

PO-CH/NL/0236 PART E

Part E.

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PO -CH /NL/0236



PART E

Chancellor's (Lawson) Papers:

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

NL/0236

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PO

PART E

Disposal Directions: 25 Years

21/9/95.

LABOUR'S DEFENCE  
POLICY

CHANCELLOR

FROM A TYRIE  
DATE 11 DECEMBER 1986

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr Cropper  
Mr Ross Goobey  
Mrs Seammen

### LABOUR'S DEFENCE POLICY

I attach a copy of Labour's Defence Policy which apparently was sent to Sir Peter Middleton under the cover of a "dear friend" letter!

The figures to which Mr Tebbit was presumably referring are on page 3. Labour claim that over the three years 1985/6 to 1988/9 defence spending will be cut by 6% in real terms. The Autumn Statement figures give a 4.5% cut (Falklands inclusive) or a 2.2% cut (Falklands exclusive).

Their other figures for forthcoming cuts in individual programmes are, apparently, all speculative.

This is another well written and presented document in the "Investing in People" style. Labour have fudged the timing of withdrawal of nuclear weapons/US bases etc. But I think we should ignore this backpeddling and juxtapose the commitment in the document (page 7) with the clear statement by Mr Kinnock earlier this year to implement this policy within 12 months of taking office.

Where are Labour finding the funds for these glossies?

AGS.

A TYRIE

Ty 2.

Modern Britain in a Modern World

# The Power to Defend our Country



Labour 

# Labour's Strategy for Defence

# **The Power to Defend our Country**

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# Introduction

When the next Labour government comes to power, we know that we will inherit a formidable range of problems from the wasted years of Thatcherism. Four million unemployed, our industrial base decimated by the destructive fantasies of monetarism, young people without hope, the elderly without basic necessities. It will be a long haul putting the country back on its feet again.

In addition to all this, the next Labour government will also need to address quite fundamental problems in Britain's defence policies and capability.

The truth is that Mrs Thatcher – who relishes the title *Iron Lady* – is following policies which diminish Britain's defences and, since our national defence posture is and must be inextricably linked with NATO, the credibility of allied defence is reduced too.

The difference of course between a defence policy and most other policies is that we're not given public signs - like the trade figures - of the serious and steady erosion of its credibility. So it is necessary to watch very closely how our defences are likely to be viewed by our potential enemies. And when we take that look, the grim truth become apparent.

In our own national defences, the present government is presiding over a serious decline in the strength of all our armed forces. Had the invasion of the Falklands by the Argentine junta come even six months later than it did, it is doubtful that we could have regained the islands.

And NATO's strategy is also being called into question. As long as the Soviet Union poses a

potential military threat to Western Europe, we need a strong NATO. But its reliance on the threat to use American nuclear weapons in response to a conventional attack can no longer be sustained. We know, in the light of Chernobyl and research into 'nuclear winter', how the use of nuclear weapons could destroy populations and military forces on *all* sides. What enemy will believe that the Americans will commit suicide to punish an invader of Western Europe in these circumstances?

NATO was formed forty years ago when Britain had a Labour government. And it was a Labour foreign secretary, Ernest Bevin, whose energy and drive were instrumental in creating the system of collective security based on NATO which has contributed to keeping the peace in Europe for a generation. Since then, however, much has changed, not only in the credibility of nuclear deterrence, but in the political alliance that underpins NATO.

Britain's own defences now have to be reconstructed. And NATO has to acquire a new strategy and a new vision that will ensure that it is effective in the world of the 1990s and beyond.

It is Labour, not the Tories, who will carry out that task. We've done it once, and we'll do it again. We also know that by making greater efforts to promote trade, political dialogue and economic co-operation between all countries – East and West, North and South – we will reduce the risks of conflict. This is the practical concept of 'common security' which goes hand in hand with our new approach to defending Britain.

Trident

Ann. 3% ann programme.

Ann. 6% capital budget ann programme.

Prog -  
18-20 yrs.

1991-2 peaks at  
11% equipment budget.

This is W.P.

1989-90.

AS figures - 4.5% fall lands inc 4.9

- 2.2% fall, excl 2.4.

46% realt. inc

1989-1985-6.

in equipment  
budget.

# The Thatcher legacy

## Our defences weakened

It is a bitter paradox of Britain in the 1980s that the party which claims to be for strong defence will hand over to us a country whose defences will have been critically weakened.

The government has already announced that over the three years 1985/86 to 1988/9 defence spending will be cut by 6 per cent in real terms. Over the same period spending on new non-nuclear equipment will be cut by around 30 per cent. What does this mean in practice?

**For the Royal Navy**, it means fewer frigates and destroyers – a loss of three, possibly more over the next decade. Because the government cannot afford to replace enough of them, the average life of key ships in the fleet will be stretched from 18 to 22 years. Following a long delay, the government is considering the conversion of merchant container vessels rather than build specialist assault vessels to replace the ageing *Intrepid* and *Fearless*. Because of the run-down of assault vessels the Royal Navy now has no ship dedicated to carrying large numbers of Royal Marines and their helicopters. There have been big cuts in the number of support and auxiliary vessels. There is likely to be a reduction of conventionally-armed diesel-electric submarines from 13 to 8. With the rapid run down of the merchant fleet, there could be virtually no merchant ships left under the British flag by 1995 or even sooner.

**For the Royal Air Force**, the cutbacks mean that the development contract for the European Fighter Aircraft has still not been signed, and so the plans to purchase 250 of this aircraft have not been confirmed. An order for the new Staff Target 404 troop-carrying helicopter has been delayed and the decision on purchasing the second order of the Harrier GR5 has been postponed. To ease the budget crisis, Tornado sales to Saudi Arabia have been put before supply to the RAF.

**For the Army**, substantial cuts in equipment and training programmes have been revealed. According to a document prepared for the Army General Staff

these cuts will “result in a smaller, less well-equipped and less well-trained army,” hitting the BAOR forces particularly hard. The Army is set to lose a terminally guided anti-tank rocket, a scatterable mine rocket, a battlefield electronic warfare system as well as improvements to existing tanks and, possibly, a new tank.

The paradox of the Tories becoming the disarmers by stealth arises though, not because Mrs Thatcher does not want to defend Britain but because her ambitions for defence policy far exceed anything which Britain under its present economic management can afford. No one believes that the total defence budget can be significantly expanded, so we have to make a choice between either proper levels of spending on our navy, air force and army or spending on nuclear weapons.

Mrs Thatcher has a nuclear fixation. Her delusions of grandeur directly threaten the defence policy for Britain that is possible, and is vitally needed.

In the years immediately after the war, Britain's strategic interests were worldwide. With substantial parts of an empire still to defend, our defence capability was correspondingly extensive.

Today, of course, our strategic interests are more limited and our worldwide commitments reduced. But ambitions have still not been completely adjusted to our capacities and our needs. Available resources are spread over far too many functions.

- Quite rightly, we are committed to the air and sea defence of our own island.
- Rightly too, we are committing troops and airpower to the central front in Europe.
- Beyond that we are responsible for the naval protection of the Atlantic Sea lanes.
- We have retained a general responsibility for military action outside the NATO area, most notably in relation to the Falkland Islands.



● But we are also, as about the 20th richest economy in the world, (in terms of national income per head), trying to remain one of the five nuclear weapon nations of the world. By buying Trident we are about to increase the number of targets we could hit with nuclear weapons by up to 14 times, at a cost of at least ten thousand million pounds.

Defence experts, including ministers who have passed through Mrs Thatcher's cabinet, recognise that this is an impossibly broad defence commitment. But rather than make decisive choices Mrs Thatcher's government wants to spread our dwindling resources thinly over everything. The

## NATO under pressure

Mrs Thatcher is not only running down our own national defences. Britain is the major European contributor to NATO. But the Conservative government has also failed to address itself to the mounting strains within the Alliance.

The problems of NATO are not entirely of Mrs Thatcher's making: its roots are deepseated. But Mrs Thatcher's policy shows a perverse refusal to recognise them and respond effectively.

### The widening Atlantic split

It is now widely acknowledged on both sides of the Atlantic that the perspectives of Western Europe and the United States have changed during the last 20 years. The United States is a global power with global interests. Its economic and political interests lie in the Pacific and Latin America as well as in Europe and the Atlantic. Western Europe, on the other hand, shed its far-flung interests with its empires. We are primarily concerned with the defence of Europe.

This divergence has produced conflicting judgements and policy disagreements, particularly in recent years. For Europeans, President Reagan's aggressive policy of global intervention is at best irrelevant and more probably de-stabilising and dangerous. For us, in the front line, regional stability and detente is the priority.

The result has been a series of disagreements over the Middle East, Poland, Grenada, Libya. Blame for these disagreements is a distraction. The point is the important historic shift that they signify and the need which they highlight for a proper recognition of European interests.

Many Europeans have sought to articulate a constructive response to this situation. Mrs Thatcher, evidently blind to it, has simply sided

core of our armed strength is breaking down, suffering – as one of those ex-ministers has said – 'the death of a thousand cuts'.

Indeed it is obvious that, if there were to be another Tory government, there would have to be an immediate defence review and substantial cuts in our armed forces just to pay for Trident.

Britain's defences now urgently need to be restructured to meet modern demands. We need to re-shape our defence posture to make it appropriate to our role today, and commensurate with our ability to pay. Labour will face and take the tough decisions that are long overdue, enabling us to get on with the defence job that we and our army, navy and air force are best at.

slavishly with the Americans even if this has meant isolation from the rest of Europe. As a result real influence with our closest partners in Europe has been eroded whilst the illusory role in Washington has been obsessively pursued.

### The threat to NATO credibility

Unchecked, this trend is fraught with danger. For as the Americans have become increasingly impatient with Europe, any potential aggressor cannot but wonder – wrongly in our view – whether the American guarantee to Europe still holds good.

The decision to rely on an American threat to use nuclear weapons to stop an invasion of Western Europe was originally taken when conventional forces in Europe were very weak and when the United States had a substantial nuclear superiority over the Soviet Union. To threaten the Soviet Union with nuclear annihilation was an 'easy' or, at least, a feasible option since the Soviet Union could not retaliate in kind against American cities. In addition, in the early post war years it was felt that the nations of Western Europe could not provide the conventional forces that would have been needed to resist Soviet attack. So we chose to rely on American nuclear superiority instead.

But the question of whether the Americans would risk Washington for London or Chicago for Hamburg has been raised ever since the Russians, in the late 1950s, acquired the capacity to launch a nuclear strike at the United States. Throughout repeated revisions of NATO doctrine, that ultimate question has never gone away.

Just as the credibility of NATO's strategy of the 1950s (known as 'Massive Retaliation') was thrown into doubt by development of strategic parity between the USA and USSR, so today, the strategy

of the 1960s (known as 'Flexible Response') has been thrown into doubt by development of parity at lower levels.

In the 1960s, the Labour Government argued successfully for changes in NATO strategy. The next Labour Government will confront the crisis of strategy in the 1980s by staying and arguing for change again.

As the US has gradually lost its nuclear superiority over the Soviet Union, so the credibility of the American guarantee has been increasingly eroded, and European feelings of insecurity have grown.

### **Nuclear Winter**

To diminish further the credibility of NATO's nuclear strategy, new scientific evidence has emerged that paints a fearful picture of the consequences of the use of nuclear weapons. A recent British government study reveals that half the population – 26 million – would be killed by blast and a further three million by radiation, in the event of a nuclear war involving Britain. For survivors, of course, the whole framework of existence would have been destroyed. Additional scientific opinion amplifies this.

Any significant nuclear exchange could produce a 'nuclear winter' in the northern hemisphere. Hundreds of millions of people would die from famine and the collapse of life-supporting conditions. It is believed possible by some scientists that all human life could be threatened with extinction by 'nuclear winter'. In a smaller but no less worrying way, the Chernobyl accident illustrated the threat of nuclear contamination arising from a single reactor explosion – the effects of which were miniscule by comparison with a weapon explosion.

In the sure knowledge of what it would do to ourselves, and our country for generations, is it reasonable to believe any longer that either we, or the Americans, would launch the nuclear weapons to halt a Soviet invasion of Europe? That crucial

question has compelled people of the status and experience of Robert McNamara, former American Secretary of Defence, to conclude that he knows of no plan which gives reasonable assurance that nuclear weapons can be used beneficially in NATO's defence. Admiral of the Fleet Lord Mountbatten took the same view.

### **Nuclear escalation**

Yet, despite the undermining of NATO's nuclear credibility, the nuclear arms race – and draining of defence budgets – has not slowed. Nuclear weapons are now being developed and refined even further, for fighting and winning a 'limited' nuclear war in Europe. This makes it an absolute pre-condition of 'victory' for each side to plan to carry out a first-strike attack against the enemies' fixed land-based missiles. Land-based intermediate range nuclear weapons are de-stabilising and dangerous. They represent targets which positively encourage a pre-emptive attack by the other side.

Such a scenario has added weight both to the argument that NATO strategy is not credible and to the calls for change both in Europe and in the United States. Without such a change, it is likely that current public disquiet about nuclear weapons will grow further. The last decade has already seen a substantial and increasing popular movement against nuclear weapons in most of the European democracies. Unless NATO strategy meets this concern the real danger exists that this disquiet could develop into more general disquiet about NATO, affecting NATO's democratic consensus and political viability.

For all these reasons, we believe that for Britain's sake, and the sake of the West, a new defence strategy is needed based on a stronger and more effective conventional capability for NATO in which Britain will play its full role. Britain, however, could not play that role – indeed that role would be diminished – because of the purchase of Trident.

# The Labour approach

What deters a potential aggressor is the high probability of defeat.

Our policy is founded upon the plain fact that in our national defence that probability is diminishing because of Britain's declining conventional forces and because of NATO's over emphasis on nuclear weapons.

Our purpose is to tackle that weakness head on.

*surely they mean increasing?*

We will make the urgent choices in national defence policy that have for so long been shirked.

And as Europe's leading power in NATO, we have, and we welcome, a special role in leading NATO towards the only defence doctrine that can overcome the credibility problems that now exist – a doctrine which reduces reliance on nuclear weapons and provides for the defence of Europe by conventional military forces.

## Strengthening Britain's defences

The priority for Britain is to begin to re-structure our defence commitments, and to put money strictly where it is most needed and best used.

Our Falklands commitment must be included in this restructuring. When Argentina invaded the Falkland Islands it was right that Britain took the Islands back; and Labour supported the government.

Our armed forces rescued the Falklanders from a fascist tyranny, and we must continue to protect their interests. But Mrs Thatcher's policy of 'Fortress Falklands' now costs £1 million a year for every island family. That is a quite unacceptable and unnecessary price to pay to sustain a complete refusal even to talk with a democratically-elected Argentine government which has jailed its former fascist leaders.

We would seek to limit this drain on our scarce defence resources by negotiating a secure and fair settlement of the Falklands dispute which would take full account of the interests of the islanders.

The most important step a Labour government will take towards restructuring our defences will be to cancel the appallingly expensive Trident programme.

We have already shown that nuclear weapons cannot be an effective defence against Soviet invasion. Trident will greatly increase the firepower of Polaris, but it will still be insignificant by

comparison with the nuclear might of the superpowers. As Field Marshal Lord Carver has frequently pointed out, it is inconceivable that a British politician would use these missiles, knowing with complete certainty that doing so would be followed by the obliteration of our country.

Nor does NATO need this so-called 'independent' nuclear weapon. Not only does the purchase of this American weapon system undermine our conventional defence, it is also becoming a serious obstacle to progress in the multilateral arms negotiations. This is especially so in the aftermath of the Reykjavik Summit where the offer to eliminate ballistic nuclear missiles was tabled.

### Stronger Navy, Air Force and Army

So we will cancel Trident, and we will de-commission the ageing Polaris. In doing so we will not only release money which we will devote to strengthening our conventional defences, but we will also remove the imbalances and distortions that Trident causes within our armed forces. We will, for example, be able to restore the commitment to a 50 warship Navy; we will build the European Fighter Aircraft; and we will restore the standards of equipment and training of the British Army in Germany as part of the strengthening of conventional defences along the central front.

*this is  
our  
policy!*

# Modernising NATO

NATO's nuclear strategy must be changed. Reforming that strategy and re-establishing its effectiveness, requires that two conditions be met. Neither is sufficient on its own.

- The reliance on nuclear weapons must be brought to an end.
- NATO's conventional strength must be enhanced.

## Ending reliance on nuclear weapons

The 'first use' of nuclear weapons in any conflict has always been central to NATO strategy. For the reasons we have given, we believe that strategy to be unworkable. Yet reliance on such a strategy continues to provide the excuse for failing to take the steps needed to enhance conventional strength.

For that reason we believe it is vital that Britain makes a concrete first step towards the implementation of a non-nuclear defence strategy. Without it, the need for change is likely to remain at the level of academic speculation. That is why it is our intention to cancel Trident, de-commission Polaris and remove all American nuclear weapons in this country. Only by doing so will we be believed when we argue for less reliance on nuclear weapons in the NATO alliance.

Of course this will not be without complex and thorough discussion. But the Tory argument that by doing so we will irretrievably alienate the Americans is false. Strengthening NATO's conventional defence and relieving the USA of the obligation to commit nuclear suicide in response to Soviet attack on Western Europe is fully supported by many Americans. Indeed, President Reagan accepted the need for change in NATO strategy in his recent discussions with Mr Gorbachev, when he spoke of clearing American Cruise nuclear missiles out of Europe. In these developments, Mrs Thatcher is clearly lagging far behind Mr Reagan, for reasons that have nothing to do with the defence posture of the NATO alliance and everything to do with the political credibility which she has invested in Cruise.

## Working with our Allies

Everything we do will involve consultation with our allies. Already discussions are underway with colleagues in Europe. In November, we agreed a joint policy with the West German Social Democratic Party. We are both committed to working together within NATO for a reduction and ultimate elimination of nuclear weapons in East and West. Both parties favour a change in NATO strategy to no first use of nuclear weapons and the

need to restructure and strengthen NATO's conventional forces. The presence of the British Army of the Rhine and RAF Germany will play a vital role in this.

And, far from incensing the Americans, at the heart of our policy is just what they so often call for: that Europe should play a greater part in its own defence. The US Congress has been pressing for some time for a strengthening of the European pillar. By bringing our view more into harmony on this question, together with the continued use by the United States of British intelligence facilities and bases in the United Kingdom and elsewhere, our links with America will be confirmed.

But there is another vital condition for an effective defence strategy for NATO.

## Enhancing conventional capability

It is axiomatic that if an enemy is to be deterred from attack, it has to be faced with the prospect of defeat. To do so under our strategy requires land, naval and air forces that could inflict that defeat.

There is much discussion of the adequacy of NATO's conventional forces on the central European front. Apologists for nuclear weapons claim that these conventional forces are hopelessly inadequate. More serious and sober observers like the International Institute for Strategic Studies, in their authoritative and recently published *Military Balance* take a different view. They argue that Warsaw Pact and NATO forces are fairly evenly balanced; and point out that even in tanks, where the Warsaw Pact has its greatest advantage, their superiority is below the level defined in Soviet tactical manuals as necessary for a successful attack.

We, however, accept the view that NATO's conventional capability will need to be enhanced.

Britain will contribute towards that enhancement by committing the sums saved on Trident towards additional conventional strength. The consequence of not taking this course and of depriving our conventional forces in order to purchase and maintain a new nuclear weapon system – Trident – is to significantly lower the nuclear threshold, because such a policy increases dependence on nuclear weapons as a system of defence whilst diminishing the strength and credibility of our conventional forces.

The choice becomes increasingly stark as the expense of the nuclear capability persists and is met by an equally persistent – if gradual – diminishing of necessary support for the maintenance and modernisation of conventional manpower, weapons and equipment. But besides greater expenditure there are two other ways to enhance NATO's capability.

acceptance of 'threshold' arg.  
makes a warning of reputation  
of nuclear blackmail' arg.

backpedaling

why?!

## Rationalising procurement policies

We are committed to implementing more effective procurement policies within the Alliance. For our national purposes we naturally insist that the overwhelming majority of Britain's defence equipment is purchased from British companies. This is essential to reverse the downward trend in defence employment at home. It is also essential in order to reverse the decline of our defence manufacturing base and skills. But collaborative projects with other European NATO countries will be encouraged where this would be cost effective. Stricter control over arms manufacturers and more 'open government' by greater parliamentary scrutiny of procurement will help to reduce costs and allow purchase of a larger number of less expensive weapons.

We must also now reverse the current trend towards the procurement of unnecessarily sophisticated and extremely expensive weaponry. Modern weapons are complex machines that must, if they are to be useful, work reliably every time they are needed. Trying to make one weapon to do everything perfectly, has all too often meant it does nothing very well and at exorbitant cost.

The emphasis in procurement must move back towards simple, cheaper and more reliable weaponry. All the evidence of modern warfare suggests that this is the most effective way of fighting wars. The TOW missile, for example, represents a highly cost-effective way of providing anti-tank defences that enable NATO to cope with the Warsaw Pact's numerical superiority in tanks. The TOW costs £4,000 but is capable of destroying a Soviet tank worth 70 times as much.

## Reforming military strategy

For too long, our reliance on nuclear weapons has led NATO to neglect vital consideration of military strategy. A strategy which would depend on the firing of nuclear weapons once the front line is breached, is not tenable. As a first step – and one that already has wide support – all nuclear and chemical weapons and their delivery systems should be withdrawn from a corridor 150 kilometres deep on both sides of the dividing line as already proposed in the agreement between the West German Social Democrats and the ruling party in East Germany.

Concurrently, we must lead the move within NATO towards greater defence in depth, enabling our forces to capitalise properly on the intrinsic tactical advantage that defensive forces hold over offensive ones.

There are three main fields for action to make better defensive use of NATO's armed forces – reserves, barriers and equipment. The most important would be to make better use of NATO's

existing reserves of trained manpower. If these were organised and equipped even as well as those of countries like Denmark, Sweden, Switzerland and Finland, the European allies could double their present contributions on the central front. Second, man-made barriers and obstacles have been reliably estimated to be capable of greatly increasing NATO's defensive capability by up to 40 per cent. *why?*

The third main area is equipment. The use of new technologies to improve defensive weapons is better than spending money on weapons which may not work for deep strike against targets which may not be there. Modern defensive weaponry and Precision Guided Munitions give greater advantages to the defence.

Already, these and other tactical defence reforms are being promoted by people on both sides of the Atlantic with personal knowledge and experience of modern warfare.

Air force and naval reforms would be needed to accompany the changes. For example, the longer range bomber version of Tornado needs to be modified to provide a covering role in the North East Atlantic and a battlefield interdiction role in Central Europe.

All the evidence is that these changes, as well as helping reduce political tensions in Central Europe, would give NATO the means to contain and defeat an attack by conventional means.

## Nuclear blackmail

There is a growing consensus among unbiased military specialists that the proposals which we make for a modernised European defence strategy are well founded. And the need for a change of direction is already clearly apparent. The apologists for nuclear weapons have been thrown onto the back foot. They have always told us that the threat the West faces is of a Warsaw Pact invasion; now they are shifting their ground. A non-nuclear strategy, they argue, will lead to 'nuclear blackmail' since even they concede the absurdity of the idea that the Soviet Union might suddenly start hurling nuclear weapons westward.

The notion of 'nuclear blackmail' is fallacious. It has long been clear – as the disaster of Chernobyl horrifyingly demonstrated – that the spread of radioactive contamination would make the use of nuclear weapons largely self-defeating. And, in addition to self-inflicted harm, the aggressor would obliterate much of and contaminate all of the very territory upon which he had designs. It may dawn on our critics that this is the reason that so far no nuclear-armed state has taken up their ingenious invention and deployed it against a non-nuclear neighbour.

There are, of course, no examples of NATO countries – with or without nuclear weapons on their territory – which have in any sense been subject to 'nuclear blackmail'.

## Washington's view

Washington contains more defence analysts than any other capital, and they give more credence to this review of NATO doctrines than opinion in the USA might at first suggest. Successive US Administrations have also understood that NATO is an alliance of sovereign states which depends on shared political values and not on an attachment to a particular military strategy.

The United States has accepted and built on major changes in the past, as in 1967 when France withdrew from the integrated military structure of NATO. We are not proposing to go in that direction at all. Because our policies are not aimed at harming American interests or at getting rid of the American conventional forces in Britain, there is no practical reason why they should not work constructively with the policy of modernising NATO strategy.

The Americans also understand that we are not asking them to dismantle their strategic nuclear weapons. We obviously acknowledge that, even though they cannot use their nuclear weapons, neither of the superpowers will abandon them or reduce them without reciprocal quantitative and qualitative changes by the other side. We accept that both the US and Soviet Union will want to maintain

a minimum second strike capability as long as the other does. But, since both Mr Reagan and Mr Gorbachev agreed at Reykjavik that their aim was to secure the abolition of nuclear weapons, we consider that there are grounds for hope that the maintenance of nuclear strike capabilities by the superpowers will be a transient stage.

As we have pointed out, the Americans have already proposed the elimination of all ballistic missiles between 1991 and 1996. This is the very period in which Mrs Thatcher anticipates receiving Britain's Trident ballistic missiles from the United States.

In the meantime, we are seeking a policy of 'No First Use' of nuclear weapons by NATO and removal of them from Europe. Indeed, but for the Soviet insistence that Star Wars was somehow linked to intermediate nuclear forces in Europe, the meeting at Reykjavik would have led to the removal of all Cruise, Pershing, and SS20 missiles from Europe – the zero-zero option. This shows that Labour's approach, far from being irresponsible, is attuned to the realities recognised by the superpowers. Unlike Mrs Thatcher, the Labour Party is actively promoting the Reykjavik zero-zero option as a means of lowering the nuclear threshold and enhancing the security of Europe.

# Conclusion

Changing NATO strategy and concentrating Britain's resources on effective conventional forces within NATO will provide both Britain and the West with the best prospect for overcoming the present deficiencies in our defence policies and military strategies.

We do not pretend that realising all our aims will be quick or easy. We are fully aware of the problems and we acknowledge that we cannot change NATO policy by ourselves.

We will need the support of other members if we are to achieve the reform needed. We will pursue this through reasoned discussion and we will remain in NATO, to which we contribute 95 per cent of our defence budget, come what may. But we are equally sure that the consequences of doing nothing would

be far worse than maintaining the impetus for reform.

The mission of the next Labour government, as it was the mission of former Labour governments over the last 40 years, is to find secure ways to prevent the catastrophe of conflict. And we will do that by promoting international dialogue to reduce the risk of war, by working in equal partnership with our European and American allies, by acting as a force for change in NATO, and by sustaining modern and effective forces for the defence of our own country and the support of our allies.

In co-operation with all our allies, we will help to make the world safer through our firm commitment to peace and with a defence strategy that works.

£1







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Attached is the text of an open letter from Rt Hon Michael Heseltine MP (Henley),  
to Rt Hon Denis Healey MP

I share with you the distinction of having been among the longest serving Defence Secretaries since the war. We both know the critical role of NATO and its policy of deterrence in preserving our peace and security. Your Party's defence policies are now inconsistent and incompatible with your own publicly expressed views. I want to ask you therefore five questions.

First, in 1981 you said that you would not serve in a unilateralist Government. Do you still say this ?

Second, Mr Kinnock said last month that it would be immoral for Britain to shelter behind the US nuclear umbrella. Do you agree ?

Third, in 1981 you said that refusing to let America base any of her nuclear weapons in Britain would make war more likely, not less likely. Are you still of this opinion ?

Fourth, Mr Kinnock has made clear that he will expel US nuclear weapons from Britain, regardless of the outcome of discussions with our NATO allies. You said recently on television that it was not inconceivable that our partners could convince you that they should stay - Who is right ?

Fifth, Will you concede the naivety of your Party's assertion that the deterrence represented by Trident could be replaced by conventional defence? The whole Trident programme could only add at most one or two armoured divisions, which would amount to three hundred tanks. Yet Russia's superiority in tank numbers is 100 times as great as that.

It may be that you would like people to think that as a future Foreign Secretary, you could alter Labour's defence policy in practice. One look at the sort of candidates Labour constituency parties have been selecting must surely show you that this hope is deceitful. A recent Harris poll of Labour Parliamentary candidates showed the following :

- 92% favour the immediate scrapping of Polaris
- 72% favour the closure of all US military bases in the United Kingdom
- 46% agree that Britain's best interests would be served if we were not militarily aligned with any major power - in other words if we pulled out of NATO.

It is quite clear that the next Parliamentary Labour Party will not allow you or anyone else to backslide on Labour's defence policies. A Labour Government, even with you as a leading member, would be bound to carry them out.

I am sure you would agree that it is essential for the national interest that you give clear and unequivocal answers to these important questions.

