through the Merseyside Development Corporation and by Government money and some money from the E.E.C. and has just won a major prize from the E.E.C.

- 16.00 Depart Liverpool for Manchester by Ministerial car. car
- 17.15 Arrive Manchester Stock Exchange for a visit. Mr. Lawson to leave the Stock Exchange in time to arrive at the Stanylands Hotel, Stanylands Road, Wilmslow for 7.0 p.m. Tel: Wilmslow (0625) 525225. Travel time to Wilmslow approx. half an hour. car
- 19.00 Hazel Grove Conservative Association businessmen dinner. There will be approximately 75 businessmen present and they would like you to speak for 20 minutes and take questions on a subject of your own choice. car
Open to the press
- 22.00 Depart Wilmslow for the South by Ministerial car. car

DRAFT

OUTLINE OF SPEECH ON LABOUR/SDP TAX POLICIES

1. Few areas where the difference between Government and other parties is as clear as over taxation.

2. Government policy is to reduce taxation. Never made any promises about how quickly we could do this. Overriding objective to get inflation down. This meant containing borrowing, which inevitably restricted the scope for reducing the tax burden. But over time, and with public expenditure under control, prospect of lower taxes.

17 cuts →

3. With all other parties, ~~prospect that~~ taxes would go up, and not just for the rich.

What we have done - new tax

Labour

4. Take Labour first. As usual, not one set of Labour policies; ~~depends who you listen to.~~

5. The total cost of Labour's programme would be [£28 billion]. ~~To raise this from taxation would require a basic rate of income tax of 53 pence in the pound. So a secretary on £7,500 a year would pay £53 a week in tax,~~

That has the part for. It had, for example, when

This was not a (Tobacco)

man a average

a note

Confusion

instead of ~~£29~~ today. A married fireman on ~~£10,300~~ -
~~about average earnings~~ - would ^{have to} pay £31 a week more tax
than he does now.

6. Labour have tried to ~~ignore~~ these figures. But Mr
Hattersley ^{by far} ~~claims to want to finance~~ his £3.6 billion
^{so-called} ~~social security~~ ^{plans} programme by taxing the "very rich", who
he calls the top 5 per cent. ~~And~~ he says he can do it
simply by reversing the tax reductions these people have
enjoyed, without increasing the tax burden on ^{any one} ordinary
people.

7. ~~The trouble is that~~ the figures don't add up. To
raise Mr Hattersley's £3.6 bn from the top 5 per cent of
earners would entail far more than restoring the
investment income surcharge and Labour's capital tax
regime. That only gets them half way. It would also
require income tax of 66 per cent on ^{any} income above £24,500
a year.

8. ~~People with these incomes by no means are only the~~
~~"very rich"~~. Married couples whose joint income is above
£24,500 would also have to pay these swingeing tax rates.
That would mean, for example, a police sergeant married
to a bank clerk; or a middle-ranking civil servant
married to a nursing sister; or a Scale 2 teacher married
to a computer programmer. Not to mention couples running
successful small businesses who create jobs for others.

by far
so-called

run away from

programme - No extra - ^{discount} ~~primes~~ on [houses, etc, etc, etc] ^{to} £3.6 bn

(Outline
US or
non-US)

also, even
that year
but remain
Mark unhelpful
(with hat
2000)
you
for
cup

9. In short, Mr Hattersley couldn't raise anything like the ~~money he wants to redistribute~~ without taxing ordinary people more heavily.

73.6 bn
So put that where 720h
(Parker report 753 p 14 f)

10. And that reckons without Mr Meacher. Apparently, he plans to abolish the married man's tax allowance to raise money to increase benefits. On the face of it, that would mean a tax increase for every married man in the country. Even if some of them gained in other ways, there would be many ordinary people facing a much higher tax bill.

for me 77h

On top of that, Lab tax plans. Challenge Hatt.

11. Labour try to deny these figures, but they cannot have it all ways.

- If they don't intent to fulfil their costly promises, they are deceiving the public.

- If they don't intend to raise taxes, on ordinary people, they will have to borrow. We can all remember what that leads to.

SDP

SDP turn to be how Labour (Taxing quibbles) too much for Libs. So was Hatt's engine. But cut out of bag.

12. When I planned this speech, I was proposing to say that the difference between Labour's plans and those of the SDP was that the SDP were honest enough to admit that they were raising taxes on ordinary people. The Liberals dissociated themselves from this pretty quickly. But they were followed by the SDP leadership, disowning their own party's proposals!

on-off-on

retailed
blueprint
for a fairer society
John Major

13. SDP say ~~that they propose "the biggest redistribution to the poor put forward by any party".~~

~~[Can summarise measures here.]~~

No all for 5 p's

14. ~~Certainly, gains to the poorest people. But again, not just the rich who pay.~~ For example, a married man earning £150 a week would be about £5 a week worse off. If he had children, he would be better off. But if husband and wife both earned, and only had £150 a week, they would lose £5 a week, whether or not they had children.

Lyndon

*Very major of
man
or any
pay
worse off
(+ pay 2 or
NIC 9/4)*

5/2

15. Many pensioners could lose out. The SDP propose to abolish NICs and charge income tax at 38 per cent on all income. They say State pensioners would only be charged at 29 per cent, so that the burden on them did not increase. But what about widows, who don't pay NICs on their pensions? What about people who retire early with occupational pensions? Can only assume they would pay more.

*SDP 2/1/85
VRS
292*

16. Perhaps SDP would make special concessions to them as well. But they say one of their main aims is simplification. The more special concessions they have, the more complicated the system.

Taxation and Economic Performance

17. Important to remember that effects of high taxation go beyond redistribution of income. High taxation stifles enterprise and blunts the incentive to work. Makes for a less efficient economy. No coincidence that US and Japan have low taxes.

18. Certainly, there are services that have to be paid for - defence, law and order, education, and the health service. But beyond that, believe that people should be left to spend their own money how they wish. Far better than for Government to spend it for them.

19. Other parties simply don't believe that. Prefer big Government, and higher taxes, for some or for everybody.

20. Alongside policy of tax reduction, tax reform - lower taxes and less damaging taxes. Major reform of business taxes. Four taxes abolished. Green Paper published on personal tax.

Conclusion

21. Choice is clear. Government policy: reduce taxation as resources permit. *All other parties!* Labour policy: pledges mean higher taxation or IMF.

*Only diff. between them
make sense when
people w/ low
income*



LABOUR'S SPENDING PLANS — WHY THE RIGHT IS WRONG

For my m Lab & Advance sp... plan...

PPS 12/2 pwp

LABOUR'S SPENDING PLANS have been pawed over by Mr John MacGregor, the Treasury Chief Secretary, and by his faithful megaphone, the *Sunday Times*. It has been an exercise in mendacity, double counting and bad arithmetic, liberally spiced with panic. It is time to set the record straight.

Last March, MacGregor published a list of 28 of Labour's so-called spending commitments. The cost totalled £24 billion, updated in July to either £28 billion or £35 billion depending on whether or not £7 billion of spending pledges said to have been given by Michael Meacher were included. A closer inspection shows how shoddy this is.

● MacGregor costs Labour's plans for extra teachers at £235 million and for extra education buildings and equipment at £871 million. MacGregor says these are 'Labour's own estimates, quoted by Giles Radice in the *Guardian*, 17 April 1985'. The *Guardian* article is headlined 'Labour Pledges £200 million Boost for Schools' and states that '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'. Extra expenditure on school buildings is not even mentioned in the article!

● One of the more expensive 'commitments' is the reduction of the retirement age for men to 60, said to have been given by Neil Kinnock at the TGWU Conference in June 1985. But Neil Kinnock's speech reads: 'It would be foolish to presume that major reductions in the working life would or should come without extensive preparation and protection... It will cost large sums and take many years, for this cultural and economic revolution cannot be achieved cheaply and must not be achieved dictatorially'. Hardly a commitment to an immediate drop in the male retirement age to 60 — yet this accounts for £2.6 billion of the MacGregor £28 billion.

● The Chief Secretary's costings also double count because they do not take account of savings that flow back to the Treasury from projects that generate jobs, such as house-building and other infrastructure maintenance. The people employed on these projects start paying taxes and stop receiving welfare payments. One independent estimate based on government figures carried out for the BBC by Prof. Adrian Sinfield and Neil Fraser of Edinburgh University put the cost to the Exchequer of an unemployed person at between £6,000 and £7,000 per year — obviously saved when people come off the dole. The Treasury's own economic model shows that after three years capital expenditure is 32 per cent self-financing, while the London Business School model shows that it is 75 per cent self-financing and the National Institute model that it is 58 per cent self-financing.

● MacGregor deliberately confuses the timing and status of various objectives. All

parties have certain aims they try to fulfil over a period of years: for the Tories to imply that Labour could or would want to spend £28 billion at once makes no more sense than a view that they will carry out their £18 billion privatisation programme all in one year.

IF THE LABOUR programme is not the MacGregor package, what is it? The Shadow Cabinet has agreed a firm framework for financial control setting out two overwhelming priorities for the next Labour government — the reduction of

DOUG JONES

unemployment by one million in two years; and an anti-poverty package.

At the time of the budget it was estimated that a job creation package to reduce unemployment by one million would add £6 billion to the government's budget deficit which currently stands at about £12½ billion. This is consistent with a *small* increase in the ratio of total government debt to national income and would not be difficult for the markets to finance. About a quarter of this increase is due to the cuts in taxation through cuts in employers' national insurance, rather than increases in public expenditure. It is true, however, that the *gross* effect on public expenditure would be rather more than the *net* cost of £6 billion — because part of the extra expenditure is self-financing, as the previously unemployed start to pay taxes.

The other agreed priority for extra expenditure is Labour's anti-poverty package, which will be entirely self-financed through redistribution. This includes increases in child benefit, old age pensions and extending the long-term rate of supplementary benefit to the long-term unemployed. The costs will be met by recouping the £3.5 billion per annum of tax cuts that have been given to the richest five per cent of taxpayers and receivers of capital income, gains and transfers since the Conservatives came to power. It is accepted that giving priority to these two main areas — unemployment and redistribution — means that other desirable forms of extra spending will have to be delayed.

However, much of what a Labour government would do does not involve extra claims on government resources. Our priorities for renationalisation — BT and British Gas — will be financed by issuing securities against the corporations concerned, not by the government. Our move towards non-nuclear defence would initially be cost-neutral with savings from the disposal of nuclear weapons being used to strengthen conventional defence.

Other priorities for reform, such as a Freedom of Information Act, a minimum wage in the private sector, the promotion of

sexual equality, tougher regulation of the City, mergers and takeovers and pollution, tax reform including independent taxation, reform of trade union legislation including rights to information and consultation, and reform of the Nationality Act, require little or nothing in the way of extra public expenditure.

There *will*, however, be some spare resources available each year for extra expenditure because of economic growth. Even a modest growth rate of, say, 2 per cent would generate £3 billion per year for tax cuts of expenditure amounting to £15 billion over a full Parliament. The present government is expecting such an increase and in addition it has a cumulative total of £18.8 billion of unallocated expenditure — the contingency reserves — within its spending totals for the next three years. The Tories will not say how this money is to be allocated — and rightly so. *Not to allocate every last penny is the prudent course, not the profligate one. This is what makes an independent 'audit' for Labour's policies such nonsense.*

I AM SORRY to disappoint the Tories: but all their nonsense will not persuade Labour to commit themselves to an over-ambitious programme which cannot be fulfilled. We've seen what happened to the French socialist government. And there are still people in the Shadow Cabinet who remember the dash for growth and over-optimistic spending plans of 1974-6.

Labour has clearly set out its plans for borrowing and spending in the first two years of a Labour government. Labour will tend to give priority to spending on areas like health, industry and education which are labour-intensive, whereas the Tories will give priority to tax cuts. To make a precise allocation now the Labour Party would need a clairvoyant, not an auditor.

The newspapers which have printed MacGregor's distortions and lies have never even attempted to make use of the information about Labour's spending and borrowing plans that is publicly available. The attempts of the *Sunday Times* to give MacGregor's phoney figures spurious substance have been pathetic to observe. They claimed to have had an independent audit of Labour's plans carried out; in fact, they commissioned ITEM, an independent forecasting agency, to run the MacGregor costings through their model. This resulted in ITEM disowning the *Sunday Times* article, in a later statement, saying that: 'An audit is going through line by line and calculating how much the commitments would cost. We did not do that.'

