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Part B.

SECRET

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~~10/82~~ 20/5/82
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PART B

Chancellor's (Howe) Papers:

POLICY WORK PUBLIC
OPINION AND THE 1983
GENERAL ELECTION

Disposal Directions: 25 years

Anderson

24/7/95

From the Private Secretary



Handwritten notes:
* makes on how close
using it as a way of bringing
forward higher young men better
forward?
20/5/82

PS/2nd Permanent Secretary

EXCHEQUER

21 MAY 1982

cc PS/Minister of State,
Treasury (C)

Handwritten list of names:
Mr Wilding
CST
MS (C)
Sir D. Wall
Sir A. Rawlinson
N. Barlett

Handwritten list of names:
Mr J. Mason
Mr B. T. ...
N. ...
Mr ...
Mr ...
N. F. ...

Handwritten list of names:
Sir L. ...
Sir D. ...
N. ...

REGULAR MEETING OF THE CHANCELLOR OF THE EXCHEQUER

As arranged, the Lord Privy Seal saw the Chancellor of the Exchequer for about an hour this morning. The Minister of State, Sir Anthony Rawlinson, Mr Wilding and Mr Cassels were also present.

The Chancellor of the Exchequer started with the note provided by Mr Wilding as an annotated agenda. The Lord Privy Seal said that for her part the answers to questions 2(a)-(e) were in the affirmative: a positive, timely report was needed which she suggested should have an annex or addendum giving answers to the specific questions raised by the Select Committee. It would be important to get it out a little time before the Recess. There was agreement that the Treasury's paper on Financial Management should be annexed to the response. It was bound to become public, and might indeed do so before the Government's response was published, but it formed an important part of the response.

On item 3, a common framework of analysis of all programmes, the Chancellor of the Exchequer thought that, whilst recognising the difficulties of an all-embracing approach, it was important in the response to make it clear that the Government shared the same general desire as the Select Committee, although it might work out differently in different places. The Government was essentially in harmony with the Select Committee. Maintaining the impetus of the initiative would be of key importance (item 4) and the response should say so strongly.

On personnel policy and succession planning for Principal Finance Officers there was general agreement that suitable training and experience would be required before a person was made a PFO: this would be taken care of by the MPO succession planning arrangements.

It was an area where the central departments could be prescriptive since there was a right of veto although, particularly at the beginning, there were bound to be exceptions to get the right man into the job and training could be undertaken soon after appointment. There was also general agreement that, whilst at the moment there was no great clamour from civil servants to become PFOs, it ought to be generally recognised (like the PEO) as a stepping stone to higher things. In the future the PFO would become much more of a resource manager. Financial training for other staff was equally important to raise the general level of financial awareness. The paper on training by the Lord Privy Seal also pointed to the drive to bring more qualified accountants into the Civil Service.

The Financial Management initiative was seen by both departments as a joint venture, with complementary contributions from each. The co-ordinating arrangements were designed to ensure that both departments played their part. The Lord Privy Seal was concerned lest the co-ordination arrangements become too top heavy, although there were common elements in the various groups.

It was agreed that there should be a report back to the Ministers at the end of July and in October. There would be a formal report to the Prime Minister in January when departments submitted their programmes.

Turning to morale and improving accommodation, the Lord Privy Seal recalled the previous discussion about the exchanges between the Department of National Savings and Marks and Spencer. These were valuable but she wanted to follow through the Rayner concept that, coupled with scrutinies which saved money, there should be incentives to the staff by way of a small proportion of the savings being fed back to their benefit. The amounts involved would certainly be small but they would help morale. She hoped that it would be possible to have the Chancellor of the Exchequer's blessing for a pilot scheme. This would not be in DNS but perhaps in the Department of Employment or DHSS. The Chancellor of the Exchequer recalled the paper he had sent recently to the Prime Minister in which he had explored this problem in the context of the relationship between public service pay and capital investment. (A copy of the paper was subsequently sent to the Lord Privy Seal who had not been sent a copy originally). He had concluded that it was unlikely one could be traded against the other but he sympathised with the concept. In more general discussion, it was thought important to pursue the idea within the PSA Vote for accommodation and the Public Expenditure system. Linking improvements in accommodation to specific offices making savings could mean other more necessary accommodation work suffered. It was necessary to get the framework and the systems right to allow more discretion in spending to local managers. Unfortunately, the scheme for repayment in PSA had not gone as far as had been hoped. Nevertheless, the Chancellor of the Exchequer and the Lord Privy Seal thought it important to identify local opportunities where the financial regime could be liberalised, so removing frustration, so that on a local scale it would be possible to try out a scheme allowing staff to see some benefit (not necessarily in accommodation but perhaps in refreshment facilities or decor) which related to savings to which they had contributed. MPO officials would consider this further and bring forward proposals.


J BUCKLEY

20 May 1982

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C. ✓
FROM: ROBIN HARRIS
DATE: 1 June 1982

CHANCELLOR —

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Ridley
Mr French

PUBLIC OPINION BACKGROUND NOTE: 25 MAY 1982

... I attach the latest opinion survey material from Conservative Central Office.

It is interesting to note that at Mitcham and Morden, as at Beaconsfield, the 'cost of living' figures significantly ^{higher} than unemployment as the determinant of voting intentions. The rest of the Note's conclusions seem unremarkable - if, of course, profoundly encouraging.

RH

ROBIN HARRIS

1 June 1982

UNITED STATES GOVERNMENT
OFFICE OF THE SECRETARY OF DEFENSE



MEMORANDUM FOR THE SECRETARY OF DEFENSE
SUBJECT: [Illegible]

DATE: [Illegible]

1. [Illegible]

2. [Illegible]

3. [Illegible]

[Illegible signature]

PUBLIC OPINION BACKGROUND NOTE 114
(produced 25th May 1982)

1. Introduction

The interviewing for our latest 'tracking' study was conducted from 12th to 17th May - well before our invasion of the Falkland Islands. The survey found almost no change in the level of Conservative support - up from 41½% (5/10 May) to 42% (12/17 May). Labour support showed a slight increase - up from 28% (5/10 May) to 31% (12/17 May). Alliance support fell further from 29% (5/10 May) to 26% (12/17 May). A MORI poll conducted on Sunday 23rd May after the start of our invasion found 48% claiming they would vote Conservative, 31% Labour and 20% for the Alliance Party. An ORC poll conducted on 21st May found 48% claiming they would vote Conservative, 23% Labour and 15% Alliance. Details of the trend in support for the main parties since the start of the year are shown below:-

	<u>VOTING INTENTION</u>						
	(unprompted question, excluding don't knows)						
	<u>CON</u>	<u>LAB</u>	<u>LIB</u>	<u>SOCIAL</u> <u>DEMOCRAT</u>	<u>OTHER</u>	<u>LEAD</u>	<u>LIBERAL AND SOCIAL</u> <u>DEMOCRAT</u>
	%	%	%	%	%	%	%
<u>1979</u>							
May (GE)	43.9	36.9	13.8	-	5.5	+7.0	13.8
13/16 June*	42.0	43.5	13.0	-	5.0	-9.0	13.0
<u>1982</u>							
6/11 Jan	25.5	30.0	17.0	25.0	2.5	-4.5	42.0
13/18 Jan	27.5	29.5	13.0	26.5	3.5	-2.5**	39.5
20/25 Jan	30.0	27.0	14.0	26.5	2.5	+3.0	40.5
27 Jan/1 Feb	29.0	29.0	15.0	24.0	3.0	0.0	39.0
3/8 Feb	29.0	29.0	15.0	26.0	1.0	0.0	41.0
10/15 Feb	27.5	34.0	14.5	21.5	2.5	-6.5**	35.0
17/22 Feb	26.5	33.5	14.0	22.0	4.0	-7.0	36.0
24 Feb/1 March	31.0	32.5	11.0	22.5	3.0	-1.5	33.5
3/8 March	30.0	33.5	11.5	21.0+	4.0	-3.5	32.5
11/15 March	31.5	33.0	11.5	21.5+	2.5	-1.5**	33.0
17/22 March	34.0	30.0	11.0	21.0+	4.0	+4.0	32.0
24/29 March	32.0	28.0	11.0	27.5+	1.5	+4.0	38.5
31 March/5 April	34.0	27.0	10.0	26.0+	3.0	+7.0	36.0
7/12 April	31.5	29.0	11.0	26.0+	2.5	+2.5**	37.0
13/19 April	31.0	30.0	10.0	26.0+	3.0	+1.0	40.0
21/26 April	31.5	33.0	10.5	24.5+	0.5	-1.5	35.0
28 April/ 3 May	37.0	30.5	11.0	20.0+	1.5	+6.5	31.0
5/10 May	41.5	28.0	9.5	19.5+	1.5	+13.5**	29.0
12/17 May	42.0	31.0	10.0	16.0+	1.0	+11.0	26.0