In view of the considerable public interest in defence policy, I am copying this letter to the Press.

FROM: A G TYRIE  
DATE; 12 DECEMBER 1986

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey

*That's  
for keep hold  
for future  
work.*

### LABOUR'S DEFENCE POLICY

I asked Ms Seammen to check the table of figures in Labour's press release headed "How the Tories are cutting Britain's real defences". I attach the table with her annotations. The numbers are broadly right. They are taken from a document produced by Malcolm Chalmers of Bradford University. Ms Seammen's conclusion is: "None of these figures is so far from the mark that they could be quarrelled with."

2. On improving our hatchet-work I think there are three things we should do. I have already mentioned the first two in an earlier note: get a clear line to take, make sure that all Government spokesmen use it, and the same language; pick up Labour's follies and make sure that they are firmly on the record. A third task is to educate the informed press on the issues through private briefings, lunches etc. To anybody who knows something about the subject Labour's, particularly Kinnock's, recent statements are riddled with inconsistencies. Often these are not picked up by the press largely because they don't understand the subject. The same argument will apply if we are to make any mileage out of the Minister of State's point, that we should examine the stand Mr Healey has taken over the past few decades.

3. I have checked the transcript of Denzil Davies' interview on Weekend World. Paragraph 5(ii) of my earlier note is not quite correct. He implied that Labour would

permit US nuclear ships to use British ports, but he did not contradict Kinnock's pledge to get rid of US nuclear submarine bases. Nevertheless, this is just the sort of point we should be pressing them on. The Labour left wouldn't lie down and let US nuclear ships come in to British ports.

*AGS.*

A G TYRIE

PS. I attach Heseltine's contribution.

5. The second task is to make sure that all of Labour's gaffes are firmly and unequivocally on the record. This will often require a response, but generally not a broadside from us. The ones I have spotted over the past few weeks are: (i) Mr Kinnock's <sup>statement</sup> to withdraw the use of listening posts from the US (ii) the contradiction between Denzil Davies and Mr Kinnock on whether the US would be permitted to bring nuclear submarines into Holy Loch. (iii) a suggestion in one of the papers that Labour are quietly intending to back down on the expulsion of US bases. (Has this come from Healey?) (iv) (not a Labour gaffe, but hardly good news for them) General Rogers's threat to withdraw US troops if Labour makes Britain non-nuclear.

6. None of these have received a lot of publicity. I am sure I have missed some.

AGT.

A G TYRIE

UK Defence Spending in the 1980s

(£ million, 1984/5 prices)

Year	84/5	85/6	86/7	87/8	88/9	89/90	% Change 84/5- 89/90	Note
		Est.	Est.	Proj.	Proj.	Proj.		
<u>PEWP 1986</u> <u>AS 1986</u>	17186	17190	16839	16486	16085	16085	- 6.4%	
	17186	16954	17036	16588	16189	16123	- 6.2%	
<u>of which</u>								
SDE 82 extrapolations (with other published sources)	163	232	500	700	900	1000		
Trident spending								
non-Trident spending	17023	16958	16339	15786	15185	15085	-11.4%	*
-----								
<u>PEWP 1986</u> based calculations	7961	8054	7579	7403	7008	6934	-12.9%	*
<u>of which:</u>								
Guestimates	150	200	450	650	850	950		
Trident equipment spending								
Other equipment spending	7811	7854	7149	6753	6158	5984	-23.4%	*
-----								
<u>PEWP 1986</u> with extrapolations	4757	4916	4795	4623	4228	4154	-12.7%	*
<u>of which:</u>								
Guestimates	150	200	450	650	850	950		
Trident equipment spending								
Other new equipment spending	4607	4716	4345	3973	3378	3204	-30.4%	*

EDITORIAL NOTE: The last set of figures on Total New Equipment Spending are referred to in the presentation by Denzil Davies MP.

NOTES : PEWP = PUBLIC EXPENDITURE WHITE PAPER  
 AS = AUTUMN STATEMENT  
 SDE = STATEMENT ON THE DEFENCE ESTIMATES

\* None of these figures is so far from the mark that they could be quarreled with.

FROM: A G TYRIE  
DATE: 12 DECEMBER 1986

CHIEF SECRETARY

PS/Minister of State )  
cc Mr Cropper )no  
Mr Ross Goobey )  
Mrs Lomax )atts  
→ PS/Chancellor )  
PS/Financial Secretary )  
PS/Economic Secretary )

*1*  
*Transc to*  
*CST*  
*Wants to work*  
*with Keegan.*  
*to same*  
*to Tom*  
*Attch.*  
*goss*

LABOUR'S REPATRIATION OF ASSETS PLAN

You asked for my views on William Keegan's article in the "Atlantic", (attached). The best line on this is to be found in your article published in 'Resident Abroad!' (attached). In sum, Labour's scheme would hit pensioners and savers, frighten business away from the City and, through the NIB, waste public money and create unfair competition with existing business.

*+ ineffective anyway because of swaps.*

2. Because of the timing of its publication, references to the exchange rate were removed from this article. The same reasons for taciturnity on sterling still apply. Nonetheless I think one point you can make unattributably to Mr Keegan is that any small upward pressure on sterling which the Hattersley plan might generate would be swamped by the flight from sterling caused by Labour's economic plans as a whole, spending, taxation, borrowing, local government etc. This can lead you to disagree vehemently with Mr Keegan that "there is nothing particularly 'scarey' in Labour's economic proposals."

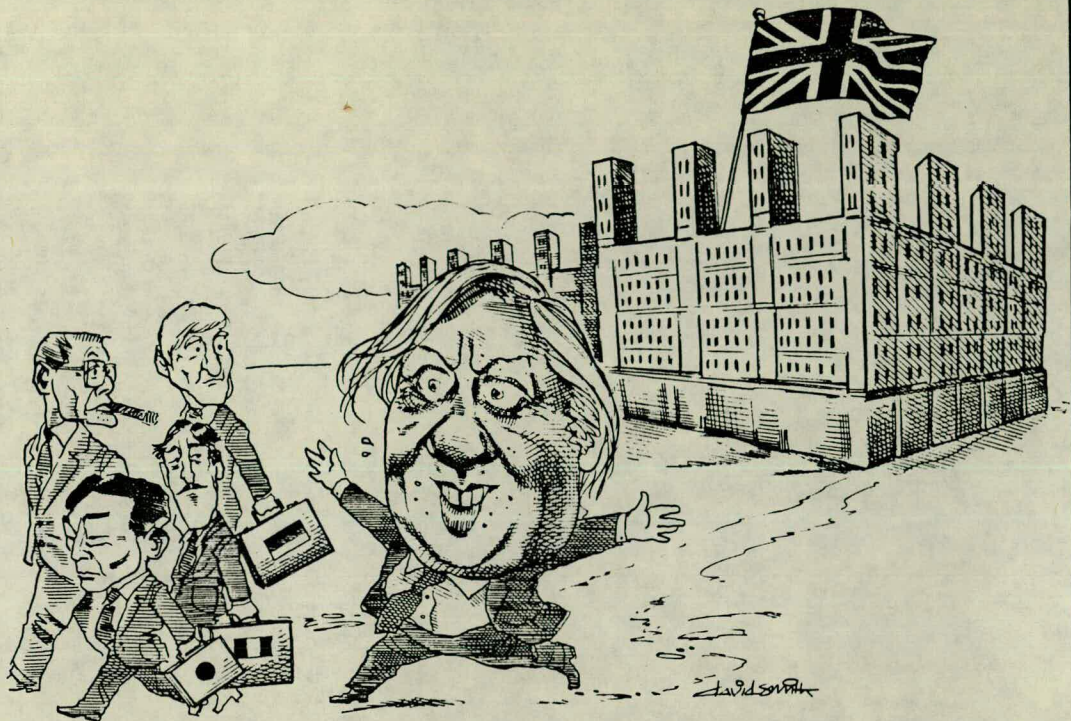
3. You may already have seen Anne Segall's article in The Telegraph today suggesting that Labour's repatriation plans may contravene EEC rules. I have asked Mrs Lomax to find out how much truth there is in this. It would be a further good point for Mr Keegan.

*AGS.*

A G TYRIE



*Labour's  
plans  
for curbs  
on overseas  
investments  
and a  
National  
Investment  
Bank  
have created*



*tremulous concern in the financial world.*

*The Observer's distinguished commentator WILLIAM KEEGAN  
thinks it could be an over-reaction*

## No horns on Hattersley

At any time in the past 40 years when there has been a possibility of a Labour Government in Britain concern, if not outright panic, has been manifested — in the City of London especially and to a large extent among industrialists.

The fact that both the City and business in general have often prospered during Labour administrations is easily forgotten. Somehow the possibility of Labour control is seen as a unique threat, never previously experienced, and roughly equal to the dangers of a nuclear war.

Mrs Thatcher's administration, now in the closing and pre-electoral phases of its second term, is keenly aware of this mood in the City and industry, and does its best to foment the basic fears. For instance, Chancellor of the Exchequer Nigel Lawson recently told the annual gathering of the faithful at the Conservative Party Conference in Bournemouth that the latest sterling crisis was entirely attributable to fears of a Labour Government.

In fact, there were other factors, much closer on the horizon, to explain the sterling crisis in October. One, probably the most important, was the news that Britain is now back in balance of payments deficit, despite

the North Sea oil windfall. The second was the growing realisation by the financial markets in the City of London that the Chancellor no longer had a monetary policy.

Since it was Mr Lawson, when Financial Secretary to the Treasury, who had assured the markets that the Government was happy to be judged on its monetary policy, the open admission that the monetary statistics were both uncontrollable and, to a large extent, meaningless, came as a bit of a shock. They decided to judge Mr Lawson the way he always said he wanted to be judged: by losing confidence in the Government's economic policy.

These events are an important overture to discussion of Labour's plans, because at present it looks as though the Thatcher administration has lost the edge in the public debate about its ability to handle the economy. By almost universal consent, it is only the opposition parties' weakness on defence matters which is preventing them scoring much better in the opinion polls.

As an important all-party state of the economy report from the House of Lords demonstrated last year, the Thatcher philosophy of deflation together with an excessively high exchange rate debilitated

the industrial base of the British economy during the early 1980s. Something like a quarter of British industry disappeared.

New manufacturing investment is still running below the levels of 1979 and a new report by the European Commission now tells us that the British Government expects the economy to be so sluggish that unemployment will still be over three million, or about 12% to 13% by 1990.

It is against this sombre background that Labour, the SDP-Liberal Alliance and even the moderate wing of the Conservative party are looking for economic policies which are orientated more towards faster economic growth and lower unemployment.

Labour, under Neil Kinnock, is marketing itself as the 'Party of Production', while shadow finance minister Roy Hattersley thinks nothing of flying the Atlantic to reassure Wall Street that he does not have horns. Both are preaching the gospel that the international financial community has nothing to fear from a Labour government.

Certainly the party in general is more outward-looking. Until relatively recently there was a strong element within it with an economic outlook known as Fortress Britain. Its supporters seemed to want

control on imports not just for economic reasons, but because they did not like other countries anyway.

This insular approach has changed, partly through the experience of foreign holidays, partly because of an increasing awareness of the interdependency of modern economies. Kinnock, Hattersley and Trades Union leaders now spend a lot of time consulting with their West German counterparts. They are aware of how President Mitterand's government in France went badly wrong in its early stages by attempting to expand all on its own.

There is much emphasis now on a concerted attempt to bring down unemployment in western Europe. And the understanding that you cannot expect that sort of cooperation from your partners by putting up barriers against their goods.

What is it about Labour's intended economic policies which creates the 'scares'? First, its plan for a National Investment Bank, and second, the intention to introduce penalties on British financial institutions which invest more than a certain percentage — probably 5% — abroad. These two proposals have been linked by Mr Hattersley in that institutions will be asked, in his words, 'to invest a portion of total funds in the National Investment Bank'.

This scheme is not, despite the widespread fears about it, a return to old-style exchange controls, under which the foreign transactions of corporations, financial institutions

and even private individuals were subject to strict regulation by the Bank of England. Such controls are really no longer possible in a sophisticated world where money flows in and out of the country at the touch of a computer key.

As the former Bank of England deputy governor, now chief executive of the Midland, Sir Kit McMahon said recently: 'The genie has jumped out of the bottle and on to the VDU.'

Labour's idea is simply, against a background of a rundown British manufacturing sector, to use financial incentives to persuade more institutions to invest in the UK. In one sense, it is the counterpart to that time earlier in this decade when the Thatcher administration and the Bank of England encouraged investment overseas as a way of handling the huge balance of payments surpluses resulting from North Sea oil. Now that the payments surplus has disappeared, and British industry is manifestly in bad shape, Labour's view is that the time has come for a policy shift.

There is one more point to the proposal. Labour acknowledges, remembering previous experience, that the prospect of its return to power is likely to make investors uneasy, and so exert a downward influence on the pound. While accepting that a devaluation of sterling was necessary, Labour points out that it doesn't want any depressing effect to get out of control. So by encouraging institutions to repatriate and rechannel some of their funds

(at present about 18% are thought to be invested abroad), the party economists hope to exert a counteracting influence on the exchange rate.

Conceptually, there is no imperative reason why the proposal to encourage more investment funds to be kept in London should be linked to the idea of a National Investment Bank. In theory, Labour could simply be trying to protect the pound and improve the capital account of the balance of payments, and leave it at that.

However, the party has chosen to link the exchange scheme with the National Investment Bank idea. The Bank would be a new institution, aimed at channelling subsidised credit to small and medium-sized companies for industrial investment, on lines already practised by similar institutions in Japan, West Germany and France. There is a widespread belief, not by any means confined to Labour circles, that there is a 'financing gap' in this area of Britain's industry.

At the same time, one suspects that there is a certain amount of political gimmickry in all this. After all, if economic policy were more expansionary, investment would rise in any case. And it has to be said that experiments with similar gimmicks were not conspicuously successful in the 60s.

Nevertheless, it should be re-stated that there is nothing particularly 'scary' in Labour's economic proposals, and it is hard to see why UK watchers in overseas markets should feel particularly concerned. ■

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## The Complete Financial Service

ARTICLE FOR THE CHIEF SECRETARY

IN RESIDENT ABROAD

Last month's edition of Resident Abroad carried an interview with Mr Hattersley in which he outlined Labour's plans to "withdraw fiscal privileges", in effect to impose a new tax, on investments abroad, and to place repatriated funds in a National Investment Bank.

2. In this article I would like to take the opportunity to comment on Mr Hattersley's plan.

3. The Plan. Mr Hattersley has set this out on several occasions in speeches and interviews. In summary Mr Hattersley's plan is to force the repatriation of funds held overseas by changing their tax treatment. Pension funds, insurance companies, charities and unit trusts which held more than a very small percentage of their assets overseas would lose what Mr Hattersley describes as their 'fiscal privileges'. In other words they would become liable to capital gains tax and probably a new income tax, and employers' contributions to pension schemes would no longer be tax-deductible.

4. Much of these repatriated funds would then be invested in securities issued by a new National Investment Bank. The NIB would offer some of their funds at preferential rates and would be required by Parliament to take account of a Labour Government's economic and

social objectives, for example, so-called social ownership (renationalisation by another name), regional development, and probably the objectives of the unions.

5. Mr Hattersley does not make clear exactly which institutions would be covered by the scheme, nor exactly what quantity of repatriated assets would be forced into the NIB's coffers.

6. However, Mr Hattersley does make clear why he thinks Britain needs this new tax. First, Mr Hattersley thinks that the increase in foreign investment over the past few years has resulted in a shortage of funds for British industry. Secondly, Mr Hattersley thinks that Britain needs a NIB because Governments in many cases know better than the capital markets how to invest money.

7. A shortage of funds? There is no shortage of funds for domestic investment. Repeated inquiries into this, of which the Wilson Committee Report was the most comprehensive, have failed to identify a "financial market gap". Private sector investment has been rising particularly rapidly, up 7.5% last year and at record levels. Nor is there any evidence that an increase in overseas investment has been at the expense of domestic investment. In the period after exchange controls were abolished in 1980-82, the proportion of institutional investment going into UK companies' securities increased.

8. Does Britain need NIB? In suggesting the creation

of an NIB the Labour Party is making the same mistake as previous Labour Governments in thinking that it could second-guess the market and "pick winners". The history of previous similar schemes all point the same way. The National Enterprise Board was a failure. If the investment needs to be subsidised the clear implication is that the project would not otherwise be viable. Nor is there any incentive for a company to become viable if it can rely on subsidy. Sometimes Mr Hattersley appears to recognise this. Last year he said "I think it's almost impossible for the Government to pick winners." But the NIB is designed to do just that.

9. Mr Hattersley also ignores the fact that the NIB, in looking for viable projects and lending at lower than market rates, will create subsidised competition for existing companies. These companies would be forced out of business, with a consequent increase of unemployment.

10. What would be the overall effects of the scheme? *Pensioners and*  
In summary there would be at least three effects. Savers would lose out; the City would lose business; the NIB would waste public money and compete unfairly with existing businesses.

11. The effect on pensioners and savers. The first and clearest effect is that pensioners and savers would lose out. The returns earned by pension funds from the NIB would be much lower than now. It must be so, otherwise

the pension funds would already be investing in the companies the NIB would choose. The same applies for insurance companies who conduct pension business.

12. There is no tax incentive at present for pension funds to invest abroad - indeed, there may be a disincentive, since they do not recover any foreign tax which may be charged on their investments. So pension managers - whose main responsibility, under common trust law, is to protect the interests of scheme members - would have an unattractive choice. They could go for higher returns overseas, and pay Mr Hattersley's penal tax charge. Alternatively they could realise their overseas investments and swallow the mediocre returns which the NIB would offer.

13. Either way, pension schemes and insurance companies would have less money to pay for the benefits promised to pensioners. Employers with final salary schemes would have to pump in extra money to top up their schemes - money which might be better spent on expanding the business and creating jobs. Alternatively, if they have no extra money, they might be forced to wind up their schemes, leaving their employees to make their own arrangements. The deferred pensions which these employees would get from their old scheme would be much lower than the pensions they could have expected to get on retirement.

14. Existing pensioners would lose out too. Although

their present benefits would have been fixed, there would be less scope for the scheme to increase them in the future.

15. This is why in practice Labour's scheme amounts to a tax on the 11 million people who are members of pension funds and the 4 million people who are receiving occupational pensions. The scheme is an attack and an interference in the freedom of savers and their trustees to invest their money as they wish.

16. It could also directly hit expatriates. Readers of this magazine may have noticed that in his interview Mr Hattersley did not exclude the possibility that he would try to raise revenue by taxing lump sum pension payments to expatriates.

17. Damage to the City. Secondly, the scheme would severely damage the City's huge contribution to invisible earnings and the nation's prosperity. Investment companies would move away from Britain. The City's position as the world's most important financial centre, and as a major earner of income for the nation, would be threatened. Net overseas earnings by the City have risen substantially from around £1.5bn in 1979 when the Conservatives came to power, to over £7.5bn in 1985.

18. The NIB and the waste of public money. Thirdly, the creation of the National Investment Bank would waste

public money. However well meaning, all experience shows that the NIB would end up investing in loss-making projects for political reasons. It would build up a portfolio of lame ducks and half-baked co-operative experiments. The NIB would also grow to become an enormous bureaucratic quango stifling enterprise. In short the scheme has all the appearances of a return to everything that was wrong with Labour's management of industry: interference in the day-to-day running of companies, "planning agreements", bureaucrats trying to run companies. NIB is clearly a close comparison to Labour's plans to bring privatized companies into 'social ownership'. Both NIB and 'social ownership' have most of the appearances of back-door nationalization.

19. Mr Hattersley's reasoning. Why then is Mr Hattersley and the Labour Party so attached to the scheme? I think perhaps for two reasons. First, the scheme is one of a set of policies to satisfy Labour's paymasters, the unions. Mr Hattersley said in an interview last year: "I see the need for an agreement with the Trade Unions on everything" (Tribune 10 May 1985). Clearly this scheme is one way in which the unions can be given an opportunity to take part in Government, something which Mr Hattersley has advocated in the past. Indeed Mr John Smith, Labour's would-be NIB supremo, and Mr Alex Smith of the Garment Workers' Union, have already called for NIB funds for the textile industry channelled through local enterprise boards.

20. A second possible reason for Mr Hattersley's



attachment to the scheme is that it is a way of papering over the conflicts within the Labour Party on the need for full-blooded exchange controls and import controls. Mr Hattersley knows that this would be a catastrophe but he also knows he must offer the hard left something.

21. These are probably the reasons why Mr Hattersley has chosen to ignore the enormous benefits overseas investment has brought. Britain has built up overseas investments which will generate revenue when the oil runs out, a wise precaution. This revenue has already grown to over £4 billion a year and, given a chance, will continue to grow. Britain's net external assets have increased sixfold since the end of 1978, and now stand at £80 billion, amongst the largest holdings of overseas assets in the world.

### Conclusion

22. The scheme should be seen in the context of Labour's other plans, for massive spending funded by higher taxation and borrowing. Labour are already committed to the restoration of capital taxation at 1979 levels and to the restoration of the investment income surcharge. Much additional, probably penal taxation would be required to finance their extravagant spending promises. Import controls, price controls, repeal of all Conservative Trade Union law, foolhardy spending and penal taxation, these policies are a recipe for a return to the problems of the 1960s and 1970s.

23. This and other Labour plans would not only be a set-back for Britain but for residents abroad, too. They would see the value of their pensions and savings diminish. They might also find that lump sum pensions were made taxable. Mr Hattersley's interview has given residents and expatriates alike good reason not to vote Labour.

# Labour's cash recall plan 'could be illegal'

By Anne Segall,  
Economics Correspondent

LABOUR party plans to force the repatriation of £25-£30 billion of British pension fund and insurance company money now invested abroad could fall foul of Common Market rules, according to EEC officials

This verdict could come as a shock to the party, which has been careful to avoid the use of old-fashioned exchange controls, relying instead on the withdrawal of tax privileges as the lever for getting funds back to Britain

Although not all the money involved is invested in Common Market countries, it would be virtually impossible to construct a scheme discriminating against funds invested in America and Japan while letting EEC investments off the hook, Common Market experts claim.

This means that if the Labour scheme is illegal in Europe it is likely to founder altogether.

As the repatriation of pension fund and insurance money is the key to the creation of a National Investment Bank, the blow to Labour cannot be underestimated.

The party maintains that providing subsidised finance to British industry on a massive scale is the only way to compete internationally even though the Wilson Committee, headed by former Labour Prime Minister, Lord Wilson, refuted the idea five years ago.

Common Market officials are unwilling to make a categorical statement on the Labour party's

proposals. They say it is wrong to get involved in domestic political issues and are also restricted by tradition to passing judgement on specific measures rather than outline plans.

But a senior official claims that if the question were put by the Labour party, he would make it clear that "there are problems between the programme and community law".

## Internal market

The Labour party plan is clearly against the spirit of the Common Market's latest drive to create an internal market by 1992 in which the free movement of capital would be assured.

Two weeks ago, Ministers from member countries took a further step towards this ultimate goal by removing restrictions on unit trusts.

Now there is an active campaign to get all remaining restrictions on capital movements lifted, with a directive expected as early as next summer.

Britain, which abolished exchange controls in 1979, has been in the van of European countries pressing for greater freedom of capital movements.

Its enthusiastic support for free capital flows is closely linked to London's success as an international financial centre, with the French now anxious to take a leaf out of Britain's book.

France, Italy and Denmark

still operate exchange controls but have begun to move in the direction of full freedom.

According to EEC officials, a future Labour government seeking permission for the repatriation of funds would have to invoke paragraph three of article 108 of the Treaty of Rome. This allows restrictions in cases where a member country faces severe balance of payments pressures.

Even then, winning EEC support could be a complicated and long-drawn-out process, with the council of Ministers first requiring that it be given an opportunity to examine the economic situation in Britain. It would then be up to the Commission to make a final recommendation.

European Ministers would also be able to preempt any specific plan put forward by a future Labour government by offering direct financial support.

The use of discriminatory tax rules to influence where pension fund and insurance money is invested is also against article 67 of the Treaty of Rome, say EEC officials, especially if applied in a systematic manner and on the scale envisaged.

Indications are that the Labour party has not yet made a formal approach to the Commission for a view on the legality of its repatriation plan.

The hope seems to be that the party will be able to formulate its plan in such a way as to get round the EEC's rules.

*ps1/28A*



FROM: A C S ALLAN

DATE: 15 December 1986

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mrs Lomax  
Mr Peretz  
  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

**LABOUR'S REPATRIATION OF ASSETS PLAN**

The Chancellor has seen Mr Tyrie's minute of 12 December. He does not feel it is worth wasting much time on this article.

*ACSA*

A C S ALLAN



PPS in?  
 Alex  
 Vn?  
 ANH

FROM: JILL RUTTER

DATE: 15 December 1986

MR TYRIE

cc PS/Chancellor  
 PS/Financial Secretary  
 PS/Minister of State  
 PS/Economic Secretary  
 Mrs Lomax  
 Mr Cropper  
 Mr Ross Goobey

**LABOUR'S REPATRIATION OF ASSETS PLAN**

The Chief Secretary was grateful for your minute of 12 December.

2. The Chief Secretary would be grateful if Mrs Lomax's note on the Anne Segall article could be ready in time for possible use in his wind-up speech on Wednesday. Could Mrs Lomax please let me have it by close on Tuesday.

JILL RUTTER  
Private Secretary

ALLIANCE POLICIES



### Conservative Central Office

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

From the office of:  
THE CHAIRMAN OF THE PARTY  
Rt. Hon. Norman Tebbit MP

NT/KB

15<sup>th</sup> December 1986

CONFIDENTIAL

*D. Nigel.*

You may know that the 'Alliance' Parties are planning to re-launch their policies at the end of January. We understand that a 'week of action' will start on Wednesday, 28th January with a Party Political Broadcast and other as yet unspecified media events. On Saturday, 31st January a revised version of their 'Partnership for Progress' document will be launched at an 'Alliance' rally in the Barbican, with music and showbusiness personalities expected to attend. The 'week of action' will end on Wednesday, 4th February with another Party Political Broadcast. While these events are in progress, the 'Alliance' Parties will be staging local events and leafleting campaigns in the Constituencies.

In Central Office, we are considering a number of possible initiatives to preempt and counter this Campaign. However, you will see from the attached article which appeared in the Independent on 25th November that the 'Alliance' group responsible for preparing the new version of 'Partnership for Progress' - which is, of course, to be the basis of their Manifesto - is facing major problems in reconciling the commitments which have been made with the need to keep some check on public expenditure. The revised document should, therefore, either omit or postpone proposals made in the earlier draft or attempt to fudge the figures in ways which we can expose.

Although I fully realise why you and John MacGregor decided that a costing of 'Alliance' proposals on the lines of the Labour proposals was impracticable, I do believe that we should make a real effort to point out before the document is launched just how large the public spending

/ commitments which

commitments which the 'Alliance' Parties have made are and link this with the 'Alliance' tax proposals which would adversely affect a range of middle income groups. I would, therefore, be most grateful if - through Special Adviser liaison with the Research Department - you could help both in the preparation and in the execution of this exercise. If the Treasury can help us with the figures, we can seek to encourage their use by Cabinet colleagues.

You may like to ask your Special Advisers to liaise with Robin Harris in the first instance.

I am copying this letter to Robin Harris.

*g e*  
*Norman*  
\_\_\_\_\_

The Rt. Hon. Nigel Lawson, MP.

THE INDEPENDENT

# Alliance manifesto spending plans face deep cuts<sup>4</sup><sub>5</sub>

SDP-LIBERAL Alliance leaders have been told to make cuts of £9.5bn in their manifesto commitments in an internal report leaked to *The Independent*. The report by the Alliance joint public expenditure working party shows that cuts required to bring the manifesto into line with Alliance spending plans will have to be twice as high as originally reported.

Pledges to raise pensions in line with pay and to let everyone retire at 60 will have to be dropped.

The Alliance leaders were warned that they would have to cut their manifesto commitments to accommodate the £4.5bn increase in public expenditure announced by the Chancellor in his Autumn Statement.

But the report by the working party, chaired by Ian Wigglesworth and David Penhaligon, the SDP and Liberal treasury spokesmen, says a further £5bn will have to be cut from the manifesto programme if the Alliance's existing spending plans are to add up.

David Owen, the SDP leader, has told colleagues to take a "hair shirt" approach to public expenditure commitments to avoid the Alliance being subjected to the damaging attacks which John MacGregor, the Chief Secretary to the Treasury, has inflicted on Labour.