Perhaps the only consolation is that it was the paper that brought you the Hitler diaries — independently validated of course — that also brought you the MacGregor costings — independently validated, of course. □

Doug Jones is economic advisor to Roy Hattersley, Shadow Chancellor of the Exchequer.

audit not for! !! ... ns PSE

is this inc. in package? (p. 12/2)

0.9

2.6

no. 11

What is the...? ... what is it for? ... estimate

FROM: A G TYRIE
DATE: 5 SEPTEMBER 1986

TYRIE
→
CST
5/9

CHIEF SECRETARY

cc Chancellor
MST
FST
EST
Mr F E R Butler
Ms O'Mara
Mr Pickering o/r
Mr Cropper
Mr Ross Goobey

ALLIANCE COSTINGS

I attach three tables giving SDP, Liberal and Alliance costings, each with notes. Overlaps between the three columns have been removed, hopefully in entirety - the global figure is the sum of the three. Defence and Health pledges have been omitted as agreed at earlier prayers meetings. The 'full year concept' has been used, in some cases stretched, for example, to enable costings for construction of power stations.

The Political Message

2. Placing the costings in three tables highlights how little the two parties appear to have agreed amongst themselves. This is perhaps the strongest point we can make about a supposed Alliance. (It is of course possible that they have agreed to a good deal more but have not yet announced it).

3. The other obvious message would be to add up the three numbers and describe this as the cost of Alliance policies. This would be quite a large sum but would not highlight the differences between the Parties' policies. You may also wish to consider issuing each column separately.

Caveats

(i) These costings have not been pored over by officials and

~~3~~

myself as thoroughly as Labour's; the scope for hidden traps is larger. In particular the issue of these costings may prompt the Lib/SDP to come forward with a much longer list of agreed policies than our list suggests.

(ii) The SDP costings pose particular problems. They have almost certainly done their homework and this may enable them to score a point or two. They only need to score one point to cast doubt on the exercise. This in turn may have repercussions on the integrity of the £28 billion.

(iii) You should also be aware that the SDP are now adding health warnings to all their publications. For example the preface of "Tertiary Education For All" said "The SDP intends to review all its policy proposals which have expenditure commitments, and establish clear priorities closer to the General Election."

(iv) The SDP's policy making process also makes it difficult to get at them. In these tables I have included only those pledges approved by the Council for Social Democracy on the grounds that their constitution defines their "Green and White Papers" as consultative, therefore not policy. But the Green Papers in some cases are suggesting reductions in the sum in our costings. For example basic benefit is costed in the Green Paper at £2.8 billion, down from £4.5 billion (an earlier Owen figure). So the SDP can to some extent side-step the CSD approved costings by claiming that they are not the latest statement of policy. At the very least they can add considerable uncertainty in the public

mind on what should be costed.

- to DHSS*
- (v) There is a problem with Liberal 11 which has yet to be resolved. Work done by DHSS on a PQ by Frank Field has revealed that they inaccurately calculated savings on means-tested benefits from an increase in pensions. DHSS Ministers are committed to replying to Field and once he has received his letter the over-calculations within our costing of Labour's programme will be clear. The pensions pledge will drop from £1.65b to £1.35b bringing the cost of their "welfare package" down from £3.6b to £3.3b. The recalculation also affects Liberal 11. The £3.25b figure will drop by several hundred million pounds. I am discussing with my opposite number at DHSS how and when best to present this.

Timing

4. The options are:-

- issue the full costings now, before the SDP conference on the 15th
- issue something a week later before the Liberal conference on the 22nd
- shelve publication.

5. Issuing the whole costing before the SDP conference was our original tentative plan. The fact that the SDP may be able to unpick it makes it less attractive to issue a full costing just before their conference. We should also consider whether it might be more appropriate to attack their tax proposals.

6. There are more attractions to issuing something before the Liberal

conference. Unlike the SDP they almost certainly have not done sufficient preparatory work to fend us off. Tension is high between the SDP and the Liberals; the SDP would be only too delighted to watch the Liberals squirming as a consequence of too many loose pledges. In fact they might use it to get their revenge for Steel's attack at the expense of Taverne's tax plans.

7. Indefinite delay in the use of this material will diminish its utility. As each month goes by the Libs/SDP will muddy the waters further with new pledges and repudiations of old ones.

8. We will have to accept that if the issue of Alliance costings is at all successful it will curtail the opportunity for more coverage of the £28 billion. I very much doubt if the press will run two costing stories simultaneously.

Conclusion

9. The main problem is that these costings are not as robust as Labour's - a lot more work by officials would probably not make them so. Ignoring timing I think the decision is between:

- issuing all three columns at one time
- issuing them column by column
- issuing costings for individual items without providing overall totals.

↖ ch
Need to be careful
about asking officials
to do much more in
middle of PES bilateral etc
AA

I favour, but only just, issuing all the tables before the Liberal conference and taking a risk. It will at the very least be a diversion from speculation about bilaterals which will be growing by mid-September.

AGT.

A G TYRIE

SD PUBLIC SPENDING COMMITMENTS (exclusive of Alliance commitments)

	FULL YEAR COST £m	NOTES
INDUSTRY		
British Technology Group	50	1
New credit scheme	100	2
Extend Loan Guarantee Scheme	30	3
EMPLOYMENT		
Community Programme	1370	4
HOUSING		
	250	5
LOCAL AUTHORITY CURRENT EXPENDITURE		
	620	6
EDUCATION		
Nursery	180	7
Education Benefit Post 16	160	8
SOCIAL SECURITY		
Child Benefit	480	9
Single Parent Support	100	10
Long Term Supplementary Benefit	530	11
Maternity Grant	170	12
Basic Benefit	4500	13
Abolish Standing Charges	540	14
	<hr/> 9190 <hr/>	

SDP'S PUBLIC SPENDING COMMITMENTS: NOTES

1. Expansion of BTG - assumes build-up at roughly the same rate as disposals have taken place over the past six years. (p.1.4)*.
2. Subsidised credit administered by banks for investment, helping companies "restructure and become more competitive". SDP costing. (p.1.2, 1.4).
3. Extend to maximum of £250,000 ceiling on individual loans. Assume 3 times levels of spending announced in 1986 Budget on basis of (i) 70% guarantee; (ii) premium payable to Government of 2½ per cent; (iii) unchanged failure rates.
4. Commitment is to expand the Community Programme to provide a job guarantee to all those unemployed for over a year. Cost assumes ½ to ¾m extra places, supervisor to non supervisor ratio 1:9, average length of stay nine months, effect on unemployment count equal to 75% of number of places. Benefit savings netted off. This costing net of £630m in SDP/Lib costing.(p.1.2).
5. Government premium to cover 25% of the cost of interest and principal repayment on loans to build housing to rent. (Owen Building Societies Association 8 May 1986). Assumes 100,000 new dwellings p/a, at cost per unit of £35,000. 4% index-linked rate of interest.
6. As costed by SDP. (p.1.2). Assume £330 million overlap with "Nursery" and "Education Benefit post 16" (See 8 and 9 below) and £50 million overlap with police location incentive (see Liberal 16).
7. Commitment within 5 years to provide all children under 5 with at least 1 year's educational experience. (p.4.3).
8. As costed in "Tertiary Education for All", updated

*All references are to page numbers in the SDP's policy handbook "The Only Way to a Fairer Britain" (February 1986) unless otherwise stated.

to 1986-7 prices. Would provide an average of £10 per week, net of child benefit, for about half the 16-18 year olds in education. (p.4.4).

9. Commitment to increase Child Benefit to £8.50. Costing is net of £200 million in SDP/Liberal list and of savings on means-tested benefits. (p.4.7).
10. Commitment to increase Single Parent Addition by at least £5 (p.4.7). No Single Parent Addition exists.
Costing assumes £5 addition to One Parent Benefit. Figure is net of savings on other benefits.
11. Long term supplementary benefit for everyone unemployed for more than one year. (p.4.8).
12. Increase in Maternity Grant from present £25 to £300 net of proposed tax.
13. Basic Benefit would replace four existing means-tested benefits - Supplementary Benefit, Family Income Supplement, free school meals, and Housing Benefit - but at a higher (unspecified) level. Costed at £4160m (1984-85 prices) in Dr Owen's book "A United Kingdom". Impossible to cost without details of proposed structure and rates but the claims made for individual gains under Basic Benefit suggest it would cost far more than the SDP estimate. The assumption made here is that the cost of the scheme would be constrained to the levels assumed by the SDP, updated to 1986-87 prices.
14. Abolish standing charges paid by old age pensioners for gas, electricity and some telephone services (Owen in reply to OAP, 15 May 1986.) Assume that abolition is not funded by increases in other charges, and that BT are not asked to drop equipment rental charges (equipment is assumed to be a basic telephone), that all pensioners are reimbursed the cost of basic telephones. £300m for gas and electricity, £240m for telephones.

LIBERAL PUBLIC SPENDING COMMITMENTS (exclusive of Alliance commitments)

	FULL YEAR COST	NOTES
	£m	
OVERSEAS AID	1460	1
ENERGY		
Reducing sulphur and nitrogen oxides	300	2
Combined heat and power systems	250	3
Alternative energy sources	45	4
Phasing out nuclear power stations	500	5
New fossil fuel power stations	900	6
TRANSPORT		
Road by-pass construction	50	7
Revenue support	75	8
Inland Waterways	10	9
Capital investment on railways	35	10
SOCIAL SECURITY		
Pension	3250	11
ENVIRONMENT		
Council house sales discretion	50	12
Replacement of council houses sold	1300	13
EDUCATION		
Open university	10	14
CITIZENS RIGHTS		
Legal Aid	40	15
Police location incentive	50	16
Legal services commission	20	17
STATE SUPPORT FOR POLITICAL PARTIES	15	18
EMPLOYMENT	140	19
JOBS PACKAGE	1675	20
	—————	
	10175	
	—————	

LIBERAL PUBLIC SPENDING COMMITMENTS: NOTES

1. Liberal Party is committed to increasing overseas aid to 0.7% of GNP over 5 years. This is the full annual cost after 5 years making no allowance for increases in GNP. (p.19-20).*
2. Cost is for pilot projects on reducing emissions of sulphur and nitrogen oxides. Full-scale programme could cost £2.5bn over ten years. (p.16).
3. Commitment to support combined heat and power systems. Assumes 5 schemes at a cost of £500-£1000m per city. Full year cost after 5 years. (p.17).
4. Commitment to support alternative energy sources. Assumes doubling of present spend. (p.16-17).
5. Full year cost of phasing out existing nuclear power stations. (p.17).
6. £900m is first full year cost in 1990. Thirteen new fossil fuel power stations (minimum capacity 900 MW each) would be necessary to replace closed nuclear capacity. Total cost £8 billion over 10 years.
7. Road by-pass construction. Costing allows for LA bypass schemes. 1st year 1987-8.
8. Commitment to increase revenue support for public transport. Assumes 5% increase on 1985-86 provision. (p.18).
9. Based on British Waterways Board's past experience and feasibility studies.
10. Capital investment on railways (p.17).

* References are to "These are Liberal Policies (January 1986), unless otherwise stated.

11. Cost of 25% increase in retirement pension net of savings on means-tested benefits. Savings from abolishing SERPS, which Liberals also propose, would become substantial only in the next century. (Liberal response in September 1985 to Green Paper on Social Security (Cmnd.9512).
12. Local authorities to be given right to decide whether or not to sell council dwellings and terms of sale. Loss of receipts in 1986-87 estimated at £50m. (p.15).
13. Commitment to make financial provision to replace council dwellings sold. Average capital receipt from dwellings sold = £10,000. Average cost of new dwelling = £25,000.
14. Increase funding for Open University, Open Tech. and University of the Third Age. Assume Open University restored to 1980-81 level, in real terms: Open Tech. to 1985-86 in real terms (both peak years). No data available on University of Third Age.
15. (i) Raise income and capital limits for legal aid eligibility. Assume 85 per cent eligibility. (ii) Extend legal aid to Industrial Tribunals.
16. Incentive to police officers to live in the areas for which they are responsible. Assumes half police not living in quarters receive extra allowance of £1000 a year. (p.15).
17. Provide 80 law centres in England and Wales, proportionate number in Northern Ireland. Assume cost supply-led.
18. Basic expenses for Parliamentary candidates estimated at £10m. (p.7). Financial support for Opposition Parties: Houghton proposals revalorised £5m. (p.9).
19. Extend adult training: assume 50 per cent increase in existing MSC expenditure on adult training.

20. Includes expenditure on housing, environment, transport, communications, health and social services, other major projects, youth training, adult retraining, project support. (p.9). Calculated by netting off items mentioned above from the Liberal £4 billion p.a jobs package, and the £2 billion public sector capital spending total in the SDP/Liberal list.