* First Gallup post-Election survey

** Published Polls

+ Includes those saying they would vote for the Alliance

2. Government Record

For the first time since it was elected more people approved of the record of the Government than disapproved - 43% approved and 42% disapproved. This can be compared with the situation in mid-February when 22% approved of our record and 66% disapproved. Details of the trend are shown below:-

GOVERNMENT RECORD

	<u>Approve</u> %	<u>Disapprove</u> %	<u>Don't know</u> %
<u>1979</u>			
13/18 June	34	41	25
<u>1982</u>			
6/11 January	23	65	12
13/18 January	24	65	12
20/25 January	26	62	13
27 Jan/1 Feb	25	62	13
3/8 Feb	26	63	11
10/15 Feb	24	66	10
17/22 Feb	22	66	13
24 Feb/1 March	23	63	13
3/8 March	24	65	11
11/15 March	29	59	12
17/22 March	28	60	13
24/29 March	29	58	13
31 March/ 5 April	31	57	12
7/12 April	32	56	12
13/19 April	34	54	12
21/26 April	34	55	11
28 April/ 3 May	40	47	13
5/10 May	42	46	12
12/17 May	43	42	15

3. Popularity of Political Leaders

Mrs Thatcher's popularity continued to improve and the latest study found for the first time since the election more people being satisfied with Mrs Thatcher as Prime Minister than are dissatisfied - 48% satisfied and 47% dissatisfied. Mr Foot's popularity now stands at only 17% of the electorate regarding him as a good leader of the opposition - 71% thought he was not a good leader. Mr Steel's popularity remains almost unchanged. Details of the trend over recent weeks are shown below:-

POPULARITY OF POLITICAL LEADERS

	<u>Mrs Thatcher</u>			<u>Mr Foot</u>			<u>Mr Steel</u>		
	<u>Sat.</u>	<u>Dis-</u> <u>sat.</u>	<u>Don't</u> <u>Know</u>	<u>Is</u>	<u>Is</u> <u>Not</u>	<u>Don't</u> <u>Know</u>	<u>Is</u>	<u>Is</u> <u>Not</u>	<u>Don't</u> <u>Know</u>
<u>1982</u>									
6/11 January	30	65	5	20	65	14	62	20	18
13/18 January	32	65	4	18	67	16	59	22	19
20/25 January	32	64	4	17	68	15	59	22	19
27 Jan/1 Feb	33	62	5	19	64	17	60	18	22
3/8 Feb	31	65	4	20	63	17	61	20	19
10/15 Feb	29	66	5	19	66	15	59	23	17
17/22 Feb	29	65	5	20	64	16	58	20	21
24 Feb/ 1st March	32	63	5	21	64	15	55	23	22
3/8 March	30	66	4	20	64	16	58	24	18
11/15 March	34	62	4	21	65	14	58	22	10
17/22 March	33	62	5	22	64	14	59	21	20
24/29 March	35	59	6	19	65	15	61	20	19
31 March/ 5 April	37	58	5	20	65	15	60	22	18
7/12 April	35	60	5	23	61	16	63	18	19
13/19 April	36	60	5	28	59	14	63	18	19
21/26 April	37	59	4	26	60	14	66	17	17
28 April/ 3 May	41	53	6	24	65	12	62	20	18
5/10 May	44	51	6	18	71	11	64	20	17
12/17 May	48	47	5	17	71	12	65	18	17

4. PUBLISHED POLLSa) GALLUP (Daily Telegraph 25th May 1982)

The Daily Telegraph on May 25th included details of a GALLUP poll conducted on 22/23rd May in Mitchem & Morden. The survey found the Conservatives having a substantial lead over the other parties. GALLUP found 43½% claiming they would vote Conservative, 33½% Labour, 21½% Alliance and 1½% 'other parties'.

Interest in the By-election is low with only 57% of electors claiming they will definitely vote, and 18% saying they will probably vote.

GALLUP asked respondents to select from a range of nine issues reasons for their voting for a particular party. They found:-

	Total	Con	Lab	Lib/SDP
<u>Cost of living & the economy</u>	52	46	59	56
Unemployment	45	30	58	54
Law and Order	41	50	31	38
The Government's handling of the Falklands	30	44	19	19
Mrs Thatcher as Prime Minister	27	30	24	25
Dislike & distrust of other parties	26	30	20	28
Public Transport	26	24	29	25
Mr Foot as possible Prime Minister	20	27	12	19
Loyalty to the Party I always support	19	19	27	7

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(b) MORI (Panorama May 24th)

Panorama on Monday 24th May included details of a MORI poll on attitudes to the Falkland Island dispute. The survey was conducted after the start of our invasion 80% thought we should have landed troops and 14% that we should not have landed troops. We asked about what we should do now. MORI found 63% thought we should fight to win back the Islands only 33% want an immediate cease fire.

(c) OR (Weekend World 23rd May)

Weekend World on 23rd May included details of a ORC poll on attitudes to the Falkland Island dispute conducted on 21st May - the day our invasion started. ORC found 61% of respondents quite strongly in favour of the Government's policy on the Falklands, 19% neither supporting or opposing our policy & 16% opposing our policy.

At a time when it was not clear whether we had invaded the Islands ORC found 76% of respondents in favour of Britain invading the Falklands - only 20% claimed to be against the idea.

ORC asked respondents 'would you be in favour of the British Government invading the Falkland Islands even if it meant the loss of more British Servicemen's lives - 65% claimed to be in favour of invasion, 36% claimed to be not in favour of invasion.

When ORC asked 'if the British forces succeed in retaking the Falkland Islands what should the British Government do next:-

a) Hold on to the Falkland Islands indefinitely and keep a large enough British force there to deter a new Argentinian invasion or:-

b) Hand sovereignty of the Falkland over to Argentina at some point in the future with safeguards for the Islanders.

59% wanted us to hold on to the Falkland Islands indefinitely, 28% hand sovereignty to the Argentinians and 13% did not have a view.

When ORC asked 'following a successful British invasion should the 18,000 British inhabitants of the Falklands have the final say over the British decision concerning the future of the Islands - 72% thought they should and 23% thought they should not.

d) NOP (Daily Mail 26th May 1982)

The Daily Mail on 26th May included the results of a N.O.P. poll conducted in Beaconsfield on May 23/24th. The poll found 60% claiming they will vote Conservative, 28% Alliance and 12% Labour.



FROM: PS/MINISTER OF STATE (C)
3 June 1982

No.

prop

PS/CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Mr Ridley
Mr French
Mr Harris

PUBLIC OPINION BACKGROUND NOTE: 25 MAY 1982

The Minister of State (C) has seen Mr Harris' minute of 1 June, covering the latest opinion survey material from Conservative Central Office. He finds it entirely understandable that at both Beaconsfield ^{and} Mitcham and Morden the "cost of living" figures significantly higher than unemployment as the determinant of voting intentions. Both constituencies are in the South East where the unemployment issue, both actual and perceived, is so different from elsewhere.

H J BUSH

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P.0766

CHANCELLOR OF THE EXCHEQUER

QUARTERLY MONITORING REPORT (MARCH 1982):

E(NI)(82)14

BACKGROUND

This memorandum by the Chief Secretary, Treasury, covers the latest quarterly monitoring report by Treasury officials. Since 1981-82 is the outturn year, and there is no new information about the prospects for 1982-83, it raises no specific questions requiring decision. But it does raise some general questions about monitoring and, by implication, some questions about the forecasting and control methods of certain industries.

MAIN ISSUES

1981-82

2. For the most part, the overspends in 1981-82 seemed to be reasonably attributable to unforeseeable circumstances. But there are a few points that might be worth raising.

(i) British Rail Why was revenue in all business sectors below forecast? Was the shortfall serious? Does it cast doubt on the Board's forecasting methods and, by implication, suggest that current plans for 1982-83 may be over optimistic (quite apart from the risk of a rail strike)?

(ii) British Telecom Why was there such a large shortfall on expenditure on fixed assets? It seems surprising that short-term fluctuations in demand should have led to such a large reduction. Does it mean that British Telecom's long-term plans have been revised downwards? If so, are their current plans for investment in 1982-83 realistic?

1982-83

3. The main 'problem industries' are already the subject of separate studies. But, following on from the questions raised immediately above, there seems to

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be room for doubt about the forecasts of British Telecom, and the Department of Industry's monitoring of results. In particular, how was the position of 'extreme' cash-richness allowed to develop; and is it a symptom of some more general financial laxity?