The report says spending plans will have to be cut from £15bn to £5.5bn if they are to stick to

their policy of raising public expenditure by no more than 2 per cent a year in real terms. The document, being considered today at a final meeting of the drafting committee on "Partnership for Progress," the joint Alliance manifesto, rejects the alternative of allowing spending to rise in line with growth in the economy.

"Whatever guideline is adopted, considerable scaling down of existing policy commitments will be necessary," the report says. "The first-year cost of our policies, at £5bn-6bn, is far too high in the light of the Government's plans to increase spending by 2 per cent in real terms in 1987/8.

"To fit our plans within a 2 per cent per annum spending framework, we need to reduce our plans for 1989/90 from £11bn to £3bn and for 1991/2 from £15bn to £5.5bn. Those figures make no allowance for contingencies such as higher public sector pay." That includes the teachers, who are being offered 16.4 per cent over two years.

The report says a number of commitments have been added to the manifesto and not accounted for in previous Alliance spending plans.

"On the expenditure side, pledges to introduce a job guarantee, restore the link between pensions and earnings and equalise retirement ages could add upwards of a further £8bn to the

charge of the policy has tried to reduce the number of couples on low incomes who would lose under the scheme. A further meeting to sort that out will be held later this week.

The report says that other commitments will have to be dropped or delayed but some SDP sources say that delaying tactics are "a cop-out". There will be pressure at today's meeting for a firm stand against fudging on expenditure decisions.

Commitments which the report says should be delayed include:

- The doubling of the arts council budget from £135m this year;
- A big expansion of part-time and continuing education;
- Entitling all adults who have missed higher education to further free education (£400m);

Pledges the report says should be dropped are:

- A job guarantee for everyone after one year of unemployment (£2bn gross).
- Restoration of the link between pensions and earnings as well as prices (£2.5bn).
- Phased equalisation of the pension age with flexibility up to 65 but moving towards retirement at 60. (Treasury estimate — £3bn).

The report also recommends that some promises on tax incentives should be revised. It says the reductions in employers' national in-

surance contributions would have to be considerable to offer a payroll incentive — they may have to be cut by 10 per cent, costing £1.2bn, but this could be balanced by an inflation tax on pay rises which exceeded the pay norm.

The report estimates that between 250,000 and 500,000 jobs could be created, depending on training schemes, at a cost of £1bn in the first year and £2bn in the final year.

But the working party has left it to the leadership at today's meeting to decide where the cuts of £9.5bn will fall.

They will have to make the cuts from this £15.5bn shopping list for the fifth year: job creation £2bn; tax and benefit reform £1.5bn; health innovation fund £450m; NHS 2 per cent growth £740m; adult education entitlement (phased over 15 years) £400m; first year pre-school experience £250m; teacher training £200m; double higher and further education students £500m; a training package for 16-19 year olds £1.25bn; housing schemes £2.8bn; water and sewage £55m; roads £150m; local transport £50m; rail £200m; urban renewal £260m; regional development agencies £500m; new technology £650m; overseas aid £1.4bn; payroll incentive £500m; profit sharing incentives £500m; doubling arts budget £135m; legal aid and prisons £150m; relaxing spending controls on local authorities £1bn.

By Colin Brown  
Political Correspondent

cost of our policies. In view of the capital our political opponents could make of this, we recommend those specific commitments are deleted from the document.

"On the revenue side, "Partnership" contains a number of proposals that would seriously erode the tax base: with the exception of payroll incentives for profit sharing and lower pay deals, which are essential to our main economic strategy, we recommend these commitments are either excised or made explicitly for the longer term."

According to the working party, the economic outlook for the next Parliament has deteriorated and it warns against much higher spending to reduce unemployment.

"Whereas at any time since 1981, a more expansionary policy to tackle unemployment would have been a reasonable risk without putting too much of a burden on hopes of income restraint — at least in the early stages — this option no longer looks available in the light of the current consumer spending boom."

The report says cost of the Alliance tax and benefits proposals has grown from £500m to around £1bn as the Alliance committee in



FROM: N J ILETT  
DATE: 16 December 1986

PS/CHIEF SECRETARY

cc: PPS  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mrs Lomax  
Mr C W Kelly  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

LABOUR'S REPATRIATION OF ASSETS PLAN

Your minute of 15 December asked for a note on an article by Anne Segall which suggested that EEC officials think Labour's plan to encourage repatriation of overseas funds by the withdrawal of tax "privileges" is in breach of EC law.

2. We have obtained the preliminary views of the Treasury Solicitor on this point, though there has not been time to carry out a detailed analysis.

3. First, without full details of the proposals (which I assume have not in any event been worked up to an operational level) it is not possible to give a definite view. Anne Segall is of course correct to say that the proposals could be in breach of EC law, but that could be said of many other proposals which have not been worked out in detail. However, the Treasury Solicitor is clear that we cannot at this stage say that the proposals would be in breach of EC law. In particular, the Treasury Solicitor thinks that the use of tax measures to influence capital movements would not constitute a breach of existing Community requirements for the freedom of capital movement.

4. On another point of Community law, subsidisation of industry via a National Investment Bank might or might not be in breach of the Community prohibition on state aids, but this would again depend on precisely what was done and how.

5. The conclusion is that it would be better not to use the Segall story to attack the Labour proposals.

N J ILETT

CHIEF SECRETARY

FROM A G TYRIE  
DATE 16 DECEMBER 1986

cc Chancellor  
Economic Secretary  
Financial Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr Pickering

### ALLIANCE SPENDING PLANS

Apparently the SDP/Liberal Policy Steering Group finalised a revised version of "Partnership for Progress" today. It has been carefully costed. It is being sent to the printers tomorrow and will be launched with a rally at the Barbican on the 31 January. Alliance spokesmen will be eager to claim that this puts the lid on their spending pledges.

Two obvious points we will be able to make are first that the Alliance have been forced to shed a number of pledges from the original version of 'Partnership'. Secondly, it is probable that neither of the 'Partnership' documents will include all the pledges made by Alliance spokesmen in speeches, letters etc in recent months. We can remind them of their 'forgotten' pledges.

If an Alliance, particularly an SDP spokesman, intervenes during your speech I think it is worthwhile trying to work in a reference to the story in the Independent article, attached. The Liberals' estimate is that this pledge to give "catching up" pay awards for NHS workers will cost about £1.5 billion over 7 years. I am told the SDP did everything they could to stop this report being published.

AGS.

A G TYRIE

# Liberals publish NHS policy despite Alliance

THE LIBERALS today published a report calling for substantial pay rises for low-paid NHS workers despite an insistence by the Liberal-SDP Alliance Treasury team that no promises should be made until they have reviewed their policy on public sector pay.

Alliance leaders tried to stop the Liberals' NHS pay policy paper from being published because it breached the Alliance moratorium on individual party policy documents. But the Liberal Party health panel insisted that the document had been sent to the printers before the moratorium came into effect.

The report, *Fair Pay in the NHS*, by the health panel under Archie Kirkwood, the Liberal spokesman, says that the low-paid workers need "catch-up" increases to compensate them for losing out under the Tories.

This will be seen as an attempt to increase the pressure on the Alliance Treasury team to

agree to a commitment for inflation-proof increases for low-paid NHS workers.

No figures are given in the document but the panel believes the SDP-Liberal Alliance should be prepared to increase the pay of ancillary workers in the NHS by about 3 per cent on top of the current inflation rate. This would imply rises of about 7 per cent next year.

But the Alliance Treasury team, led by Ian Wrigglesworth for the SDP and David Penhaligon for the Liberals, is refusing to sanction promises of any high pay rises for health staff or other public workers until a complete review of Alliance policy on public sector pay has been carried out in the New Year.

They have held up publication of a separate joint SDP-Liberal Alliance paper on general NHS policy because it contained a commitment to give a fully funded real terms pay increase to the low paid NHS workers. Charles Kennedy,

By Colin Brown  
Political Correspondent **6**

the SDP health spokesman, supported the policy in principle but he has not agreed any figures with the Liberals.

The Liberal document calls for reforms to the NHS pay system with comparability awards for low-paid clerical and ancillary workers, a simplified pay structure, and more money to pay for changes in working practices.

But the panel states: "Action cannot wait for completion of the reform of the pay determination system . . . we will have to start from where we are, using the machinery which already exists."

They say that pay in the NHS needs to catch up with that in comparable occupations and also keep up with further movements so that

the gap does not widen again.

"Priority should be given first to establishing minimum earnings levels which will improve the position of low-paid workers and relieve poverty; then to improving other earnings to reduce the largest deficiencies in 'comparability' rates measured in percentage terms," says the report.

The Liberals privately estimate that the ancillaries have lost about 20 per cent in pay comparability since 1980 and that about £1.5bn will have to be spent in "catching-up" pay awards for the NHS workers, spread over seven years.

The Alliance Treasury team is likely to reject the demands for the Alliance to commit itself to substantial pay awards. The team is deeply concerned that the Treasury will use demands in Alliance policy papers to attempt to discredit Alliance spending plans. However, they are

more likely to support the Liberals' demands for the simplification of the NHS pay structure for the ancillary workers who are currently covered by a number of negotiating bodies called Whitley Councils.

The Liberal health panel says: "A move towards common conditions of service for all or most staff groups would emphasise the essential unity of the service.

"As the catching-up process proceeds and internal relativities are stabilised, opportunities should be sought to draw together grades in different occupational groups with broadly equivalent pay. Progressively, all grades in the NHS could eventually be grouped in a number of pay bands . . .

"Simplifying the pay structure in this way would make it easier to ensure that health service pay is kept broadly in line with movements in pay elsewhere."

'ban'

14/1.

FROM: ANDREW TYRIE  
DATE: 17 December 1986

CHANCELLOR

*Handwritten:* Thank you. I have

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey

PARTY CHAIRMAN'S LETTER ON THE ALLIANCE

I attach a draft for you to send to the Party Chairman.

2. I have not taken issue with Mr Tebbit's suggestion on page two of his letter that we should link our attacks on Alliance spending commitments with those on tax proposals because my draft is already quite negative enough. Nevertheless, I am pretty sure you disagree with this idea and you may want to include an extra paragraph along the following lines:

*(X)* "You also suggest that we should link our attacks on spending proposals with those on tax proposals. I see advantages with keeping these separate. By ~~keeping these issues separate~~ <sup>doing so</sup> we will have two shots in our locker rather than one. Without too much effort on our part the SDP tax proposals turned into a major banana skin for them earlier this year. An attack on their spending proposals might also make a lot of headway *at the right time.*

*Finally, it is worth remembering that it was the threat of our ~~tax~~ <sup>costly</sup> ~~tax~~ <sup>Green</sup> ~~tax~~ <sup>on</sup> ~~tax~~ <sup>Labour</sup> ~~tax~~ <sup>when</sup> ~~tax~~ <sup>Alliance</sup> ~~tax~~ <sup>to go back</sup> ~~tax~~ <sup>on their</sup> ~~tax~~ <sup>spare</sup> ~~tax~~ <sup>success.</sup> ~~tax~~ <sup>I do not</sup> ~~tax~~ <sup>want</sup> ~~tax~~ <sup>to spoil this</sup> ~~tax~~ <sup>up by</sup> ~~tax~~ <sup>aiming</sup> ~~tax~~ <sup>our</sup> ~~tax~~ <sup>fire</sup> ~~tax~~ <sup>at the</sup> ~~tax~~ <sup>wrong</sup> ~~tax~~ <sup>target.</sup>*

*ATY*  
ANDREW TYRIE

## CONFIDENTIAL

DRAFT LETTER FROM THE CHANCELLOR TO THE PARTY CHAIRMAN

Thank you for your letter of 15 December concerning the Alliance's plans for a "week of action" at the end of January.

You suggest that we should attack the Alliance's spending proposals before they launch a revised version of "Partnership for Progress".

I do not think this would be to our advantage. First, the Alliance could easily respond to any costings we put out before publication by saying that the new "Partnership for Progress" supercedes all previous documents. Our attack would then be stillborn. Secondly, we would have to base any costings we put out on pledges already in circulation. But many of these are from documents in "Green Paper" or "consultative" form. It would be easy for the Alliance parties, particularly the SDP, to claim that these documents were published merely to provoke discussion; they were explicitly not commitments. This is the main reason why, despite a great deal of preparatory work already done, we have not already issued costings for Alliance policies.

*I wd be very reluctant to issue figures which could be shot down - not that because it would also cost down on the ~~cost~~ attack success 728 600m extra.*

I think ~~that~~ the best time to ~~shoot~~ will be when we are sure of the target - once the Liberals and the SDP are irrevocably signed up to "Partnership for Progress". ~~I should add though~~

~~that this may not be as easy as it looks. The Alliance parties~~

*launch an all-out attack*

have seen what happened to the Labour party. Even the first version of Partnership for Progress was couched in language which made it very difficult to attach solid figures to pledges. I would be very reluctant to issue figures which were not watertight - if only because any questioning of them which stuck would also cast doubt on the £28 billion exercise.

The publication of "Partnership for Progress" in January is likely to provide at least two targets for us to shoot at, First we can draw attention to what has been dropped between ~~Liberal and Conservative Party to draw a new line between the Libs and the S.P.~~ "Partnership and Progress" Marks I and II, Secondly, we can point to those pledges which they will have discarded from policy documents published earlier this year, in particular "These are Liberal Policies" and "The Only Way to a Fairer Britain".

*Both*  
These actions  $\rightarrow$  also help to draw a new line between the Libs and the S.P.

THINK IN EXTRA PARAS (X)

quite apart from No  
Cooking.

CONFIDENTIAL



cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Mr Cropper  
 Mr Tyne  
 Mr Ross Croxall

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

The Rt Hon Norman Tebbit MP  
 Party Chairman

19 December 1986

*Norman Tebbit*

Thank you for your letter of 15 December concerning the Alliance's plans for a "week of action" at the end of January.

You suggest that we should attack the Alliance's spending proposals before they launch a revised version of "Partnership for Progress".

I do not think this would be to our advantage. First, the Alliance could easily respond to any costings we put out before publication by saying that the new "Partnership for Progress" supercedes all previous documents. Our attack would then be stillborn. Secondly, we would have to base any costings we put out on pledges already in circulation. But many of these are from documents in "Green Paper" or "consultative" form. It would be easy for the Alliance parties, particularly the SDP, to claim that these documents were published merely to provoke discussion; they were explicitly not commitments. This is the main reason why, despite a great deal of preparatory work already done, we have not already issued costings for Alliance policies. I would be very reluctant to issue figures which could be shot down - not least because it would also cast doubt on the hitherto successful £28 billion exercise.

I think the best time to launch an all-out attack will be when we are sure of the target - once the Liberals and the SDP are irrevocably signed up to "Partnership for Progress". The publication of "Partnership for Progress" in January is likely to provide at least two targets for us to shoot at, quite apart from the costing. First we can draw attention to what has been dropped between "Partnership and Progress" Marks I and II. Secondly, we can point to those pledges which they will have discarded from policy documents published earlier this year, in particular "These are Liberal Policies" and "The Only Way to a Fairer Britain". Both these exercises would also help to drive a new wedge between the Liberals and the SDP.



You also suggest that we should link our attacks on spending proposals with those on tax proposals. I see advantages with keeping these separate. By doing so we will have two shots in our locker rather than one. Without too much effort on our part the SDP tax proposals turned into a major banana skin for them earlier this year. An attack on their spending proposals might also make a lot of headway at the right time.

Finally, it is worth remembering that it was the threat of our doing a costings exercise on them, as we did on Labour, which persuaded the so-called Alliance to go back to the drawing board on their spending proposals. That in itself was quite a success. I do not want to spoil things now by aiming our fire at the wrong target.

**NIGEL LAWSON**

A large, stylized handwritten signature, likely belonging to Nigel Lawson, written in dark ink. The signature is somewhat abstract and difficult to decipher, but it appears to be a variation of the name 'Nigel Lawson'.





## Conservative Central Office

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

From:  
THE CHAIRMAN OF THE PARTY  
Rt. Hon. Norman Tebbit MP

*W/E with reply  
due 15.1.*

*PWP  
Agreed no reply  
needed.*

NT/AM

7<sup>th</sup> January 1987

CONFIDENTIAL

*✓*

*D Nigel*

Thank you for your letter of 19th December. I find all your arguments in it persuasive.

I agree that we should wait until publication of 'Partnership for Progress' - which, from the attached extract from 'The Social Democrat' seems likely on 28th January - before attacking their proposals on cost grounds. However, that in itself will require some urgent work within the Treasury: I assume that this is what will indeed be happening.

As I noted in my earlier letter of 16th December, we shall, of course, provide any assistance required from our end.

*Norman*

The Rt. Hon. Nigel Lawson, MP.

CH/EXCHEQUER	
REC.	09 JAN 1987
ACTION	MR TYRRE 9/1
COPIES TO	CST FST EST MST MR CROPPER MR BOS (800/85)

# The Social DEMOCRAT

The paper that stands for social justice

\*\*\*\*\*  
 \* The Editor and \*  
 \* Staff of \*  
 \* The \*  
 \* Social \*  
 \* Democrat \*  
 \* wish our readers \*  
 \* a happy Christmas \*  
 \* and a busy and \*  
 \* active New Year \*  
 \*\*\*\*\*



## Shirley's Christmas message

THIS CHRISTMAS is almost certainly the last before the next General Election. In 1987 our energies will be directed towards campaigning for the local elections in May and the General Election itself.

1986 has not been an easy year for the SDP/Liberal Alliance but I am confident that we end the year united and in good heart. The nationwide *People in Power* campaign which I undertook with Des Wilson, President of the Liberal Party, confirmed my feeling that our concerns and aims are shared by the majority of people in this country.

Opinion polls show that the SDP/Liberal Alliance defence policy, which rightly combines credible defence with a commitment to disarmament, is by far the most popular choice on offer to the electorate. Ours is an eminently sensible policy, neither throwing away our deterrent unilaterally as Labour would do, nor multiplying its warheads provocatively as the Tories would do.

Although the Tories are ahead in the polls they are seen by many electors as unaring. They have created a 'Shabby Society' in which the old politics is increasingly underhand and secretive.

Our cities are becoming dirtier and the standards in state education and health shoddier. Our elderly are patronised and the unemployed ignored.

With homelessness and unemployment at all time highs, for many, Dickens' Britain has come back. In Thatcher's Britain the ghost of Christmas past, present and yet to come are unlikely to unsettle Scrooge.

So while wishing you a happy Christmas as you prepare for a renewed effort in the New Year, I feel certain that by Christmas 1987 Scrooge will have been ejected and our voice will be heard in the government of Britain.

# Sealed!

The SDP-Liberal Alliance has this week put its official seal on the *Partnership for Progress* agreement, ready for the next election.

Its most crucial element — the section on defence — was released to the press at a packed lobby briefing by Dr David Owen and Liberal Leader David Steel.

And the document itself is now being printed as a paperback book with a foreword by the two leaders ready for publication on January 28th — just three days before the Alliance Rally to be staged at the Barbican in London on January 31st.

The final agreement on the document was reached on Tuesday night at a meeting of the two parties' policy committees and brings to an end the six months' consultation process which has seen the document debated by both party assemblies, by prospective parliamentary candidates, by councillors from both sides, and by the various interest groups and local parties throughout the Alliance.

## Alliance signs vital accord on policy for the next Election

by Val Taylor

"Many people may feel all this effort and time has only produced something that is a bit of a committee draft, but it is a fundamental building block for the Alliance and something that we didn't have at the last election," Dr Owen told *The Social Democrat*.

The Alliance Parties' Programme

for Government will be drawn from the document.

At the press conference on defence, the two leaders reasserted the Alliance commitment to maintain a minimum nuclear deterrent as part of Britain's contribution to NATO, and they attacked the extremist positions of both the Conservatives and the Labour Party.

The Conservatives, Dr Owen pointed out, were proposing an escalation of nuclear weaponry at least 2½ times that of Polaris — on their own figures. (The Alliance estimate puts the escalation at eight times that of Polaris).

And Mr Steel argued that Labour's defence policy, with its commitment to "chuck out" all nuclear weapons and American nuclear bases, would "wreck" NATO.

"Our policy is to be sound on defence and assertive on disarmament," he said.

Questioned by journalists over

For the defence agreement in full turn to page 4

possible dissent among rank and file Liberals. Mr Steel said the section on defence had been agreed constitutionally by the Liberal Party's policy committee and by its parliamentary party — the two elements within the Liberal party empowered to decide policy.

There would undoubtedly be some Liberals who would be unhappy with the document, Mr Steel said. The Liberal Party had a long-standing pacifist and Quaker element.

But the *Partnership for Progress* agreement in its final form had put the internal debate "to bed".

"This document is the basis on which we shall fight the next election," he said.



Picture: South Wales Echo

Cardiff North PPC Tony Jeremy dons his full regalia as Colonel Pickering in the Orbit Theatre Company's production of George Bernard Shaw's *My Fair Lady*.

Mr Jeremy, who squeezed in the acting between his duties as PPC, local councillor and father of five, has been

involved in amateur drama in Cardiff for 25 years.

"My Fair Lady is a play with a considerable amount of social comment and Colonel Pickering is a character with definite social democratic leanings," Mr Jeremy said.

"He treats the flower girl Eliza Doolittle like a duchess, where Henry

Higgins, his companion is more of a socialist, he treats duchesses like flower girls."

Mr Jeremy managed to insert this deft political message into TV and radio interviews covering the story of his thespian endeavours — and what's more, the production was a great dramatic success as well.



The *Partnership for Progress* document has taken ten months of drafting and redrafting including 25 hours of meetings spent on the final revision alone.

Dr David Owen has paid a fulsome tribute to all those involved: the drafting team led by Ian Wigglesworth MP, the SDP's policy officer, Wendy Buckley, and the two parties' policy committees.

"The drafting team and Wendy Buckley have done marvellous work and they deserve our praise and thanks," he said.

"This document has been arrived at after the most extensive process of consultation yet undertaken by our Alliance and it's been well worth it!"

## Christmas hat-trick for the SDP

After a run of disappointing results in November, SDP local government candidates finished the year on a high note, with emphatic by-election gains from Labour, Tories and Independents.

See page 2

## Alliance Rally

Tickets for the joint SDP-Liberal Alliance Rally are selling fast — to make sure of your place in the Barbican Hall on January 31st, fill out the form on page 11.

Book early to avoid disappointment!

### Cowley Street

Party Headquarters at Cowley Street will close for the Christmas break at midday on Christmas Eve, and will re-open at 9.30 a.m. on January 5th.

How much will X raise?  
x.s. PPs Chancellor  
1212

NEIL KINNOCK - INTERVIEW ON LABOUR'S ECONOMIC PLANS

Transcript from: ITV Channel 4, 7-8 PM News, 8 January 1987

INTERVIEWER: (David Walter) After today Labour hope to impose their own political agenda in the run up to the general election. The Trade spokesman, John Smith, will play a prominent role in a new attack on City practices and the weaknesses of the economy to be launched in the Commons on Wednesday. And the whole Shadow Cabinet will be going all out to criticise the Government for, as they see it, increasing the divisions between the north and the south of the country. But after today in the City isn't Labour far too gloomy about the economy?

KINNOCK: I don't think the City over years and years and years has proved itself to be the best judge of what the real economic need in the real economy is and they respond with superstition and speculation. Not the best guide for action.

INTERVIEWER: But things aren't all bad in the real economy are they? I mean the oil price has gone up, world trade is improving, unemployment seems to be falling?

KINNOCK: Well we were told for instance that when oil prices started to climb again that everything would be all right. The problem is that we haven't got sufficient strength in the economy to take advantage of the revenues even if the Government were relaying them to the economy in the form of new investment or of developing jobs.

INTERVIEWER: Mightn't you be accused of talking Britain down?

KINNOCK: No, that's impossible. It's always been mythological that an Opposition can talk Britain down. We celebrate all the successes of the country and we only wish there were a few more. Of course if the Government was more patriotic there would be a few more successes for our country because it could use its power to sponsor and to sustain and to support British enterprise, British technology and British manufacture and it doesn't. Now we don't talk the country down, we don't talk the

currency down, we don't talk the interest rates up or do any of those things. It's not possible even if we wanted to, and we certainly don't want to. What is possible is that the realities in the world economy and the domestic economy push the country down because we've got a Government that pushes the country down on every economic indicator.

INTERVIEWER: But couldn't you find yourself in the position of a man who says the world's going to end on Tuesday and on Wednesday when it hasn't ended he looks silly?

KINNOCK: EXCEPT that this man would be delighted. The point is we don't want any of these crises or pressures or problems to increase. Why, because the victims of those worsening effects are the very people that we are most interested in helping.

INTERVIEWER: You're proposing to get the extra spending you want out of borrowing and taxes on the rich. Will that really be enough?

KINNOCK: As far as the taxes on the rich are concerned that is within the specific proposals of seeing that we pay decent pensions in this country and help those who are in long term difficulty and great poverty. And nobody seriously contests the figures that if we were to take back off the very rich, I'm talking about the top 5% of income getters both from earned income and unearned income, that which Mrs Thatcher has given to them, that we could fund our programme for the pensions and so on. And there's a general agreement about that even though there are people obviously who don't like the idea. They know we can do it.

INTERVIEWER: But mightn't you have to raise income tax, particularly if the Chancellor Nigel Lawson has lowered it in his Budget? And David Blunkett your colleague said that you would have to?

KINNOCK: We've always said that reductions by a Conservative Chancellor are not written in stone and they can't mean that there wouldn't be a restoration of levels. We don't particularly want to tax people. Who wants to tax people? Nobody in their right mind would want to do that.

But the bills must be paid. And what we would ensure is that the broadest and richest backs bear the biggest burden. And that's why whilst it would be folly for Lawson to cut it would be folly for us to suggest that we somehow can bring about the miracle of improved standards of employment, production, investment, training, opportunity, education, health in this country on a much lower bill. The other factor is this; the British people in every assessment of opinion over years have demonstrated by huge majorities that they value decent services for the old and the sick and the disabled, decent opportunities for the young, reductions in unemployment far above a penny off the rate of income tax or tuppence off the rate of income tax which they know to be irrelevant to their standards of living, as I said, and indeed destructive of the social fabric which they value.

INTERVIEWER: On that basis they might be prepared to wear a penny on the basic rate of income tax?

KINNOCK: Well we're not looking for that actually. We're not looking for income tax increases. The one area in which we contemplate some increase is in taking the ceiling off the national insurance contribution. Something that enjoys pretty widespread consensus.

-----

PWP

FROM: A G TYRIE  
DATE: 8 JANUARY 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr Turnbull  
Mr Kalen  
Mr Barker  
Mr Pickering

### LABOUR'S SPENDING PLANS

#### Developments since July

1. Since the issue of the £28 billion and the £8 billion Meacher add-on in July we have costed £9 billion worth of pledges made at Labour's conference. You announced these on 19 November in the Debate on the Address, table and Hansard attached. Since then I have seen only one costable pledge, on AIDS (inevitably by Meacher). The other significant development is Prescott's remarks in the House, attached, which hinted that Labour may be abandoning £6.6 billion of their original pledges.

#### Next Steps

##### A. The numbers.

2. At some stage we will want to publish a 'grand total' of the £9 billion conference pledges plus £28 billion. The components are not compatible in every respect but the wrinkles can be ironed out easily.

3. You may want to consider revising the costings by uprating the figures to 1987-88 prices and to take account of our own increases in spending. Andrew Turnbull has advised me that this would involve divisions in a lot of work. He questions whether the effort is worth the reward. He also thinks that it is unlikely this work could be completed for the Public Expenditure White Paper debate.

#### B. Presentation

4. We need to find a way to stir press interest in a recosting. In my view a new number will not, in itself, be enough.

5. The press are most likely to pick up any line we give on how these pledges would affect individuals. So we must keep tax hypothecation, particularly the effect on the basic rate of income tax, however absurd the numbers are and notwithstanding Mr Hattersley's pledge not to raise it. The general theme can be 'Labour's secret tax plans' - Mr Hattersley will have to raise the basic rate of income tax to satisfy his colleagues' spending priorities.

6. We can also give the costings exercise a new coat of paint. In my 10 December note I made four suggestions:

- work up a notional 'bureaucracy count' for Labour's plans. How many extra bureaucrats would be required to administer all this spending? This would, of course, add to the spending totals in some cases;

- issue the detailed workings of our costings. This would increase the risk of someone spotting a mistake so it is a high risk option. On the other hand we have the time to check them. This could add an air of solidity to the whole exercise;
- introduce a "pledges abandoned" section to the next re-costing table;
- issue the next re-costing with a list of other costly pledges not counted in the £28 billion, for example, the training levy, social ownership, various VAT exemptions, soft loans from the NIB etc.

Do any of these attract you?