ALLIANCE PUBLIC SPENDING COMMITMENTS

	FULL YEAR COST £m	NOTES
SCIENCE	85	1
EDUCATION		
End assisted places scheme	-50	2
SOCIAL SECURITY		
Increase in FIS	200	3
Heating allowances	100	4
Child benefit	200	5
HEALTH AND PERSONAL SOCIAL SERVICES		
Employment and Innovation Fund	100	6
Generic substitution	-20	7
EMPLOYMENT		
Double CP	630	8
Transform YTS	400	9
TRANSPORT		
Road equivalent ferry tariff	10	10
PUBLIC SECTOR CAPITAL SPENDING	2,000	11
	<hr/>	
	3,655	
	<hr/>	

NOTES

1. SDP/Liberal "Jobs and Competitiveness" (March 1986). Their own costing.
2. SDP policy documents 10/2/86, page 4.3: these are Liberal policies, January 1986, page 14. Assumes phased withdrawal over 7 years as existing pupils work through school. Will reach £50 million by 1988-89.
3. "Jobs and Competitiveness" March 1986. SDP/Liberals own costings.
4. "Jobs and Competitiveness" March 1986. Their own costings.
5. "Jobs and Competitiveness" March 1986. Their own costings.
6. SDP policy documents 10/2/86 page 4.1; these are Liberal policies, January 1986, page 9. Spread over 3 years. £100m is first year cost; will rise to £230m in 1988-89.
7. SDP policy documents 10/2/86 page 4.1; these are Liberal policies, page 15. Savings uncertain. SDP claim £100 million per annum. DHSS say savings amount to less than £20 million now that the select list is in force.
8. "Jobs and Competitiveness" page 4 March 1986. Net cost of doubling CP - takes into account Budget increase. SDP's job guarantee, worth £2 billion, has this £665 million netted off, see SDP table, employment.
9. "Jobs and Competitiveness" page 12, March 1986. Comprehensive and vocational education programme for 16-19 year olds.
10. Scottish Alliance manifesto 1983. Assume that tariff would mean an increase in Government subsidy to Calmac, at present £13.6m.
11. Alliance 1986 Budget commitment. Assume £2 billion reduction of Liberal jobs package.

FROM: A ROSS GOOBEY
DATE: 9 SEPTEMBER 1986

CHANCELLOR

cc CST
Mr Hudson
Mr Cropper
Mr Tyrie

Mr Payne - IR

SDP TAX PROPOSALS

Below Mr Payne's note of 9 September makes clear where the Tebbit £6,000 comes from.

2. On page 3, the SDP proposals will adversely affect two-earner couples with no children at only £5,200 per annum and one-earner couples with no children at something under £7,500 per annum.

3. The whole system seems redolent of French incentives for child-bearing. A woman in permanent employment will be able to take maternity leave (paid) and receive extra benefit and lower tax rates for each child. Is this the influence of Shirley Williams?

4. Blundellsands is a centre of Catholicism I believe, so it may actually attract some locals.

APG

A ROSS GOOBEY



Inland Revenue

Policy Division
Somerset House

FROM: J PAYNE
DATE: 9 September 1986

1. MR MACE *BAM 9/9*
2. CHANCELLOR OF THE EXCHEQUER

SDP PROPOSALS ON TAX AND BENEFITS

1. I attach a note which summarises the SDP proposals and give our first thoughts on the cost, how far the proposals appear to achieve their "major aims" of redistribution and simplification, and the likely impact of the reforms on incentives.
2. I would emphasise that this is only a preliminary analysis. If you would like further, more detailed, work done on any particular aspect we shall put it in hand.
3. A report in the Financial Times on 4 September, suggested that the SDP may well in fact be shelving their proposals for further consideration.

J PAYNE

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Miss Noble
Mr Hudson
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Isaac (o/r)
Mr Lewis
Mr Beighton
Mr Mace
Mr Eason
Mr Payne
Mr Dodds
PS/IR

UNCLASSIFIED

SDP PROPOSALS ON TAX AND BENEFITS

1. The SDP published their proposals for tax-benefit reform, "Merging Tax and Benefits - Attacking Poverty" on 21 August (copies attached for Ministers only).

Summary of proposals

2. The main proposals are as follows:

- Child benefit increased from £7.10 to £11.50, but made taxable on the recipient (usually the mother).
- A new Basic Benefit, to replace both family credit and Income Support (the new supplementary benefit). In effect this would be a general income-related benefit for people on low incomes, whether in or out of work. The benefit would be withdrawable at a rate of 70 per cent of increases in net income.
- Basic Benefit would thus treat people in and out of work alike. But Unemployment Benefit would be retained.
- Housing Benefit would also be retained.
- Some improvement to benefits for single parents.
- NICIT: NICs integrated with income tax, with a universal personal allowance of £2,100 (below the present single allowance, but above the NIC threshold), and a rate of 38 per cent (the same as the combined income tax and NIC contracted-in rate now, except for those benefiting from reduced NIC rates, and those basic rate taxpayers above the present UEL for NIC. There are no proposals for those currently contracted-out or self-employed). Pensioners would pay a rate of 29 per cent. The 38 per cent rate would continue until the 40 per cent band is reached. It seems the higher rates would remain the same; and there would apparently be no compensation for the increased rate payable on the band of earnings between the present UEL and the higher rate threshold.

- Pensioners helped further by increases in basic pension, and higher Basic Benefit, and abolition of standing charges for telephone, gas and electricity.
- Personal allowances would be given as an allowance against tax (rather than income as at present) and, along with mortgage interest relief, would therefore be given at basic rate only (no reference to other allowances or reliefs eg for pension contributions).
- Married couples: married man's allowance abolished; separate taxation of husband and wife; allowances not transferable.
- Carers to get more generous benefits.

Cost

3. A copy of Appendix A of the SDP paper is attached. This sets out the costs and savings of the proposals, showing a net cost of £500 million. We have not been able to do a full costing of the proposals but the SDP's estimates of the cost of the various elements of the package seem broadly reasonable although we have reservations about the overall net cost. The yield of £3.2 billion for the first item combines a yield of £4.4 billion from abolishing the married man's allowance with an assumed cost of £1.2 billion for the other 2 components of that item. Most of this money is then spent on the Basic Benefit proposals and child benefit. The analysis does not include a cost for the pensioner provisions - increased basic pension and relief from standing charges. This would be an expensive element of the proposals and the overall net cost is therefore likely to be considerably understated.

I think we can work this point in.

Distributional effects

4. The SDP proposals aim to redistribute money from the "rich" to the "poor" and the overall impact would generally be losers at higher income levels and gainers at lower levels. The table below shows how non-elderly people would be affected by the proposals compared with the 1986/87 tax system (and Fowler benefits) without taking housing support into account. The table shows the changes people would face in the long term, once the various proposals had been phased-in. The figures assume that the contracted-in NIC rate is currently being paid. Those contracted-out would do rather worse. The increase in net income for a 2-earner married couple at around £500 weekly income reflects the fact that under the present system the couple would have opted for wife's earnings election. They would therefore already be taxed as two single people, and so would not suffer from the loss of the married man's allowance.

Change in net income from introducing SDP proposals (1)
(compared with 1986-87 tax/NIC regime and Fowler benefits)

(£ per week)

Non-elderly

Weekly income (£)	Single people1 earner MC....		2 earner MC(2)...		
		with/o chldrn	one child	two chldrn	with/o chldrn	one child	two chldrn
60	+ 6.85	+22.47	+13.44	+12.54	+20.50	+14.42	+12.77
100	+ 2.34	+ 3.33	+12.91	+12.01	- 1.23	+12.78	+10.57
150	+ 2.34	- 5.02	+ 3.03	+ 7.43	- 5.67	- 5.65	- 5.61
200	+ 2.34	- 5.02	- 0.62	+ 3.78	- 4.27	- 4.24	- 4.21
300	+ 0.54	- 6.82	- 2.42	+ 1.98	- 2.67	- 2.64	- 2.61
400	- 7.74	-17.78	-13.38	- 8.98	- 2.68	- 2.64	- 2.61
500	- 9.99	-21.41	-17.01	-12.61	+ 1.47	+ 1.50	+ 1.53
1000	-16.15	-31.38	-26.98	-22.58	-19.40	-20.17	-20.95

about 3/4 average earnings
about average

Notes:

- (1) Assumes families currently paying contracted-in rate of NIC.
- (2) 2-earner couples - income split 60% to husband, 40% to wife.

5. The table shows that, as with other schemes for mandatory separate taxation, the losers would include those single earner couples who did not get the higher child benefit or carer's benefit. This would include, for example, couples where the wife herself was ill or disabled, or had not worked for some time because of family responsibilities, and was unable to find a job. Some people on low incomes would be protected by the new Basic Benefit and the NIC changes.

6. "Breadwinner wives" would also stand to lose; again only those on low incomes would be protected.

Pensioners

7. The SDP say that they would give full compensation to pensioners for the phasing out of the married man's allowance. But it is not clear how this would be achieved in every case. Some would gain from benefit increases. And pensioners would be taxed at a basic rate of 29 per cent as at present, not the new 38 per cent NICIT rate. Pensioners would apparently receive the basic personal allowance which would be set at £799 of tax. The allowance is calculated by converting a present style allowance of £2100 into tax terms at 38%, but since the elderly would pay at a basic rate of only 29% it would be worth rather more for them in income terms (about £2755).

8. The new allowance would be a little less than the current single age allowance but with the proposed increase of £2.30 a week in the state pension, single pensioners currently paying tax and benefitting from the full age allowance would be about £1.10 a week better off as a result of the SDP's scheme. Basic rate taxpaying

pensioners currently getting a restricted age allowance would do even better as they would not see their allowance reduced as their income increases; a single pensioner with an income of £13,000 a year would gain by £3.98 per week. Higher rate taxpayers would lose because the allowance would no longer be given at their marginal rate.

9. Pensioner couples would benefit from being able to split their total income notionally between them for tax purposes so as to maximise the use of their tax allowances. [This proposal for income splitting would, it seems, apply only to pensioners and not to other one-earner couples.] Taking into account the proposed increase of £1.30 a week in the married pension a basic rate taxpaying couple where the wife has no income of her own would gain by £6.53 a week from the SDP scheme if they currently get the full age allowance. If they do not benefit from the age allowance because their annual income is over £10,675, they would gain by £11.27 per week.

10. Some middle-income pensioner couples would lose unless special arrangements were made to protect them. These are the couples where the wife has income of her own against which she can use the wife's earned income allowance. At the moment, they can benefit from allowances totalling £6840, worth £1983.60 in tax terms whilst under the SDP proposals their combined allowances would only be worth £1598. Although they would benefit from an increased pension, this would not be enough to prevent them from losing. For example, a couple where the husband has annual income of £5,000 and the wife has a category A pension and an occupational pension worth £3500 together, would lose £4.15 a week.

Simplification

11.. Overall, the SDP proposals do not look simpler than the present system.

12. They claim that Basic Benefit will be paid through PAYE "as part of a fully unified tax/benefit system". In fact their scheme is far from being a fully unified system: both housing benefit and unemployment benefit would continue as now, as separate benefits. The only simplification compared to the post-Fowler benefit regime is that the levels of Income Support and Family Credit would be brought into line. The payment arrangements would in fact be more complicated.

- For emergencies, and presumably for people not in employment, Basic Benefit would be paid by local offices.

- For people in work, it would be paid through the employer. Either employers or the Revenue would thus need information to decide how much benefit was due, and this would require "a very simple tax return", presumably for all households. In practice these proposals could require a major restructuring of the PAYE system with possibly substantial additional compliance costs falling on employers.

- The family element of Basic Benefit, for people with children, would be paid direct to the caring parent through the present child benefit arrangements. This would complicate a system that is currently very simple.

13. The SDP's version of NICIT demonstrates two of the points made in the Green Paper: that the distributional effects of NICIT would be considerable; and that moves away from the simple NICIT to compensate for these bring the system back towards the present one. Thus, for example, pensioners would not pay NICIT, but would pay at the current income tax rate; mortgage interest relief would not run at the full rate of 38 per cent, but at 29 per cent. There is no indication whether any special provisions would apply to the contracted-out and the self-employed.

14. There would in addition be substantial further complication to the tax system through

- taxation of child benefit
- allowances and reliefs running only at basic rate
- increased number of taxpayers through lower thresholds.

Incentives

15. The SDP say that treating people in and out of work in the same way will mean "that there will no longer be disincentives to take work". Replacing the present NIC arrangements with a tax-free allowance "will provide an incentive to young people to take on low paid jobs".

16. In fact, marginal rates of tax would be at best the same as now, and for many people a good deal higher. The low paid without children would lose the current benefit of lower NIC rates, and would suffer withdrawal of the Basic Benefit at a rate of 70 per cent, so their marginal rate will be over 80 per cent excluding any housing benefit. In short, far more people would find themselves in the deepest part of the post-Fowler poverty trap.

17. Replacement ratios for low-paid working families would go up, partly because child benefit would be paid in addition to Basic Benefit for people out of work - at the moment, it is offset against supplementary benefit so increases income-in-work only.