Monitoring Arrangements

4. Paragraph 4 of E(NI)(82)14 draws attention to the lateness and incompleteness of some returns from the industries. You will probably not wish to hold an inquest on each case; but you may wish to stress in general terms the importance of receiving timely information. Paragraph 5 of the memorandum refers to the discussions of monitoring between the CPRS, sponsoring departments, and industries. It is, in particular, suggested that in future industries should provide phased quarterly budgets against which progress could be monitored.

5. We understand that the CPRS have discussed monitoring arrangements with sponsoring departments, most of whom have agreed to ask their industries for the monitoring information suggested by the CPRS. However, some have not yet approached their industries. You will no doubt wish to continue to press sponsoring Ministers to make progress with their industries, even though it may be prudent to recognise, at least privately, ^{that} the aim of having full information from the end-June 1982 quarter may be over ambitious.

HANDLING

6. You will wish to ask the Chief Secretary, Treasury to introduce his memorandum. You might then ask the Secretary of State for Transport to comment on British Rail and the Secretary of State for Industry on British Telecom. They or other sponsoring Ministers may have other points to raise on particular industries. You might then ask Mr Sparrow to report progress on discussion of monitoring arrangements.

CONCLUSIONS

7. You will wish to reach conclusions on any action which may seem appropriate towards specific industries in the light of the discussion; and conclusions on monitoring arrangements which seem best calculated to maintain the pressure on sponsoring departments to make progress on improving the arrangements and on securing prompt and complete returns from the industries for which they are responsible.

7 June 1982

2
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PLG
P L GREGSON
Cabinet Office

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FROM: ROBIN HARRIS
14 June 1982

RHF

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Ridley
Mr French

[Handwritten pink scribble]

PUBLIC OPINION BACKGROUND NOTE

The attached background note seemed to me to be interesting in
in what it shows of:

- i) Jenkins vs. Owen and the SDP leadership
- ii) The Falklands and their future.

RA

ROBIN HARRIS
14 June 1982

SECRETARY OF DEFENSE
WASHINGTON, D.C.



MEMORANDUM FOR THE SECRETARY OF DEFENSE
SUBJECT: [Illegible]

DATE: [Illegible]

THE SECRETARY OF DEFENSE

[Illegible text]

[Illegible text]

[Illegible text]

[Illegible text]

1. Introduction

The interviewing for our latest 'tracking' study were conducted from 26th to 31st May throughout Great Britain. Gallup found almost no change in the level of support for the Parties compared with our previous study (conducted 19/24 May). Conservative support was 45% (compared with 45% 19/24 May), Labour 27% (27% 19/24 May), Liberal 9% (11% 19/24 May) and Social Democrat support 16% (15% 19/24 May). The original level of Liberal/Social Democrat support was 25% in our latest study compared with 26% (19/24 May). Details of the trend in our weekly voting intention 'tracking' questions are shown in the table below:-

VOTING INTENTION
(unprompted question, excluding don't knows)

	<u>CON</u>	<u>LAB</u>	<u>LIB</u>	<u>SOCIAL</u> <u>DEMOCRAT</u>	<u>OTHER</u>	<u>LEAD</u> (CON over % LAB)	<u>LIBERAL AND SOCIAL</u> <u>DEMOCRAT</u>
	%	%	%	%	%		%

<u>1979</u>							
May (GE)	43.9	36.9	13.8	-	5.5	+7.0	13.8
13/16 June*	42.0	43.5	13.0	-	5.0	-9.0	13.0
<u>1982</u>							
6/11 Jan	25.5	30.0	17.0	25.0	2.5	-4.5	42.0
13/18 Jan	27.5	29.5	13.0	26.5	3.5	-2.5**	39.5
20/25 Jan	30.0	27.0	14.0	26.5	2.5	+3.0	40.5
27 Jan/1 Feb	29.0	29.0	15.0	24.0	3.0	0.0	39.0
3/8 Feb	29.0	29.0	15.0	26.0	1.0	0.0	41.0
10/15 Feb	27.5	34.0	14.5	21.5	2.5	-6.5**	35.0
17/22 Feb	26.5	33.5	14.0	22.0	4.0	-7.0	36.0
24 Feb/1 March	31.0	32.5	11.0	22.5	3.0	-1.5	33.5
3/8 March	30.0	33.5	11.5	21.0+	4.0	-3.5	32.5
11/15 March	31.5	33.0	11.5	21.5+	2.5	-1.5**	33.0
17/22 March	34.0	30.0	11.0	21.0+	4.0	+4.0	32.0
24/29 March	32.0	28.0	11.0	27.5+	1.5	+4.0	38.5
31 March/5 April	34.0	27.0	10.0	26.0+	3.0	-7.0	36.0
7/12 April	31.5	29.0	11.0	26.0+	2.5	+2.5**	37.0
13/19 April	31.0	30.0	10.0	26.0+	3.0	-1.0	36.0
21/26 April	31.5	33.0	10.5	24.5-	0.5	-1.5	35.0
28 April/ 3 May	37.0	30.5	11.0	20.0-	1.5	-5.5	31.0
5/10 May	41.5	28.0	9.5	19.5+	1.5	+12.5**	29.0
12/17 May	42.0	31.0	10.0	16.0+	1.0	+11.0	26.0
19/24 May	45.0	27.0	11.0	15.0-	2.0	-18.0	26.0
26/31 May	45.5	27.0	9.5	16.0+	2.0	-18.5	25.5

* First Gallup post-Election survey

** Published Polls

- Includes those saying they would vote for the Alliance

Our Gallup 'tracking' study allows us to look at the trend of support for the Parties on a monthly basis. This method involving an aggregation of weekly surveys gives us an analysis based on almost 9,000 interviews and smooths out the violent fluctuation we sometimes find in our weekly 'tracking' studies. The trend of support for the main parties since November 1981 taken from the monthly analysis is shown below:-

MONTHLY ANALYSIS VOTING INTENTION

(Unprompted questions, excluding don't knows)

	CON	LAB	LIB	SOCIAL DEMOCRAT	OTHER	LIBERAL & SOCIAL DEMOCRAT
	%	%	%	%	%	%
NOVEMBER 1981	26.3	28.4	14.1	29.0	2.3	43.1
DECEMBER 1981	24.1	25.5	13.3	34.9	2.3	48.2
JANUARY 1982	27.4	30.1	13.9	25.9	2.7	39.8
FEBRUARY 1982	27.8	32.8	13.4	23.1	2.9	36.5
MARCH 1982	30.3	32.7	11.8	21.7	2.6	33.5
APRIL 1982	33.2	29.4	10.6	24.6	2.2	35.2
MAY 1982	43.3	28.3	10.5	16.2	1.8	26.7

The fall in Liberal/Social Democrat support in the period since December 1981 can be clearly seen - down from 48.2% in December 1981 to 26.7% in May, 1982. Conservative support has increased from 24.1% to 43.3% over the same period and Labour support increased slightly from 25.5% to 28.3%

2. Government Record

For only the second time since May 1979 more electors approved of the record of the Government than disapproved - 50% approved, 38% disapproved and 12% did not have a view. Details of the trend are shown below:-

GOVERNMENT RECORD

	<u>Approve</u> %	<u>Disapprove</u> %	<u>Don't know</u> %
1979			
13/18 June	34	41	25
1982			
6/11 January	23	65	12
13/18 January	24	65	12
20/25 January	26	62	13
27 Jan/1 Feb	25	62	13
3/8 Feb	25	63	11
10/15 Feb	24	66	10
17/22 Feb	22	66	13
24 Feb/1 March	23	63	13
3/8 March	24	65	11
11/15 March	29	59	12
17/22 March	33	50	13
24/29 March	29	53	13
31 March/ 5 April	31	57	12
7/12 April	32	56	12
13/19 April	34	54	12
21/26 April	34	55	11
28 April/ 3 May	40	47	13
5/10 May	42	46	13
12/17 May	43	42	15
19/24 May	45	41	14
26/31 May	50	38	12

3. Popularity of Political Leaders

For only the second time since May 1974 more electors are satisfied with Mrs Thatcher as Prime Minister than are dissatisfied. Our latest 'tracking' study found 50% satisfied with Mrs Thatcher as Prime Minister, 43% dissatisfied and 7% with no view. Mr Foot's popularity has reached an all time low with only 16% of the electorate regarding him as a good leader of the opposition. Mr Steel's popularity remains almost unchanged. Details are shown below:-