### C. Timing

7. I have always been a renegade on the frequency of the use of the costings ammunition. I think we are best advised to do another 'grand total' after the Budget. We may find that our main target in early February is the Alliance - they intend to publish 'Partnership for Progress' at the end of January.

8. For the PEWP debate I suggest we carry on pressing Labour to state clearly which, if any, pledges they have abandoned, what is the status of the Meacher pledges, and perhaps refer to other costly items not even in the £28 billion total - social ownership, the training levy etc.



## TRAINING LEVY

9. You also asked for an update on Prescott and the training levy. I attach my note of 3rd December which gives the background, paragraphs 3-7.

10. The Chief Secretary then wrote to Mr Hattersley on the 10 December challenging him to say whether Prescott's scheme was Labour policy. Mr Hattersley replied that he had passed the letter to Mr Gould. He in turn replied by referring to Mr Hattersley's flimsy line in the House, copy attached to 3rd December note.

11. The Chief Secretary's letter was sent the same day as a letter from Mr Channon to Mr Smith on the same point. Mr Smith also replied by referring to Mr Hattersley's statement.

12. I see no harm in sending another set of letters but the best place to take this further is probably in the House.

AGT.

A G TYRIE

[Mr. Lawson]

"The idea that there should be a 1 per cent. levy is not policy. It wasn't described as policy by John, and I can't imagine it's going to be policy."

Yet last night, when winding up for the Opposition in this very debate, the hon. Member for Kingston upon Hull, East reaffirmed his commitment to a 1 per cent. levy on business turnover, today, when asked a straight question by my hon. Friend the Member for Glanford and Scunthorpe, the right hon. Member for Sparkbrook was totally unable to give a straight answer.

We are always pleased to have the contribution of the hon. Member for Kingston upon Hull, East to our parliamentary debates. The House will recall how earlier this year he said of the right hon. Member for Sparkbrook's pledge to create a million jobs:

"How did we get this policy of 1 million jobs? Who worked on the programme? Promises such as this simply label us with targets we cannot achieve and expose our credibility."

That is what the hon. Gentleman said, and quite right too. The right hon. Member for Sparkbrook and his hon. Friend should speak to each other occasionally as that might save them one or two problems.

As for income tax, the right hon. Member for Sparkbrook tried for some weeks to maintain that while Labour's plans would mean a savage increase in the higher rates of income tax, there would be no increase in the basic rate. Needless to say, no one believed him, but the gaffe was well and truly blown by his NEC colleague, Mr. David Blunkett, who said:

"In my view there will have to be a return to a higher standard rate of income tax and people will respect us for saying so."

So much for the right hon. Member for Sparkbrook.

Where do the Opposition stand on the other interesting question of national insurance contributions? Last year the right hon. Member for Sparkbrook was somewhat dismissive about the reductions that I announced in the Budget in the rates of national insurance contributions for the lower paid. During Second Reading of the Finance Bill the right hon. Gentleman said:

"the Labour party has never believed that such changes to the cost of labour and employment could contribute to the solution of the central problem of the economy, which is the reduction in unemployment."—[*Official Report*, 25 April 1985; Vol. 78, c. 35.]

Yet within a year he was on the air telling Mr. Jimmy Young:

"If we make jobs less expensive for companies by reducing national insurance contributions that employers pay, then they'll take on more labour. So we'd like to cut the national insurance contributions."

In other words, on this, as on every other issue, the right hon. Member for Sparkbrook stands on his head.

About the only area of economic policy where we get a measure of unity and clarity from the Opposition is public spending. They all want as much of that as they can get. As a result, the total cost of their irresponsible pledges is rising all the time.

The Labour party conference was always likely to be an expensive week for the right hon. Member for Sparkbrook. In conjunction with my right hon. Friend the Chief Secretary, I have costed five new pledges that Labour made at Blackpool. A winter heating premium would cost nearly £200 million; a higher Christmas bonus for pensioners, another £100 million; the abolition of standing charges for pensioners, £550 million; new policies on energy, at least £350 million; and the latest pension

increase promised by the hon. Member for Oldham, West (Mr. Meacher), a cool £8 billion a year. All in all, that means yet further spending commitments of some £9 billion a year—an expensive week indeed.

Once again, the right hon. Member for Sparkbrook has been knocked over in the rush to spend more, and the hon. Member for Dagenham (Mr. Gould), who is sitting quietly, has been brought in, far too late, to try to put Humpty Dumpty together again.

**Mr. Hickmet:** What analysis does my right hon. Friend make of the promise of the hon. Member for Kingston upon Hull, East (Mr. Prescott) to use the nationalised industries to employ more men as part of a Socialist policy to reduce unemployment?

**Mr. Lawson:** My hon. Friend is right. As I said earlier, massive overmanning was one of the problems with which we had to deal when we came to office. That is what Labour is pledged to recreate in the areas in which it believes it will have responsibility.

**Mr. Dave Nellist** (Coventry, South-East) *rose*—

**Mr. Lawson:** The economic strategy set out in the Gracious Speech continues the strategy that we have pursued consistently since 1979. Over the past seven years we have gradually brought down the growth of money GDP, so as to squeeze inflation out of the system and hence make room for real growth. We have brought inflation down from the appallingly high levels generated by the policies of the previous Government—when it averaged more than 15 per cent. a year—to the lowest levels seen for a generation.

Ever since inflation first dropped into single figures in April 1982, the Opposition have made confident predictions that it would rise again. During the last general election campaign the right hon. Member for Sparkbrook told the nation that:

"Inflation is ready to rocket again. By this time next year, it will be back in double figures."

At the time I said that that was poppycock, and so it proved. Each time the Opposition have predicted higher inflation, and each time they have been wrong.

To give them their due, it used to be the case in this country that we could not have sustained economic growth without a pick-up in inflation—at least, that is what the record seemed to show. Commentators used to debate endlessly the trade-off between growth and inflation as if they were bound inexorably together. But over the past five years we have shown that we can have steady and sustained growth without a revival in inflation—indeed, while inflation continues to come down. In each of the three years during which I have been Chancellor, the growth rate and the inflation rate have been within 2½ percentage points of each other. In no Labour year was that even remotely true. Indeed, in one of Labour's years the gap was as much as 25 per cent.

For the past five years, economic growth has averaged almost 3 per cent. a year and is set to continue at this steady rate in 1987. Again, there has been no shortage of predictions that growth was about to peter out. Indeed, such predictions have occurred regularly, year in, year out—ever since 364 economists claimed that the economy could never recover from the Budget of 1981.

As recently as a few months ago, I was told that the effects of the halving of the oil price would spell the end of the upswing unless I boosted Government borrowing,

## 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.

[Mr. Prescott]

several of the industrial training boards and witnessed a collapse in the number of apprenticeships. If British companies invested only 1 per cent. of turnover on training, that would raise between £6 billion and £8 billion. The taxpayer would then not have to find the £2 billion now needed for the skivvy youth training and community programme schemes.

The Chancellor asked me how much Labour's programme would cost. The Chief Secretary to the Treasury has made some scandalous charges. He should be thrown out of accountancy in view of what he said about the costing of Labour's programme. The Chief Secretary has trawled through various speeches and documents, some of them quite wrong, and discovered, apparently, that our training programme would cost £900 million. Let me tell him, the analysis was incorrect. More importantly, why should we not impose a levy on industry to pay for training? Previous Tory Governments used to believe in levies because industry would not invest in training. Do not be surprised, industry will pay for training as our competitors and many industries abroad already do. We are short of every kind of skill in this country and we have to make a rapid and radical change in our training programme. There is no doubt about that. We know that it costs money. Industry is not paying anywhere near its fair share, even on the Chancellor's own evidence.

Many of the 26 proposals mentioned in the document are wrong. The Chief Secretary has already admitted that perhaps on education he was wrong. He quotes speeches and documents. The Labour party will put through its commitments in the manifesto when we decide them in the normal way. I shall give the House some examples. The Chief Secretary said that there is a commitment to a 35-hour week. That is not a commitment anywhere in our document although we might like to move towards it. The Chief Secretary gives us a bill of £3,000 million for that. He also mentions early retirement at 60. That is something that the Government have regrettably changed. He gives us a bill of £2,600 million, but that is not a commitment. We also have no commitment as to precisely what the minimum wage would be. There is a commitment to a minimum wage but one cannot possibly estimate the cost without knowing what that wage will be. Yet, the Chief Secretary tells us that it will cost £1,000 million. Therefore, there is a total bill of £6,600 million and no commitments. It is a charade. The Chief Secretary should answer those questions.

If the Chief Secretary looks at our document he will also see that money should be made available for housing. We are witnessing the building of for 2,000 houses fewer per week than we did under a Labour Government. That is one indictment of the Government. The local authorities have the money—£6 billion in capital receipts—and there are 500,000 building workers unemployed. My constituency has worked out a programme for 1,000 houses at a cost of £66 million a year. That would provide 4,000 jobs and good training. I can give the House many public expenditure examples where the Chief Secretary calls for the money from the EEC.

We are working extremely hard to see where the extra jobs will come from, whether in nationalised industries,

local authorities or the private or public sectors. Yes, they can do much more to provide jobs and they will, make no mistake about it.

There is one carefully costed document that I would like to give the Chief Secretary. It has been worked out in detail with the financial people and spells out precisely what the jobs are and where they will come from. It is an inner city authority with a massive housing problem and is in massive decline, which is recognised by the Government in their inner city partnership schemes. That authority is Southwark. It has produced a plan which shows precisely where the jobs will come from. There will be 5,800 jobs, 25 per cent. of them in housing and about 20 per cent. in social services. I notice that many of the jobs provided in social services are to deal with the problem created by the Government when they kicked people from mental hospitals in the name of community care and dumped them on local authorities without providing the resources for the authorities to deal with that.

I hear the Government talking about £4.5 billion they are giving to local authorities to assist them in their expansion programmes. Local authorities have lost over £20 billion in the reduction in the rate support grant. That is why we have seen a reduction in jobs and services. We must be prepared to look at the needs of our inner cities, the needs of our services, the need to build houses and the need to train. Many of our local authorities, which have been doing a valiant task trying to create jobs and improve services, could provide a considerable amount of the jobs we are talking about.

I shall let the Chancellor into a secret. A proportion of the 1 million job target that we have set to achieve over the two-year period will almost certainly come from local authorities. I have three projects before me now; Lancashire enterprise body, Southwark and the Hull corporation. We could certainly put together 10,000 jobs there if he is prepared to take those targets now. We can do that if the resources are available. Local authorities are engines of growth. They are important in the development of our economy. It is all very well for the Chancellor to smile but his proposals today hope to use the local authorities in the spirit of election because they learned a lesson. In 1983, the only time when the figures showed a flip upwards in reducing unemployment, the Chancellor told local authorities to spend, spend, spend public money because he wanted to reduce unemployment before the general election. The Chancellor has done the same today. No doubt the Budget statement in March will add to the tax cuts in today's proposals.

The Opposition believe that local authorities and nationalised industries can play a role in keeping real jobs, with real money, meeting real need. We shall provide the alternative to the skivvy community programme and YTS schemes which the Government have used to reduce the figures. We shall provide real jobs and real money to meet real need.

9.40 pm

**The Chief Secretary to the Treasury (Mr. John MacGregor):** One of the penalties of trying to allow everyone to speak in the debate and therefore having only short wind-ups is that I cannot, alas, refer to as many contributions as I would have liked.

All of us recognise—and no one would claim to the contrary—that, despite the improvement in the economy, there are still, and always will be, enormous

FROM: A G TYRIE  
DATE: 3 DECEMBER 1986

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr MacAuslan  
Mr Pickering  
Mr Haigh

MR PRESCOTT AND THE TRAINING LEVY

1. I have set out below the story so far on the training levy, some points on the effects of the scheme, and a draft letter for a Treasury Minister to send to Mr Hattersley, for which the Chief Secretary asked. If we send the letter I suggest we brief the Press at the same time with the list of "bear points" on the effects of the scheme.

2. I understand that Mr Channon is intending to write to John Smith challenging him to say whether he is also committed to Mr Prescott's ideas. You may wish to consider having the two letters sent on the same day. He will also press Labour in DTI First Order PQs next Wednesday.

3. Labour Statements

John Prescott set out his plan for a training levy on 10 November during the Knowsley by-election. He recommended a 1% levy based on turnover, yielding £5-6 billion a year. (Reported in Independent, attached).

4. The following day Roy Hattersley repudiated the Prescott scheme. "The idea that there should be a 1 per cent levy is not

policy....I can't imagine it is going to be policy." (Independent, 12 November 1986).

5. Despite this Mr Prescott has reaffirmed his commitment to the levy on several occasions, most unambiguously on 18 November 1986 in the House. On that occasion he stressed that 1% was a minimum and implied that the levy might be 2%. (Hansard attached).

6. The following day Mr Hattersley, evidently having lost the behind the scenes battle, fell into line with Mr Prescott about the need for a levy in principle but obfuscated on what the levy should be. (Hansard attached).

7. While denying that a levy was Labour policy Mr Hattersley gave a hint about the kind of scheme he thought suitable. He was reported as saying "Any levy scheme which might be introduced would be on a grant and levy basis, with firms that took part in training able to claim money back." (Morning Star 12 November 1986, attached).

The Effects of the Scheme

1. Labour's £6 billion estimate is the right order of magnitude, probably on the low side, for a levy on private sector ICCs. This would exclude unincorporated businesses (probably worth an extra billion on the levy), public corporations, and the financial sector.

2. A £6 billion levy would be roughly equivalent to at least a 15 percentage point increase corporation tax. It would be roughly equivalent to putting corporation tax back to its 1979 levels. An alternative comparison would be with pre-tax - profits the £6 billion levy would probably account for most, if not all of them. (This is being checked by FP)

3. A £6 billion scheme would undoubtedly bankrupt many companies and could lead to a substantial reduction in employment. The Department of Employment has suggested as many as 100,000 jobs put at risk over a 3 year period. (This looks a pretty speculative number to float).

4. The scheme would be highly bureaucratic. Bureaucracy would probably be the only source of increased employment from it.

5. A turnover scheme would penalise companies with low value added but high turnover. It is grossly unfair. Nor is there any indication that relief from the levy would be given to companies that are making losses.

6. There is no evidence that blanket levies improve training. The history of large scale levy/grant schemes suggests that they do not meet real training needs cost effectively. Past schemes have encouraged training for training's sake in order to recoup the levy. (There are still seven Industrial Training Boards, covering nearly half of private sector employment, involving 5½ million people, operating small levy/grant schemes. Other sectors operate under voluntary training organisations.)

*M Clark*

*pp* A G TYRIE



3117/05

DRAFT LETTER TO MR HATTERSLEY

### LABOUR AND THE TRAINING LEVY

During the Knowsley by-election Labour's employment spokesman, John Prescott, put forward a plan for a 1% training levy on the turnover of all businesses, big and small. The following day you repudiated the scheme and were reported as saying: "I can't imagine it is going to be policy."

2. Now I notice you are not so sure. You recently said that Labour favour 'a major training initiative '...financed by the only possible means - a levy and grant system.'

3. Meanwhile your colleague Mr Prescott has made it clear that a 1% levy would be the minimum.

4. I would like your answer to the question all businesses want to know: would Labour impose a training levy on businesses of at least 1% of turnover?

NOV 1986

By Andrew Marr,  
Political Correspondent

A new training tax of at least 1 per cent would be levied on all UK companies by a future Labour government, ~~John Prescott~~, the Shadow Secretary of State for Employment, said yesterday.

Speaking at Knowsley North, where the by-election campaign is entering its final stages, Mr Prescott indicated that the levy would affect all companies, large, and small, even loss-making businesses.

But later Mr Prescott said neither the plan nor any figures had been agreed by the shadow cabinet. This means the proposed tax is not official Labour policy.

It would be imposed on turnover, not profits, and would be a minimum of 1 per cent, designed to raise around £6bn for a major initiative to train youngsters and retrain older workers.

"Industry must take note; it has totally failed the community in training its people," Mr Prescott said.

Britain had the worst-trained Labour force of any developed economy, spending only a 10th of 1 per cent of the turnover of most companies, or £1bn, on training, he told a Press conference in the constituency.

Competitor economies were spending 3 per cent of turnover, or £25bn each a year, Mr Prescott said.

"We will have to levy industry because industry has shown itself totally unable to see training as an investment and sees it totally as a cost," he said.

Government had no choice but to intervene and impose levies: a levy of only 1 per cent of turnover would realise £5-6bn to train "not only our youth in proper training programmes but to retrain adults in a radical programme of training."

The move, which has been pre-figured in earlier Labour statements but never spelt out so explicitly, reflects Labour worry not just about the lack of training in key sectors such as electronics, but the possible effect of a lack of trained bricklayers and plasterers on the party's planned building programme.

Both Labour and the Liberals released canvass returns yesterday showing the Labour candidate, George Howarth, well ahead.

The Labour canvass, which party organisers said was based on contact with 60.6 per cent of the electorate, showed Mr Howarth with 65.64 per cent, the Liberal candidate Rosemary Cooper a bad second, with just 7.6 per cent and the Tory candidate Roger Brown in danger of a lost deposit with 2.81 per cent.

Labour also said it found 18.25 per cent doubtful and 5.66 per cent intending to vote for

other candidates. The Liberals with canvass returns from 36,600 electors, or 68 per cent of the total, said they had found 19 per cent who would not vote and 32 per cent still undecided about who to support.

Leaving those aside, the Liberal secretary general Andy Ellis said Labour had 54 per cent, his candidate had 35 per cent, the Conservative had 8 per cent and others, 3 per cent.

All the parties expect a low turnout. But there was evidence yesterday of a continuing very strong Liberal presence in the constituency, with a relative lack of Labour canvassers by comparison and local Liberals remain optimistic about the chance of a shock victory by Ms Cooper. Meanwhile, the bizarre in-fighting between her and Labour continues unabated.

Richard Penn, chief executive of Knowsley Borough Council and the man who will announce the by-election result on Thursday night, has asked the borough solicitor to investigate whether Ms Cooper had committed an illegal act by delivering three dead baby rats in a polythene bag to his office.

Ms Cooper was protesting about the alleged inactivity of the council's public health inspectors.

But in a letter to her Mr Penn calls her action a "grossly irresponsible act" which could have helped spread infections such as leptospirosis and salmonella.

Ms Cooper said: "I would like him to know I consider it even more dangerous to leave people in those housing conditions where they live with that problem day in and day out.

"The mother who contacted me says her children and her neighbour's children go out and pick up dead rats by the tail and are playing with them."

She added: "I am appalled by this letter which epitomises the uncaring face of Labour-bossed Knowsley. It seems that it is all right to have the risk of 'harmful infections' in council houses but not in the chief executive's office."

The Liberals have also complained to Mr Penn, the returning officer, about a free pop concert at Kirkby Sports Centre on Sunday night. They say its advertising was linked to the Labour campaign and may contravene the 1983 Representation of the People Act.

The by-election has been caused by the resignation of Labour's Robert Kilroy-Silk who had a 17,191 majority at the 1983 general election.

Other candidates are: Robert Cory (Ind), David Phipps Hallsworth (Revolutionary Communist Party), George Weiss (Rainbow Alliance), Capt Rainbow's Universal Party).

# Labour call for training levy on all firms

Mr

up

79

Prescott.

# Labour split on training levy plan

By PETER PHELPS

A SHADOW Cabinet split opened up yesterday over a Labour spokesman's proposal for a training 'tax' on industry.

Shadow Chancellor Mr Roy Hattersley rejected claims made 24 hours earlier by Labour's Employment spokesman Mr John Prescott that all firms would face a minimum one per cent levy on turnover to fund new training initiatives.

## Defuse

Mr Hattersley said: 'The idea that there is to be a one per cent levy, let alone a minimum one per cent levy, is not policy.' He added: 'I can't imagine it is going to be policy.'

Mr Prescott made his controversial remarks on Monday during the by-election campaign in Knowsley North, Merseyside.

He said: 'We will have to levy industry because it has shown itself totally unable to see training as an investment.'

There was clear embarrassment in Labour circles yesterday, Mr Hattersley, also on the campaign trail in Knowsley North, moved swiftly to defuse the controversy.

He said: 'If there were a one per cent levy it would not be a £6 billion cost on industry because it would be more than a levy system.'

'People actually doing the training would get some of the levy back.'

Trade Secretary Paul Channon seized on the split at his press conference in the constituency. He said: 'When one member of the Shadow Cabinet disagrees with another you have to take your pick as to who to believe.'

Polling in the by-election takes place tomorrow. The candidates are: Roger Brown (Con), Rosemary Cooper (Lib), George Howarth (Lab), R. Cory (Ind), D. Hallsworth (RCP), G. Weiss (Rainbow Alliance).

General Election: Lab., 24,949; Con 7,758; Alliance 6,715. Lab maj: 17,191.

## THE INDEPENDENT Hattersley turns down Prescott's levy scheme

By Andrew Marr  
Political Correspondent

LABOUR yesterday backtracked from the claim by John Prescott, its shadow employment spokesman, that it would levy a new tax on firms to boost trading.

Mr Prescott had said the tax on turnover should be at least 1 per cent and warned that because of private sector failings "Government has no choice but to intervene and impose levies".

But yesterday Roy Hattersley, the shadow Chancellor, said: "The idea that there should be a 1 per cent levy is not policy, it wasn't described as policy by John, and I can't imagine it's going to be policy."

Paul Channon, the Secretary of State for Trade and Industry, who, like Mr Hattersley was at Knowsley North for the penultimate day of campaigning before tomorrow's by-election, said such a levy "would be a very, very severe tax on British business and it would clearly result in some firms being unable to pay".

A writ was served on Rosemary Cooper, the Liberal candidate, during a visit to Prescott Citizens' Advice Bureau yesterday.

A solicitor acting for Kirkby Unemployed Resources Centre served the writ on Ms Cooper after comments she made earlier in the campaign, when she accused the centre of being a Militant headquarters, and improperly soaking up £283,000 of public money.

Ms Cooper has been given 14 days to apologise for her remarks.

Other by-election candidates are: George Howarth (Labour), Roger Brown (Conservative), David Phipps Hallsworth (Revolutionary Communist Party), George Weiss (Rainbow Alliance), Capt Rainbow's Universal Party.

Two-horse race, page 17

## THE TIMES Labour's job pledge a 'fraud'

By Sheila Gunn  
Political Staff

Mr John MacGregor, Chief Secretary to the Treasury, yesterday ridiculed Labour's job creation scheme as "a fraud".

He questioned the cost of the pledge to cut the number of unemployed by one million in two years saying that Mr Roy Hattersley, the shadow Chancellor, has costed the scheme at around £6 billion while Mr John Prescott, Labour's employment spokesman, has praised a report by Southwark council in south London which puts the cost at £20 billion in the first two years.

Mr MacGregor, addressing the Chelsea Conservative Association, said Labour's proposals were a "fraud".

"Labour would not be funding job creation. They would be funding the profligacy, incompetence and extremism which have made the affairs of Labour councils not just a local but a national scandal," Mr MacGregor said.

He described some of the jobs "created" by Labour councils. For example Camden, in north London, was looking for lesbian and gay workers at a salary of £16,200 a year with "direct personal knowledge of discrimination as experienced by lesbians and gay men"; Manchester wanted a nuclear-free zone development worker for £11,600 a year, and Lambeth, in south London, advertised for a librarian of toys for child-minding at £12,500 a year.

Morning Star

## Hattersley in new row

By Our Political Correspondent  
SHADOW Chancellor Roy Hattersley yesterday created a fresh row inside the Labour Party in the build-up to Knowsley North's by-election tomorrow.

Mr Hattersley denied that a Labour government would introduce a 1 per cent training levy on British industry.

The plan had been unveiled by shadow employment spokesman John Prescott at a by-election press conference on Mon-

day Mr Hattersley said "Any levy scheme which might be introduced would be on a grant and levy basis, with firms that took part in training able to claim money back."

Industry Secretary Paul Channon was swift to make political capital out of Mr Hattersley's snub to his shadow cabinet colleague.

Mr Channon opposed the levy and said that it appeared that Labour might have made

an almost immediate U-turn on the issue.

This is not the first time that Mr Hattersley has thrown his weight around as shadow chancellor to get his colleagues to drop schemes which do not fit in with his own right-wing politics.

The Liberals, who are running second behind Labour in the opinion polls, have brought in both David Steel and Dr. David Owen to help them in the last days of the campaign

The reordering of priorities has enabled us to fund programmes that did not exist in 1979, such as information technology awareness in schools, the Alvey programme into advanced information technology, international collaboration in Europe and the EUREKA project. All have been done because we have been able to alter our priorities and spend more on them and to waste less propping up nationalised industries, unlike the Labour party.

**Mr. Prescott:** Eureka!

**Mr. Channon:** Yes, indeed, EUREKA. The hon. Member laughs at EUREKA. If we are to prosper, we must have more collaboration with Europe, not less. I find it astonishing that Opposition Members should find that laughable.

We must have more foreign investment in Britain. Opposition Members are always difficult about that too. Support for inward investment since 1979 has created some 180,000 jobs, and we are now the third location in Europe for internationally mobile investment. We attract more than one third of all American and Japanese non-oil investment into the Community. That is good news for Britain.

**Mr. Prescott:** Why?

**Mr. Channon:** Inward investment creates jobs. Ford, for example, invested more than £1.5 billion in the United Kingdom during the past seven years, and provides jobs for some 50,000 people, and the hon. Member laughs.

The Government's policies are designed to help industry improve its competitiveness and win orders at home and abroad. Last week, the Confederation of British Industry published its manifesto. It also contained policy recommendations—

**Mr. Prescott:** Bare knuckles.

**Mr. Channon:** Not at all. It is articulating what the overwhelming mass of British business and everybody else believes. Everybody is in step except the Labour party, which believes that a return to profligate spending, high taxation, rampant inflation, state interference and militant trade unionism would not be a disaster for the country.

**Mr. Prescott:** What about training?

**Mr. Channon:** We hear the same old story over and over again from the Labour party. The ad-men will dress it up. I expect that they will have a little brochure with a red rose on it. It will look very nice. There will be a few comfortable sounding euphemisms such as "social ownership" instead of renationalisation, but no amount of packaging will disguise it. Those policies would put us back at the bottom of the European league, which is where we were when Labour was last in office.

Every day, the Labour party seems to unveil another ludicrous proposal which would add to the costs and burdens on British industry. We had the great treat of the hon. Member for Knowsley, North (Mr. Howarth) arriving here this afternoon. Only last week, the hon. Member for Kingston upon Hull, East was at it again. On Monday, he announced his plan for a 1 per cent. levy on companies' turnover to finance industrial training. I am all in favour of industrial training—[*Interruption.*] The Opposition also laugh at that. Investment in people is vital if companies are to succeed, and I am constantly urging companies to devote more resources to training. Many

companies such as Jaguar and British Airways already are, but an indiscriminate tax on turnover that falls on every company irrespective of size or profit and loss is economic lunacy.

**Mr. Prescott rose—**

**Mr. Channon:** I am longing to give way to the hon. Gentleman. It would cost ICI more than £100 million, and it might cost the existence of many smaller companies. The only guaranteed result would be a loss of jobs. Now I give way to the hon. Gentleman.

**Mr. Prescott:** I shall deal with training in detail when I reply. However, is the Secretary of State aware that Mr. Holland, a director of the MSC, has been looking at training and he recommended that a levy should be imposed collectively, in the region of 2 per cent. of turnover? He is a person with a great knowledge of training. Therefore, before dismissing the idea that 1 per cent. should be a minimum levy, the Government should look at what others are recommending.

**Mr. Channon:** Then may I take it that that remains Labour party policy? I was not clear from the intervention of the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) whether it was or not. Perhaps the hon. Gentleman will let us know.

**Mr. Prescott:** It is certainly the Labour party's policy to implement training levies and grants to deal with the collapse of training in industry. I said at Knowsley, North that we had not yet decided on the percentage—[HON. MEMBERS: "Oh."] I said that I believed that 1 per cent. was a minimum because according to the Manpower Services Commission most of our competitors are spending between 2 per cent. and 3 per cent. of turnover on training. Britain is lamentably behind in the training of its labour force.

**Mr. Channon:** We are making very good progress. One per cent. is now a minimum, and the hon. Gentleman quotes with approbation those who suggest 2 per cent. Are Opposition Members carrying the right hon. Member for Birmingham, Sparkbrook with them?

**Mr. Prescott:** Yes.

**Mr. Channon:** Really? It is noticeable that the right hon. Gentleman is not here, because he said:

"The idea that there should be a 1 per cent. levy is not policy, it wasn't described as policy by John, and I can't imagine that it's going to be policy".

That is what the Opposition said on Friday, yet the hon. Member for Kingston upon Hull, East says something quite different today.