18. The SDP criticise the effects of transferable allowances, on incentives for married women, but they would create a worse situation. If a working husband receives the couple's Basic Benefit through his pay packet, and his wife earns more than the £15 disregard, his take-home pay will fall by 70p for each extra pound she earns. This compares with 29p under transferable allowances. Moreover taxing child benefit as the mother's income would substantially reduce the effective tax threshold for many married women with severe, adverse effects on the incentive to take a job.

19. At higher income levels incentives would be worsened by the effect of charging the band of income between UEL and the higher rate threshold at 38% instead of 29% as at present.

Conclusion

20. Once the rhetoric is removed, the SDP have devised a system which would mean sharp tax increases for all married men, offset for some by the changes to NICs, the Basic Benefit, and higher child benefit for those whose wives do not work. Basic Benefit boils down to extending Family Credit to people who do not have families! The system would be simpler for only a minority of households, and would be a good deal more complicated for many people, including pensioners and most employers. The poverty and unemployment traps, and incentives more generally, would be worsened.

COSTS AND SAVINGS

NI integration, abolition of MMA and setting a new combined tax allowance of £2100	+ £3.2 bn
Phasing out higher rate Mortgage relief	+ 0.2
Changing allowances into allowances against tax	+ 0.4
Raising Child Benefit by £4.50, but making Child Benefit taxable as income of recipient	- 1.2
Basic Benefit proposals	- 2.8
New Carers' Benefit	- 0.3
	=====
	- 0.5

This Policy Statement has been approved for publication by the SDP's Policy Committee. The net impact of its proposals involve a small increase in public expenditure. The SDP is reviewing all its policy proposals which have expenditure commitments and will establish clear spending priorities closer to the next General Election.



FROM: J PAYNE
DATE: 10 September 1986

1. MR MACE *BAM 10/9*
2. CHANCELLOR OF THE EXCHEQUER

SDP PROPOSALS ON TAX AND BENEFITS

I am sorry to have to point out that there was a small error in the table in paragraph 4 of our note on the SDP tax-benefit proposals attached to my minute of 9 September, in that we took the upper earnings limit for NIC in 1986-87 to be £280 per week instead of the correct figure of £285. The result of this error is that we have slightly underestimated the gains from the SDP package (and slightly overestimated the losses) for those families currently above the NIC threshold by some 45p for single people and one-earner married couples and between 45p and 90p for two-earner married couples. The conclusions we drew from the analysis remain valid however.

C. This doesn't affect the present draft. AH

GOOD

I attach a corrected table of gains and losses for specimen families, with the amended figures shown in bold type. You may be interested to see that the figures now agree with Dr Owen's calculation of the effect of the package on families earning £300 per week, published in The Times on Saturday 6 September (copy attached).

GOOD

Payne
J PAYNE

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Miss Noble
Mr Hudson
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Isaac (o/r)
Mr Lewis
Mr Beighton
Mr Mace
Mr Eason
Mr Payne
Mr Dodds
PS/IR

Change in net income from introducing SDP proposals
(compared with 1986-87 tax/NIC regime and Fowler
benefits).

(£ per week)

Non elderly

Weekly income (£)	Single people1 earner MC.....		2 earner MC(*)..		
		without children	one child	two children	without children	one child	two children
60	+6.85	+22.47	+13.44	+12.54	+20.50	+14.42	+12.77
100	+2.34	+ 3.33	+12.91	+12.01	- 1.23	+12.78	+10.57
150	+2.34	- 5.02	+ 3.03	+ 7.43	- 5.67	- 5.65	- 5.61
200	+2.34	- 5.02	- 0.62	+ 3.78	- 4.27	- 4.24	- 4.21
300	+0.99	- 6.37	- 1.97	+ 2.43	- 2.67	- 2.64	- 2.61
400	-7.29	-17.33	-12.93	- 8.53	- 2.68	- 2.64	- 2.61
500	-9.54	-20.96	-16.56	-12.16	+ 1.92	+ 1.95	+ 1.98
1000	-15.70	-30.93	-26.53	-22.13	-18.50	-19.27	-20.05

Notes :

- (1) Assumes families currently paying contracted in rates of NIC.
- (2) 2 earner couples - income split 60% to husband, 40% to wife.

Top graduates rain for the Bar and not as solicitors

Frances Gibb, Legal Affairs Correspondent

First class honours are now choosing rather than the profession, according to latest statistics from the Law Society Gazette. A steady shift in the Bar, compared with 4.10 per cent of graduates five years ago, at least top university

shows that last year 10 per cent of all graduates took professional courses for the Bar, compared with 4.10 per cent of graduates five years ago, at least top university

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Owen tries to limit tax reform damage

By George Hill

Dr David Owen, leader of the Social Democratic Party, moved yesterday to limit the damage done by last month's launch of the SDP's radical plans for taxation reform, which were widely read as implying that all families with above-average incomes would pay more tax.

"This is wholly inaccurate," Dr Owen said yesterday. "The fact is that the vast majority of people who pay the standard rate of tax would be better off, by varying degrees, as a result of our proposals."

The handling of the launch caused consternation among some party members, and was criticized by Mr David Steel, leader of the Liberal Party.

The plan, produced by a working party led by Mr Dick Taverne, QC, a former Labour Treasury minister, was introduced as "the biggest proposed redistribution to the poor put forward by any party", with its proponents claiming that it relied on "the altruism of Mr Above Average".

One sentence in the report, giving a warning that "there will be some extra tax burden on those with above average earnings", had been taken out of context, Dr Owen said.

Except for taxpayers above the £17,200 threshold, where the higher tax bands begin, only a small minority of taxpayers would be worse off, he said.

Dr Owen rejected Conservative claims that the plan also implied that couples with one income and two children could be as much as £24 a week worse off. He said the position of such a couple earning £300 a week, approximately 1½ times average earnings, would be improved by £2.50 per week, while a single man earning £300 per week would be £1 per week better off.

This confusion had arisen because the figures in the plan did not give the position of those earning between £200 and £600 per week, he said.

Although Dr Owen emphasized yesterday that he was on holiday when the document was launched, the incident must reflect on his control of the party's public relations.

The adverse publicity attracted by the unveiling of this big item in the party's planned election programme will cause



Princess mourns sta

The Princess of Wales returned home at St Saviour's Gloucestershire. She is sharing the grief of her Highgrove Hall caretaker at his wife's funeral.

She walked arm-in-arm with Mr Paddy Whiteland, aged 73 (above), at a service for his wife, Nesta, who died at the weekend, aged 70.

The Princess travelled back to London from Balmoral on Thursday night so she could attend yesterday's service at St Saviour's Gloucestershire. She is sharing the grief of her Highgrove Hall caretaker at his wife's funeral.

The nuclear industry

Deaths 'may reach 28

By Trudi McIntosh

As many as 280,000 people throughout the Soviet Union and Europe could die in the next 40 years from cancers caused by gamma radiation from the Chernobyl nuclear accident last April, an American nuclear engineer claims in the latest issue of *The Ecologist*.

Dr Richard Webb, who has been studying the "explosion factor" of nuclear reactors for the past 16 years, said in London yesterday that his estimate of more than a quarter of a million extra cancer deaths was based on the best available information from countries such as the United States, Sweden, and

would ensure a thorough review of nuclear accident hazards, he said.

Writing in an issue of *The Ecologist* that was prepared with Friends of the Earth UK, Dr Webb said it would take a controlled experiment of a large population over a long period to establish the health injury rate of radiation exposure from Chernobyl or any nuclear accident.

He said estimates by the International Radiological Protection Commission gave a probability of 0.01 per cent extra cancer deaths a rem (a unit of radiation dose) of whole body dose.

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Four die in coach and car crash

Four people died when their car was in a head-on collision with a mini-bus, carrying children from a village swimming club, on their way to a gala, in the Grampain region of northern Scotland.

The nine children and four adults in the bus suffered minor injuries in the crash on the A96 Aberdeen to Inverness road about 30 miles from Aberdeen. They went home after treatment at Huntly Hospital.

Police have not given the names of the dead, or disclosed the circumstances of the collision on an open stretch of road.

The children, aged between 11 and 15, were

Age to play return

Dr Savage, the obstetrician at the London Hospital, has decided to delay her return to the hospital till

who was suspended for five months during the case of the health authority and originally returned to the department on

and panel of experts asked Mrs Savage to return. She will return to the department on the view of the professional

Labour promises to end charges on NHS drugs &

By David Fletcher, Health Services Correspondent

THE total abolition of the £2.20 per item prescription charge for National Health Service medicines was promised within the lifetime of the next Labour Government by Mr Frank Dobson, Shadow Health Minister, yesterday.

All dental charges would also go and the £500 million cost to the NHS would be offset by encouraging chemists to dispense the cheapest version of drugs prescribed by doctors.

Mr Dobson said that a future Labour government would make an immediate reduction in prescription and dental charges but was unable to say how much this would be. But both would be abolished totally during the Government's five-year lifetime.

Labour's policy statement, a Charter for the Family Health Service, will require health authorities to produce five-year plans with annual performance targets.

Pressure will be put on family doctors to seek out patients and offer screening services or advice designed to prevent ill health.

Patients' meeting

Family doctors had "little training in team work and local planning. If they show initiative by setting up, for example, baby clinics, blood pressure clinics, diabetic clinics, sessions for smear tests or regular visits to the housebound elderly, no one will stop them.

"But if they do none of these things, nothing is or can be done to encourage them."

Labour proposes that GPs should produce an annual health report on the people covered by their practice, "written in terms that the public will understand and presented for discussion at an annual meeting of registered patients."

The charter calls for GPs' patients lists to be reduced gradually to let doctors spend more time with individuals. Patients' choice would be increased by each practice having to publish details of the ser-

VICES it provides, and a strengthening of complaints procedures.

Better training would be given to receptionists and other health staff so that they would not be seen as an obstruction by some patients, and more staff would be allocated to family doctor practices to enable them to extend work on the prevention of ill-health.

Salaried doctors

Labour would also employ salaried doctors alongside GPs who at present have self-employed contractor status.

It says: "Where no suitable contract doctors are forthcoming it will be the duty of the health authority to provide a service, salaried if necessary. Existing individual GPs or practices that wish to become salaried will be encouraged to do so."

The British Medical Association said yesterday: "Many of the proposals echo ideas and suggestions which the BMA's General Practitioners' Committee has been making to successive Governments for a number of years, such as smaller list sizes; anomalies in prescribing and prescribing costs; and prevention programmes.

But doctors would not accept an extension of the salaried doctor service, which already operates in areas where the normal arrangements for health care cannot apply, such as for the homeless and rootless in inner cities.

"The strength of the independent contractor service — which is what doctors have at present — is that it ensures that patients are treated free from State interference and that the GP is not beholden to any political or administrative aim, or arm, of Government."

Mr. J. J. J.: Are there any new components in this? N.C.

FROM: CATHY RYDING
DATE: 11 SEPTEMBER 1986



MR TYRIE

LABOUR PROMISES TO END CHARGES ON NHS DRUGS

... I attach an article from today's Daily Telegraph. The Chancellor has asked whether there are any new components in this.

CR

CATHY RYDING

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Mr. J. J. J.: Are there any new commitments in this? N.

FROM: ROBERT CULPIN
DATE: 11 SEPTEMBER 1986

MR HUDSON

12/2

cc Mr Scholar
Miss O'Mara
Mr Ross Goobey
Mr Tyrie

CHANCELLOR'S SPEECH ON OPPOSITION TAX POLICIES

I think it well worth releasing the full text of the Chancellor's speech. I have only a few comments on the draft.

2. In paragraph 2, I think there is too much of an implication, without qualification, that borrowing causes inflation. In place of the fourth and fifth sentences, I suggest:

And reducing public borrowing had to take priority over reducing the tax burden. You can be sure that we shall continue with the prudent and cautious policies which have brought back sound money and restored Britain's standing abroad.

3. In the first sentence of paragraph 3, I should be inclined to omit "to improve the incentive to work". I don't believe the incentive argument as such is very strong, and you don't need it.

CX
word

4. In the first sentence of paragraph 7, delete "exclusively".

S.
did
CX

5. I should be inclined to leave out paragraphs 12 and 13. They make less strong a point than the previous paragraphs, and so lower the temperature. If you want to retain a challenge to Hattersley, I would not ask an open question - who would gain and who lose. I would say: "I say your programme would cost an extra fx per year in tax for, say, the police sergeant married to a bank clerk. If you disagree, tell me what your figure is."

ROBERT CULPIN

Pf. take in andts.

ok me if not clear

10 Sept.

SPEECH BY THE CHANCELLOR OF THE EXCHEQUER ON LABOUR AND
DRAFT SPEECH ON LABOUR/SDP TAX POLICIES

(of economic policy)

There are few areas where the difference between the Government and the Opposition parties is as ~~clear~~ ^{stark} as over taxation.