POPULARITY OF POLITICAL LEADERS

	<u>Mrs Thatcher</u>			<u>Mr Foot</u>			<u>Mr Steel</u>		
	<u>Sat.</u>	<u>Dis-</u> <u>sat.</u>	<u>Don't</u> <u>Know</u>	<u>Is</u>	<u>Is</u> <u>Not</u>	<u>Don't</u> <u>Know</u>	<u>Is</u>	<u>Is</u> <u>Not</u>	<u>Don't</u> <u>Know</u>
<u>1982</u>									
6/11 January	30	65	5	20	65	14	62	20	18
13/18 January	32	65	4	18	67	16	59	22	19
20/25 January	32	64	4	17	68	15	59	22	19
27 Jan/1 Feb	33	62	5	19	64	17	60	18	22
3/8 Feb	31	65	4	20	63	17	61	20	19
10/15 Feb	29	66	5	19	66	15	59	23	17
17/22 Feb	29	65	5	20	64	16	58	20	21
24 Feb/ 1st March	32	63	5	21	64	15	55	23	22
3/8 March	30	66	4	20	64	16	58	24	18
11/15 March	34	62	4	21	65	14	58	22	10
17/22 March	33	62	5	22	64	14	59	21	20
24/29 March	35	59	6	19	65	15	61	20	19
31 March/ 5 April	37	58	5	20	65	15	60	22	18
7/12 April	35	60	5	23	61	16	63	18	19
13/19 April	36	60	5	28	59	14	63	18	19
21/26 April	37	59	4	26	60	14	66	17	17
28 April/ 3 May	41	53	6	24	65	12	62	20	18
5/10 May	44	51	6	18	71	11	64	20	17
12/17 May	48	47	5	17	71	12	65	18	17
19/24 May	47	48	5	18	72	10	63	18	19
26/31 May	50	43	7	16	75	10	64	18	19

4. Published Polls

(a) MORI (Daily Express 3rd June 1982)

The Daily Express on 3rd June included the results of a MORI poll conducted between May 20th and 24th on attitudes to the main political leaders in this country and Mr Reagan. Mrs Thatcher leads them all in most areas. Details are shown below:-

WHAT PEOPLE THINK OF POLITICAL LEADERS

		Mrs Thatcher	Mr Pym	Mr Owen	Mr Foot	Mr Jenkins	Mr Reagan
Capable leader	(%) 44	14	18	8	9	13	10
Good in crisis	(%) 47	29	8	4	4	5	4
Grasps problems	(%) 28	24	21	17	17	21	13
Talks down	(%) 39	12	10	8	8	11	16
Narrowminded	(%) 17	9	5	24	8	8	17
Inflexible	(%) 22	7	6	13	6	6	15
Sound judgement	(%) 25	21	18	9	9	16	4
More honest	(%) 29	17	19	17	13	13	7
Trustworthy	(%) 19	17	12	9	9	10	8
Grasps most problems	(%) 38	35	22	19	19	16	12
Down to earth	(%) 18	16	11	16	16	9	6
Good personality	(%) 24	8	19	9	9	13	22
Inexperienced	(%) 7	12	11	17	17	8	36
Out of touch	(%) 42	17	9	22	22	17	28

(b) ORC (Weekend World 4th June 1982)

Weekend World on Friday 4th June included the results of an ORC survey on attitudes to the Falkland Islands dispute. On the key question of attitudes to the Government policy, 76% claimed to strongly or quite strongly support the Government's present policies in the Falkland Islands.

ORC asked respondents for their views on what should happen when we gain the Falkland Islands. They found:-

Q.1 If British forces succeed in retaking the Falklands what should the British Government do next:-

	<u>TOTAL</u>	<u>CON</u>	<u>LAB</u>	<u>LIB/SDP</u>
...Hold on to the Falklands indefinitely and keep a large enough British force there to deter a new Argentinian invasion	1047	480	266	143
	%	%	%	%
...Eventually offer the Islanders their independence, with international guarantees for their security	42	16	30	19
...Hand the Islands over to the United Nations to administer and to defend	21	17	26	23
...Hand sovereignty over the Falklands over to Argentinians at some point in the future, with safeguards for the Islanders	3	2	6	2

<u>TOTAL</u>	<u>CON</u>	<u>LAB</u>	<u>LIB/SDP</u>
1047	480	266	143

Q.2 Following the successful British repossesion of the Islands, should the eighteen hundred British inhabitants of the Falklands have the final say over the British Government's decision concerning the future of the Islands?

Yes	72	78	67	66
No	23	18	27	29
(Don't Know)	5	4	6	4

P. 100
for Mr. Harris

RESTRICTED

(PWP)

FROM: ADAM RIDLEY
21 June 1982

G.3

CHANCELLOR

cc CST
FST
Mr Harris

CENTRE FOR POLICY STUDIES DISCUSSIONS: EDUCATION VOUCHERS

I should add a brief supplementary note to Robin Harris' minute of today about the CPS Education Group's deliberations on vouchers. As it happens my wife - qua TES educational expert - was "guest of honour" at their seminar last week, which was also attended by Robin Harris, and at which the views of Professor Flew and others were discussed. She is, as it happens, not a great enthusiast for vouchers. However the anxieties she reported back to me about the woolly and confused thinking of those present are far deeper and more serious than can be accounted for by any degree of initial hostility. This reinforces the arguments put forward by Robin to the effect that it is essential that the DES study being carried out by Sir Keith Joseph looks carefully at all the issues involved. Public spending implications are certainly one part of the story - but there are many others, too, which need careful examination and look like getting, instead, short shrift. This is important because, quite apart from anything else, I have a strong feeling that any such report in the DES is extremely likely to be leaked at a very early date!

AR

A N RIDLEY

RESTRICTED



ROBIN HARRIS

21 June 1982

MR FAULKNER

cc ~~Chancellor~~
Chief Secretary
Financial Secretary
Mr Ridley

CENTRE FOR POLICY STUDIES MEETING ON 16 JUNE: EDUCATION VOUCHERS

I attended a meeting of the CPS Education Group on 16 June which discussed a range of subjects including the financing of education, student loans and, most importantly, vouchers. A polemical and unimpressive paper is to be produced later this Summer by Professor Flew on vouchers, which does scant justice to the arguments against a voucher system and so does little seriously to advance the case for one. More interesting ... is the attached short paper on "educational allowances" (ie vouchers) which does look seriously at some of the arguments. I would be interested to know whether the figures under "The Value of Allowances" are correct and of significance.

In general I do think that there is a serious problem which is going to confront us. Neither the CPS (and other outside) enthusiasts nor Stuart Sexton (political adviser at the DES) seem to be aware of the public expenditure implications of any viable voucher scheme. At the meeting in question I raised some of these (as I have done with Mr Sexton). Notably I pointed out:

- the extra cost incurred by allowing those currently sending children to private schools access to a voucher
- the possible problems which would arise as a result of paying a straightforward per capita allowance rather than funding via the RSG because of the redistributive effects: in short the pressures which inevitably arise (as with student loans) for there to be no 'losers' in any radical change of financial arrangements.

- the possible transitional costs through under use of school buildings as a result of the impact of freedom of choice.

Being strongly attracted by the voucher system, I have been alarmed at the way in which arguments for it seem to ignore such problems. Is there some way of ensuring that the DES Study which is being carried out for Sir Keith Joseph takes on board the spending implications? If DES are as unenthusiastic as one hears about vouchers total unrealism on spending might be/convenient means of politically aborting the exercise. For example, are 'phasing in' a voucher scheme (as with loans) or means tested vouchers or the introduction of a voucher - type system via an expanded Assisted Places Scheme possible runners which we should be encouraging DES to examine?

RH

ROBIN HARRIS

21 June 1982

Educational Allowances - the extension to every parent of the choice of schooling which has hitherto only been available to the wealthy.

Nomenclature and Age Range

Vouchers should be renamed Educational Allowances - by analogy with Family Allowances. And like family allowances, educational allowances should be available to all pupils over the age of five in full-time attendance at school. To terminate allowances at 16 would run counter to the policy of encouraging schools with sixth forms of proven worth.

Aim

The main aim is to improve standards for the majority of children - which means, for the foreseeable future, pupils in the present maintained sector. It is therefore important that educational allowances should be introduced so that:

(a) as many maintained schools as possible shall control their own recurrent budgets;

(b) school budgets should increase or decrease by the amount of the allowance for each pupil added to or subtracted from the school roll.

Priority

Although in some respects - e.g. smaller capital costs and size of schools - it would be easier to change the primary sector, public concern about standards of both attainment and behaviour is most acute for secondary schools. Therefore it is most urgent to introduce allowances for 11-16 year olds.

An Experiment or Not?

Unlike compulsory comprehensivisation, the previous major policy change in secondary education, a system of educational allowances would encourage decentralisation and diversity. It would not impose a uniform system unless that was what parents wanted. Since allowances are, by their very nature, such the most democratic way of financing education, objections to a national scheme are, de facto, objections to democracy itself.

The Value of Allowances

Useful reference points in determining the value of allowances are the recoupment costs paid by one local authority to another when pupils attend schools outside their "home" local authority. These payments cover recurrent rather than capital costs and are fixed by the LEA's themselves. For 1982-83 the costs per pupil are £775 for primary pupils, £1026 for 11-16 year olds and £1606 for sixth formers.