**Mr. Prescott:** The Secretary of State must accept what I said at Knowsley—that in my view 1 per cent. should be the minimum levy. I also made it clear that the Labour party had not made a decision about what the level should be. That is on the tapes and can be seen. In fact, I believe that the tapes were sent for, and they confirm that position.

**Mr. Channon:** It is very nice to know that it will be at least 1 per cent., because British industry can learn. As I have said, that sort of levy would cost ICI more than £100 million. Just think what it will cost other companies that are not making profits. Anyone who is a spokesman on

[Mr. Roy Hattersley]

The Chancellor did not answer or attempt to answer those questions in our last debate and he will not attempt to answer them today. His failure to answer any of those questions is a brilliant demonstration of the one area of the economy in which he has been an undoubted success—the economy of truth. That, of course, is a wholly parliamentary expression because the Cabinet Secretary explained to us that it is not quite the same as telling a lie.

**Mr. Richard Hickmet** (Glanford and Scunthorpe): While dealing with the economy of truth, will the right hon. Gentleman say if he is in favour of a 1 per cent. levy on the turnover of companies, and will he say what effect that would have on employment?

**Mr. Hattersley**: I miscalculated. I thought I would be asked first about bailing out the councils and that this would come second. I shall tell the hon. Gentleman exactly the position [*Interruption.*—if I am given a chance to do so. There is unanimous agreement in the Opposition that we need a major training initiative. There is unanimous agreement that without more training there will never be the expansion in the economy which is desperately needed. We also agree unanimously that because the Government have no training policy there is virtually no training. The new training policy that we will bring in will certainly be financed by the only possible means—a levy and grant system. Again, we are unanimous about that.

Yesterday, my hon. Friend the Member for Kingston upon Hull, East (Mr. Prescott) could not have been more frank in saying that in his judgment that levy should be 1 per cent. No doubt that is what he will put to the policy committee discussing these matters and we shall see what comes out.

**Mr. John Prescott** (Kingston upon Hull, East): That is exactly what I said at Knowsley.

**Mr. Hattersley**: I do not know whether I should take next the planted bailing-out questions about councils or whether I should continue on this topic. I shall turn instead to the real issues of today, the collapse of manufacturing industry and the recurring balance of payments crisis—which, like the huge growth in unemployment and the massive increase in poverty, are the direct responsibility of the Government. Indeed, they are part of the Government's economic strategy.

The Government's response to poverty and unemployment is to obscure the extent of their failure by the constant manipulation of the figures. They cannot do that with sterling. A month of bad figures on money supply, borrowing and balance of payments and we would be back into another bout of speculation and depreciation. Of course, the Chancellor's response to that would be another interest rate increase, even though our real interest rate is the highest in the industrialised world and even though the present rate of interest is doing desperate, indeed in some ways mortal, damage to the prospects of British manufacturing industry, as well as imperilling the secure future of home owners by pushing up the price of mortgages.

Bad monthly figures, as least for the balance of payments, are now inevitable. Following the autumn statement forecast, Lloyds bank suggested that the balance of payments deficit under present policies would be £2.6

M L KINNOCK - INTERVIEW ON LABOUR POLICIES (TAX EXTRACT)

Transcript from: BBC 1 TV, This Week- Next Week, 11 January 1987

INTERVIEWER: (.....) The other way of course to get money to re-invest in Britain and so forth apart from borrowing it is taxing. Now one of your colleagues on the NEC, David Blunkett, said at the time of your Party conference last ~~Aut~~ autumn that it was impossible to sustain a credible drive for socialism in terms of taxing if all you're going to do is take it from the richest people, which is what Roy Hattersley wants to do. Is it really the case that you can do all you want to do and tax only, impose extra taxes, only on those who are at the top of the financial scale?

KINNOCK: To do what we want to do about poverty certainly, and do what we want to do about new investment definitely. And I'll tell you why. You see, if high taxation equals socialism then this would now be a very socialist country because Mrs Thatcher has increased the tax burden in our country of income taxes on people of average and above average incomes and certainly below average incomes of consumption taxes through VAT, and of National Insurance contributions, increased it by about 18%.

And it hasn't brought us the regeneration apart from the fact that it's made a lie of the claim that they made, the Tories made originally, that they were going to cut taxes in order to inaugurate the new great era for development in Britain. It always was rubbish, it is rubbish now.

Now as far as we're concerned the relationship between the tax concessions that Mrs Thatcher has given to people of about £28,000 earned and unearned income incidentally - something that's sometimes missed out

- the tax concessions she's given to them comes to around about - it's in excess of actually - £3.6 billion a year. And we believe, like a huge

majority of the British people of all political persuasions, that the resource available should be much more at the disposal of pensioners.

This week with this cold snap again threatened with all the ailments of

and having to scratch for all of their assets in great numbers, not every last one of them but in great numbers. To people who are enduring long term poverty and others in our society who are the least fortunate. That is the conscience of the British people. They actually believe that along with us. Now that kind of sum is available by the re-imposition not of the 85% tax level but the installation of a claim on those resources that simply brings that money back and made available for those who are poorest. That's perfectly feasible without the increase of taxes on people of average and, indeed, pretty well above average incomes and certainly without the increase in taxes on those below those average incomes.

INTERVIEWER: Would that determination go as far, for example, as not re-imposing any taxes which Nigel Lawson cuts in this year's Budget?

KINNOCK: We've always made it clear that we don't consider that a cut in taxes, let's say Lawson taking another 2p off the so called standard rate, should be written in stone. Neither do the British people. In every measure of opinion that's taken they say rather than have a penny or tuppence off the stan<sup>d</sup>ard rate of income tax we would prefer guaranteed high standards of health care, of education, of training, of opportunity, because they can see the relationship between spraying it around in that fashion and getting real value for money. But in addition to that of course one thing you ought to take into account is if that 2p tax cut which may or may not come was spread across the board for that nurse that Mrs Thatcher keeps on talking about that means £1.40 a week. It doesn't even pay the increased bus fares let alone anything else. And for huge majorities of people right up to the £10,000 a year level yes it's a couple of quid. But that's wiped out in the extra mortgages that have to be paid because of the Government's interest rate policy, in the extra charges that have to be met because of their public expenditure cut backs. As well as in the constant shredding of the social fabric of our

country, abandoning the future of their children, of the needs of their sick. So nobody could seriously argue that we are inaugurate some great new development out of that cheap gimmick which would be reversed if there were another Tory Government by the way. A cheap gimmick of slicing a couple of P off the standard rate. In the meantime out of such a proposition the greatest beneficiaries of course would be those on the topmost incomes as it always is.

INTERVIEWER: Whether it was a cheap gimmick or not are you saying that you might be prepared to contemplate going into a general election campaign saying to the electorate we will put back on the tax even if it's only a penny or tuppence which the Chancellor has just taken off?

KINNOCK: If it is feasible at all to operate the programme that we want for regeneration and re-unification of this country without charging extra taxes we would be delighted. I don't see any virtue at all in charging taxes for their own sakes. But what we've got to do is to be honest with people and say if you want these bills to be met for the defence of our country, for the security of our people, for ensuring a decent anti crime and disorder regime, if you want to ensure that we can generate jobs, care properly for the health service, see that your children are looked after properly in school with the kind of materials for the modern education, there's no way that at the same time we can put an extra quid in your pocket. All those bills have to be paid, nothing is for nothing, and we know that the British people want to see those bills paid and not scattered to the wind in the form incidentally, incidentally, of increased consumption of imported manufactured goods that at the same time as they make our trade position deteriorate also wipe out British jobs.

INTERVIEWER: So just finally on this point, Mr David Blunkett might have been right last autumn when he argued that in his view he said there will have to be a return to a higher standard rate and people will respect us



-his seems to be the point you're making - for saying so?

KINNOCK: No, I don't consider that in every word that he spoke, or indeed in much of the thrust of what he was saying, David was right. I think his view was overly doom laden. What I do say is, as indeed he acknowledged and Roy Hattersley has said and I've continually said, that a tax cut by the current Tory Government that worsened the economic condition of the country generally and did nothing to improve economic justice in this country or economic performance in this country could not be considered to be written in stone. We shall levy what is necessary in order to ensure that the bills are paid. We shall levy it in a way that ensures justice for those on low incomes, on average incomes, on way above average incomes. And part of the way of doing that is to ensure that those on very high incomes who have benefitted enormously, uniquely, from Mrs Thatcher pay their proper contribution to meeting those national bills. It's the way to unity it's also the way to efficiency.

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BIF  
16/1



FROM: CATHY RYDING  
DATE: 12 January 1987

MISS NOBLE

cc: Chief Secretary  
Financial Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Miss Peirson  
Mr Scholar  
Mr Cropper

**NATIONAL INSURANCE CONTRIBUTIONS - LABOUR'S ECONOMIC PLANS**

... I attach an extract from Neil Kinnock's interview on Labour's economic plans on Channel 4 News <sup>on 8 January</sup> in which Mr Kinnonck says that one area in which he contemplates some increase in tax is taking the ceiling off national insurance contributions. The Chancellor would be grateful to know how much revenue this would raise.

CR

CATHY RYDING

how much will X raise?  
PLS Chancellor  
12/2

NEIL KINNOCK - INTERVIEW ON LABOUR'S ECONOMIC PLANS

Transcript from: ITV Channel 4, 7-8 PM News, 8 January 1987

INTERVIEWER: (David Walter) After today Labour hope to impose their own political agenda in the run up to the general election. The Trade spokesman, John Smith, will play a prominent role in a new attack on City practices and the weaknesses of the economy to be launched in the Commons on Wednesday. And the whole Shadow Cabinet will be going all out to criticise the Government for, as they see it, increasing the divisions between the north and the south of the country. But after today in the City isn't Labour far too gloomy about the economy?

KINNOCK: I don't think the City over years and years and years has proved itself to be the best judge of what the real economic need in the real economy is and they respond with superstition and speculation. Not the best guide for action.

INTERVIEWER: But things aren't all bad in the real economy are they? I mean the oil price has gone up, world trade is improving, unemployment seems to be falling?

KINNOCK: Well we were told for instance that when oil prices started to climb again that everything would be all right. The problem is that we haven't got sufficient strength in the economy to take advantage of the revenues even if the Government were relaying them to the economy in the form of new investment or of developing jobs.

INTERVIEWER: Mightn't you be accused of talking Britain down?

KINNOCK: No, that's impossible. It's always been mythological that an Opposition can talk Britain down. We celebrate all the successes of the country and we only wish there were a few more. Of course if the Government was more patriotic there would be a few more successes for our country because it could use its power to sponsor and to sustain and to support British enterprise, British technology and British manufacture and it doesn't. Now we don't talk the country down, we don't talk the

But the bills must be paid. And what we would ensure is that the broadest and richest backs bear the biggest burden. And that's why whilst it would be folly for Lawson to cut it would be folly for us to suggest that we somehow can bring about the miracle of improved standards of employment, production, investment, training, opportunity, education, health in this country on a much lower bill. The other factor is this; the British people in every assessment of opinion over years have demonstrated by huge majorities that they value decent services for the old and the sick and the disabled, decent opportunities for the young, reductions in unemployment far above a penny off the rate of income tax or tuppence off the rate of income tax which they know to be irrelevant to their standards of living, as I said, and indeed destructive of the social fabric which they value.

INTERVIEWER: On that basis they might be prepared to wear a penny on the basic rate of income tax?

KINNOCK: Well we're not looking for that actually. We're not looking for income tax increases. The one area in which we contemplate some increase is in taking the ceiling off the national insurance contribution. Something that enjoys pretty widespread consensus.

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currency down, we don't talk the interest rates up or do any of those things. It's not possible even if we wanted to, and we certainly don't want to. What is possible is that the realities in the world economy and the domestic economy push the country down because we've got a Government that pushes the country down on every economic indicator.

INTERVIEWER: But couldn't you find yourself in the position of a man who says the world's going to end on Tuesday and on Wednesday when it hasn't ended he looks silly?

KINNOCK: EXCEPT that this man would be delighted. The point is we don't want any of these crises or pressures or problems to increase. Why, because the victims of those worsening effects are the very people that we are most interested in helping.

INTERVIEWER: You're proposing to get the extra spending you want out of borrowing and taxes on the rich. Will that really be enough?

KINNOCK: As far as the taxes on the rich are concerned that is within the specific proposals of seeing that we pay decent pensions in this country and help those who are in long term difficulty and great poverty. And nobody seriously contests the figures that if we were to take back off the very rich, I'm talking about the top 5% of income getters both from earned income and unearned income, that which Mrs Thatcher has given to them, that we could fund our programme for the pensions and so on. And there's a general agreement about that even though there are people obviously who don't like the idea. They know we can do it.

INTERVIEWER: But mightn't you have to raise income tax, particularly if the Chancellor Nigel Lawson has lowered it in his Budget? And David Blunkett your colleague said that you would have to?

KINNOCK: We've always said that reductions by a Conservative Chancellor are not written in stone and they can't mean that there wouldn't be a restoration of levels. We don't particularly want to tax people. Who wants to tax people? Nobody in their right mind would want to do that.

PWP. Papers  
Pte

FROM: M GIBSON

DATE: 12 January 1987

- 1. MISS NOBLE *CW26*
- 2. CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Sir Peter Middleton
- Sir T Burns
- Mr Cassel
- Mr Monck
- Mr Scholar
- Miss Peirson
- Miss Sinclair
- Miss O'Mara
- Mr Pickering
- Mr Tyrrie
- Mr *Copper*

**LABOUR'S POLICY ON NATIONAL INSURANCE CONTRIBUTIONS**

You asked for the revenue raised by abolishing the Upper Earnings Limit for employees.

2. This would raise an extra £930 million in contributions in respect of 1987-88. Each extra £1 of earnings above the Upper Earnings Limit of £295 a week (£15,340 a year) would attract an extra 9p of contributions. So someone earning £20,000 a year would pay an extra £419 a year in contributions, or £8 a week.

*Less than 1/2 times average earnings.*

3. If we assume that Labour would also abolish the upper profits limit for the self employed (£15,340), that would raise an extra £240 million in respect of 1987-88 (ie on top of the £930 million).

*M. Gibson.*

M.GIBSON

*of which 1/2  
comes in NIES*

FROM: ROBERT CULPIN  
DATE: 12 JANUARY 1987

**CHANCELLOR**

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Miss O'Mara  
Mr Pickford  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

**HATTERSLEY**

You asked for the full text of the Bishops Stortford paper. Here it is - taken from Labour Weekly. It will presumably be the script for a chunk of Mr Hattersley's speech on Wednesday.

I also attach a transcript of some of Mr Kinnock's TV interview yesterday.

C.

Rc

ROBERT CULPIN

1. I can see at least two things we can throw back at Labour here.

2. Pl. see Hattersley's 3 point plan at **A**. We can point out that ~~concern~~

- investment & consumption: ~~under the~~ consumers' expenditure was the same rate (annualised 2 per cent) 74-79  $\rightarrow$  79-86 H1; but investment rose twice as fast post-79;

- increase manuf. output & exports: output fell under Labour; exports up 10½% 76 H1-79 H1, of 15% 79-86 H1;

- macroeconomic climate conducive to exports: exports currently doing well.

3. Kinnock's statement at **B** seems to suggest all spending pledges will be fulfilled; his statement at **C** that taxes will be raised to pay for this. Worth revising the figure of 53p income tax to pay for £28 bn?

AMH

12.1.

**The political implications are clear. The race is on between the crisis and the general election. Even if the government is able to postpone the crisis until after polling day, the fundamental weakness in the economy will still have to be faced.**

**AT Bishops Stortford this week Roy Hattersley reported to the shadow cabinet:**

**YOU asked me to prepare a note on the effect of the present economic situation on the government's choice of election date. I have done so after consultation with the economists who advise the shadow cabinet.**

It is now generally agreed that the government's current economic policy is unsustainable. The government has actually promoted policies which it knows to be damaging to the long-term interest in the hope of gaining short-term electoral advantage.

Conservative governments have behaved in exactly the same way during the six months which preceded all previous elections.

The most obvious consequence of this policy is the growing deficit on the balance of payments. There is a broad consensus that the government will sooner or later have to change policy or face an economic crisis.

The political implications are clear. The race is on between the crisis and the general election. Even if the government is able to postpone the crisis until after polling day, the fundamental weakness in the economy will still have to be faced.

### **Crisis**

Indeed, if the government continues to buy time with its present techniques, the eventual crisis will be all the greater. For the government is ignoring the collapse in our balance of payments with an abandon which must, eventually, intensify the extent of the collapse.

There are therefore three separate issues to consider

- the risk of crisis
- government policy between now and the general election
- the methods that can be employed to combat the crisis after the election is over.

The extent of the balance of pay-

## **Bishops Stortford Briefing**

ments crisis is easily described. Britain's balance of payments has been in deficit for each of the last four months.

The September deficit was the largest monthly debit in history.

The October figure (published in November) initially showed a surplus because of the publication of fraudulent estimates for invisible trade. The correction of that massaged figure revealed a deficit of £35 million. The November deficit escalated to £230 million. The treasury's own forecast for the full year (1986) had deteriorated from a surplus of £4 billion (autumn statement 1985) to a surplus of £3.5 billion (1986 budget) to break even (autumn statement 1986).

Even that adjusted figure is, according to most independent forecasters, optimistic.

The treasury now forecast a deficit of £1.5 billion for 1987 - as compared with a surplus of £3.5 billion in 1985.

Independent forecasters predict much larger deficits - Goldman Sachs £2.33 billion, LBS £2.5 billion, Phillips and Drew £3 billion, OECD £3.2 billion, James Capel £3.4 billion, NIESR £5.8 billion. Manufacturing trade has moved from £4.5 billion surplus in 1981 to a deficit of £4 billion in the first nine months of 1986.

In normal circumstances such a balance of payments record and prospect would produce the collapse of sterling.

For a country which is chronically unable to pay its way in the world is bound eventually to reflect its failure in the value of its currency.

The exchange rate crisis has been postponed by a variety of factors - some fortuitous, some intentional.

### **Deficit**

Uncertainty about the United States economy (combined with the effect of president Reagan's illness) has undermined the dollar. The OPEC agreement has temporarily increased confidence in currencies which depend for their strength on oil. Our manufacturing base has so deteriorated over the last seven years that we are now peculiarly dependent on overseas events outside our control.

The growing balance of payments deficit is the product of:

- a) A government economic policy that has made it impossible for British manufacturing industry to keep pace with demand for manufactured goods. For example motor imports increased by 15.25 per cent between third quarter of 1985 and third quarter of 1986 and other consumer goods increased by 19.5 per cent (Bank of England *Quarterly Bulletin*, December 1986).
- b) The demand for imported goods has accelerated as a direct result of the explosion in consumer credit. According to

**The present level of interest rates - the highest in our history and in the developed world - has protected the exchange rate in the short run. High interest rates are adding to the certainty of eventual collapse.**

154 min  
15 1/2 79  
21/6  
deficit  
(equivalent to the 1980s)  
no chance  
(of last long year)

LABOUR WEEKLY  
JANUARY 9 1987.



the governor of the Bank of England the ratio of household debt to household income has risen to about 70 per cent compared with 45 per cent during the Barber credit boom which was widely regarded as economically disastrous. (Bank of England *Quarterly Bulletin*, December 1986)

c) The prospective run down of oil revenues. The Conservative government failed to invest during the years of peak oil production in order to prepare the British economy for the inevitable decline in the contribution of oil to our balance of payments.

### Strategy

The government is directly responsible for each of these damaging trends. The collapse of manufacturing industry since 1979 is well documented.

It is to no small extent the result of the policies embodied in the medium term financial strategy – particularly the artificially high exchange rates of the early eighties and the record interest rates which are now the tourniquet which both staunches the bleeding and ensures thrombosis.

For seven years, government economic policy has been geared to meeting the demands of their friends and financial subscribers in the City. The interests of the City

are largely independent of those of the rest of the economy.

The government has chosen an economic strategy which, while assisting the least reputable sector of the economy, damages the economy as a whole.

The temporary factors which are now postponing the inevitable sterling crisis (and may even lead to a brief reduction in interest rates, which will still leave them higher than anywhere else in the developed world) cannot last much longer. The USA will take remedial action against its growing deficit. Doubts about the president's health will be resolved.

Whatever the long term cohesion of OPEC, oil will make a declining contribution to our GDP. Most important of all, on existing policies, the balance of payments deficit will increase. If collapse can be postponed until polling day, remedial action will be necessary immediately the election is over.

### Prejudices

Locked, as they are, into their simplistic economic prejudices, the Conservatives, were they to win the election, would attempt to resolve the balance of payments crisis by reducing imports through indiscriminate deflation.

And they would attempt to make that reduction in the crudest possible fashion – a further deceleration of economic activity brought

about by a tight fiscal and monetary stance. All the forecasters – including the City analysts close to the government – agree that, were the Tories to be re-elected, there would be higher interest rates, further cuts in public expenditure and public services, and growing unemployment.

The method which the Tories would adopt would not solve the problem. Indeed it is the policy which, by the damage it has done to manufacturing industry, has deepened the crisis and in the long-term will result in a lower standard of living for Britain in general, and average and low income families in particular.

We cannot pretend that there is an easy or quick solution to the problem which has gradually built up since the Tories were elected and inherited a balance of payment surplus.

The next Labour government will:

- concentrate available resources on investment rather than consumption;
- take direct action to increase manufacturing output and exports;
- create a macroeconomic climate – interest rates, exchange rates and inflation levels – which is conducive to the success of our export industries.

The success of such a policy may take some time. But it is the only way to proceed. The Tory alternative not only increases the problem which it pretends to solve, it increases the social problems of unemployment, inadequate public

services and decaying infrastructure.

It is impossible to judge how soon we will be faced by the generalised crisis which is sure to follow continued balance of payments deficits. The City has chosen to ignore the impending crisis in the hope that it will be postponed until after election day. The City is, naturally enough from its own prejudiced position, desperate for a continuation of the policies of the last seven years: privatisation with its massive profits for financial institutions, the absence of effective control over the City's more disreputable practice, a feeble monopolies and mergers policy and tax cuts concentrated on the high income groups. The City also benefits from the general instability which has so damaged the real economy. The City wants another five years of the economic policy which had done so much damage to the rest of the country.

### Spring

On the evidence described above it seems likely that the prime minister will choose to hold an election in the spring. It is possible – though by no means certain – that the crisis can be held off until then. The government, if it runs on into October, would have to choose between a revision of policy (and the consequent admission that the boasts about sustained recovery were bogus) and the risk of a major crisis.

The economic situation must lead to the conclusion that the government will cut and run in May or June.

Cathy  
 Harvey  
 X  
 [Redacted]  
 [Signature]

Have you emerged yet?  
 PWP



FROM: JILL RUTTER  
 DATE: 12 January 1987

**PS/CHANCELLOR**

CC:  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Turnbull  
 Mr Kalen  
 Mr Barker  
 Mr Pickering  
 Mr Tyrie

**LABOUR'S SPENDING PLANS**

X The Chief Secretary has seen Mr Tyrie's minute of 8 January.

2 The Chief Secretary thinks there is an additional costable pledge from Dr Clark on "greenery". Perhaps Mr Tyrie could check.

3 On Mr Tyrie's proposals for the zappy presentation the Chief Secretary does not think the idea of "bureaucracy count" is a good idea, nor would he welcome issuing detailed costings. He does however think that a "pledges ~~is~~ abandoned" and "pledges added table would be a good idea.

4 The Chief Secretary agrees that the PEWP debate could be used to press Labour further on pledges, Meacher etc. On the training levy point the Chief Secretary agrees with Mr Tyrie's recommendation that this matter is best pursued in the House.

[Signature]

JILL RUTTER  
 Private Secretary

*2 1/2 hours of 79's -  
approx 3/4 current  
1/4 capital*

*PWT*

FROM: A G TYRIE  
DATE: 12 January 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Turnbull  
Mr Kalen  
Mr Cropper  
Mr Ross Goobey

**SUPPLY DAY DEBATE: LABOUR'S JOBS AND POVERTY PACKAGES**

**Current v capital**

The **jobs package** consists of:

(a)	Reduction in employers' NICs	£1.5 billion	Current
(b)	Improved public sector services	£1 billion	Current
(c)	Increased public sector capital spending	£1 million	Capital
(d)	Job Guarantee	£3.3 billion	Capital £1.5 billion, rest current

2. Labour accepted the Employment Committee's report for a job guarantee consisting of the wage subsidy of £1.4 billion, (current), an expansion in public sector services, £0.4 billion (current) and a building improvement scheme, £1.5 billion (capital).

3. Labour's **poverty package** consist of:

(a)	Child benefit	£1.45 billion	Current
(b)	Pensions	£1.65 billion	Current
(c)	Supplementary Benefit for the Long Term Unemployed	£.53 billion	Current

4. Therefore only £2.5 billion of Labour's £11 billion jobs and poverty package is capital expenditure. I attach a recent restatement of these packages by Mr Hattersley.

5. Not all of this package is included in the £28 billion. Reductions in NICs are not expenditure. The £0.4 billion expansion in public sector services recommended by the Employment Committee is subsumed in item 31<sup>of</sup> the costings, wage subsidy. The building improvement scheme, £1.5 billion, is presumed to be scattered among the many capital spending pledges in the £28 billion. There is at least £5.4 billion of capital spending in the costings (See Annex).

#### Items which Labour cannot easily disavow

6. You only need three or four sizeable packages with which to challenge Mr Hattersley, along the lines discussed at Prayers. I suggest overseas aid, £1.46 billion; abolition of standing charges for pensioners, £550 million which is a 1986 conference pledge; nursery education, £470 million; and possibly health spending, £760 million. The first three are recent and well documented. On health Mr Hattersley will not want to admit that no further money would be available.

#### Labour smears

7. I attach an extract from the 1983 election Daily Notes with a couple of good quotations. I think that the Kinnock Quotation on unemployment will sit well opposite a passage on improved employment prospects.

AAH  
for A G TYRIE

Annex.

Capital spending included in the £28 billion comprises:

(Some of) Energy	item 10	£170 m
Roads, Rail, item	" 12	£950 m
Housing new build item	" 13	£3000 m
Housing renovation	" 14	£250 m
Urban programme, sewerage	" 15	£770 m
School buildings	" 18	£160 m
Hospitals	" 21b	£100 m
		<hr/>
Total		£5400 m

*1m now a firm*

[Mr. Hattersley]

Question Time. The interest rate was managed down this morning, in order to help the Chancellor, by the Bank of England cutting the dealing rate by 1 per cent., but it should have been managed down a month ago to help the British economy.

Yesterday the Chancellor of the Exchequer once again dangled before us the prospect of massive tax cuts. It is difficult to focus on his long running fantasy, but it is clear that if there are massive tax cuts next year they will be wholly dependent upon, and financed by, the sale of British Gas, British Telecom and other national assets. Yesterday the Chancellor spoke about how he had held down the total of Government spending and Government indebtedness. By a slip of the memory, or some error in his notes, he did not mention the £4.75 billion that he intends to obtain from asset sales. The truth is that the Chancellor of the Exchequer has financed his Budget deficit by selling national assets.

Selling assets and gilts is simply an alternative way of financing a Budget deficit. However, when, as is the Government's practice, assets are priced below their true value and priced, if the Government are true to form, at about £3 billion below their true value to ensure a quick sale, that is not a prudent way of raising revenue, but is a wilful waste of taxpayers' money.

The Chancellor apparently wants to know whether I wish to increase the Budget deficit. I have no complaint about his increasing the Budget deficit. But why, having increased the Budget deficit, did the right hon. Gentleman choose to use it to finance tax cuts rather than jobs? Why does the right hon. Gentleman have such an obsession with people's capitalism and so little interest in people's jobs?

**Mr. John Maples** (Lewisham, West): Without asset sales—which a Labour Government would not have—next year's PSBR would be projected at £12 billion. That would be the starting point for the right hon. Gentleman. How much higher could he safely go?

**Mr. Hattersley:** I shall give the figure in a moment. For the time being, the answer is considerably, and I shall justify that shortly. I am glad that the hon. Gentleman at least, if not the Chancellor of the Exchequer, understands that asset sales and other means of supporting the national debt involve exactly the same economic operation.

Before dealing precisely and directly with the question of the hon. Member for Lewisham, West (Mr. Maples), I must deal with the Government's plans for tackling the unemployment crisis. The planned increase in all the special employment schemes announced yesterday amounts to 90,000 jobs. That is 90,000 on an unemployment total which, by honest calculation, is nearer 4 million than 3 million. We are talking about 90,000 jobs, when unemployment rose by 130,000 in January alone. Similar schemes to those announced by the Chancellor were announced last year. Indeed, yesterday the Chancellor persisted in including the schemes announced last year in the figures that he gave, as if they were all for this year. Since the announcement of those schemes, unemployment has risen by 228,000. Indeed, every time the Government announce a new remedy for unemployment, unemployment increases.