Like all previous Conservative governments, this

(clear)

(No burden)

2. ~~The Government's objective is to reduce taxation, in particular income tax. We have never made any promises about how quickly this could be done. When we came to office, our overriding objective was to bring inflation down. This meant controlling public borrowing, which had to take priority over reducing the tax burden. And we shall take no risks with inflation in future. But over time, and with public expenditure firmly under control, there should be room for reductions in the tax burden.~~
In our first term of office, no overt need to bring inflation sharply down which required a substantial reduction in Government borrowing. And this clear objective was to bring inflation down. This meant controlling public borrowing, which had to take priority over reducing the tax burden. But while we shall continue to take no chances with inflation, no backsliding will be seen. And we shall take no risks with inflation in future. But over time, and with public expenditure firmly under control, there should be room for progressive reductions in the tax burden.

restore financial discipline

give priority to sound finance

3. Already, we have given priority to cutting income tax, to improve the incentive to work. The basic rate has come down from 33 per cent to 29 per cent, halfway to our declared objective of 25 per cent. Tax thresholds are 22 per cent higher than when we ^{first} took office, ^{over} after taking account of prices, so that 1.4 million ^(lower-paid) people have been taken out of tax altogether. ^{on low incomes} The top rates of tax ~~have come down from the absurd levels under Labour - the highest rate down from 83 per cent to 60 per cent. And the investment income surcharge has been abolished.~~
83 per cent top rate of tax has been brought down to 60 per cent.

4. We have also made considerable progress on tax reform. Besides the investment income surcharge, three

Other *altogether:*
 damaging taxes have gone: the national insurance
 surcharge, *(Labour's tax on jobs)* development land tax, and capital transfer tax
 on lifetime giving. *the tax on companies* I introduced a major reform of
 business taxes in my 1984 Budget, *with no Capital Tax* reducing distortions on
 investment decisions and bringing the corporation tax
 rate down to 35 per cent for 1986-87.
net reduction from 52 per cent to 35 per cent for small companies from 37 per cent to 29 per cent.

40

5. The other parties are not always so clear about their tax policies. So let me explain what the result would be.

Labour

As we have shown by our detailed, item-by-item, analysis of the Labour programme, No.

amounts to some

6. *plugs* The total cost of Labour's spending programme *would have* would be £28bn. This *has to be paid for.* If they tried to *fund* fund it from income tax, it would, for example, mean a basic rate of 53p in the pound. *In other words,* which would mean a married man on average earnings would have to pay £3⁴ a week more tax than he does now.

x

Mr Hattersley is now trying to

7. *(No measures on his claims)* Labour have tried to run away from these figures, by focusing exclusively on Mr Hattersley's so-called anti-poverty programme, which he *says* he would finance by recovering the £3.6bn that he says has been awarded to the richest 5 per cent of the community in tax cuts. He reckons he can do this simply by reversing these tax reductions, without increasing the tax burden on anybody else.

8. This is doubly dishonest.

- First, it ignores the need to pay for the rest of

Labour's programme - the extravagant promises on housing, overseas aid, the minimum wage, and all the ~~others~~. Or have these been abandoned? *if so, we should*
Mr.
or ind.

- Second, even for the £3.6bn, the figures don't add up.

- Labour say they would restore ^{the} investment income surcharge. But that did not ~~only~~ ^{only} apply to the ~~top~~ ^{riches} 5 per cent. ~~Some~~ ^P people on much lower incomes, many of them pensioners, had to pay it.

- Labour say they would restore their penal regime of capital taxation. But ~~it is unlikely~~ ^{why do they major} that this would raise the amount of money which they claim it would. [?] ~~I might point out to them~~ ^{It is significant} that the fairer capital tax regime we have introduced actually raises more in real terms than the Labour regime did in 1978-79.

- But even taking these two changes at face value, they account for only half of the £3.6bn. The rest would have to come from income tax. ~~And to~~ ^{And} confine it to the top 5 per cent would mean a rate of about ⁷⁰ ~~68~~ per cent on ^{about} all incomes above £24,500 a year - a sure way of ~~setting off~~ ^{setting off} the brain drain which Labour's high tax rates produced before. So this sum would not materialise either.

X
X
X X

9. ~~And that means family income.~~ ^{Married couples whose} joint income was over £24,500, ~~would be paying these~~

And let's not forget those

~~swingeing tax rates. That would include, for example, a~~
 police sergeant married to a bank clerk; or a
 middle-ranking civil servant married to a nursing sister;
 or a ~~Scale 2~~ teacher married to a computer programmer.
 Not to mention couples running successful small
 businesses, who create jobs for others.

Some couples at
 this level of
 income

up to £3
 a week

~~Some~~ All of them would have to pay more tax.

]

X

10. In short, Mr Hattersley ~~couldn't raise anything like~~
 his attempts to raise £3.6 billion from the rich alone.
 even his £3.6bn without taxing ordinary people more

would have problems raising even in

So-called

heavily. So just think what the £28bn would
 require - the State taking 53p in the pound from
 everybody in income tax.

(but 29p as before, but)

There's

11. All this reckons without Mr Michael Meacher, whose
 enthusiasm for big spending makes even his Labour
 colleagues look miserly. He proposes a further £7bn on
 top of the £28bn. Which would push the basic rate of tax
 up to where the highest rate is now!

12. Labour have recently gathered their proposals
 together in the National Executive Committee Statement to
 Conference. As usual, this is full of promises. As
 usual, it is short on figures. There are some - the
 attractive ones, like increases in child benefit and
 pensions. And there are more promises on tax - a reduced
 rate band of income tax for the low paid, and reductions
 in national insurance contributions for people on low and
 middle incomes. But they are careful not to say what
 they call middle incomes. Or what the reduced rate band
 would be. Or what it would cost. Or who would pay for it,

L

13. To coin a phrase, the public has a right to know. So I ask this question of Roy Hattersley. Who would gain, and who would lose from his package? In other words, at what level of income can people expect to pay more tax?

The plain fact is that

14. Labour are trying to hoodwink the electorate with their promises. *If by any mischance Labour were to return to power, they* ~~The truth is that a Labour Government~~ would have three choices:

they could repudiate their proliferation of pledges
 - ~~drop the pledges, exposing them as electoral bribes;~~
and promises;

They could

- ~~raise taxes, and not just for the rich;~~

for no great majority of the population,

They could try, at least in the short term, to

- ~~or borrow the money.~~

The last Labour Government did a bit of all three. Spending programmes were cut. The basic rate of income tax went up to 35p in the pound, *(and tax thresholds were allowed to fall in real terms.)* at one stage. And Mr Healey had to go cap in hand to the IMF, because there was ~~nobody~~ *no-one* else left to borrow from.

They haven't changed.

15. ~~The electorate will pay more attention to this record than to the current set of pledges.~~

SDP
 The SDP have also ~~been~~ started to unveil their tax plans. They seem to have got no better a middle over them. But to do them justice, they want at least *trying to be a great deal more honest than Labour.*

16. ~~The SDP tried to be more honest. Dick Taverne said~~

As New Tax spokesman, Mr Taverne, said

only this week,

x

"What Labour pretends is that only the very rich need to be taxed more. This is hypocrisy. If you are serious about redistribution, some of the money will have to come from some of the better-off who are not very rich. This is unfortunate and regrettable, but it is the test of our seriousness and honesty. Otherwise, the money is not there."

Or, as he put it rather more tersely,

h

~~As Mr Taverne put it more neatly,~~ when launching the SDP's proposals, "you can't make an omelette without breaking eggs."

As I

Thus, under the SDP's detailed proposals,

~~their document - and they have more figures than Labour -~~
 a two-earner married couple without children on (£100 a week could be worse off. A married man on £150 a week ~~would be £5.00 a week worse off.~~ ^{could pay) £5 a week more in tax.)} If he had children, he would be better off. But if husband and wife were both earning, and only had £150 a week between them, they ~~would lose £5.00 a week whether or not they had children.~~ ^{have to pay) £5) more in tax whether} And the vast majority of ^(man?) couples with incomes of £200 a week - ~~still a little below the average - would be worse off.~~ ^{on average earnings}
~~off.~~ ^{would for remainder have (heavy) taxes.}

over

20. Many pensioners, too, could lose out. The SDP propose to abolish National Insurance contributions and charge income tax at 38 per cent on all income. They do say that State pensioners would only be charged at 29 per cent, so that the burden on them did not increase. It is ^{incidentally, inevitably,} interesting that they stick with the rate of 29 per cent, ^(The reduction from 30 per cent to 29 per cent) since they voted against it in this year's Finance Bill. ^{Even if pensioners are kept at 29 per cent, what about} But ~~even with that rate,~~ ^{at present} no mention is made of widows below retirement age, who do not pay National Insurance contributions on their widow's pensions. ^{What about those} Nor of people who retire early ^{on} with occupational pensions. [?] We ~~can only assume that they would face a higher tax bill.~~

X

(try -)

21. Perhaps the SDP would make special concessions to these groups as well. But they say that one of their main aims is simplification. Their proposals are already pretty complicated: for pensioners alone, there is a special tax regime for married couples, and a special rate of tax. And the more special concessions there are, the more complicated the system.

Reckon

As the plan fact remains. Under the
SIP proposals, millions of ordinary men &
women, on average or less below average
earnings, would have to pay more - sometimes
appreciably more - in income tax.

All this hostility was too much for the SIP's
bedfellows, the Liberals. They couldn't ~~wait~~ wait to
distance themselves ^{publicly} from the SIP plans - which we
have seen ^{through} ⁱⁿ ^{particular} ^{targeted} ^{at} ^{the} ^{middle} ^{class} ^{who} ^{work} ^{as}
a full consultant with them.

As for ~~the~~ the Obituary himself? Apparently - or
so the ^{report} to one newspaper - he was on holiday
when it happened.

But the cat is well & truly out of the bag.

Taxation and economic performance

The heart of the matter is this. No opposition parties see

22. ~~The other parties view~~ the tax system as a part of social policy. But it is vital to remember that the effects of ^{excessive} high taxation go far beyond the redistribution of income. High taxation stifles enterprise and blunts the incentive to work. It makes for an economy that is less efficient and less flexible. It is no coincidence that the two most successful economies in the world - the United States and Japan - have the lowest level of tax as a proportion of their national income.

X

23. Our policy is clear. There are ^{essential public} services that have to be paid for - such as defence, law and order, education, and the health service. But beyond that, we believe that people should be left to spend their own money as they wish. Because they will spend it ^{themselves} far better than if the Government spends it for them.

h

24. The other parties simply don't believe this. They think the State knows best. And this leads inevitably to higher spending and higher taxes, ^{and we pay for it} for some or for everybody. *See for the great mass of the population.*

Conclusion

25. So the choice is clear. This Government's policy is to reduce taxation, ^{as and when it is possible to} ~~dependent always on economic circumstances.~~ ^{do so.} The policies of all the other parties would mean higher taxation. The only difference between ~~the other parties~~ ^{them} is how much more ordinary people would have to pay.

WHL on 6 explain how

~~17. The SDP document even told us which eggs they were going to break, saying "Overall the low paid will be better off, and there will be some extra tax burden on those with above average earnings."~~

18. This was too much for the Liberals. They distanced themselves from it straight away. And apparently David Owen was not entirely happy either. He told one newspaper that he had been on holiday when the document was launched! So now there is total confusion. But the cat is out of the bag.

X ~~19. The SDP are putting forward a detailed blue print for their vision of a fairer society. They make no attempt to pretend that it would be just the rich who pay for this. As far as one can judge from the figures in~~

Hattersley's U.S. trip to quell investors fears

By Valerie Elliott

MR HATTERSLEY, the Shadow Chancellor, has been flown to the United States by a firm of city stockbrokers to soothe fears of American investors in Britain about the prospect of a future Labour Government.

Last night Mr Hattersley was given the prestige platform of the famous Waldorf Astoria Hotel in New York to explain in detail Labour party economic policy.

He touched specifically on foreign investment in Britain and emphasised that a future Labour Government had absolutely no intention of reintroducing statutory exchange controls.

His all-expenses paid visit, arranged by the firm, Greenwell Montagu, wholly owned by the Midland Bank, was deliberately aimed at discouraging American investors from withdrawing their British investments.

Trip's organiser

The trip was organised by Mr Keith Brown, a director of the firm, who, in New York last night, said: "With a General Election within 20 months there has been over here a lot of interest in what the Labour party is actually saying. We are getting questions about this because many Americans have invested in the UK market during the years of a Conservative Government."

There is a general view in the City that as the election approaches some foreign investors might pull out. Mr Hattersley directly tackled the question saying that while he accepted that his audience had not agreed with his party's policy, they should not pre-judge the outcome.