Topping Up or Not?

Topping up should not be forbidden. If parents wish to spend more of their money on education, they should be encouraged rather than forbidden to do so. The objection that topping up unfairly favours the better off can be countered by pointing out that allowances would be much fairer than the present system. In addition, all or part of the allowance could be deemed to be taxable income.

However, at least at first, topping up should not be compulsory - i.e. some schools must continue to be available solely for the value of the

Half-way Houses

As with any process of denationalisation, it is not possible to do everything at once. The most important step is to devise transitional policies - or half-way houses - which do not compromise the essential principles involved (see above) and which hopefully lead inexorably to the next stage.

Some possibilities include:

(a) the introduction of optional allowances available to any parent on request;

(b) encouraging the financing of existing voluntary aided, voluntary controlled and special agreement schools by allowances;

(c) encouraging the financing of other schools - either new schools or existing maintained schools - by allowances.

Option (a) should not be introduced alone but in conjunction with (b) and (c) with the promise of an even more thoroughgoing scheme (see below) as soon as possible.

Local Authorities

In introducing allowances it is important to stress the continuing community role of Local Education Authorities in providing for:

(a) special schools for the handicapped etc.;

(b) schools in educational priority areas;

(c) other educational provision (AME, NAFE, nursery schools, adult education, etc.) not initially financed by allowances;

(d) specialist services such as child guidance, careers advice, health services and provision for disruptive pupils.

A Non-transitional Policy (a full, not a half-way, house)

A vesting day should be declared on which the responsibility for all schools, except those mentioned in the previous paragraph on LEA's, should be transferred to school governors simultaneously with the introduction of the financing of the current expenditure by allowances and suitably generous transitional arrangements for capital expenditure.

Vesting day should be set not later than about half-way through the next parliament.

Coda

These policies are realistic and are likely to prove immensely popular with the vast majority of parents and they should be extremely effective counters to the current claim that this government is bent on increasing central control over the educational system. Current moves towards more central control of the educational budget would be merely a preliminary to the complete recasting of state support for school education in a decentralised, democratic and irreversible way. Once parents had got their hands on allowances it would be a brave government which tried to take them away.

Note This paper does not attempt to deal with all aspects of financing by allowances - it merely tries to establish essential priorities for their effective implementation.

100

100

100

SECRET until 11.30 am
on 22 June 1982

On July 1, 11m asked for
the paper
pg C.

✓
✓
Ankward figures that
will require long
careful handling and
presentation with notes.
RA 2.6

FROM: S J RIDLINGTON
DATE: 21 June 1982

1. MR ALLEN
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir D Wass
Sir W Rylie
Mr Burns
Mr Evans
Mr Kemp
Mr Hall
Mr Page
Mr Salveson (For No.10)

What has happened
to Tania's
household budget?
Will we be
in a
situation?

UNEMPLOYMENT FIGURES FOR JUNE

The June unemployment and vacancies figures will be released tomorrow, Tuesday 22 June at 11.30 am.

2. The total number of UK unemployed rose by 92,000 to 3,061,000 (12.8 per cent) in June. The rise reflects the usual large influx of school leavers (102,000 in June) and the continuing increase in the underlying level of unemployment, the offset in part by usual seasonal decline.

3. UK seasonally adjusted unemployment, excluding school leavers, rose by 39,000 to 2,911,000 (12.2 per cent) in June. This rise was considerably larger than the average monthly rise (22,000) registered between January and May this year. Recent movements are shown in table 1 below.

4. The unemployment figures over the next three months (July-September) will be influenced by the usual unfavourable seasonal factors (which will add 100,000 to total unemployment over this period) and an (estimated) further 70,000 school leavers joining the register. This will be in addition to any continuing rise in the underlying level of unemployment,

and could take the 'headline total' to around $3\frac{1}{4}$ million by the autumn.

5. UK seasonally adjusted registered vacancies fell slightly (1,400) in June; but this is the fourth consecutive month recording a decline. It is difficult to assess the significance of this fall in recorded vacancies. It is not clear how the published (seasonally adjusted) series tracks the 'true' underlying position. However, the underlying level of vacancies appears to have been at best flat, and probably declining somewhat, in 1982 Q2, even though vacancies remain almost $1/5$ higher than at the low point in 1981 Q2.

6. It is not difficult to present the latest unemployment figures in an unfavourable light; at first glance they appear to signal a return to a more rapidly rising underlying trend following the apparently fairly stable trend increases of about 22,000 per month witnessed between January and May of this year. Too much emphasis, of course, should not be placed on one month's figures, especially when the unemployment series tends to follow an erratic and uneven monthly pattern. Indeed, we treated the very low recorded rise in adult unemployment (s.a.) of 5-6,000 per month in February and March with extreme caution, for precisely these reasons.

7. It should be noted, however, that several other labour market indicators have shown a tendency to weaken since around the turn of the year (see table 1). This would not be inconsistent with the apparent hesitation in recovery over the last six months or so, as suggested by the broadly flat underlying level of output over that period. But the implications for unemployment movements over the next few months are very difficult to determine at this stage. (The lags between changes in output and unemployment tend to be longer than those between output and vacancies, though both have tended to be rather unstable.)

Line to Take

8. The average monthly rate of increase in unemployment in 1982 H1 was about one quarter of that in 1980 Q4, and less than

SECRET until 11.30 am
on 22 June 1982

half that in the same period a year ago. The level of vacancies in June was also about 1/5 higher than at the low point in 1981 Q2. Not too much should be made of the June figure, taken by itself, since unemployment tends to follow a particularly erratic and uneven monthly pattern. This is exactly why the Government did not put undue weight on the relatively low increases in unemployment recorded in February and March of this year.

IF PRESSED on the apparent general weakening of labour market indicators: these can be interpreted as being consistent with the hesitation in recovery observed since the turn of the year. However, independent assessments (the majority of outside forecasters, the CSO's leading cyclical indicators and business opinion surveys) point consistently to a resumed and continued recovery. The most encouraging 'forward indicators' of recovery are the good progress on, and prospects for, inflation and recent falls in interest rates.

IF PRESSED VERY HARD on implications for future levels of unemployment: one cannot draw any conclusions from one month's figures. Unemployment is very difficult to forecast, eg because of its unstable and unpredictable relationship with output, and depends on a wide variety of factors. This government, like previous administrations, does not publish forecasts of unemployment. The prospect remains of resumed and continued recovery.

9. Further supplementaries, on the relationship between the cost of the Falklands' operation, special employment measures and unemployment, as requested by No.10, are attached.



S J RIDLINGTON
EB

Table 1. Labour market indicators

	1980 4Q	1981 1Q	2Q	3Q	4Q	1982 1Q	Latest 3 months
Unemployment (UK adult) (000's increase)	105	77	62	51	33*	21*	30* (June)
Vacancies (000's, level)	99	98	89	96	104	112	107 (June)
<u>Manufacturing (GB)**</u>							
Short-time (mn. hours not s.a.)	7.3	7.7	4.6	2.4	1.9	1.9	1.9 (April)
Overtime (mn. hours)	8.9	8.5	8.8	9.7	9.9	10.1	9.8 (April)
Average hours (1962=100)	88.6	88.3	89.6	90.9	91.1	91.2	91.0 (April)
Total hours (1962=100)	59.0	58.1	57.7	58.0	56.9	56.2	55.8 (April)

* After allowing for men over 60 transferring off register to long term SB.

** Figures for April (included in latest 3-month comparison) CONFIDENTIAL until publication of DE Gazette on Thursday, 24 June.

ADDITIONAL SUPPLEMENTARIES

If we can afford to finance the Falklands' operation, why can we not afford to spend more on solving the unemployment problem?

Solving Falklands' crisis and reducing unemployment are not competing ends. Government already spending large amounts on helping those groups (young people, etc) worst affected by unemployment, through special measures, provision for training, etc. But this does not solve underlying problems of economy. Only way to create permanent employment opportunities is through lower inflation and sustainable recovery.

Why not therefore spend more on special employment measures?

Government, of course, always prepared to react to changing economic and political circumstances. Have thought it right to increase provision for those hardest hit by unemployment. Have doubled provision for special employment and training measures compared with 1981-82, to planned £1½ billion in 1982-83. Total provision for 1982-83 and following two years is £4 billion.

Other possible questions and answers on the Falklands' operation are given in section U of the Treasury Weekly Brief.]

PERSONAL

FROM: T F MATHEWS
DATE: 21 June 1982



~~PRINCIPAL PRIVATE SECRETARY~~

cc Mr Adam Ridley

CHANCELLOR'S DRAFT MINUTE TO THE PM ON POLICY WORK

The Chief Secretary has discussed with the Chancellor the draft attached to Adam Ridley's minute of 18 June. I attach
. . . a copy with the Chief Secretary's annotations, which principally suggest a shortening of paragraphs 1 to 7. He understands the Chancellor will be proposing a restructuring of the remainder, so he has not commented on that at this stage.