There was a time when transferring assets from public to private use would automatically reduce unemployment, but unemployment has increased. There was a time when

reducing inflation would reduce unemployment, but unemployment has increased. There was a moment when appointing Lord Young as a Minister would reduce unemployment, but unemployment has increased. The truth, as typified by Lord Young's appointment, is that the Government are engaged, not in an assault on the level of unemployment, but in an assault on the unemployment statistics.

Even the Government's plans for changing the married man's tax allowance are calculated to keep married women off the labour market. The Government now believe that what no doubt in their private moments they call a pool of unemployment of 3 million or more is inevitable. That is not our view. We believe that we can begin to put Britain back to work. But we can do so only if we escape from two debilitating prejudices. The first is the obsession with the PSBR—an affliction which so grievously affects the Government. It is now generally accepted that the PSBR is a wholly inadequate measurement of Government borrowing. Setting policy by the ratio of Government borrowing to national income is a far more responsible way of determining the fiscal stance and is the method employed in many more successful economies than ours. Were we to employ that technique, I believe that it would make us more clearly understand that there are times in the life of an economy, as there are in the life of a family or of a company, when borrowing for investment is the prudent option, and that failing to borrow is the profligate alternative.

We must abandon the second prejudice—which in one sense is not so much a prejudice as a pretence—that unemployment costs nothing. It costs the Exchequer £21 billion a year in lost taxes and benefits paid. It costs the economy a further £30 billion a year in lost output. Perhaps more important is the simple fact that to reject borrowing as a means of financing a massive job-creating programme is to accept unemployment remaining at 3 million or 3.5 million for the rest of this decade and beyond. That is the choice, and the Government do themselves no credit by pretending that they have some other way of gradually putting Britain back to work. They have not. On present policies there will be no significant fall in unemployment before the next election or beyond.

The drive to create jobs could begin now. There should be public sector capital programmes doing vital and necessary work, at a net cost of £1 billion a year, which would reduce unemployment by 67,000 in two years. There should be public sector service employment, making additions to the nursing, midwifery and home-help service, reducing unemployment by 100,000 in two years, and costing a further £1 billion. There should be reductions in national insurance, something which was flaunted by the Government two months ago and then abandoned, at a net cost of £1.5 billion a year. We could reduce unemployment by 200,000 in two years. There ought to be a job guarantee scheme based on that recommended by the all-party Select Committee on Employment, which would build up, as it calculates, to a cost of £3.3 billion, and that would result in a reduction in registered unemployed of 750,000 in three years.

The cost of the proposals is less than 1.6 per cent. of gross domestic product, and it is wholly consistent with a broadly stable debt to income ratio. That ought to have been the central theme of the Chancellor's budget.

The second theme ought to have been help for those members of the community who need most help—the

pensioners, the families, and the long-term unemployed. If, as I and as my party believe, the national resources that are available were concentrated, to the exclusion of other objectives, on the reduction of long-term unemployment, the anti-poverty programme — the schemes to help pensioners, families and the long-term unemployed — would be self-financing, and would have to be financed from within the tax and benefit system itself — by redistribution.

Pensions should be increased by £5 a week for a single pensioner and by £8 for a married couple. Those increases would more than restore the link between pensions and earnings. Child benefits should be increased by £3, and supplementary benefit, at the full rate, should be made available to the long-term unemployed.

It is intolerable that long-term unemployment, which denies those who have been out of work for a year or more their skills, often their self-respect, and their hope, should also in the end deny them the proper rate of unemployment benefit. We would, and could, provide it, along with help for the pensioners and for families, at a cost of £3.45 billion. That would include the additions to supplementary benefit, to ensure for the pensioners that what we gave with one had we would not take away with the other.

Fortunately, that sum is readily available. While the nation as a whole is paying an annual tax bill of £30 billion higher than it was in 1979, the richest 5 per cent. are paying less. The richest 5 per cent. are paying £3.64 billion a year less than they were when the Prime Minister was elected, when she promised to cut everybody's taxes, but not the taxes of the richest 5 per cent.

Those cuts have not come simply in income tax alone. There have been a wide variety of concessions to the richest 5 per cent. There were 15 concessions in 1980 alone, and the concessions to this favoured group have averaged five a year throughout the life of this Government.

Yesterday, on a quick calculation, there were nine. I make a simple point, which I think Conservative Members may find difficult to dispute. The richest 5 per cent. of the population should at least be making their proper contribution to the national wellbeing. It is intolerable that when poor people are paying more, rich people are paying less.

During this three-day Budget debate I shall look forward to hearing an argument which says that we should reduce the taxes of the rich and increase the taxes of men and women on average earnings. It is intolerable that the wealthy should have been uniquely benefited in this way, not least because tax cuts cannot be isolated from the rest of the policy. By cutting the taxes of the rich, the Government have been forced to hold back benefits from pensioners, from families and from the long-term unemployed.

Taxpayers earning £50,000 a year or more, have received from the Government an annual tax reduction of £1 billion, while pensioners are living on £40 a week, and dying from hypothermia because they cannot afford their fuel bills.

The truth is that there cannot be any escape from the choice. We must decide whether cutting the tax on unearned income, or increasing child benefit, is the most important objective. We must decide whether abandoning capital gains tax and capital transfer tax, or helping pensioners, is the first priority. For us the priority is the pensioner, the long-term unemployed, and the child.

I end on a charitable note towards the Chancellor. I want to conclude on the wild assumption that his predictions of economic success—so wrong in the past—will this year be justified. Even if I make the wild hypothesis that the great breakthrough that he has recognised has come, that continued expansion of the economy is certain, and that continuing improvement in prosperity is not now in dispute, how will those successes affect the pensioners, the unemployed and the poor? We know that they will not affect pensioners at all, for they have formally been excluded from any improvement in national prosperity, by the break in the link between pensions and earnings. We know that the number of families living in poverty increased by 1.5 million between 1979 and 1981, and then the Government stopped counting. We know from the pattern of taxes which the Chancellor has proposed, and from the holding down of benefits for which he is responsible, that the number of families living below the National Health Service poverty line will increase.

We also know that, despite his claims, unemployment at the next election will be 3.5 million to 4 million on the honest calculation that was made by previous Governments before the figures were manipulated.

The truth is that for those groups—even if the Chancellor's shop-soiled braggadocio turns out to be true—there is nothing in this Budget and nothing in this Government's policy. The truth is that the Chancellor has wilfully failed the pensioners, the long-term unemployed, the families and the poor. By failing them he has failed the nation, and the nation will make him pay the price.

4.40 pm

**The Chief Secretary to the Treasury (Mr. John MacGregor):** The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) finished with a forecast—rather a more shaky forecast than one is accustomed to hearing from him. I can understand why, because his record on forecasts and on understanding the underlying economic situation, has always been shaky. Just before the last election, he predicted that with our policies, inflation would soon be rising to double figures. It never did. It never has.

Only two months ago in the House the right hon. Gentleman raised under Standing Order No. 10 the urgent issue that there would be an imminent increase in real interest rates, which he described as being a matter that is directly within the responsibility of the Government. There was not, and the House knows today that the actual change is in the reverse direction.

So it was in approaching this Budget. Although the dramatic fall in oil prices has been good for British industry and for our economy, the right hon. Gentleman thought—there was a hint of it in what he said today—that it was really bad news for my right hon. Friend the Chancellor, because of the known and substantial loss of oil tax revenue. He hoped that that would have completely destroyed any room for manoeuvre in this Budget—or that, if my right hon. Friend wished to find scope for tax cuts or other new initiatives, that could be achieved only by substantial increases in indirect taxes over and above inflation, especially on petrol.

That is no doubt why the right hon. Gentleman encouraged his right hon. Friend the Leader of the Opposition to make the theme of his response yesterday jam tomorrow, because he thought that the Chancellor was

## 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
<b>TOTAL</b>	<b>28,240</b>

## \*\* 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
<b>TOTAL</b>	<b>6,980</b>

\* Newly identified commitment

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



FROM: A G TYRIE  
DATE: 19 JANUARY 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr Lilley

**SOME LABOUR SCARE STORIES**

- Kinnock: "If they can do that in four years, (increase unemployment to 13%) the result of 8 years of resolute approach would be a national unemployment rate of at least 25% with figures like 30% in Scotland, Northern Ireland and the North." (Daily Mirror, 11 May 1983).
- Healey: "They will stop increasing old age pensions in line with the cost of living and will de-index the pay of public servants like nurses and policemen. They will replace National Insurance benefits with private insurance, except for means tested supplementary benefit. They will means test child benefit or scrap it altogether. They are set to dismantle large parts of the National Health Service and hand them over to the private sector. (Times, 31 May 1983)"
- Dunwoody: "If the Tories were allowed to win this election they would within 5 years end the NHS". (Sanbach, Cheshire 25 May 1983).
- Hattersley: "Despite all the claims that inflation has been conquered, there is no doubt that inflation will be in double figures by the end of the year - if this Government remains in office." (Press Conference Statement, 25 May 1983).

SCARE STORIES FOR THE 1979 ELECTION

Callaghan: "The living standards of everyone would be reduced." (Chatham, 30 April 1979).  
"Conservative policies - would let prices rip."  
(The Sun, 2 May 1979).

2. I also attach a speech given by Kinnock in the last election, for entertainment value. In view of the attacks on the 'consumer credit boom' by Messrs Kinnock and Hattersley I am particularly taken by his remark: "I warn you that you will borrow less."

*AGT*

A G TYRIE

# NEWS RELEASE

ISSUED BY THE LABOUR PARTY PUBLICITY DEPARTMENT  
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GE 280/83

RELEASE TIME: 19.00 HOURS, TUESDAY JUNE 7th, 1983.

NEIL KINNOCK, SPEAKING AT A PUBLIC MEETING AT BRIDGEND RECREATION CENTRE,  
BRIDGEND, MID GLAMORGAN, WALES, ON TUESDAY 7th JUNE, 1983 AT 7 PM, SAID:

"It is clear from the policies implemented in the last four years. from every document leaked from Whitehall and from the independent assessments made by stockholders and analysts, financial columnists and academics, that a new Tory Government would -

- cut the value of public spending on education, health, transport, pensions and benefits.
- cut community services.
- cut investment and production.
- increase taxes.
- increase the price of the pound Sterling.
- increase interest rates
- increase unemployment.

If Margaret Thatcher is re-elected as Prime Minister on Thursday,  
I warn you

I warn you that you will have pain -  
When healing and relief depend upon payment .

I warn you that you will have ignorance -  
When talents are untended and wits are wasted, when learning is a privilege  
and not a right .

I warn you that you will have poverty -  
When pensions slip and benefits are whittled away by a Government that  
won't pay in an economy that can't pay.

I warn you that you will be cold -

When fuel charges are used as a tax system that the rich don't notice and the poor can't afford.

I warn you that you must not expect work -

When many cannot spend, more will not be able to earn. When they don't earn, they don't spend. When they don't spend, work dies.

I warn you not to go into the streets alone after dark or into the streets in large crowds of protest in the light.

I warn you that you will be quiet -

When the curfew of fear and the gibbet of unemployment make you obedient.

I warn you that you will have Defence of a sort -

with a risk and at a price that passes all understanding.

I warn you that you will be home-bound -

When fares and transport bills kill leisure and lock you up.

I warn you that you will borrow less -

When credit, loans, mortgages and easy payments are refused to people on your melting income.

Cont'd/...

If Margaret Thatcher wins on Thursday, she will be more a Leader than a Prime Minister. That power produces arrogance and when it is toughened by Tebbitry and flattened and fawned upon by spineless sycophants, the boot-licking tabloid Knights of Fleet Street and placemen in the Quangos, the arrogance corrupts absolutely.

If Margaret Thatcher wins on Thursday -

I warn you not to be ordinary

I warn you not to be young

I warn you not to fall ill

I warn you not to get old."

END

FROM: A G TYRIE  
DATE: 23 JANUARY 1987

CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Financial Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr Kalen

#### FORTHCOMING POLITICAL EVENTS

##### The Alliance

1. I understand that the Alliance have brought forward the launch of Partnership for Progress from Wednesday to Monday ... 26 January at 11.30 am. I attach a copy which I have on the clear understanding that we do not respond to it before the launch time! I have only just received it and will read it thoroughly over the weekend. On a first skim it looks remarkably similar to the bland first draft put out 8 months ago.

2. David Owen is giving the annual Tawney lecture this Sunday (25 January) in which he will set out his views on "whither social democracy". I doubt if this will provide much ammunition, unless he implicitly contradicts Jenkins' speech on Thursday. But trying to spot differences between Jenkins and Owen on the basis of these speeches will probably end up on such a "rarified level" that it will be of little political value. Jenkins' speech was in any case pretty unexceptional.

##### Audit Commission report

... 3. I attach a note prepared by Peter Davis (former adviser to Kenneth Baker at DOE and now in the Research Department) on the fourth draft of this report. Since the Sunday Telegraph's coverage of the fourth draft last weekend there has been a lot of negotiation between the ALA and the Audit Commission on the content of the final version. I understand from the DOE that the Audit Commission held firm and the report will be little changed when it is published in its final form on 29 January.

4. Peter Davis tells me that DOE and, if necessary, the Party

Chairman will be primed to respond on 29 January if necessary. Publication is uncomfortably close for Labour to their local government conference.

Labour Local Government Conference

5. The Labour local government conference is being held from 6-8 February in Leeds. On 6 February Neil Kinnock will open the conference with a speech that will "set the tone of the election campaign" according to a Labour hand-out. On 8 February Roy Hattersley will conclude the conference with an assessment on the state of the economy and Labour's policy for jobs.

6. Despite purdah you may want to respond to these speeches. An appropriate theme would be jobs lost through Labour local authority abuses, mismanagement, high rates etc.

*As.*

A G TYRIE



FROM: A G TYRIE  
DATE: 26 JANUARY 1987

CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Financial Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr Hudson

**PARTNERSHIP FOR PROGRESS: THE TIME HAS COME**

This is a carefully worded document which follows the first draft quite closely. It does not contain many surprises. It advocates an increase in borrowing, no reductions in personal taxation, a reform of the tax and benefits system. (pages 40-42). Local Government should be reformed and given more responsibility in economic matters (page 53). The other main economic prescriptions are much as one could have anticipated: membership of the exchange rate mechanism; an inflation tax-style incomes policy; a reduction in employers' National Insurance contributions.

Spending implications

2. The authors have been careful to qualify most pledges which would involve higher public spending. For example most pledges are framed with the phrase "the Alliance Party's ambition is" or "ultimately we would wish to" (pages 50 and 51), "new and improved services could include regular well-women clinics." etc. I attach sheets with the original SDP and Liberal costings which show those pledges which have survived from the Alliance Party's two policy documents last year, 'The Only Way to a Fairer Britain', and 'These are Liberal Policies'. Page numbers of

Partnership for Progress Marks 1 and 11 are marked in the margin. At a rough guess these pledges would add up to £10-£15 billion but as you will see from the text many of these pledges have now been heavily qualified.

#### New pledges

3. In addition, there are quite a few new pledges although I do not know whether they would be easily costed without consultation with officials:-

- page 50, a training levy (similar to Labour's pledge)
- page 50, doubling numbers in tertiary education
- page 104, pensions
- page 107, land reclamation etc
- page 111, home purchase assistance
- page 112, more money for housing associations
- page 116, more enforcement of traffic control

That makes about 32 pledges in all, though I may have missed one or two.

#### A possible response

4. I do not recommend that we issue costings for this document except, possibly, for a few individual items. We would have to use pledges which were heavily qualified in one way or another to arrive at a reasonably large number. Even then the numbers would look small, not only in relation to the £28 billion exercise but also in the sense that they would not be so dissimilar from our own public spending increases in the last round.

5. I think our message on public spending aspects of this

document should be that we have won the argument without firing a shot.

6. A more general response should take account of the background against which this document has been published. At the moment the Alliance Parties are not threatening to break through into collecting large numbers of seats. Their bandwagon has almost ground to a halt, languishing in the polls at about 20%. The Harris poll yesterday put them at 18% which is less than the Liberals scored in the February 1974 election. We may find that by attacking them we give them publicity they might otherwise not get. During the forthcoming week I think we should be ready to respond quickly but not act until we see how much coverage their own ploys are achieving.

7. The Alliance have benefited by a long consultation period. The price they have paid is that much of this material is no longer fresh. That will inhibit the extent to which they can get good press coverage.

#### Targets for attack

8. I think the main targets in the document are:-

- taxation. The Alliance are offering no prospect of a reduction in the burden of personal taxation. Indeed Mr Steel describes those among the electorate who would want tax cuts as "donkeys" (page 9). We should also try and revive the tax/benefits mess the Alliance got themselves into before Christmas. Their proposals don't look like 'simplification'.

- "Something for everyone". Whatever one's pet foible one will find a line in "The Time Has Come" to satisfy it. There's devolution, more power to local government, a little more money (vaguely promised) for almost every area of activity, more aid, more for the arts, more for agriculture, more for training, roads, housing, rail, health, education, etc.

- pledges dropped. What happened to all the Liberals' favourite pledges?

Would the Alliance phase out all nuclear power stations or not?

Would the Alliance provide finance for all housing stock sold?

Would the Alliance make £1.5 billion available to enable NHS ancillary pay to 'catch up'. (Not in original costings, reported in Independent 16 December 1986).

The Liberals' policy document, only published a year ago, should be retitled 'These were Liberal policies.'

- Alliance naivety on local government

The Alliance should know better than to rely on Labour local authorities to regenerate inner city areas. (P.52-3). They should study the Audit Commission report (due to be published on 29 January).

9. There are a few bizarre suggestions. Three new Ministries are proposed including two of Cabinet rank: arts, recreation, leisure etc, and environmental protection. Perhaps the suggestion for a third Ministry, of maritime affairs, has a little to do with David Owen's constituency. They suggest that pupils should sit on the governing bodies of their schools.

AGT.

A G TYRIE

Q = Qualified or changed pledge.  
 ① = Partnership for Progress, first draft, page number.  
 ② = Partnership for Progress, The time has come, page number.

## LIBERAL PUBLIC SPENDING COMMITMENTS

①	②		FULL YEAR COST £m	NOTES
60	1280	OVERSEAS AID	1460	1
<b>ENERGY</b>				
21	58	Combined heat and power systems	250	2
22	59	Alternative energy sources	45	3
	1060	Phasing out nuclear power stations	500	4
		New fossil fuel power stations	900	5
<b>TRANSPORT</b>				
53	1150	Road by-pass construction	50	6
		Revenue support	75	7
		Inland Waterways	10	8
54	1150	Capital investment on railways	35	9
<b>SOCIAL SECURITY</b>				
49	1040	Pension	2900	10
<b>ENVIRONMENT</b>				
53	1110	Council house sales discretion	50	11
		Replacement of council houses sold	1210	12
<b>EDUCATION</b>				
18	51	Open university	10	13
<b>CITIZENS RIGHTS</b>				
39	86	Legal Aid	40	14
38	850	Police location incentive	50	15
		Legal services commission	20	16
<b>STATE SUPPORT FOR POLITICAL PARTIES</b>			15	17
<b>EMPLOYMENT</b>			140	18
49	1050 410	JOBS PACKAGE	1675	19

Q = Qualified or changed pledge.  
 ① = Partnership for Progress *Part draft*  
 ② = Partnership for Progress - The time has come.

## SDP PUBLIC SPENDING COMMITMENTS

①	②		FULL YEAR COST £m	NOTES
Page	Page	INDUSTRY		
19	55	British Technology Group	50	1
19	55	New credit scheme	100	2
		Extend Loan Guarantee Scheme	30	3
		EMPLOYMENT		
14	41Q	Community Programme	1370	4
53	110	HOUSING	250	5
		LOCAL AUTHORITY CURRENT EXPENDITURE	670	6
		EDUCATION		
		Nursery	180	7
18	92 also 49.	Education Benefit Post 16	160	8
		SOCIAL SECURITY		
47	103Q	Child Benefit	480	9
		Single Parent Support	100	10
		Long Term Supplementary Benefit	530	11
		Maternity Grant	170	12
47	102Q	Basic Benefit	4200	13
49	104	Abolish Standing Charges	540	14
		<u>Agreed with the Liberals</u>		
19	54	SCIENCE	85	15
		EDUCATION		
	88Q	End assisted places scheme	-50	16
		SOCIAL SECURITY		
		Increase in FIS	200	17
		Heating allowances	100	18
47	103Q	Child benefit	200	19

FULL YEAR COST  
£m

## NOTES

## HEALTH AND PERSONAL SOCIAL SERVICES

44 97Q

Employment and Innovation Fund  
Generic substitution

100  
-25

20  
21

## EMPLOYMENT

14 41Q

Double CP  
Transform YTS

630  
400

22  
23

## TRANSPORT

Road equivalent ferry tariff

10

24

## PUBLIC SECTOR CAPITAL SPENDING

2000

25

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12480

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FROM: A G TYRIE  
DATE: 26 JANUARY 1987

CHIEF SECRETARY

cc Chancellor  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr Kalen  
Mr Pickering  
Mr Hudson

The Time Has Come

I attach a release on "The Time has Come" along the lines we discussed this afternoon, which incorporates some thoughts from Andrew Hudson.

2. Further to the point I made about not doing the Alliance's PR work for them you might be interested to know that their launch was items 7 and 8 on the 5.45 pm and 6.00 pm news respectively, coming only just ahead of the sport. Apparently, neither news item mentioned policies but concentrated on the new Alliance colour.

3. The Chancellor asked if we could say anything specific on commitments on borrowing. "The Time has Come" advocates: "A judicious increase in borrowing." Not much help. However, Roy Jenkins' pseudo Mansion House speech gave a more detailed ... commitment, of raising the PSBR to 3% of GDP. I attach the relevant extract. This would imply a PSBR in excess of £12 billion. This might be useful for first order PQs.

AGT.

A G TYRIE

22 Jan 87 .

I therefore believe that it is possible to design and implement a wholly responsible and non-inflationary fiscal programme to reduce unemployment by at least a million, financing this improvement by adding around £4 billion to the public borrowing targets currently planned, beyond the £2 billion existing scope for fiscal adjustment. Set against a national income in excess of £350 billion this means raising the PSBR from approximately 2% to 3% of the total. This will be no higher than it has been in 15 of the last 24 years. The two years when it was most strikingly lower were 1969 and 1970, so there is no question of my just reverting to old habits. But the circumstances then were equally strikingly different.

Against the background of what is possible, let us turn back briefly to Mr Lawson. He proposes to use his "scope for fiscal adjustment" in the forthcoming Budget, commonly reckoned at £2 - £3 billion, to lower the standard rate of income tax. The 2p drop he appears to be planning would according to the Treasury model generate 50,000 jobs at best. At the same time it will spur on the consumer boom, magnify the surge of imports, and as the exchange rate weakens in consequence produce more inflation. The fiscal policy we have proposed is better on every count: many more jobs, slower growth in consumer spending, slower growth in imports, buttressed by a firm exchange rate, in short less inflation. I have no attachment to taxation for its own sake. But I have an attachment to enlightened national self-interest, which can see further than the next election corner. We shall vote against a cut in income tax rates in the forthcoming Budget.

We're still waiting for the Liberals and the SDP to tell us what their real policies are.

2. First they muddied the waters with their Green Papers - not policy we were told. Then we had the first version of Partnership for Progress - not policy we were told, just a consultative document.

3. Now, at last, we have a new version, launched with the usual razamatazz. And the pledges are hedged with weasel words at every turn.

4. We still haven't been told:

- how much would they increase spending on health

- how much would they increase spending on education

- how much would they increase spending on roads.

5. The answers won't be found in Partnership for Progress. Let's have them.

6. Either they know, in which case they should tell us, or they don't know in which case they are in the same state of muddle and confusion on public spending that we have seen over their proposals for tax and benefits, and for defence.

8

[ 7. The fact is that the Liberals/SDP want to keep it vague; they want to hold out "something for everyone". Whatever your pet foible you'll find a line, albeit a pretty vague one, which touches on it. ]

[ 8. But if a Liberal supporter cares to look closely he will find a few gaps in the Liberal/SDPs' new double dentures. Behind the scenes the SDP have knocked a few teeth out.

9. Only a year ago the Liberals produced a document called "These are Liberal Policies". That had some clear pledges. They were pledged to phase out all nuclear power stations. That was pretty clear. They were pledged to stump up the cash to build a house for everyone sold under the 'right to buy' scheme. No confusion there. They were pledged to much else besides.

10. But that document will now have to be renamed "These were Liberal Policies". Because all those pledges have been sacrificed: the price of partnership. ]

FROM: A ROSS GOOBEY  
 DATE: 26 JANUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Mr Cropper  
 Mr Tyrie

*Thanks.  
USP/ v.*

**THE TIME HAS COME**

I have read the document, which reads like an uncosted ragbag despite the following quote:

"At a time when rigorous detailed examination of every itemized policy is fashionable in politics, together with its 'costing', it is as well to remind ourselves that a ragbag of listed policies is not in itself likely to be attractive to the electorate." [Steel P11]

2 Commitments which involve extra spending

- (i) Industrial Credit Scheme - interest subsidised [P59]
- (ii) Reduced NICs [P44]
- (iii) SFICs [P47]
- (iv) "Crash Programme to overcome skill shortages"/targeted bursaries leading to young student grant [P49]
- (v) "Major expansion of part-time and continuing education" [P50]
- (vi) Devolution to regional Development agencies [P52]
- (vii) "Support black and ethnic minority business and training initiation in inner city areas" [P53]
- (viii) "Relaxation of controls on local spending" [P53]
- (ix) "Freed from the restrictions on spending the proceeds of their own asset sales" [P55]

- (x) "Ministry of Justice" [P86]
- (xi) "Extend legal aid to tribunals" [P86]
- (xii) "Legal Services Council and regional legal services committees, ... establish a family court system" [P86]
- (xiii) "Increase the size and power of HMI" [P89]
- (xiv) Education - "More resources will be needed" [P89]
- (xv) "Adequately fund education for children who require special arrangements" [P91]
- (xvi) "At least maintain in real terms the government grant to the Sports Council" [P95]
- (xvii) NHS - "will require additional resources" [P96]
- (xviii) "Ensure no shortage of funds for research (AIDS)" [P97]
- (xix) "Greater support for courses" [P98]
- (xx) "Partnership housing" [P110]
- (xxi) "Increased investment in housing by local authorities, ... housing associations" [P112]
- (xxii) "Higher borrowing approval (councils)" [P113]
- (xxiii) "Local authorities should subsidise bus and rail routes" [P115]
- (xxiv) "Subsidies to individuals - free or cheap bus and rail passes for the unwaged" [P115]
- (xxv) "The Alliance's plans ... would allow for road improvements" [P115]

(xxvi) "Over a five year period, we would aim to increase Britain's aid to 0.7% of GNP" [P128]

A124

A ROSS GOOBEY

FROM: R D KERLEY  
DATE: 28 JANUARY 1987

1. MISS O'MARA *mom* ✓  
2. MR ALLAN *12/2 28/1* ✓ cc HF/01

**MR HATTERSLEY ON MANUFACTURING-ECONOMIC DEBATE 20 JANUARY**

You asked if EB could scrutinize the statements made by Mr Hattersley on manufacturing industry in the last Economic Debate (OR vol 108 no 34 cols 769-770).

2. Mr Hattersley made the following points:

- (a) that manufacturing trade has moved from a £4.5 billion surplus in 1981 to a Government estimated deficit of £7.5 billion this year
- (b) motor imports increased by 15.5 per cent between 1985Q3 and 1986Q3 and other consumer goods imports rose by 19.5 per cent
- (c) the UK's share of world trade has fallen since 1979 and the UK's share of world manufacturing trade has fallen by over 24 per cent
- (d) manufacturing output is still 4 per cent less than in 1979 and only Fiji, Argentina, Senegal and Barbados have worse manufacturing output records since 1979
- (e) manufacturing investment is 18 per cent less than in 1979.

3. These points all appear to be broadly correct. Whilst we could not vouch for the fact that the four countries named in (d) are the only ones to have worse output records since 1979, it is certainly true to say that UK manufacturing output has shown the biggest fall of any major country. The figure of 24 per cent in (c) also cannot be checked readily, but EA2 assure us that it is in the right order of magnitude.



4. Our defensive lines to all these points are included in the Treasury Weekly Brief (TWB), section B 3.7 for manufacturing in general, and section J 1.5 for manufacturing trade, copies of which I attach. We try to ensure that statements by the Opposition are covered in the relevant sections of the TWB, and you will note that reference was made in section B 3.7 to the remarks by Mr Hattersley.