He said: "The prospect of a Socialist government raises automatic and often unthinking antagonism in those who do not share our socialist philosophy."

Being judged

"The Labour party in Britain will be happy to be judged, in Opposition, by what we propose; and, in government, by what we do. In a year and a half's time we will have to work together.

"The relationship will be most fruitful if we all accept

that, although our political aims are different, we need to judge each other on evidence not on superstition."

Mr Hattersley said that Labour's economic strategy would probably lead to a boost in the value of Sterling. He said that he believed this would be achieved in particular by the plan to repatriate funds from institutions invested abroad back into Britain.

Quoting a Greenwell Montague analysis, he said: "The possibility of large-scale repatriation could, for a period, hold Sterling at a lot higher than might otherwise be expected."

Upward pressure

He added: "Upward pressure will assist us in our endeavours to hold down interest rates without risking an unacceptable sterling depreciation. Its effect will be intensified in that that will influence exchange rate expectation—even in advance of the General Election."

Mr Hattersley also stressed that if this did not secure their target exchange rate level a new Labour Government would respond, if necessary, with an intervention policy backed by adjustments in interest rates. In such circumstances he said it would also be right for the currency to take some of the strain.

He staunchly defended Labour's taxation proposals, emphasising their commitment to the anti-poverty programme and the need to raise £3.6 billion to pay for the increase in State pensions, child benefit and payments to the long-term unemployed.

"If we are not to have excessive borrowing and unacceptable inflation, lower taxes for the highest-paid five per cent of the population can only mean a reduction in the social provisions for the poorest members of our society. That is not acceptable to me and I do not intend to prevaricate about Labour's intention to help the poor. The highly paid—and I am one of them—will have to contribute more."

This clearly strengthens the case for updating the X.C. Act in the new Finance Bill. What is the State's plan (Federal & State) in.

*pwp
repeal
of EC Act*

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FOR

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2. Andrew ✓
3. PUP



FROM: CATHY RYDING
DATE: 15 SEPTEMBER 1986

MR TYRIE

cc Chief Secretary
Mr Turnbull
Miss O'Mara
Mr Culpin

LABOUR WEEKLY - ARTICLE BY MICHAEL MEACHER

The Chancellor has seen the article by Michael Meacher in Labour Weekly of 12 September circulated by Mr Culpin.

2. The Chancellor would be grateful if you could check the disputed sources and also formulate (to be cleared with him) a crisp response to the offset argument (the alleged saving of £6,500 for each person taken off the dole).

CR

CATHY RYDING

THE TREASURY CHIEF WHO TURNED LABOUR'S

MacScare

DIVERTING as it may be as a summer pastime to double the number you first thought of and then attribute it to political opponents as the cost of their spending programmes, such a subject deserves much more serious treatment than the trivialising of a MacGregor knockabout.

On March 3, John MacGregor, as chief secretary to the treasury, published what purported to be Labour's spending commitments, totalling £24 billion.

A few months later he had raised this to £28 billion. For good measure he then threw in another £7 billion, alleged to be social spending commitments given by me.

Absurd

The facts bear little or no relationship to this quixotic exercise in political scaremongering. Several illustrations make this clear. Take the three biggest items in the £24 billion list which together account for more than a third of the total:

- A 35-hour week, costed at £3 billion. While there are certainly arguments for re-

'Figures trivialised by gerrymandering'



ducing the length of the working week at a time of soaring unemployment, it is absurd to suggest a 35-hour limit would be reached in a year or even a few years.

■ New housebuilding, also costed at £3 billion. Certainly there is a need to remedy the unprecedented 60 per cent cut in housing expenditure since 1979 and to reverse the continuing decline in public sector building starts which have dropped to the lowest level since 1919.

But what the gross cost of £3 billion ignores is that a very large number of building workers would be taken off the dole queues.

Combining unemployment and supplementary benefit no longer payable with income tax, national insurance contributions and VAT, which become chargeable as people enter employment, it is now estimated there is a saving of an average £6,500 for each person taken off the dole.

The net cost of a revived housebuilding programme is thereby halved, and most of the rest is repaid as public sector revenues in later years in the form of rent.

■ Reduction in retirement age to 60 for men, costed at £2.6 billion. MacGregor quotes the source for this as Neil Kinnock's speech to the TGWU conference in June 1985.

But what Kinnock actually said does not begin to support this claim: "It would be foolish to presume that major reductions in the working life would or should come without extensive preparation and protection . . . it will cost large sums and take many years."

Ignores

Several other major items on the list are equally bogus: ■ Education buildings and equipment, costed at £871 million. But the alleged source for this, Giles Radice's article in the Guardian in April 1985, does not even mention school-building.

■ Training for the unemployed, costed at £900 million. Certainly, the collapse of apprenticeships since 1979 and the winding down of retraining for the unemployed to one-tenth of the rate achieved, for example by Sweden, does need to be reversed.



But again, the gross cost ignores the far lower net cost where retraining enables people to regain jobs with new skills.

■ Regional employment subsidy, costed at £500 million. But the source MacGregor quotes, the TUC/Labour 'New Partnership' document of last year, says only: "We will need to consider the introduction of a new regional employment subsidy" - no more, no less, and no figures whatever given.

One could go on and on, but MacGregor's numerical gerrymandering is clear. However, even he excels himself with his most recent attribution of £7 billion of social spending commitments to me. The vast majority of this, over £5 billion, turns out to be for increases in supplementary benefit.

Yet the quoted source for this is a paper by an external

SPENDING PROGRAMME INTO A KNOCKABOUT

mongerer!

Michael Meacher on how a Tory twists the facts

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It is rather like a paper from a Tory think-tank, like the Centre for Policy Studies, being taken as a firm statement of government policy, even though it has never been to cabinet and would be dismissed if it were.

There are three items, however, in MacGregor's list which are valid.

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To reverse the biggest redistribution this century from poor to rich and the doubling of poverty since 1979, we do propose a major one-off improvement in incomes for some of the poorest groups in Britain today, paid for by those in the top brackets who have gained

disproportionately from the Thatcher years.

Raising the retirement pension by £5 a week for single pensioners and £8 a week for married couples, increasing child benefit by £3 per week, and paying the higher rate of supplementary benefit to the long-term unemployed will cost £3.6 billion.

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A figure of £3.6 billion for the increase in these three benefits which they them-

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Besides, one might ask, who are they to shout about Labour's profligacy? The £24 billion figure, if it were valid, which it absolutely is not, would represent a 17 per cent increase on this year's expenditure plans.

After adjusting for creative accountancy whereby selling off nationalised assets is counted (wrongly) as reducing public expenditure, the Tory government has itself increase public expenditure since 1979 by 14 per cent in real terms.

In fact, Labour's social expenditure plans, so far from being extravagant, are rather modest.

Independent calculations by the House of Commons statistical section estimate the cut-back in social security benefits since 1979 to total now £14 billion.

Against that, to propose a straight redistribution from the 5 per cent richest to the 25 per cent poorest, plus a re-shaping of the tax system which is revenue-neutral, is anything but profligate.



■ LISTING: MacGregor



■ LETTER: Fowler

Ch
 Important for Andrew
 Tyrie to check disputed
 sources in paragraphs.
 AA

Chancellor 12/2
 Yes indeed - and also
 claims by me) a crisp response to
 Chief Secretary to offer arguments
 The Chancellor (he alleges same of
 £6,500 for each person taken off the dole)
 12/9

Min O'Mara
 Tyrie



FROM: A P HUDSON

DATE: 17 September 1986

CHANCELLOR

A handwritten signature in red ink, appearing to be 'M. Hudson', written in a cursive style.

BBC TV INTERVIEW: 18 SEPTEMBER

Hattersley's speech

Alastair Ross Goobey passed me the attached copy of Roy Hattersley's speech yesterday.

2. Most of it is about public expenditure. He has a long attack on the Chief Secretary for being dishonest. And he has a long section at the end about how Labour would set up a firm financial framework, and how he has proposed "three innovations to colleagues in order to put public expenditure on a more sensible footing". I imagine that much of this is really aimed at his Shadow Cabinet colleagues, to cut out wild spending pledges.

3. Sandwiched in the middle (pages 8-9) is his point that the £3.6 billion can be raised from the top 5 per cent. He repeats "I do not anticipate an increase in the overall level of taxation for the ordinary taxpayer".

Points on Labour's tax proposals

4. As well as the points Alastair has picked out of the Crosby speech, you could repeat the reference to Labour's record: basic rate up to 35p in the pound, and tax thresholds allowed to fall in real terms.

5. The document Hattersley is launching tomorrow has a lot of sweeping pledges, not backed up by figures. For example



"We will introduce a tax reform package that will not increase the tax burden on the ordinary taxpayer but which will redistribute the burden of taxation in a fairer way."
(Page 1)

"[We will introduce] a new reduced rate band of income tax for the low paid, and a progressive system of tax rates to be levied according to income."

Nowhere does Mr Hattersley make clear who would gain and who would lose from his overall package. You could draw attention to this, and ask how the public can assess - or believe - promises such as a reduced rate band without knowing who would benefit and who would have to pay for it.

ANH

A P HUDSON

Further briefing has been commissioned to follow tomorrow.

CHANCELLOR

FROM A TYRIE

DATE 17 SEPTEMBER 1986

cc CST/Advisers

BBC TV INTERVIEW: 18 SEPTEMBER

This note deals with the latest state of play on the £28 billion. We must await Labour's press conference for a line on the tax side. I attach a detailed briefing on Michael Meacher's Labour Weekly article which also covers all the alleged weaknesses cited by Peter Riddell. Unless you were thrown very much on to the defensive (which I doubt in a short TV news interview) you will not need this detail.

Points to make

1. The effects of Labour's spending and tax plans on the economy would be devastating. This is not scaremongering - we need only to look back ten years. Inflation through the roof followed by near bankruptcy and emergency aid from the IMF.

I would also add a point about the unions. The counterpart to Labour's economic policy is their industrial relations policy - to abolish all Trade Union legislation. The effect would be just as devastating - rampant union power, winter of discontent etc.

2. Mr Hattersley has been shaken by the sums we have done on his spending plans. On Tuesday in a speech he said: "Parts of our programme will have to wait for the availability of necessary finance.... we must not

*Andrew says
this also
covers Doug
Jones point.*

attempt what we cannot afford or promise what we cannot, prudently, carry out." Does this mean that Mr Hattersley intends to repudiate the spending pledges of his fellow Cabinet colleagues? Either Mr Hattersley must address the economic consequences of his party's commitments or he must withdraw them.

3. Since we issued the £28 billion costing in July Labour have made several more pledges probably worth billions of pounds. (See attached sheet)

In view of the likely £300 million recosting of Labour's £3.6 billion social security package I think you should avoid quoting a lot of numbers to show that the top 5% cannot provide the necessary cash. There is also the problem that many married couple with a combined income of just above £24,500, would opt for separate tax treatment under the Hattersley regime. We will have to await the press conference before sorting out a detailed line.

AGI.

A TYRIE

New Labour Party Pledges

Disability scheme

1. L "Labour is committed to introducing a new and comprehensive disability income scheme with two separate non-contributory elements: an allowance to compensate for the additional indirect (as well as direct) costs of disablement, payable according to the severity of disablement; and a more streamlined income maintenance benefit." NEC statements to Conference 7 September 1986. The document itself estimates the net cost at between £1.5b and £1.75b.

The document says that Labour "shall implement the initial stages as a priority". Which part of this programme is your priority?

2. Energy. "Labour will restore full funding of research projects into wave power within the context of a much enhanced research and develop budget for the novel sources of energy." (ibid).

- "We will diversify Dounreay's research base to include wind, wave and tidal power." (ibid).

- "We intend to develop major new projects, both to explore a range of options for (nuclear) waste disposal and to deal with the decommissioning of existing power stations." (ibid).

- "We also propose to create a science park in West Cumbria to promote and diversify industrial development based on the knowledge and experience at Sellafield." (ibid).

BRIEF

FROM: A ROSS GOOBEY
DATE: 17 SEPTEMBER 1986

CHANCELLOR

cc CST
Mr Culpin
Miss O'Mara
Mr Hudson
Mr Cropper
Mr Tyrie

BBC TV INTERVIEW: 18 SEPTEMBER

You agreed to do this interview on the afternoon of 18 September as a response to the launch of the Social Security and Taxation statement by Mr Hattersley at 11am tomorrow; the Chief Secretary's diary tomorrow is full.

2. Although you will be asked for a direct response to that document (copy attached), the BBC are likely to widen the subject matter to cover the £28 billion question.