TM

T F MATHEWS

PERSONAL

PERSONAL

D.12 Other

From: ADAM RIDLEY
18 June 1982

CHIEF SECRETARY

cc Mr Kerr (without
attachment)

CHANCELLOR'S DRAFT MINUTE TO THE PM ON POLICY WORK

The Chancellor said yesterday he would minute the PM as soon as possible to carry forward discussion about policy work. I prepared the attached first draft, which he has already seen and will be working up over the week-end, with a view to putting to the PM on Monday if possible. He would be most grateful for any comments you may have, perhaps on the phone over the week-end or at the latest by first thing on Monday morning.

2. In working towards a second draft he is looking inter alia for greater brevity, which demands not merely editorial polish but, I think, suppression or a new treatment for much of the economic analysis at the beginning.

3. If a word with me would help, I shall be at 731-6392 most of the week-end myself.

A.R.

A N RIDLEY

J I have spoken to Chancellor.
I have suggested a shortening of paras 1-7 - see notes on text.
I understood to Chancellor line by proposing a restructuring of the remainder, so I have not commented on that at this stage.

LS

19/6/82

ECONOMIC PROSPECTS AND PRIORITIES

Shirley
With the Budget ~~over~~, I have been giving some serious thought to the economic prospect, the balance of our economic policies and the wider political significance of both. These issues ~~will be crucial to our continuing success in the remainder of this Parliament.~~ They could call for decisions which need to be taken soon to have any useful impact. ~~They could have an important bearing, too, on the public spending survey.~~

THE ECONOMIC PROSPECT

2. The Treasury's economic forecasts are not an accurate chart of the future. But they are as good a starting point as any, and one can "lay off" for some of their known weaknesses. While the public's attitudes to the Government will not be conditioned solely by economic indicators, particularly in the immediate future, the circumstances they reflect remain important and will probably regain much of their normal preeminence as time passes. The conventional wisdom is that it is not so much the levels of output (or whatever) which affect opinion as their direction of movement. ~~Therefore~~ ^{is} the first question/whether the next two years are likely to see the key indicators turning in our favour significantly. The attached Table sets out the path projected for some of the most sensitive statistics.

- Prices. Satisfactory. A steady if declining rate of fall in inflation. ~~Increases below those at election time by later this year.~~

PERSONAL AND CONFIDENTIAL

- Unemployment. Not satisfactory. Flat from around the end of this year, at a level above 3 million on the wide definition generally quoted; a minute fall projected later - but not till mid-1984.
- Employment. Also unhelpful. Though expected to start growing before the end of this year, the increases projected are nugatory.
- Real personal disposable income. Better than employment, but still rather unsatisfactory. The upturn as suggested before the end of this year, is modest.
- Interest Rates. A prospect of falling nominal interest rates, both short and long, ~~is not to be spurned~~. But the decline projected is very slow. Moreover the margin over inflation - a measure of real interest rates - scarcely declines at all, and stays at well over 4% till late 1984 - a historically high level.
- Real GDP. The gentle recovery which began last year carries on through the period. The 2% p.a. or so rate of growth is a plus factor, but low by historical standards.
- Manufacturing output. This follows the same recovery path as GDP but is expected for once to grow more slowly than GDP, instead of considerably faster as in previous cycles.

3. So these projections suggest an economy which will not be seen or felt to be turning much of a corner over the next 2 years, let alone decisively, with all the major

indicators 'coming right' by a certain point, as in past upturns. The story would be one of significant if modest progress on inflation and output, but a vulnerable record on RPDI and, particularly, unemployment.

4. We would also have to reckon with some unflattering comparisons with the past, in particular with the comparable figures for 1979 Q3, which are also given in Table 1. Even by the second quarter of 1984 GDP, manufacturing output and RPDI would be barely above the 1979 figures, employment would be 2 million lower and unemployment more than twice the level we inherited. ~~The figures of themselves may not have much impact, particularly against the backdrop of a weak world economy. But the facts they reflect may.~~

5. ^{Now} I ~~we~~ looked very carefully at the reliability of these forecasts over the years. Their record does not lead me to ~~question the general picture just described,~~ ^{question the general picture just described,} ~~But it does~~ ^{But it does} reveal some important points:

- optimistic as*
- although there has been a tendency for forecasts of unemployment to be too optimistic as*
- has worsened*
- (1) The unemployment prospect, always tricky to forecast consistently and significantly from one year to the next. [For example we ~~are~~ ^{are} now projecting a level of 12½% for 1983, as against 8½% projected for that year in 1980].
 - (2) This year has already seen a major downward revision of the world trade path, and I expect the imminent June forecast to be lower still.
 - (3) Investment, however, has consistently done better than expected, and the projections get better over the years, ~~to~~ [This is encouraging]

for the long run, but may be the good side of the coin of industrial rationalisation which also leads to fewer jobs.]

6. These forecasts are ~~also~~ ^{however,} not very good at pin-pointing turning points. This could matter a lot if, for example, the economy were clearly to come off the boil by mid-1983 or so. If this cycle follows the normal timing of past years, the recovery process could well have enough steam to last into 1984. But we cannot fully rely on that; and the combination of a less good prospect for world trade, doubts about the US (particularly interest rates) and the vast uncertainties about oil prices and so much else all reinforce the case for caution. Indeed concern about these international issues is, in my judgement, something to reckon with not only because some of people's worst fears might be fulfilled, but also because it is probably already damaging confidence in anticipation.

7. The other crucial influences on the strength and duration of the recovery are the profitability, financing and competitiveness of the company sector. The prospect is of progress, but at a (disquietingly) modest rate.

Thus:

- (1) For non-oil companies the rate of return on capital expected to rise from 2 $\frac{1}{4}$ % in 1981 to 4% by 1984. But that is less than half the 1973 level, and a third of the average for the early '60s and almost certainly/less than our competitors will ^{much} achieve.

- (2) Companies' external financing needs look like being a continuing constraint on growth in output - and employment.
- (3) Our unit labour costs relative to our overseas competitors are set to go on falling from their 1981 peak. But even by 1984 they could still be 15% above their far-from-ideal level of 1979.

PRIORITIES

8. This assessment suggests clear priorities over the remainder of our period of office. We must not take the economic recovery for granted, but continue to do all we can to sustain it. We ~~have no choice but to~~ ^{must} consider what more can be done about unemployment. We must think hard and be seen to be taking seriously the various dangers, which threaten us in the international environment. We must not put at risk our strong points - particularly falling inflation and lowering taxes. And in so doing we must at all costs preserve and strengthen domestic confidence, and the integrity of our policies for money, a lower PSBR and control of public spending - without which that confidence would vanish. What might we do, and how, to achieve all this? First, the policies.

Recovery

9. We must obviously reject conventional stimulation. Not only would it bring no dividend but, worse than that, it would bring on a downturn far sooner than would otherwise happen. The (three) key elements to focus on are in rates, business finance and enterprise. (d.com)

PERSONAL AND CONFIDENTIAL

and business finance

10. We can look at interest rates, which I hold to be the most important, in two ways. First we must ~~do all we can to ensure that we so~~ ^{so} conduct monetary policy that we can continue the falling path to which we returned late last year. We must take care not to run an unduly tight and rigid monetary policy, [as I fear we may have done inadvertently occasionally in the past]. We must keep the PSBR firmly on a downward path. And we must do all we can to ensure that our interest rates are not swept up by 3 or 4% in days, as they were last autumn, if US interest rates go through the roof again. Second, we must continue to look carefully at the cost and availability of finance to industry. In particular we must not rule out further ^{directed specifically to them} measures ~~if~~, as is the case, we cannot be confident that the general level of interest rates will come down as much as one would like.

11. As far as enterprise, smaller businesses and innovation go, I judge we have probably done most of what is possible on the tax front. However there is undoubtedly much more we could do to remove the non-fiscal obstacles to enterprise. Moreover immobilism, an absence of effective publicity and a lack of sense of driving purpose in the community at large mean that we still have vast dividends to reap from the measures we have already introduced. Progress in this area may not generate large numbers of jobs quickly, but it is quite vital if we are to lay the foundations for lasting growth, and to create the necessary confidence that we have done so. That conviction could count for a lot when we come to an election.