*R. D. Kerley*

R D KERLEY

cent a year for over 5 years. Between 1979 and 1985 second only to Japan in growth league of major countries.

### 3.7 Manufacturing performance worse on many counts since 1979

[Roy Hattersley MP, 20 January, OR vol 108 no 34 cols 769-770; speech to International Equity Dealers' Association, 15 January.]

- a. Fall in output since 1979 peak not unique - shared by France and Italy since 1979 and 1980 peaks respectively. Output also declined under Labour Government. Output has recovered in recent years - 13½ per cent above 1981 trough and 10 per cent since 1983 election. Productivity up 30 per cent since 1979.
- b. Fall in investment since 1979. Fell sharply during recession but since low point in 1983 has risen by 30 per cent in real terms.
- c. Net manufacturing investment negative in every year since 1981. Enormous difficulties in measurement of depreciation. Gross investment more reliable indicator of investment trends. See (b) above.
- d. Since 1981, UK manufacturing's export volumes have grown on average at least as fast as those of our major competitors after years of relative decline. No previous five year period in recent history in which UK manufacturing exporters have been so successful. (On manufacturing trade see Section J).
- e. Manufacturing profitability highest since 1973.

### 3.8 CBI Monthly Trends Enquiry - December 1986

[Monthly Enquiry, published 15 December, indicated almost unchanged order books balance and improved export order books balance from previous month. Some further deterioration in price prospects. Quarterly Industrial Trends Survey to be published 27 January.]

Enquiry results confirm pick-up in output and especially export growth. CBI forecast manufacturing output growth of over 3 per cent in 1987 and manufacturing investment growth of over 3½ per cent.

### 3.9 Role of manufacturing and services in economy

Important that manufacturing thrives and is profitable. But UK needs, at least as much, strong service sector which now contributes more than twice as much to output, and nearly three times as much to employment.

### 3.10 SDP/Liberal 'Partnership for Progress'

[Published 24 July. Claims Britain dropped to 17th place in national income per head league. Manufactured goods trade balance in deficit and manufacturing output less than 10 years ago. Argues output would be 7 per cent (£25 billion) higher if unemployment reduced to 1979 levels.]

Latest figures show (percentage changes):

		November 1986 on October 1986	3 mths to Nov on previous 3 mths	3 mths to Nov 1986 on 3 mths to Nov 1985
(i)	Exports: Total volume	+5	+5	+8½
	Total vol excluding oil and erratics	+5½	+5½	+8
(ii)	Imports: Total volume	+4½	+4½	+13
	Total vol excluding oil and erratics	+10	+4	+9½

### 1.5 Manufactures trade

[£2½ billion surplus in 1982; deficits of £2½ billion in 1983, nearly £4 billion in 1984 and £3 billion in 1985.]

Improvement of £0.8 billion between first two quarters of 1986 and subsequent deterioration reflect erratic nature of figures. Since 1981, UK manufacturing's export volumes have grown on average at least as fast as those of our major competitors, after years of decline.

### 1.6 Manufacturing Trade now in deficit of over £4 billion compared with surplus of £4 billion under Labour

[Claim made by Roy Hattersley MP on LBC, 8 January.]

Misleading to look at just one component of many which make up balance of payments. More important is overall current account, which showed cumulative deficit of around £5 billion between 1974 and 1979, but cumulative surplus of £21 billion from 1979 onwards.

### 1.7 Economy to slump into trade deficit of £7½ billion in 1987

[Claim made by Roy Hattersley, MP OR vol 108 no 34 col 673.]

True that Autumn Statement contained forecast for manufacturing trade deficit of £7½ billion. But current account overall forecast to be in deficit by only £1½ billion - less than ½ per cent of nominal GDP, compared with deficits in 1970s of 3 to 4 per cent of GDP.

### 1.8 Huge deficit on high technology goods

[Claim made by Tony Blair MP, 'Guardian', 9 January.]

True that deficit has widened, but export performance shown substantial improvement. Under last Labour Government, growth of exports of high technology electrical goods averaged around 2½ per cent. Since 1979, growth has averaged 7 per cent a year.

### 1.9 UK share of world trade in manufactures now lower than Italy's

[Claim made by Tony Blair MP, 'Guardian', 9 January.]

Prayer

CONFIDENTIAL

FROM: A G TYRIE  
DATE: 30 JANUARY 1987

CHANCELLOR

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Financial  
Secretary  
PS/Minister of State  
Mr Crcpper  
Mr Ross Goobey~~As Budget~~ ✓

## LABOUR RECASTINGS

I think there are two reasons for not issuing a new grand total in the PEWP debate.

2. First, I don't think we should change the total too often. Under our original plan we would be issuing a new total in February and again in the early summer. We had intended to integrate the £9 billion of "Labour conference pledges" with the £28 billion figure and issue a new grand total in the PEWP debate. A few months later we would then uprate the costings for 1987-88 prices and adjust them to take account of our own public spending increases.

3. Secondly, I have been told that the DHSS may not get the number crunching done in time for the PEWP debate. On both the costings exercises I have done the DHSS have missed the deadline and held us up, so I am not too optimistic.

4. I suggest that we plan for a new grand total uprated for 1987-88 prices, and incorporating our own increases and spending, in April.

5. However, Mr Turnbull would prefer that the work for this is done in April when spending divisions are reasonably free. Judging by past delays this would point to a later launch date, in late May or early June. Therefore, I suggest that we get the work under way now.

6. Could we discuss this at Prayers?

M. May

PP A G TYRIE

FROM: A G TYRIE  
DATE: 30 JANUARY 1987

PS/CHIEF SECRETARY

cc PS/Chancellor  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Hudson  
Mr Cropper  
Mr Ross Goobey

*(initials)*  
✓  
THE TIME HAS COME

PSBR and Privatisation

1. Your minute of 29 January asked me to work out the effect on the Alliance PSBR of stopping privatisation. Your interest in this may stem from Mr Ross Goobey's remark in Prayers that the Alliance would end all privatisation but would not reverse the programme.
2. This is not correct. The Alliance are not explicitly committed to ending the privatisation programme nor, as far as I know, have they ever made this commitment. "The Time Has Come" says: "We oppose renationalisation on purely ideological grounds...in the case of public monopolies where no competition could be introduced, such as the water authorities, we would not privatise." (page 56). Clearly privatisation revenues would be significantly less than ours but would not necessarily dry up altogether.
3. We could try and smoke the Alliance out by assuming in public statements that they would cancel the privatisation programme. This would leave them with a shortfall of £5 billion. The shortfall would roughly match an increase in the PSBR recommended by Roy Jenkins in the LBS speech on 22 January where he advocated raising the PSBR to 3% of GDP, about £12 billion.
4. The Alliance would then be vulnerable to the charge of double-counting. On several occasions they have said that higher Government capital spending would come from borrowing. For

example, "The Time Has Come" says: "Public investment would be financed by public borrowing." (page 42). The Alliance's 1985 alternative Budget called for a "£5 billion budgetary boost."

PEWP Debate

5. You also asked me to bear in mind that the Chief Secretary will want a passage on Alliance spending plans in the PEWP debate. I shall be submitting a note on opposition bashing material for this occasion after the weekend.

*AGT*

A G TYRIE

FROM: A G TYRIE  
DATE: 30 JANUARY 1987

CHANCELLOR

*Handwritten red ink:*  
A large checkmark and the name "Tyrie" written in a cursive style.

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Financial  
Secretary  
PS/Minister of  
State  
Mr Cropper  
Mr Ross Goobey

**'THE TIME HAS COME': BRIEF**

I attach a brief on the economic aspects of 'The Time Has Come' as you requested.

2. In contrast to Labour (and particularly Hattersley) there are few clear lines of attack on this document. It says little that we have not heard before; perhaps that is why it is getting the coverage it deserves.

*M. May*

A G TYRIE

*pp*

## THE TIME HAS COME: ECONOMIC ASPECTS

### Summary

"The danger for any new Party....is that it becomes all things to all men". Shirley Williams (Observer, 29 March 1981).

1. In 'The Time Has Come' the Alliance Parties try to provide something for everyone. It is particularly ironic that David Steel in his foreword to the document should have written: "A rag bag of listed policies is not in itself likely to be attractive to the electorate." (page 11).
2. Most pledges made in previous SDP or Liberal documents have been calculatedly fudged. This is true for their spending, borrowing and taxation proposals.
3. Spending. The Liberals/SDP spending pledges are not backed by numbers in hardly any cases.
4. Several important Liberal pledges, such as the abandonment of nuclear energy generation and the Liberal jobs package have been all but removed in negotiations with the SDP.
5. Taxation. The Liberals/SDP have now joined the Labour Party in favouring a substantially higher burden of personal and general taxation. Their tax and benefit proposals would be highly complex and bad for incentives.
6. The Party of bureaucracy. The Liberals/SDP have fallen



back on bureaucratic solutions. They propose four new Ministries:  
a Ministry of Justice, a Ministry for Maritime Affairs, a  
Ministry for Recreation, Leisure and Environmental Protection,  
and a Ministry for the Arts.

## Background

7. 'The Time Has Come' is the revised text of a consultative paper, Partnership for Progress, published at the end of July 1986. This in turn had followed two earlier policy documents, "These are Liberal policies", published in January 1986, and "The Only Way to a Fairer Britain", published by the SDP in September 1985.

## Public Expenditure

8. 'The Time Has Come' contains over 30 "pledges", but almost all of them have been hedged with qualifications to ensure that they fall short of a commitment. Former pledges have become mere "aims" (page 41) or have been prefaced with phrases such as "a long term goal" (page 104).

9. The Time Has Come: An End to Liberal Pledges It appears that the Liberals were much keener on the first draft of Partnership for Progress than the SDP. David Owen was unavailable for the launch on 24 July 1986. However The Time Has Come has omitted several key policy planks of "These are Liberal Policies". For example:

1. Nuclear power. A year ago the Liberals were quite unambiguous: "We would phase out all nuclear power stations." (page 17, These are Liberal policies.) By contrast, 'The Time Has Come' suggests merely "a thorough and independent review of the economics of power

generation." (page 106).

2. The Liberal Jobs Package. In 'These Are Liberal Policies' the Liberal Party set out a £4 billion "job creation package" in great depth consisting largely of capital spending. Most of this detail is missing from The Time Has Come. The document does refer to a general shopping list: "In the public sector we will invest in housing rehabilitation, energy conservation, repair and renewal of the water and sewerage system, electrification of the railways and better public transport." But all the numbers have been removed.

10. The Liberals/SDP still want budgetary expansion but they appear to have repudiated the amounts by which they would try and expand the economy which they published last year. Their 1986 Budget proposals called for an extra £5.5 billion of public spending (Jobs and Competitiveness, Budget priorities for 1986). Even the ceiling of £10 billion over five years, suggested in a letter from Ian Wrigglesworth and David Penhaligon (then Economic Spokesman for the SDP/Liberals) and sent to Liberal and SDP MPs, has vanished. (Reported in The Times 30 April 1986.)

#### The Time Has Come: erosion of firm pledges

11. Erosion of firm pledges include:

- (i) Health spending. The SDP's pledge in September 1985 was clear enough. They said: "The SDP is committed to 1.5% per annum real growth in health and personal

social services spending." (page 4.1). Partnership for Progress removed the numbers but kept a commitment to a "realistic growth in NHS spending in real terms." (page 14). In "The Time Has Come" the nearest the Alliance come to a commitment is to say that their "economic and industrial policies are designed to make an increase in expenditure in real terms possible." (page 96). Subsequent suggestions for increased spending are phrased with a deliberate lack of clarity: "Improved services could include" (page 97) and "services might include" (page 99).

(ii) Community Programme. The SDP's firm commitment to a "further expansion of the Community Programme to provide a job guarantee to all those unemployed for over a year" (page 1.2) has been rephrased as a mere aim in The Time Has Come (page 41). Shirley Williams, President of the SDP, has made it clear in a local party handout that the Community Programme pledge is more than a "mere aim". In that she promised to: "guarantee a job on the Community Programme to anyone unemployed for over a year - putting the £21 billion this Government loses every year, in unemployment benefit and lost taxes, to work." (distributed in Cambridge, April 1986).

(iii) Housing. The Liberal pledge in January 1986 to give "local authorities the right to decide whether or not to sell Council dwellings and to the terms of sale" and for the "Government to make financial

provision to replace any housing stock sold" has been steadily weakened. In *The Time Has Come* the only mention of this pledge is: "Local authorities also need some discretion to enable them to ensure that rented accommodation remains available...Parliament should set such limits on that discretion as are necessary..." (page 111).

### Increased public borrowing

12. *The Time Has Come* refers merely to "a judicious increase in borrowing" (page 40). Earlier documents were more specific. For example the Alliance 1986 Budget proposal said that £3.5 billion will be raised through extra borrowing. Despite the impending publication of *The Time Has Come* Roy Jenkins, the new Economic Spokesman for the Alliance, clarified in a speech to the London Business School that borrowing would be increased to 3% of GDP, implying a PSBR of over £12 billion, an increase of over £5 billion.

### Taxation

13. The Liberals/SDP are committed to increasing taxation. The Liberals and SDP voted against the 1% reduction in a standard rate of income tax announced in the last Budget (Hansard, 24 March 1985<sup>6</sup>, col.724). Dr Owen told the House of Commons in November 1985 it was time to tell the people: "Your responsibility is to forego (those) tax cuts". (Hansard, 13 November 1985, col.596.)

14. Partnership for Progress also made it clear that "we would not exclude the possibility of increasing taxes to improve benefits." (page 47).

15. David Owen's opposition to tax cuts is reinforced by David Steel's antagonism to those among the electorate who favour tax cuts. In his foreword to "The Time Has Come" he says: "What sort of society is it which treats the electorate as donkeys to have tax cuts carrots held in front of them to catch their votes?" (page 9).

16. On National Insurance contributions the Alliance have deliberately obfuscated earlier pledges. Whereas the SDP's earlier policy document committed them to "a reduction in all employers' National Insurance contributions" "The Time Has Come" is more vague. It said: "Cuts in employers' NICs, if carefully targetted, can, by reducing unit costs, encourage new jobs by cutting their costs. We will encourage fiscal measures which will encourage firms to recruit....(page 41).

#### Tax/benefit reform

17. "The Time Has Come" has removed figures for the levels of benefits and taxation in an effort to sidestep the criticism levelled at the launch of these proposals by Mr Dick Taverne last year. The main proposals are:-

- the new basic benefit to replace income support, the family credit and free school meals. In practice it

would be a general income related benefit for people on low incomes, whether in or out of work

- employees' National Insurance contributions would be integrated with income tax, though not for pensioners
- the integrated system would be the foundation for a full tax credit scheme.

"The Time Has Come" also makes a number of other suggestions:

- child benefit would no longer be deducted from supplementary benefit/basic benefit;
- there would be a new carer's benefit;
- housing benefit would be made more generous;
- child benefit would be significantly increased in real terms;
- the married man's allowance would be phased out, with full protection for pensioners;
- benefits for the disabled would be improved;
- capital taxation would be reformed to make it "fair and effective in redistribution wealth";
- there would be an "exemption of savings tax", on the expenditure tax principle.

18. The document also suggests a substantial increase in basic pensions, the removal of standing charges for gas, electricity and telephones for pensioners, and giving everyone the right to retire to the age between 60 and 70, with pension levels varying accordingly.

19. Perhaps fearful of what happened to the publication of

their tax and benefit scheme paper the Alliance Parties have provided no figures in this section. It is therefore impossible to estimate who would be the winners and losers but Mr Dick Taverne has already spilt the beans. He said: "You can't make an omelette without breaking eggs." (source to be added).

20. Most obvious of all these proposals would not achieve the SDP/Liberals' own stated objective of obtaining greater simplification, nor would they be good for incentives.



PWP

3117/25

CONFIDENTIAL

FROM: A G TYRIE

DATE: 4 FEBRUARY 1987

CHIEF SECRETARY

cc PS/Chancellor ✓  
Mr Cropper  
Mr Ross Goobey

I attach a draft letter for you to send to colleagues on the need for consistency in costing Labour pledges. I have written it in a way which would minimize the damage if it were to find its way to the other side.

*The word still*  
*for v. James*  
*A. Hakew.*  
*lighter class of cars*  
*called for.*

M. May

A G TYRIE

Mr Tyrie

See C's comment  
we think C must  
mean "tighter" - but  
maybe you should  
check when you see  
him next.

CR

CONFIDENTIAL

## LABOUR COSTINGS

On two occasions recently colleagues have attached numbers to Labour pledges which differ from those in the £28 billion table. Of course, slightly different interpretations of several of the pledges can alter the costing; where this is the case I have been careful to err on the cautious side.

2. [Over the coming months you will appreciate the importance of avoiding embarrassing discrepancies in our costings.] I would be very grateful if from now on colleagues, through their Special Advisers, could clear any costing of Labour's pledges they intend to use with my Special Adviser, Andrew Tyrie. Perhaps colleagues could also notify their Ministerial teams of this request.

J MACGREGOR



INLAND REVENUE  
STATISTICS DIVISION  
SOMERSET HOUSE

FROM IAN STEWART (no relation)  
DATE 6 FEBRUARY 1987

1. MR EASON  
2. FINANCIAL SECRETARY

MORTGAGE INTEREST TAX RELIEF: LABOUR PARTY PROPOSALS

Background

1. On 4 February, the Labour party issued a number of policy briefs for use by their candidates in the local government elections in May. It has been reported in the Press that one of these policy briefs stated that the Labour party would limit mortgage interest tax relief to those paying the basic rate of tax. However, this was later clarified to state that the Labour party propose to limit mortgage interest relief to basic rate relief only.

2. Several newspapers have reported the Labour party's proposals and have given estimates of the number of people affected and the average amount of relief lost. We have not, as yet, been able to see a copy of the Labour party document to find out if the estimates given in the Press were provided by the Labour party or whether the estimates were derived by the Press from other sources. Copies of the press reports on this subject are attached for reference.

cc Miss Sinclair  
Mr Haigh  
Mr Cropper

cc. Ms/CX  
Ms. Culpin  
Mr. Tyrie

Mr Beighton  
Mr Calder  
Mr Pitts  
Mr Eason  
Mr Mace  
Mr O'Connor  
Mr I Stewart  
Ms Tyrrell  
Mr Dodds  
PS/IR

3. This note provides our latest estimates of the cost of excess over basic rate relief for mortgage interest. The Observer newspaper is preparing an article and asked for our estimate of this cost, broken down by marginal tax rate: the figures for 1986-87 which are given in paragraph 4 below have been provided to them. This note also discusses the estimates reported in the Press of the effect of the Labour party's proposals.

Revenue estimates

4. Our latest estimates indicate that, in 1986-87, the cost of mortgage interest relief at rates in excess of basic rate was about £270 million and that some 800 thousand taxpayers benefited from this relief. (This estimate assumes no behavioural changes as a result of the withdrawal of the relief.) The estimates have been analysed further to show how the relief at excess over basic rate in 1986-87 is distributed with respect to the marginal tax rate of those benefiting from the relief. The results are shown in the table below:

Marginal tax rate on existing tax regime	Number of taxpayers benefiting from relief at excess over basic rate (thousands)	Average value of relief at excess over basic rate (£)
29%	200	160
40%	230	210
45%	170	340
50%	90	500
55%	50	650
60%	60	800
-----	-----	-----
Total	800	340

5. Our analysis indicates that:

- a) about 200 thousand mortgagors who pay only basic rate tax would lose as a result of the withdrawal of excess over basic rate relief since these mortgagors would be brought into higher rates of tax; (eg me!) AWK
- b) the average loss for these 200 thousand cases would be around £160;
- c) the average loss increases, as one would expect, with increasing marginal rates of tax and mortgagors currently on the top rate of tax would lose £800 on average.

Estimates of Labour party proposals reported in the Press

6. Most of the Press reports suggest that mortgagors earning over £20,000 a year would lose from the Labour party proposals. The Evening Standard report suggests that 940 thousand taxpayers would be affected and the Daily Mail report gives a figure of around 950 thousand losers. Several newspapers state that taxpayers with income between £20,000 and £25,000 could lose £140 a year on average, taxpayers with income between £25,000 and £30,000 would lose £390 on average and those with incomes in excess of £30,000 could lose an average of £720 a year.

7. The figures quoted for the effects of the proposal appear to have been derived from the answer given in Hansard on 30 January (copy attached) to a question from Mr Chris Smith. This answer gave estimates of mortgage interest relief in 1985-86 broken down by level of income and was a follow-up to the estimates for 1986-87 which were given to Mr Smith in December 1986.

8. The estimates derived from the 30 January reply to Mr Chris Smith are misleading in two respects.

- a) The figures relate to 1985-86 rather than 1986-87: as indicated in the reply to Mr Smith, interest rates in 1985-86 were higher than in 1986-87 and the 1985-86 data will tend to over-state the average loss which would result from the withdrawal of excess over basic rate relief.
- b) More importantly, the estimates include a number of mortgagors with income over £20,000 who would not be affected by the Labour party's proposals. For example, as the basic rate threshold for a married couple with a working wife earning over £2205 is £21860 in 1985-86, there will be a number of couples earning over £20,000 in 1985-86 who would not be receiving mortgage interest relief at higher rates. This error explains why the Press reports have over-stated the number of mortgagors who would lose as a result of the removal of excess over basic rate relief. Also, due to the way in which the average loss has been calculated for mortgagors with income in the range £20,000 to £25,000, the Press reports will have under-stated the average loss for each loser in this income range in 1985-86 terms.

9. Our main comments on the figures in the Press reports are:

- a) The Press have overstated the number of losers.
- b) The average loss for mortgagors with income over £25,000 has been overstated due to the use of 1985-86 interest rates;
- c) The average loss for mortgagors with income under £25,000 is ~~distorted~~ as a result of the use of 1985-86 interest rates and the way in which unaffected mortgagors have been included in the average loss.

*underrated*

Ian Stewart

IAN STEWART

# 6... Last-minute errata for Labour programme

LABOUR yesterday launched its programme for the local government elections three months ahead of polling day on 7 May, to demonstrate that the new head office machine is in prime condition for the coming campaign.

But two errors in drafting the policy briefs being sent out to all Labour's local candidates and activists, which would have caused huge embarrassment had they gone unnoticed, required last minute changes to be made to the outline "manifesto".

The mistakes were made by the research department at Labour's Walworth Road headquarters, where staff had been asked to condense the party's already published policy into

fourteen briefing papers on target topics for candidates.

One error was spotted before the documents went out for printing. The original draft encouraged Labour's candidates to promote the party's policy of "democratic supervision" over police forces, a phrase which aroused horror among the party's law and order spokesmen. Last year's "Protecting Our People" document spoke more cautiously of police forces being made more "democratically accountable," because police chief officers would retain operational control under Labour, and the briefing papers were accordingly altered.

The second error was not spotted until the

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By Colin Hughes  
Political Correspondent

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printed papers arrived on the desks of the party's publicity officials. It said that Labour would limit mortgage tax relief "to those" paying the standard rate of tax. That formula is subtly but devastatingly different: from the party's actual and long-standing policy, which is to limit mortgage tax relief "to" the standard rate of tax.

This time a correction note had to be slipped into the campaign pack, because the policy as printed would deprive homeowning couples earning more than £19,000 a year of all their re-

lief, while the party's true policy limits the amount of relief which higher earning homeowners would receive, as does Alliance policy.

The papers summarize Labour policy on job creation and economic development, housing, transport, law and order, leisure, education, pre-school children, social services, planning, the environment, rural areas, health, and local government finance.

Jack Cunningham, Labour's environment spokesman, said the campaign material showed the party was better prepared than ever before.

"We believe we will make significant further gains on May 7. If, as seems possible, Mrs Thatcher decides to hold the general election

on the same day, this campaign package shows we shall be ready for that too."

Labour was in its strongest position on local councils in history, he said, controlling 162 authorities and with more than 9,000 councillors holding seats. He expected greater gains in May, but declined to specify which councils Labour will target for the local elections.

More than 20 million people will be able to vote in May — nearly everyone outside London and Scotland, where there are no council seats up for election this year. The elections will cover 476 of the 650 parliamentary seats, making it the best test of voting likely to come before the general election.

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# Labour's clanger over home loans

11  
2

By PAUL WILENIUS  
Home Affairs Correspondent

THE Labour Party hit the election campaign trail yesterday—red-faced with embarrassment.

A series of foul-ups tarnished the party's slick new image as it launched its major bid for power.

The party's election material also revealed a move to snatch hundreds of pounds of mortgage tax relief from up to a million home owners.

This threat to the income of high-earning families emerged as Labour tried to put on a polished show in preparation for the May local council elections and a General Election.

Labour officials were forced to admit they had made a mistake over mortgage tax relief. This, on top of an error in the draft election documents allegedly giving Left-

'About-turn on police and mortgage relief in run up to election'



Kinnock: Reform

wing councils control over the police.

On mortgages, the Labour election material told candidates that tax relief for high earners would be axed.

But Labour really plans to cut, not abolish, relief for the top earners. Embarrassed officials were forced hastily to correct the election material yesterday.

A Labour government aims to cut the relief to only the standard rate of income tax. This would hit those families with an income over £20,000 a year.

Those earning up to £25,000 could

lose up to £140 a year, while families earning over £30,000 could lose almost £400, and those with incomes over £30,000 may lose as much as £720 a year.

Labour leader Neil Kinnock has said he wants to reform the system of mortgage tax relief. But for political reasons he has stopped short of a pledge to scrap it.

The glossy election material unveiled yesterday had to be reprinted earlier because of a mistake involving local council control of the police.

An early draft of the Labour document said local councils would

have the "power to supervise the police force."

This would have sparked off angry accusations that Left-wing councils would control the police. Party chiefs now say police "will become democratically accountable to elected local representatives."

Dr John Cunningham, Shadow Environment Secretary, launched the campaign, aimed at the May local elections.

He said Labour hopes to make big gains when 11,949 council seats will be up for grabs.

### Penalties

But the party has been attacked for its policy, which it is claimed would unshackle big-spending councils. Rates will go up, spending will go up and controls on Left-wing councils will be scrapped, environment Secretary Nicholas Ridley said.

Labour's document says rate-capping laws and financial penalties on high-spenders will be abolished.

Opinion: Page 8

# Labour's tax snatch on 1m home buyers

By CHRIS POTTER

NEARLY one million home buyers will be hundreds of pounds worse off if Labour win the next General Election.

Mortgage tax relief would be limited to the STANDARD rate of income tax—hitting couples earning more than £20,000 between them.

The home loan-shocker was revealed in the party "manifesto" for local council elections on May 7.

And it would come on TOP of income tax increases already threatened by Shadow Chancellor Roy Hattersley and likely to affect couples with joint earnings of more than £18,000.

The mortgage shake-up, affecting one in eight of the country's 7.5m home-buyers, would work like this:

Couples earning up to £25,000 would pay an extra £140 a year in tax.

Those on up to £30,000 will lose £390.

And couples on £30,000-plus will fork out another £720.

Labour moderates fear the cash-snatch will be another election-loser for the party.



Hattersley... threat

But it could have been even worse. The original manifesto proposal unveiled yesterday said anyone on above average earnings would get NO mortgage tax relief.

## Rush

Embarrassed party officials had to rush out an immediate correction.

Last night Tory chairman Norman Tebbit poured scorn on the bungle, saying:

"The blundering incompetence of Labour's public relations managers must be an enormous embarrassment to Mr Kinnock."

Mr Tebbit branded the new-look Labour party as "extremist, partisan and incompetent."

The Sun Says—Page 6

Daily Mail

# Labour mortgage relief blunder

By JOHN DEANS

LABOUR leaders were fuming last night after a printing blunder led to reports that Neil Kinnock plans to axe mortgage tax relief for almost a million families.

According to a party policy document, published yesterday, a Labour Government would limit mortgage relief to taxpayers on the standard rate.

In fact, Labour policy remains the same — to maintain

mortgage relief at the standard rate for all taxpayers.

The erroneous sentence in the briefing paper read: 'Mortgage tax relief will be limited to those paying the standard rate of tax.'

## Correction

Such a commitment would have led to about 950,000 higher-rate taxpayers losing their relief under a Kinnock Government.

Embarrassed party chiefs dismissed the affair as a printing error which should have been spotted by the policy department.

The words 'those paying' should have been left out.

A correction slip was added to all 15,000 copies.

Jeff Rooker, the Party's housing spokesman and MP for Perry Barr, said: 'This document was badly drafted. But let me make it clear that under Labour, every taxpayer will be entitled to mortgage relief — even higher earners — but at the standard rate. For 90 per cent of home owners this will mean no change.'