3. I shall make sure that any important statements made at Mr Hattersley's conference are conveyed to you.

4. Meanwhile, the four points which you made in last Friday's speech in Crosby are relevant:

- i) Concentrating on the £3.6 billion package is dishonest - how to pay for the other £24.4 billion;
- ii) Figure of £3.6 billion does not add up
 - Investment income surcharge not^{only} applied to richest 5%
 - Capital tax base probably would be lower under a more stringent regime;
- iii) Income tax on top 5% would have to be about 10% on income above £24,500. [Married couples whose joint income over £24,500 are not rich - police sergeant married to a bank clerk; teacher married to a computer programmer ;]

cc.
As we discussed, these couples would not be paying 70% tax, because of wife's earnings elections. But they would be worse off. The only safe form of words is the one in the Crosby speech (p. 4).

AMH

iv) Restart the brain drain. Need entrepreneurs to build business which will grow in the future.

5. You might want to refer to the CST's letter to Mr Hattersley asking him which of his party's pledges are to be dropped from the manifesto.

ARg

A ROSS GOOBEY

CHANCELLOR

FROM A TYRIE

DATE 17 SEPTEMBER 1986

*Oh
I don't find all of this
very convincing -- or, rather,
the best case is not made and
Meacher could all too easily
score cheap points in retaliation
AA*

cc CST
FST
EST
MST
Mr Cropper
Mr Ross Goobey
Mr Kalen
Mr Culpin

MEACHER ARTICLE IN LABOUR WEEKLY 12 SEPTEMBER 1986

The attached article by Mr Meacher is the source for Peter Riddell's reservations about the £28 billion. I set out below a point by point rebuttal.

i. 35 Hour week. (Item 7 in the recosting). Mr Meacher writes that "It is absurd to suggest a 35 hour limit (for a 35 hour week) would be reached in a year or even a few years."

Points to make:

- The costings are for a first full year, not necessarily the first year.

- Are Mr Meacher's words a repudiation or affirmation of Labour's commitment to the introduction of a 35 hour week?

ii. New house building (item 13) costed at £3 billion will be offset by unemployment and supplementary benefit savings.

Point to make:

- Government spending does not reduce unemployment beyond the very short term. Any job creation is soon dissipated

in higher inflation or interest rates and the loss of jobs in the private sector.

(I discussed this with officials who tell me this is well-worn territory and the standard reply).

iii. The reduction in the retirement age (Item 26). Mr Meacher challenges the source. The source is Neil Kinnock at the TGWU conference on the 24 June last year.

Text is attached with passages marked.

iv. Education buildings and equipment. (Item 18) Mr Meacher has not read footnote 18 properly. He claims that Charles Radice made no commitment in the Guardian article in April 1985. The Guardian wrote: "Mr Radice said that Labour would provide.....£90 million for books and equipment."

Points to make:

- The sources are correct, Mr Meacher has not read them properly.

- Mr Meacher alleges that we have costed education buildings and equipment at £871 million. In fact we costed it at £250 million. Is Mr Meacher's higher figure the one we should take as Labour's pledge?

v. Training for the Unemployed. (Item 4)

Mr Meacher alleges that this is costed at £900 million. That was the cost in the Chope PQ. The revised cost is £750 million.

vi. Regional Employment Subsidy. (Item 9)

This is the one point where Mr Meacher has correctly

I think Mr Meacher has a point on this (his quote is accurate & true was no firm commitment) But can attack on grounds of indefinite delay now proposed? Mr Meacher says Radice didn't mention school buildings.

He also repeats net cost point

found a less than robust source.

Point to make:

- Does the Labour Party want a regional employment subsidy or not? The item in the £28 billion is simply an uprating for inflation of Labour's 1976 Regional Employment Subsidy.

7. Supplementary benefit. (Meacher item 36).

Mr Meacher alleges that the £5 billion costing of his supplementary benefit proposal is from "a paper by an external adviser which has never been submitted to, let alone accepted by, the Labour Party National Executive." Peter Riddell also made this point.

Point to make:-

- The source is Michael Meacher himself in Tribune in February of this year. Source attached and passage marked. This is particularly awkward for Mr Meacher since in his Labour Weekly rebuttal he says of this pledge: "It is not, therefore, and never will be, party policy"! Perhaps Mr Meacher considers himself to be an "external adviser".

! good stuff

But he does only say
"I believe they ought
to get 70% of the
net wages of an average
worker."

AGS.

A TYRIE

THE TREASURY CHIEF WHO TURNED LABOUR'S

MacScare

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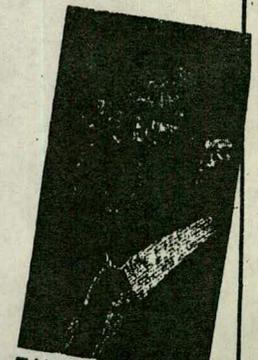
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■ LISTING: MacGregor



■ LETTER: Fowler

Mark Gibbon 3/10/86

was counting out.

John Kinnock

Chief Secretary

Mr. MacGregor

Alan O'Mara

Mr. Tyrie

Mr. Meacher

Q What has happened to the health service under the Conservative Government?

A It has been a very demoralising period for the health service. The sale has plummeted to a lower level than probably at any time since 1948. The reasons for that are obviously financial cuts.

Norman Fowler talks continuously about 30 per cent real increase in expenditure on the health service since 1979. What he fails to say is that the index of pay and prices is 2 per cent a year higher than the retail price index. Now that means that over six years, you have to have a "real" increase in expenditure of 12 per cent just to stay where you are.

At the same time, the Department of Health and Social Security has calculated that over the recent period an additional 1 per cent a year "real" increase, is needed to take account of the growing numbers of elderly people who are the biggest users of the health service.

The average person of 75 uses the Health Service between six and nine times more than an able-bodied male aged 18-65.

In addition, you need 0.5 per cent more in real terms because the costs of medical technology rise faster than inflation. So that's another 1.5 per cent a year, just to stay level. Six times that is nine and if you add nine to 12 you get to 21. Then you begin to understand, why, so far from this big increase, it doesn't feel like that at all. In fact, it has scarcely kept level.

I say to people, don't believe Fowler, don't believe Meacher, just look around. Does it look like, an expanding service? In the last six years 250 hospitals have been cut although to be fair to the Tories, they have built 35. There are 12,900 fewer beds (their figures) than there were in 1979. There are 2,000 doctors on the dole. There are 10,000 nurses and mid-wives on the dole. It is a system which is on the verge of breakdown.

Q What will Labour's priorities be in the NHS in its first period of government?

A First there must be an increase in resources. It is impossible to do very much by redistribution. Labour said at the last election that we would increase resources in the health service by 3 per cent a year, over and above inflation. That is what the Tories did in respect of defence.

We've made it clear that we would stop that, and indeed cut such expenditure. But certainly that 3 per cent increase could easily be used on health instead. They happen to be roughly the same size of budget. That is my bottom line.

Given the way the Tories have hammered the service, I must persuade my colleagues that 3 per cent is the minimum and it needs to be increased by 5 per cent per year.

Q Would Labour set out a programme of building extra hospitals compared with those currently planned?

A Let's look at the priorities. An increase of 3 per cent would give about £500 million extra in real terms, about £3,000 million over a five-year term. Now, how do you use that?

Hospital building is one. It would not be my top priority, but certainly

'It is a system which is on the verge of breakdown'.

we need some increases. Second is community care.

If we are really going to build up community care, to provide some sort of rehabilitative work, home helps or nurses or health visitors or something in between, if we are going to provide more special units, warden-controlled sheltered housing, social centres, day clubs, that is all going to cost a great deal of money. If we are going to assist people to look after dependent relatives in their family, that is going to cost money.

Thirdly, I believe that the shelving of the report on inequalities in health, by the incoming Tory Government in 1979/80, was a tragedy. It is a brilliant analysis of the weak spots in the health service, particularly ante-natal and post-natal services, child health and services for the elderly and regional disparities. There are still huge class differentials in infant mortality and clearly the north is poorer than the richer south.

I think we need more resources, discriminatorily placed into areas of greatest need to bring down those class and regional differentials.

Fourthly, I think low pay is an indefensible outrage, with laundry workers, kitchen workers and cleaners, getting £50-60 a week. That is going to be very costly.

Fifthly, I think there are two kinds of health institutions which are greatly lacking in the health service. There are a few private hospices for the mentally ill and I would be in favour of building some of those. Nursing homes for the elderly are almost all in the private sector. Nearly one in seven of the population is elderly; it is the big problem in the health service. All this is in addition to the obvious

requirements for better primary care, more health centres, ancillary services and ancillary workers, social work professionals, more hospitals.

Q Which do you think is the top priority?

A That is something there should be broad agreement on within the party. I very much hope we would make a major impression on at least one of the areas I have highlighted and a significant improvement on all of them.

If I had to choose one, I would choose community care. I believe there is a huge and unrecognised need for high-quality, capable, devoted community care. I don't think we know how many families suffer intolerable stress by having to look after relatives and friends who are a very considerable burden day and night and weekends, without a holiday and with very little assistance or material support and virtually no financial support.

I believe it would assist the pressure on institutions and also would increase community welfare.

Q What do you think we should do about private beds in the NHS?

A I believe the private sector in the health service is causing significant damage to it. It is on a scale that is causing a shift in priorities and it damages the quality of service that NHS patients get.

However, the problem has changed since Barbara Castle's day in the mid-seventies. Then it was mainly a matter of pay beds and the NHS. Today that number is still relatively low.

There were, at one stage, about 4,600 beds in the mid-seventies when Labour came in. Labour brought it down to about 2,500, the Tories pushed it up again to about 3,500-4,000. This is still below the level of the early seventies.

What has taken place is a huge expansion of beds outside the NHS in the private sector. To regulate that and to dissuade consultants in the NHS from taking advantage of that system is the problem.

First of all, yes, we have to reduce pay beds in the NHS. I would reintroduce the health services board that was there before.

Secondly, I would reduce the tax reliefs that have been given to private health insurance companies, to employers. I would change the contract for consultants who now have an incentive to work not 9/11ths but 10/11ths and still do private sector work.

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Tribune
Feb.
'86

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half the level of the net wage of an average paid worker.

I believe they ought to receive about 70 per cent. I realise that will lead to many people on benefit having more than those in low-paid work. But that is not because benefit is high.

One Tory MP, Mathew Parris, boasted that benefits weren't too low, that coping was all a matter of domestic management. He was challenged to prove that in front of television cameras, and he couldn't get through his week without needing more.

So it isn't a matter of management. It's living at subsistence level, barely getting the essentials.

If you push it up, you start to knock at the floor of the wage levels because wages are so low. So a necessary corollary to increasing supplementary benefit to a decent level is the establishment of a national minimum wage.

I accept the view taken by NUPE - the main advocate of this tactic - that it should be two-thirds of the national average, around £100 per week. The lowest wage should be above the level of benefit.

Q What would you say to the Tory argument against the minimum wage, that a number of jobs would just disappear?

A We have to trade off the highest increase in wage level against the smallest increase in unemployment and inflation.

In the boot and shoe industry, and in the restaurant, cafeteria and food sales industries there are wages of £50-60 for a full week. There are cleaners, laundry workers in the National Health Service on wages of £50-£60, some on less than £50 for a full week.

Those wages are absolutely disgracefully and indefensibly low. The adjustment may have to be in stages.

I believe the structure should have certain principles. Social security policy has got to reduce the dole queue, first. It is absurd to think you can put more into social security which costs £42 million each year, with unemployment still rising. Everyone knows that it is absurd to pay over bigger benefits, with a dwindling work force.

We have got to produce a significant decrease in the dole queues. We have said as a party that there will be a reduction of 1 million over two years, and another million within a five-year period.

I still think that's quite ambitious. The fact is that unemployment has been going up all over Europe for several years, and to halve it is a very big commitment.

If we could, the rewards are very great. Every million unemployed costs the Exchequer about £7,000 million. We spend £20,000 million

keeping about 3 million people unemployed.

Now I would not be so stupid as to assume that the £7,000 million saved by cutting the dole queues by 1 million would all go into social security, but it would provide leeway for social security.

Secondly, what structure is one aiming at? There are two aims of

'What the Tories have done to the NHS, we will do to the private sector'

social security. One is to relieve poverty. The other is to redistribute income as between poor and rich. It can do that only if you combine social security with the taxation system. The two should be back to back. The structure should aim to get rid of family poverty by a big increase in child benefit.

Q How big an increase do you think this should be?

A It is now £7 per week for each child. You could double it to £14 a child, if you abolished the married man's tax allowance. The amount of money we spend on that is about the same as the current cost of child benefit. I think that would be a lot fairer.

Next, all benefits - unemployment, retirement, sickness, widowhood - have to be paid at a level at least as high as that family would get from supplementary benefit. You should not, as we have done since 1949, pay benefits below the poverty line, and then leave people with an option to claim a means-tested benefit to top up to a higher level.