Under both
12. Or the kind with four members - 6 - that there is some anxiety that we may not be able to sustain the last 2 years' wage devaluation, even though this may be necessary for production and

There is a much more determined commitment of mind than time to carry this
PERSONAL AND CONFIDENTIAL
Notes 2 way round

Unemployment

12. Even if output grows a good deal faster than we expect, that will probably be due to higher investment (which displaces some jobs) and higher productivity. So it is unlikely to lead to a greatly better path for unemployment. *So in an unlikely way* The only way to get that is by measures which, however unappetising, can take people off the register directly. We have made a modest start recently with the scheme I put forward in the Budget. Subsequent experience has shown already that we have to fight desperately hard to get acceptance for an approach which does not involve an unacceptably high cost per job and a consolidation rather than weakening of excessive wage levels. But there are, I suspect, further useful measures we could contemplate if we are prepared to be tough.

Moreover the tenor of public opinion and the dangerously misleading publicity surrounding the "cost of unemployment" and the Len Murray question leaves us dangerously exposed if we refuse point blank to do anything else of this type. [I think we can take it, too, that the public spending survey will throw up more ideas of this kind, as has last week's report by a House of Lords Committee.]

International anxieties

13. There are several issues here. The threat of another hike in US interest rates already referred to is probably the most serious. There are two ways of dealing with it. The direct route - pressure on the Americans to cut their deficit - is one we are pursuing anyway, and we cannot expect a great deal from it. So we must concentrate now

on how best we can side-step any upward movement in US rates, whether on our own or in concert with others.

14. Then there is the doomsday talk about a shock to the international financial system (perhaps caused by defaults by sovereign borrowers), which at its worst might usher in another Great Depression. I really doubt that such a shock could approach ^{the} 1930's experience, such is the sophistication of Central Banks today, and the extent of international collaboration. But the risks are nonetheless there, and need careful attention.

15. On top of that we must show we are 'doing something', if only to cover ourselves against the criticism that we keep our heads, ostrich-wise, in the sands. The Economic Summits help, but I suspect they count for little, and I am considering whether we should adopt a higher profile on such matters.

Preserving our key objectives and achievement

16. No measures such as these will be of much use if they or other things we do jeopardise our basic economic strategy. U turns on public spending, the PSBR, monetary control, or even the prospect (bad enough on its own) of rising rather than falling taxes could separately or together lead swiftly to a major loss of confidence. Interest rates would rise, the exchange rate would plummet, and the economy would be turned down irreversibly for the remainder of our period of Government. Our standing in the markets today reflects a painful and difficulty-won recognition

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that we seem to do what we said we would, and a growing belief we will carry on that way. Cast doubt on it, and we throw away all our hard-won gains.

ACTION

17. Some of the policy areas touched on above are matters for us alone, for example the monetary and international issues. But others demand a decisive and well orchestrated effort not only from Ministers, but going well beyond. Publicising and building on our enterprise programme, identifying and removing further hindrances to business growth and mobilising all the heterogeneous groups who can help with the unemployment problem are altogether bigger exercises. We can lay the foundations with clearly defined responsibilities for the colleagues, more emphasis on particularly vital initiatives and coordinated plans for action. But we would achieve so much more if we could harness the party in Parliament, local Government, and the country; industry and the chambers of commerce; and some of the professions and voluntary organisations.

18. These are not vague aspirations - there are already plenty of concrete examples of what could be done:

- our experience with the business opportunities programme already shows how the accountancy profession, chambers of commerce and a motley range of (often) improbable groups can greatly amplify and broadcast the basic message. Even the Labour party might join the act:

- the recent modest but practical CBI initiative to confront order-hungry British firms at a well organised conference with dozens of examples of other British firms who seek British suppliers was a major success:

- already Michael Heseltine is proposing to repeat the exercise in Liverpool. But we could do much more in this area:

- Local Government is a major source of obstacles to enterprise. Our people control a good deal of it, and are active nearly everywhere. But have we even talked to them systematically about the problems at the level of, e.g. the ACC, let alone induce them to take part in any concerted campaign?

- local enterprise agencies and enterprise zones are full of promise. But are we doing all we can on the ground to help them deliver?

- we have few contacts with the voluntary sector over the existing schemes to help the unemployed. Yet they are a crucial element in achieving a big impact.

19. These are no more than illustrative thoughts, which call for careful discussion. If we wish to achieve something in all these priority areas, we shall have to begin by a concerted Ministerial effort; and a number of key Ministers - for example Cecil Parkinson, Willie Whitelaw, Michael Heseltine, Patrick Jenkins, (George Younger, Nick Edwards), you and I will have to give them continuing attention. That effort will need some backing at the

PERSONAL AND CONFIDENTIAL

centre, too. Your office and mine could play a part, but the CPRS might be best placed to shoulder the main burden.

20. If we can set the ball rolling soon on these positive things, before the summer recess if possible, there should be just enough time to register some real achievement before an election.

CONFIDENTIAL

POSSIBLE QUARTERLY PATH OF KEY INDICATORS 1982-4

		<u>RPI</u>	<u>Unemploy'm't</u>	<u>Employ'm't</u>	<u>RPDI</u>	<u>Interest Rates</u>		<u>GDP</u>	<u>Manufacturing Output</u>	
		<u>% increase on year</u>	<u>Narrow def.th.</u>	<u>Millions</u>	<u>1979I=100</u>	<u>Short</u>	<u>Long</u>	<u>Index 75=100</u>	<u>% increase on year</u>	<u>Index 75=100</u>
1979Q.I		9.6	1,355	25.05	100	12.7	13.4	108.0	-	105.0
1982	1	11.6	2,845	22.94	101.4	14.3	14.9	105.0	3.9	101.0
	2	10.5	2,899	22.87	99.8	13.6	14.4	105.4	3.7	102.0
	3	10.9	2,942	22.82	99.2	13.5	14.1	105.9	2.0	102.0
	4	9.0	2,968	22.79	100.2	13.5	13.9	106.6	3.0	103.0
1983	1	8.6	2,934	22.81	100.6	13.5	13.8	107.0	2.1	103.0
	2	7.5	2,970	22.81	100.7	12.8	13.2	107.7	2.3	104.0
	3	7.3	2,993	22.81	101.0	12.9	12.8	108.7	2.1	105.0
	4	7.1	2,993	22.83	101.9	11.5	12.4	109.5	2.2	105.0
1984	1	6.8	2,997	22.85	102.4	11.2	12.0	110.2	2.3	106.0
	2	6.5	2,971	22.88	103.3	10.8	11.8	110.9	2.1	107.0
	3	6.3	2,976	22.89	103.7	10.5	11.6	111.6	1.8	107.0
	4	6.0	2,960	22.90	104.5	10.0	11.3	112.2	1.6	108.0

Source: 1982 MTFG. Internal Treasury Projections.

RESTRICTED

RH



FROM: ROBIN HARRIS
DATE: 24 June 1982

CHANCELLOR—

cc Hon P Brooke MP
Mr Ridley
Mr French

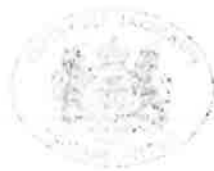
BACK-BENCH ENVIRONMENT COMMITTEE: 22 JUNE

... I attach a note of the meeting (about which you asked) on "de-planning" addressed by Tom King. (I wonder whether structure plans should be accepted as being "with us always"?)

You also asked about the Defence Committee Meeting. That addressed by Mr Nott was in fact an ad hoc affair. Mr Brooke may be able to advise you on what happened. The regular meeting was attended by a CRD officer who tells me that nothing significant was discussed.

RH

ROBIN HARRIS
24 June 1982



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Conservative Urban and Town Planning Back-bench Committee

22nd June 1982

Chairman Anthony Steen MP

Speaker Tom King MP to speak on deplanning

1. Reducing burden of planning

Difficult to estimate but 580,000 applications in 1979-80 down to about 350,000 in 1982-83. Difficult to identify GDO element - perhaps responsible for a reduction of rather more than 50,000. Circular 22/80 instructed planning authorities to take a more positive and less 'fussy' line e.g. in change of use cases.

Making authorities publish the number of applications and speeding up processing can have a beneficial effect, as can local press comment. Speeding up of planning appeals since General Election. Despite DoE manning cuts more (outside) planning inspectors introduced - more will be done to encourage private involvement.

Structure plans. In existence since 1979. About 70 cover the country, approval has been speeded up - now about 65 approved, only 16 in 1979.

Clamp down on local plans: only to proceed where there is a need. Out of 3000 proposed in 1979 only 800+ now exist.

Theme: need for some planning, if only to resolve conflicts between individuals in a locality. Need for a coherent framework. But it can grow bureaucratically, so restraint needs to be applied by Government.

Questions

- [?]
1. Do we need structure plans? Yes, to provide a framework.
 2. Problems with converting farm buildings i.e. change of use.
 3. Suggestion that outline planning becomes the norm i.e. planning agreements should not involve detailed requirements.
 4. Question on starter homes.
 5. Suggestion that allowing a mix of usage in inner cities will halt urban depopulation i.e. presence of small businesses will bring an area to life - the 'mix' will make cities more habitable.