Tory Party chairman Norman Tebbit pilloried Labour last night for its 'blundering incompetence.'

'Labour's blunders, like the Alliance blunders of last week, have revealed the true nature of their parties,' he said. 'The Alliance — split, disorganised and incompetent; the Labour Party — extremist, partisan and incompetent.'

STANDARD

# Labour plan tax relief cut on one million mortgages

# THREAT TO HOME BUYERS

**A MILLION families could have their mortgage tax relief cut by a Labour government.**

Mortgage relief will be limited to the levels paid at the standard rate of income tax, according to campaign material for candidates published by the party today.

According to the latest Government figures, 940,000 taxpayers are receiving mortgage relief at above the ceiling set by the Labour document.

A couple needs to be earning around £20,000 a year between

by John Williams

them, depending on their allowances, to go on to the higher rate of tax.

With men's average earnings at around £10,000 and women's at £7000, couples do not need to be far above average incomes to hit the Labour limits.

Anyone earning up to £25,000 could lose £140 a year of their mortgage relief, couples earning up to £30,000 would lose £390 and couples earning over £30,000 a year could lose £720 a year.

The average value of mort-

gage tax relief paid to couples earning between £15,000 and £20,000 in 1986 was £580 a year.

About one taxpayer in eight receives mortgage relief above the level paid at standard rate of tax. There are 7,500,000 people in Britain with mortgages.

Labour leader Neil Kinnock has previously spoken in favour of reforming mortgage relief, while pledging not to scrap it.

And the Labour executive has for some time been in favour of limiting relief to the equivalent of standard rate of tax.

Embarrassed Labour leaders were today forced to make a hasty alteration to the

campaign material because of potentially damaging material.

Briefings for candidates on the mortgage tax relief plans warned that anyone paying higher tax rates would lose relief altogether.

## Manifesto

When this controversial pledge was pointed out by the Evening Standard, party leaders went into an embarrassed huddle.

They then declared the policy statement was a mistake and ordered a hasty redraft to make it clear that the amount of relief will be limited to that allowed home owners paying standard rate of tax.

They were not proposing to ban all tax relief for higher earners.

Front-benchers were Continued on Page 2 Col 6 Continued from Page 1

fuming when they learned there had been a blunder on such a sensitive issue.

It was the second major mistake discovered in Labour's glossy campaign packs for the May 7 council elections, unveiled today.

The section on the police had already been scrapped and re-written.

The mistakes raise worrying questions for Labour about its competence and professionalism with a general election approaching.

It made a farce of the carefully planned launch of the local election campaign.

Today's embarrassment is a severe setback for Mr Kinnock's campaign to turn the party's often-derided headquarters into a highly-professional machine capable of matching the Tories at the General Election.

● The boom in house prices shows no sign of slowing down, according to the latest monthly survey from Britain's biggest building society, the Halifax. House price inflation in London is now at 24 per cent over the year to the end of January and 23.4 per cent in the South-east.

THE GUARDIAN

## Tax justice or self-interest 12

During the past week both Labour and the Alliance have reaffirmed their intentions to limit mortgage interest relief to the standard rate of tax. No one seemed to notice it in the Alliance document, "Partnership for Progress": but a mention in Labour's campaign documents for the May 7 local elections released yesterday is already generating controversy. Couples earning around £30,000 could lose, it is claimed, £390 a year and those earning over £30,000 some £720 a year on average. The Conservatives are planning to maintain mortgage tax privileges and even extend the qualifying ceiling from £30,000 to £35,000.

Throw in cuts in income tax and yet more privatisation profits and the Conservatives can claim a monopoly of the self-interest vote. The other parties are spending the same resources — and much more — in other ways, like helping the poor, more public spending and aid to industry. But, more than at any time in recent memory, voting other than Tory will hurt the pockets of better-off taxpayers with mortgages quite a lot.

The odd thing is that so far the Government hasn't gained nearly as much as cynics might have thought from its pitch for the owner-occupier vote. The latest Mori poll shows that 55 per cent of Labour supporters are owner-occupiers now compared with 43 per cent at the time of the last election. Only 37 per cent now pay council rents. This suggests that privatisation of council property has not been quite the vote winner that Mrs Thatcher had hoped. Newly enfranchised owner-occupiers who voted Labour have taken the capital gains and stayed remarkably loyal to their old party. Labour is still deeply rooted in the (diminishing) rented sector (59 per cent of the votes against 22 per cent Tory and 16 per cent Alliance) but its evolution as a party which has to interpret the political aspirations of owner-occupiers is something it has yet to come to terms with.

It certainly makes it difficult for Labour to do what you would have thought a socialist party ought to do — redress the balance between owners and renters. The cost of mortgage interest relief has gone up by over 400 per cent to £4.5 billion a year under Mrs Thatcher while subsidies for people renting from local authorities have

all but been removed. And this is only part of the subsidies accruing to owner-occupiers who do not have to pay capital gains tax or the tax on the notional rent of their properties found in Europe.

The encouragement of house ownership is a noble ideal, of course. But surely, surely, the subsidies available should at least be spread fairly among rich and poor as well as between poor people who rent and richer people who own. As it is now, mortgage interest relief is worth disproportionately more the richer you are. According to a written answer in the Commons last week the 11.75 per cent of people earning over £20,000 a year account for just over 20 per cent (£910 million) of the total cost of mortgage relief.

Labour's reluctance to do no more than limit relief to the standard rate of tax (which would yield an extra £320 million in income) is a victory for political reality over social justice. If Labour greatly reduced relief in favour of restoring comparable subsidies to council tenants they would risk losing floating voters while pleasing those whose votes are already secure. The Alliance actually stands to lose more votes by limiting relief to the standard rate because it contains a much higher proportion of better-off people paying higher rates of tax. For a subsidy which was never intended in the first place (it came about through an Inland Revenue attempt to equalise tax treatment many years ago) mortgage interest relief has assumed a life of its own. Perhaps we should be thankful that at last two political parties are trying to crop its excesses.

TODAY

## We're ready, say Labour 2

by DAVID UTTING

LABOUR is well-prepared for a spring election, party chiefs said yesterday.

They were revealing their strategy to fight elections in 205 English and Welsh council districts in May.

But the officials said they were keeping something up their sleeves in case Mrs Thatcher decided to hold a General Election on the same day.

Environment spokesman John Cunningham said: "We are prepared for a General Election whenever it comes."

But the party was

forced to make changes to its policy document on the council elections.

A page on law and order had to be reprinted to avoid implying that councils might be given direct control over police operations.

It now refers to making police forces "democratically accountable".

And a statement that mortgage relief would be limited to basic rate taxpayers was altered to say that the relief would be limited to the basic rate of tax.

**EXPRESS**

# OPINION

## The sure way to stifle new enterprise

**F**ROM the wonderful people who threaten to give us higher taxes, now comes another wizard wheeze—slashed mortgage tax relief.

The Labour Party re-affirmed yesterday that it aims to cut the relief to only the standard rate of income tax. This would hit families with incomes of £20,000 a year and over.

But these are the very people whom Shadow Chancellor Roy Hattersley has in his sights for punitive tax increases. So Labour is promising to clobber them twice for the sin of earning £20,000.

Of course, this double threat awaits those families not yet earning £20,000 but confidently expecting to do so in the near future.

Why earn more if, under Labour, the tax man is going to grab more? Why move, perhaps making way for first-time buyers, if a Labour Chancellor makes acquiring a bigger mortgage financially unattractive?

This is not, alas, the way to reward effort and enterprise.

## Self-help potential

**O**NE of the reasons why the economy is only now shaping up to compete successfully in a harsh world is our long-standing suspicion of "men of trade".

Making profits by striving to give people what they want has been thought vulgar by some who have moulded our thinking and culture, something to be avoided, something to keep one's sons away from.

As a result, we have watched other nations outstrip us in both manufacturing and marketing.

The good news is that we are casting off that outmoded attitude. The spirit of enterprise that gave the world its first industrial revolution is running strongly again. So is the economy.

That is no coincidence. We cannot have successful capitalism without successful capitalists, lots of them.

**THE Sun**

## Home truths

**SOAK the rich is an old Socialist slogan.**

But the Labour Party have never told us what they regard as riches.

Well, now we know—£20,000 a year!

According to their new campaign document, this is the level at which they would cut off mortgage tax relief.

**A coal face miner? RICH!**

**A self-employed plumber? RICH!**

**A married couple, a nurse and a teacher? RICH!**

Under a Labour Government a million people would be clobbered on their mortgages.

**A million more reasons for NOT voting Socialist.**

Mr. Norman Lamont: The direct revenue cost would be about £450 million at 1986-87 income levels. This estimate makes no allowance for possible behavioural changes.

Mr. Pike asked the Chancellor of the Exchequer what estimate he has made of the cost to the Treasury of a cut in income tax basic rate of one penny.

Mr. Norman Lamont: The direct revenue cost would be about £1.1 billion in 1987-88 and £1.45 billion in 1988-89.

Mr. Chapman asked the Chancellor of the Exchequer what is his estimate of the loss of revenue in 1987-88 if (a) the basic rate of income tax was to be reduced by 2 per cent. and (b) the threshold for income tax liability was increased by 10 per cent. in real terms.

Mr. Norman Lamont: The direct revenue costs in 1987-88 would be about £2.2 billion and £1.8 billion, respectively.

### Mortgage Interest Relief

Mr. Chris Smith asked the Chancellor of the Exchequer if, pursuant to the answer of 19 December 1986, *Official Report*, column 740, to the hon. Member for Islington, South and Finsbury, in relation to the table of tax units receiving mortgage interest relief in 1986-87, he will account for (a) the increase from 1985-86 in those with total income of under £4,000 p.a. receiving mortgage relief from 500,000 to 690,000, and the increase in the average value of this relief from £110 to £350, (b) the increase from 1985-86 in those with total income over £20,000 p.a. receiving mortgage relief from 900,000 to 1,100,000, whilst the total cost of such relief has fallen from £1 billion to £970 million and (c) the factors involved in the fall in the total cost of relief from £4.75 billion to £4.5 billion; and if he will make a statement.

Mr. Norman Lamont: I assume that the hon. Member is comparing the information supplied in my answer to him of 19 December 1986, at column 740, with that given to the hon. Members for Thurrock (Dr. McDonald), for Oldham, West (Mr. Meacher) and Birkenhead (Mr. Field) on 9 April 1986, at columns 125-26.

The information provided for 1985-86 in April 1986 was based on projections of the 1983 family expenditure survey and the 1983-84 survey of personal incomes. The estimates were therefore subject to a considerable amount of error. Also, I regret that the analysis incorrectly allocated the small proportion of mortgage interest relief received by non-taxpayers; this mainly affected the estimates for the lowest ranges of income.

Revised estimates for 1985-86, based on the 1985 family expenditure survey and projections from the 1984-85 survey of personal incomes are given in the table. These estimates are consistent with those for 1986-87, supplied on 19 December 1986. But they, like those for 1986-87, remain provisional.

Compared with the information supplied in the answer of 19 December 1986:

a. the average relief per mortgagor for those tax units with total incomes under £4,000 per year remained almost unchanged between 1985-86 and 1986-87, being estimated at £360 in 1985-86 and £350 in 1986-87.

b. the numbers with total incomes over £20,000 per year, receiving mortgage interest relief, increased from 940,000 in 1985-86 to 1,100,000 in 1986-87, while the total cost of relief to these tax units increased from £910 million to £970 million. In this range, therefore, the average relief per mortgagor fell from £970 in 1985-86 to £880 in 1986-87. This fall reflects the reduction in average interest rates (from

13.25 per cent. in 1985-86 to 11.5 per cent. assumed for 1986-87), which was partly offset by growth in the amount of interest eligible for relief below the ceiling of £30,000.

c. the estimate of the total cost of relief is now £4.5 billion in both 1985-86 and 1986-87. The estimate for 1985-86 has been revised from £4.75 billion, following improvements to methods of projecting amounts of mortgages outstanding.

Tax units<sup>1</sup> receiving mortgage interest relief by range of total income—1985-86

Range of total income	Numbers receiving mortgage relief <sup>2</sup> ('000)	Average value of relief per mortgagor (£)	Total cost of relief (£ million)	Percentage of total cost (per cent.)
Under 4	690	360	250	6
4 to 5	110	370	40	1
5 to 6	210	400	90	2
6 to 7	320	410	140	3
7 to 8	440	440	200	4
8 to 9	580	460	270	6
9 to 10	630	470	300	7
10 to 12	1,250	540	680	15
12 to 15	1,490	560	840	19
15 to 20	1,340	580	780	17
20 to 25	430	720	310	7
25 to 30	230	970	230	5
over 30	280	1,300	370	8
	8,000	560	4,500	100

<sup>1</sup> single persons and married couples.

<sup>2</sup> including about 500,000 non-taxpayers.

Dr. McDonald asked the Chancellor of the Exchequer if he will publish a table showing the estimated cost of providing mortgage interest tax relief in 1985-86, 1986-87 and 1987-88, at 1985-86 prices, showing separately the estimated cost of mortgages previously under the option mortgage scheme.

Mr. Norman Lamont [pursuant to his reply, 29 January 1987]: Information for 1985-86 and 1986-87 is in the table. It would be premature to provide an estimate for 1987-88, since the cost will depend on the amounts of mortgage lending and interest rates as well as on the 1987-88 income tax rates and bands. It is not possible to distinguish the cost of relief for those mortgages which were previously under the option mortgage scheme:

Estimated cost of mortgage interest relief (£ million)

Year	At current prices	At 1985-86 prices
1985-86	4,500	4,500
1986-87	4,500	4,370

### Pensions

Mr. Clay asked the Chancellor of the Exchequer whether he will update the figures relating to the direct revenue costs of tax relief on pension contributions on the same basis as his reply of 3 May 1985 to the hon. Member for Oldham, West, (Mr. Meacher) *Official Report*, columns 255-7.

Mr. Norman Lamont: The information, including later estimates for 1984-85, is as follows:



Handwritten initials or mark, possibly "JD".

**FROM: J J HEYWOOD**  
**DATE: 10 February 1987**

**MR STEWART IR**

cc **PS/Chancellor**  
Mr Culpin  
Miss Sinclair  
Mr Haigh  
Mr Cropper  
Mr Tyrie  
PS/IR

**MORTGAGE INTEREST TAX RELIEF: LABOUR PARTY PROPOSALS**

The Financial Secretary was most grateful for your note of 6 February.

Handwritten signature or initials, possibly "J.H."

**JEREMY HEYWOOD**  
**Private Secretary**

Andrew  
PHFC.  
Discuss at Prayers?FROM: A G TYRIE  
DATE: 12 FEBRUARY 1987

→ CHANCELLOR

! AMH  
Discuss incc Chief Secretary  
Economic Secretary  
Financial Secretary  
Minister of State  
Mr M J Osborne  
Mr Ilett**LABOUR'S CAPITAL CONTROLS**

I attended the IFS's launch of this report today.

The Scheme

2. Labour plan to coerce pension funds, long term funds insurance companies, unit trusts and investment trusts into reducing their overseas portfolio holdings to a quota, set at approximately their 1979 share total holdings.

The report's conclusions

3. In sum, the effects of the scheme (both benefits and costs) would be small, it would be difficult to operate and police. The scheme is in any case based on a false premise about the shortage of investment.

(i) **Enforcement.** The scheme "could be enforced, although it is possible that complex rules might be required to close loopholes through which funds could be channelled." (page 7).

(ii) **Small effect on institutions.** "The loss, [for institutions] in terms of a lower risk adjusted return arising from restricting overseas capital, is



If so, why do the institutions invest overseas, in the first place?

small"(page 8). The IFS do admit that they may underestimate the total cost involved.

(iii) Macroeconomic consequences

- the IFS "reject the view that each pound invested abroad means a pound less invested in job creating enterprises in Britain." ...."any repatriation of portfolio capital would stimulate a countervailing outflow of funds from the UK (page 9). Any benefit to real investment would depend on the effect of reductions on the cost rather than the availability of finance. An alternative would be that the Government could respond to any upward pressure on the exchange rate by reducing interest rates
- the report suggests that restrictions could lead to some appreciation of the exchange rate, although this is likely to be small and very likely dwarfed by the effects of other policies (cf 1980/81)
- "the initial appreciation would tend to be reversed after some period of time, due to the effect of the higher exchange rate on the UK's trade competitiveness and hence on the current account of the balance of payments" (page 87).

(iv) No shortage of savings/NIB. The report does not accept that there is a shortage of funds for industrial investment nor that NIB would improve the overall allocation of resources. (pages 41-50).

## Political points to make

1. Labour would be destroying a valuable overseas nest egg, of great long term benefit, in order to try and solve a short term problem, how to stave off a sterling crisis generated by their economic policies.
2. Labour's scheme would be a cruel blow to pensioners and savers. They would lock pensioners into investing in the UK equity market, buying the shares at an inflated price and then destroy those savings by creating the conditions which would ensure a collapse in the equity market and a loss of those savings.
3. Even if Labour staved off an economic collapse these proposals constitute a new, arbitrary tax on pensioners.
4. By forcing funds into the NIB many people's pensions would become dependent on the 'wisdom' of investment decisions made by Labour politicians.
5. Labour probably already know the scheme would not work properly. Their real motives for proposing it are:
  - as a ploy to try and prevent a U-turn being forced upon them as happened in 1976, or to Socialist France in 1983
  - to try and avoid fiscal discipline
  - to satisfy union demands for greater Government control of industry and investment

- a malingering belief that the State knows better than entrepreneurs and businessmen how to allocate resources.

M. May  
pp A G TYRIE

C.

If Labour try to use this e.g. in PEWP debate,  
I think we can be very robust, e.g. ~~the~~ investors  
and fund managers have rejected Labour's plans; only  
the IFS stick up for them.

AMH

rate. How, after these seven years, can you justify the total abandonment of the control of inflation?

- have appalling consequences for unemployment. Working on the Treasury's own model, such a rise in VAT could cause an increase of up to 1.5 million in unemployment.
- take away from the lowest paid - through price increases - all the benefits they might gain from tax cuts.

For seven years this Government has proclaimed the virtues of tax cuts. But you only ever refer to income tax. As your own official figures show, the total tax burden, including increases in VAT and National Insurance, is now, in real terms, £29 bn greater than it was in 1979. Under your latest proposals, you will remain the Party of high taxation, but will also be the Party that destroys the prospects of a decent existence for the pensioner, destroys the prospects for British industrial recovery, destroys the prospects for reducing unemployment, and deceives the lowest paid.

It is necessary for you to respond immediately to reports of your tax proposals. The nation needs to know what your plans are. For what Government sources are describing as fiscal radicalism would be fiscal deceit and economic irresponsibility.

Yours sincerely  
Nigel Lawson

Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury  
Gt George Street  
LONDON  
SW1



HOUSE OF COMMONS  
LONDON SW1A 0AA

12 February 1987

*Per get spend  
advised to draft guide  
a political uph.  
The ...  
Council ...  
Mans*

*Ch  
Hattersley has  
released to press; we  
need to reply this afternoon  
AA - Jyn*

*Sullivan  
[The ...  
to ...  
Hattersley  
Guardian  
& Independent  
invited ...  
'Storm',  
Hattersley  
has ...  
Embroider  
their  
Storm.  
Lassie  
Hattersley  
has ...  
source  
me  
'Storm',  
me  
just  
play  
me*

Dear Chancellor of the Exchequer,

I write to you in response to the leading articles which appeared today in two national newspapers. They report that, should the Government be re-elected, you plan to abolish income tax for people on less than average earnings and compensate for this by massive increases in VAT.

Such a plan would have a disastrous effect both on significant sections of the community and on the management of the economy.

According to your own figures, published last November, this scheme will have the following effects:

- To abolish income tax for all below average earnings by raising allowances would cost £34 bn. To compensate, VAT will have to be increased from 15% to 60% and might have to be extended to areas such as food and children's clothing which are exempt at the moment. Alternatively, you will have to double VAT and introduce a starting rate of income tax of 50% for those on £10,000 pa - double the 25% rate you have led people to expect.
- Millions of pensioners - who can gain no benefit from your income tax proposals - will find that the price of essential items upon which they, above all, depend, will rocket. Many will not be able to survive such price increases. So will the Government increase the pension to compensate? And if so, where will you get the money from?
- The effect on inflation will be catastrophic. You will recall that, in 1980, when your predecessor put up VAT from 8% to 15%, it pushed up inflation to 22%. The plan you now propose would cause inflation to rise to over 40%. This would
  - have a disastrous effect on the country's economic prospects. For seven years the Government has sacrificed the economy in pursuit of a low inflation

12/2/87. *Prof*

**DRAFT REPLY TO MR HATTERSLEY**

Thank you for your letter of 12 February. I am not responsible for speculative stories in either The Guardian or The Independent and can confirm that these are not my tax proposals.

The Conservative Party is committed to the prudent reduction of the overall burden of taxation as firmly as the Labour Party is to ~~is~~ imprudent increases.

"Fiscal deceit and economic irresponsibility" is the perfect phrase to describe Labour Party commitments to additional Government spending of £28 billion which would <sup>raise</sup> ~~revise~~ taxes for everyone, inflation for everyone and reduce the nation to the bankrupt state it was in ~~in~~ 1976 at a time when you were a Government Minister.

✓ prep

## DRAFT REPLY TO MR HATTERSLEY

Thank you for your <sup>suspiciously prompt</sup> letter of 12 February <sup>am</sup> ~~I am~~ <sup>in</sup> not responsible <sup>e</sup> to  
 speculative stories in either The Guardian or The Independent, and I  
 can confirm that these are not <sup>the Government's</sup> ~~my~~ tax proposals ~~as my letter~~ <sup>The Prime</sup>  
~~Minister has already made this clear in the House.~~  
 The <sup>Government</sup> ~~Conservative Party~~ is <sup>as firmly</sup> committed to the prudent reduction of the  
 overall burden of taxation ~~as firmly~~ as the Labour Party is to ~~is~~  
 imprudent increases <sup>in both</sup> ~~in both~~ <sup>spending and taxes</sup> ~~spending and taxes~~.

"Fiscal deceit and economic irresponsibility" is the perfect phrase  
 to describe Labour Party commitments to additional Government  
 spending of £28 billion which would <sup>raise</sup> ~~revise~~ taxes for everyone,  
 inflation for everyone and reduce the nation to the bankrupt state  
 it was in 1976 at a time when you were a Government Minister.

This can go on Ch/Bp paper as it was sent to them in  
 his office capacity. It wd be better to put 'Government'  
 rather than 'Conservative Party'. If you want to be  
 really provocative, how about my opening sentence.



*prop*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

Rt Hon Roy Hattersley MP  
House of Commons  
LONDON SW1A 0AA

12 February 1987

Thank you for your surprisingly prompt letter of 12 February in response to some inventive stories in The Guardian and The Independent. Needless to say, I can confirm that these are not the Government's tax proposals.

The Government is committed to the prudent reduction of the overall burden of taxation, and in particular income tax, as firmly as the Labour Party is to its increase.

Your reference to "fiscal deceit and economic irresponsibility" provides the perfect phrase to describe Labour Party commitments to additional Government spending of £28 billion which would raise taxes for everyone, inflation for everyone, and reduce the nation to the bankrupt state it was in 1976 at a time when you were a Government Minister, when the top rate of tax was 98%, the basic rate was 35%, and public borrowing was £35 billion in today's terms.

NIGEL LAWSON



FROM: A G TYRIE  
DATE: 13 FEBRUARY 1987

CHANCELLOR

*Good.  
X of important  
So must in the  
we can with  
the numbers  
but so*

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey

*That we can check them for accuracy.*

Kenneth Baker has set in train a costing of Alliance education policies. The DES will have already done much of the work for the earlier Alliance costings exercise we undertook last year.

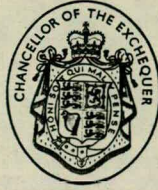
X |

2. I have put down a market ✓ with his Special Adviser that they will not issue any numbers without any prior consultation. In principle, I see no objection to spending Ministers publishing their own numbers while we are not intending to put out a global total. However, the Alliance will shortly be publishing their "Alternative Budget" and it is just possible we may wish to put out a global number as a result of that.

*AGT.*

A G TYRIE

PERSONAL AND CONFIDENTIAL



FROM: A C S ALLAN  
DATE: 13 February 1987

MR TYRIE

*A think  
analysis.  
No X, did not  
G. Wainwright, when  
Opp: Environment  
Sports  
Comm: 'Alec'  
Chancellor  
PS/CST  
Mr Cropper  
Mr Ross Goobey  
alright  
downside?  
later?  
(potentially  
replaced on LIT)*

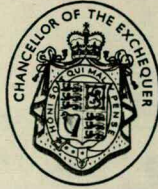
**LABOUR'S PLANS FOR LOCAL AUTHORITIES**

I have had a look through through the "Draft Consultative Paper". It is hedged around with qualifications - "designed to test views", and "not a statement of Party policy". But the thrust is clear: no constraints at all on capital spending, and few on current spending either.

2. It is a very patchy document. Some of the proposals are quite well researched and well argued, while others are dashed off without any thought about their implications or without any understanding of local government finance.

**Capital Spending**

3. The wildest proposal is the "two tier" approach to capital spending in paragraph 7.32. This says that authorities would received borrowing allocations at subsidised interest rates from the PWLB, and on top of that would be free to borrow in the "money market". There is no proposal for any limit on how much could be borrowed from the market, the only sanction being that debt charges would have to be met wholly from the rates, without any grant support. This would hardly be much of a sanction against Hackney, Lambeth etc running up debts now with no thought for tomorrow.



4. But I must caution that this "two tier" proposal does not seem consistent with much of the rest of the document - eg the references to "capital expenditure limits" in paragraph 7.30; or "Government approved levels of capital spending" in paragraph 7.23.

5. The other proposals are

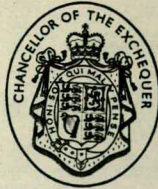
- (i) Free use of capital receipts - a bonanza for many shire districts.
- (ii) Authorities without many capital receipts to be allowed to "use other sources of finance" so that they did not lose out on this bonanza.
- (iii) Payments under deferred purchase agreements to count as debt repayments not capital spending - ie bailing out the biggest creative accountants.

### Current Spending

6. There is a commitment to increase rate support grant, but this document - and Mr Hattersley and Mr Kinnock - are very cautious about exactly how much.

7. There are a host of other proposals

- (i) Scrap rate capping.
- (ii) Reduce the slopes of the poundage schedule: this means that local authorities who increase spending would not lose grant (no authority to "suffer" from a negative marginal rate of grant).
- (iii) Re-introduce close ending. Ironically, this would reduce grant, since (ii) above would lead to an over-claim, rather than an under-claim of grant.
- (iv) Additional (specific) grant aid for high priority areas. Open-ended, but vague.
- (v) Introduce percentage equalisation. A technical and innocuous-sounding measure which shifts a lot of grant from the shires to London.



### Public Expenditure Presentation

8. The document proposes that rate-financed spending should be removed from the definition of public expenditure. It is tempting to represent this as a device to fiddle the figures and hide the £28 billion. But that would be dangerous: we ourselves are thinking of a rather similar presentational change. The document goes on to shoot itself in the foot by proposing that rate-financed spending should be removed not just from the definition of public expenditure, but also from the PEWP - does this really mean that the PEWP would contain nothing about Labour's plans for education, personal social services etc!

### Other Points

9. A few other points are worth noting:

- X (i) Domestic rates to be based on capital values.
- (ii) Re-rating of agricultural land.
- (iii) DLOs to be wide given wide new powers to compete with the private sector.
- (iv) Local authorities to be given new powers to do anything not expressly forbidden or contrary to laws.

10. More generally, I was struck by the very patchy understanding of the present system of local government finance. I have already pointed out some of the very odd stuff on capital controls. There are also comments such as "we believe that the cost of additional spending in terms of local taxation should be the same for all local authorities - regardless of the resource base": this is exactly what the present system does.

11. I have concentrated on finance and spending, but there is also a lot on reorganising the structure of local government (abolishing the counties and creating a new regional tier). And a certain amount of Widdicombe-type stuff on the role of councillors. (Pay them a lot more). I leave it to you to comment on them.

ACSA

A C S ALLAN

*psd*

FROM: A C S ALLAN

DATE: 16 February 1987

MR TYRIE

cc PS/Chief Secretary  
Mr Cropper  
Mr Ross Goobey**LABOUR'S PLANS FOR LOCAL AUTHORITIES**

The Chancellor saw my minute to you of 13 February. He asked whether Mr Kaufman, when Opposition Environment Spokesman, committed the Labour party to abolishing domestic rates (presumably to be replaced by Local Income Tax)?

*ACSA*

A C S ALLAN