If you provided the benefits at or above the current supplementary benefit level, you could virtually scrap the supplementary benefit system, and that would be a huge advance.

Q Why do you think that Governments haven't taken that step before, for instance, the last Labour Government?

A The fact is that the last Labour Government got into the atmosphere of cuts very quickly. I spent a brief time in the DES as Parliamentary Under Secretary in 1975, only 15 months after we had won the first 1974 election, and we were already into the game of how to resist cuts. We weren't into an expensive approach to reforming the social security system at all.

The other reason is a matter of priorities. If one is going to talk about social security, what are the priorities? One is the relief of poverty, providing a benefit of right which takes people above the poverty line, so that they have security and dignity without a means test.

Secondly, these are groups covered that were not given attention 40 years ago under Beveridge. Things have changed. There are now about 1 million one-parent families, far more than in Beveridge's day.

He didn't sufficiently recognise the physically and mentally disabled. There are between 1 million and 3 million disabled people, without adequate financial protection.

What the disability groups want is a comprehensive disability income, which on various calculations would cost around £2,000 million pounds. Well that's another colossal expenditure. All parties are in favour of community care. The Government, however, reduces resources going into it. If a Labour Government did it for real, we would want to have an expansion in the number of workers providing care, but we would also want to be assisting and supporting ordinary people looking after elderly or dependent relatives, and giving them some financial recognition for doing so. It has been estimated that the cost of care provided by families to dependent relatives is of the order of £5,500 million, each year. We virtually provide nothing for them. So a third priority would be to provide some financial support for carers. That is a big and costly priority.

So those are the priorities: first getting rid of the "cattle market" of supplementary benefit, which is in any event on the verge of breakdown with the mass of unemployed now its biggest part; secondly, disability and thirdly carers. Then, fourthly, one-parent families.

Q What forces resist these increases in benefit?

A There is a limit to how far you can push the vast majority of ordinary workers, if you say that extra deductions are going to go to people on the dole.

Pensioners are "popular", the unemployed are not. One-parent families are not "popular". People sympathise with the disabled.

There is a measure of sympathy and support to be tapped, in other words. But it partly falls to who you take the money from.

Past Labour Governments have always assumed that tax increases will fall on the basic rate, hitting people right at the bottom and right in the middle of the income range. If we had a more progressive tax eye-

tem, we could place the heaviest burden on the broadest shoulders.

There has been a dilemma in the social security system, ever since 1948. You can pay universal benefits, that is, pay the full rate of benefit to everyone, regardless of income. This is much favoured on the Left. The trouble is that it is costly.

But if you pay means-tested benefits, two things occur. One is that you "stigmatise" the benefit. It becomes a sign of poverty, of failure. Because of that people are unwilling to take up their entitlement.

Most means-tested benefits in this country have a take-up of only 5 per cent or so.

The way out of this dilemma, I believe, is to have a highly graduated tax structure. At the moment, 19 out of 20 households pay at the 30 per cent rate.

We should change that to a structure where, at the bottom, we raise the tax threshold, and start off at, for example 15 per cent, then 30 per cent, then 45 per cent, then 60 per cent, and then more controversially, 75 per cent.

I'm assuming that this would all be worked out to be "revenue neutral" - producing the same income tax as the present structure in total.

Q Looking at the latest tables published by the Organisation for Economic Co-operation and Development, we are now much kinder, in Britain, to the very rich, than are the

'Social security policy has got to reduce the dole queue first'

Japanese, the French and the Italians.

A Britain has a much sharper rise in marginal rates at the lowest levels of income than most other countries.

Meanwhile, National Insurance in Britain is a wonderful way that the Tories have found for making the working class pay for their own benefits.

There is a very low threshold, now about £36.50 and a ceiling at about one and a half times average earnings.

Everyone in that area, which includes all working-class people, but excludes most middle-class people, then has to pay quite a high rate - 9 per cent flat rate poll tax.

If you have a graduated tax structure, however you actually fix the rates, what you can do is pay benefits at a higher rate than you could otherwise.

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A The Fowler review of the welfare state is about redistributing incomes from poor to rich. On top of £9000 million cuts in benefits in 79 it is a further cut of 10 million.

A At what level would you like to see supplementary benefit under a Labour Government?

A After stoppages, the average paid worker is probably getting about £120 week. Supplementary benefit for a family of four is about £50. But

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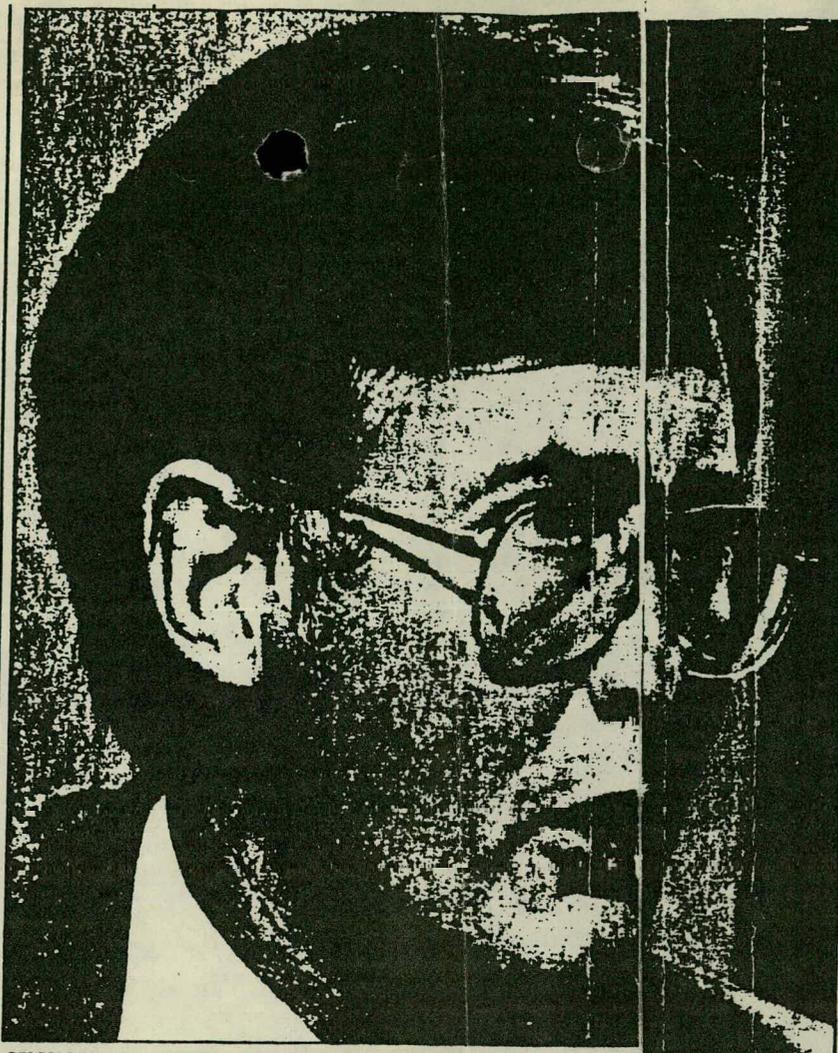
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A The fact is that the last Labour Government must get into the atmosphere of cuts very quickly. I spent a brief time in the DESSE as Parliamentary Under Secretary in 1975, only 15 months after we had won the first 1974 election, and we were already into the game of how to resist cuts. We weren't into an expansive approach to reforming the social security system at all.



MICHAEL MEACHER - security and dignity should not depend on means test.
Photo: Stefano Cagnoni (Report).

Don't believe me. Just look around. Does it look like an expanding service?

and this includes financial incentives to full-time consultants. But we also need a board which would regulate building and expansion outside the NHS.

Another weapon in our armoury is to say that hospitals in the private sector should have the necessary minimum facilities, say in radiography and so on, the kind of back-up services which a lot of them don't have because they are parasitic on the NHS. Either they would have to obtain that or they would have to close.

The objective would be a range of pressures which would minimise and squeeze the private

sector.

And I must say, I have learnt a lesson from the Tories. It is not to go for the big bang approach - to bring in a Bill to do something, go ahead and do it and then sit back and say, well we did it, it might not have worked very well, but we did it.

My objective would be to squeeze the private sector. Then after six months, or a year, see how far we have got, and squeeze again, maybe in a different direction, but keep on with the objective. What they've done to the NHS, we will do to the private sector.

Q What was wrong with the Fowler review?

A The Fowler review of the welfare state is about redistributing incomes from poor to rich. On top of £8000 million cuts in benefits in 1979 it is a further cut of £100 million.

Q At what level would you like to see supplementary benefit under a Labour Government?

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*Kinnock
Employment*

PRESS INFORMATION

From the Office of
Rt. Hon Neil Kinnock MP
Leader of the Opposition

Press and Broadcasting Secretary: Patricia Hewitt 01-219 4151 01-267 2567 (home)

EMBARGO: 12 noon Monday 24 June 1985

ATTACHED is an extract from the speech by the Leader of the Labour Party, Neil Kinnock MP, to the Biennial Delegate Conference of the Transport and General Workers Union in Bournemouth today.

Mr Tyrie.

*We spoke. See X-Y on p2, &
Z on p3.*

-B Skalen

17/9

*Kinnock commitment on lowering
the retirement age.*

But our approach to pensions and retirement is not just a matter of our concern for those who have finished work.

It is a matter which vitally affects every one of us here today, every person with work and seeking work in Britain.

We are seriously seeking a modern system for full employment. That is not the full employment of the 1950's, 1960's or even the early 1970's - we know it's not coming back in that form. We want a policy for full employment which takes account of the realities of present and future technological, economic and cultural change, of alterations in the expectations of life and the expectation of living. To get that we know that we need to do more than boost demand. We know that we need to do more than raise and guide investment. We know that we need to not only generate extra opportunities for work, we need to reduce the numbers requiring work.

In the cruellest and clumsiest and most callous way that is happening now. It is happening through mass youth unemployment. And it is happening when a 54 year old is made redundant and he or she knows that, unless they are very lucky, they are in reality being forced into unwanted, unbearable early retirement.

There have to be better ways. And there are better ways.

In addition to investing in expansion -

* we should first, extend education and training in youth and adulthood, not simply as an alternative to unemployment or a disguise for the dole queue, but as an essential way of equipping people for new tasks and new opportunities, of increasing their opportunities for work, of giving them strength in the changing labour market.

X * we should second, plan for and provide the means for voluntary and increasing reduction in the retirement age.

It would, of course, be foolish to presume that major reductions in the working life could or should come without extensive preparation and protection. A society which has ethically, socially and economically depended upon work between the ages of 16 and 65 for most people - or more accurately, for most of its men - cannot be suddenly converted to a code of entirely new behaviour.

Y If that new life style after work meant a descent into poverty or insecurity, isolation or boredom at, say, 58 the transition would be bitterly resented and contested.

2

The change must, therefore, be achieved without inviting those disadvantages. It will cost large sums and take many years for this cultural and economic revolution cannot be achieved cheaply and must not be achieved dictatorially. But it must be done. In an age when the cost of not employing a 35 year old with two children is greater than the cost of providing his 60 year old father with a £90 a week pension, in an age when hundreds of thousands with mild chronic illnesses or abiding leisure interests would gladly retire earlier if they could afford it, the prospects for that change become realistic.

And in that age - our age - when earlier retirement is increasingly an area for negotiation, when whole industries are following the decades-old lead of heavy industries abroad, the Labour Party and the Labour Movement has nothing to fear if it sets its hand to making proper financial and social provision for a careful strategy of reducing the work force.

The cost of not doing that will be miserable. If we do not adopt that rational course we shall see, probably with terrible speed and certainly with awful results, the irrational response to technological and economic change which the market economy has always made and will always make. That means huge numbers of unemployed, millions more who live in the constant fear of unemployment and the insecurity and conflict which it brings, and an affluent few who are safe in their jobs but in danger everywhere else.

In short, we either plan and pay for a new concept of Full Employment or we allow permanent mass unemployment.

It is for all these reasons that the combination of the recovery policies in Labour's plan for jobs and our policies for the extension of education and training are so vital.

And it is for all of these reasons, too, that the State Earnings Related Pension Scheme which the Tories propose to abolish is essential, and will continue to be so both for those who are contracted in and those who are contracted out.

CHANCELLOR

FROM A TYRIE

DATE 17 SEPTEMBER 1986

Handwritten signature in red ink
cc Ministers Advisers

LABOUR PROMISES TO END HEALTH CHARGES

You asked if Frank Dobson's commitment for total abolition of prescription charges in the NHS reported in the Telegraph on the 11 September was in any way new.

I think the cost of this is wholly covered by item 21 of the recosting. The conference motion we costed pledged Labour to "phase out all health charges."

Handwritten initials in blue ink
AGF.

A TYRIE