Conservative Research Department
32 Smith Square
SW1

24 June 1982
EGM/TK

Administrative Report on the Progress of the Project

1954

Summary of the Project

The purpose of this report is to provide a summary of the progress of the project during the year 1954.

1. Objectives of the Project

The main objectives of the project are to determine the effect of the treatment on the growth of the plants and to determine the effect of the treatment on the yield of the plants. The project was carried out during the year 1954 and the results are reported in this report.

The results of the project show that the treatment had a significant effect on the growth of the plants and on the yield of the plants. The treatment increased the growth of the plants and the yield of the plants. The results are reported in the following sections of this report.

The results of the project are reported in the following sections of this report: 1. Growth of the plants, 2. Yield of the plants, 3. Discussion of the results.

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2. Growth of the plants

The growth of the plants was measured by the height of the plants and the number of leaves. The results show that the treatment had a significant effect on the growth of the plants. The treatment increased the height of the plants and the number of leaves.

The results of the project are reported in the following sections of this report: 1. Growth of the plants, 2. Yield of the plants, 3. Discussion of the results.

3. Yield of the plants

The yield of the plants was measured by the weight of the plants. The results show that the treatment had a significant effect on the yield of the plants. The treatment increased the yield of the plants.

Please return to Chancellor on 82/2

Chancellor of the Exchequer's speech to the Conservative Political Centre conference in Cambridge on 3rd July 1982.

1. The Conservative Consensus

This is an appropriate moment in the life of the Government, the Party and the nation, to take stock. Three years into our first term of office it is time to look at past achievements and failures and to consider the policies required for the next Parliament. We can take comfort in three things. First, we are riding higher in popular opinion, than anyone would have expected of a Government in mid-term. Second, we enjoy a greater degree of support for the broad thrust of our policies than we have ever done. Thirdly, in spite of some inevitable disappointments, we have not, as so many Governments do at this stage, run out of ideas, drive or stamina. As a Government and Party, we are more determined than ever to press forward with our programme to reverse Britain's decline.

Those happy circumstances surprise our critics. Though the idea that we are the "Stupid Party" has had its day, the feeling still lingers in some circles where our support should be great

/that Conservatism,

that Conservatism, if robust, is insensitive. In part, we are to blame. Language and tone are often as important as content and policy. The notion that under each Conservative exterior a racist, sexist bigot struggles to get out is ridiculous but far from dead. The reality that in liberating the forces of enterprise we are strengthening opportunities for ethnic minorities and for women is not grasped ~~as~~ it should be. Nor are we always sufficiently sensitive to the needs of these groups for policies that are positively designed to help them over real obstacles and difficulties. Because policies that are in truth constructive are not always sympathetically explained, they are often misread and misrepresented, either by accident or design. All of this we must work to change.

The reality is that, as Conservatives, we are uniquely equipped to carry out the tasks which people wish Government to perform; but otherwise to stand aside, and get Government off people's backs. We stand for the rights of minorities, for a liberal culture and a liberal economy; to enlarge
/opportunities for

opportunities for the poor and the weak as well as for the rich and the strong. We want the whole of society to benefit from the fruits of a stronger and healthier economy.

Both our Party's traditions and our own generation's political experience make us feel this way. In our scepticism of devices and panaceas, and in our concentration on people; in our understanding of the importance of combining individual freedom with social compassion, we draw on the best of Toryism and Liberalism. Those instincts which we inherit through tradition have been strengthened and sharpened through the experience of recent years.

In more than one way, today's Conservative Government represents the 'Bow Group' generation. We are strongly committed to economic and social policies founded on freedom. We are attached to and have faith in the potential of individual effort. We want to harness that effort to the common good. On the basis of sound economic growth we want to

/see a high

see a high quality of social provision for those who cannot cope. We are committed to the rule of law rather than the authority of the State. We place more emphasis on motivating and persuading people than in fiddling with the structure of institutions. We want to see Government do less - but do it better - and people do more. In the best and true sense of the word, we are liberal ~~Conservatives~~.

By misreading and misunderstanding history, Marxists wrongly draw - or at least drew - comfort from the notion that history was on their side. In a more modest but more accurate way we in the Conservative Party can look to history for support. That is so for three reasons. First, our voice is the voice of ordinary people. It reflects their real interests. They want to own the homes in which they live, to have a stake in the businesses for which they work. They want to see economic power devolved from monopoly trade unions and monolithic public corporations to individual workers and to smaller business units. They want to have more choice

/about where

about where and how their children will be educated, about where and how their sick should be cared for. On every one of these points, we are alone in offering them the prospect of real progress. Absurdly, that is not the way people look at us or our policies. We must make it a prime aim that they should, and banish the fake image of wealthy, heartless individuals, selfishly pursuing their own interests and putting forward brutal and sometimes incomprehensible policies. The perception that our policies coincide with people's interests is not sufficiently widespread. We must make it so.

Secondly, and equally reassuring, is the fact that our voice is also that of the international consensus of free nations. The international community is moving more and more towards our point of view, particularly on matters economic. At Ottawa, Helsinki and most recently at

/Versailles,

Versailles, the message from heads of governments was the same. France is the latest convert. They seek, as we do, a stable inter-national order through the defeat of inflation, lower budget deficits and liberal trading policies. Like us, they wish to make markets work in the interests of the international community. Three years ago most people spoke at best patronisingly of the "Thatcher experiment". Today the tone has changed. The debate is more often about how quickly our policies can be expected to bear fruit. For the pursuit of financial prudence, as an essential condition for attaining sustainable growth and fuller secure employment, is becoming the norm not the exception. And the exceptions - all too sadly for those countries concerned - serve to prove the rule

/The third reason

The third reason why our approach is historically sound is that it is firmly directed towards the longer term. Both our instinctive Conservative caution and the lessons of recent experience make plain that there are no quick or easy ways to reverse long term economic decline. And it is long term decline which we have to reverse. Under successive governments during the last two decades unemployment and inflation have been rising together. Under successive governments our share of world trade has been declining: it halved between 1955 and 1980. And as we lost our markets we lost the jobs and relative living standards which flowed from them. Our task in this Parliament has been to tackle the fundamental causes of that decline. In the next it will be to set Britain firmly on to the road to higher growth and fuller employment.

We are not, of course, alone in claiming to have the answers to Britain's long term problems.

/The Labour Party

The Labour Party and the SDP-Liberal Alliance now make the same sort of claims too. That is not surprising. For the electorate have stopped believing politicians who promise short term remedies. Let me for a moment examine the alternatives.

Within the Labour Party only the far left entertain ~~a~~ long term vision. But it is one which most people find deeply repugnant, and one which Labour's leaders have generally tried to conceal or deny. More nationalisation (with or without compensation), more planning 'agreements', exchange and import controls, the direction of investment - all accompanied by the enthronement of union power: this is the apparatus of the siege economy. So irresponsible are the Labour Party's financial policies that such a programme might prove necessary - though it would certainly not be sufficient - to keep the economy afloat at all. But what is certain is that it would be incompatible in the longer term with a free political system; by some indeed it is intended

to be - for them that's one of the attractions. For those still in the Labour Party who shrink from such a path, there is the "national economic assessment", indicative planning and reflation. But those who served in the last Labour Government know all too well that the nemesis which befell them in 1975-76 would certainly do so again - and much more quickly, given the tougher world economic conditions in which we now live. Their heart is not in it.

The Social Democrats too claim a long term vision. The recreation of a credible and acceptable alternative government on the liberal Left will probably prove a long term task. I, for one, would not grudge them a role in that future.

So too I welcome the tempestuous decline of the Labour Party. It is still too early to conclude that Labour's sickness is terminal. The brand label is still one of the most attractive

/in the world, still

in the world, still able to command
instinctive loyalty of many working
equally instinctively recoil from the
of Mr Benn. It is important that the
and truly unappetising, nature of today's
Party should be even more plainly perceived.

By contrast, the Alliance have been
ask questions and (sometimes) to offer
answers to Britain's real problems. They
that inflation cannot be ignored. They
at least to some extent, the damage that
by trade union Luddism. They grasp that
is a limit to the desirable or possible
of the public sector. They have doubts
planned economy. They are starting to look
towards ways of achieving wider equity
and limited company structure for national
industries.

But the great changes which have to be
effected in Britain's economy and society are
important to be managed by those who, in the

/Labour Party

Labour Party, presided ineffectually over years of decline. When the Alliance parties have accepted and understood the consensus of the social market economy as thoroughly as Chancellor Schmidt, they can perhaps be taken seriously as parties of Government. They must clearly and finally stop advancing the same failed policies which they administered. Till then the British public would be wise, and I think is likely, to conclude that well-meaning uncertainty is no substitute for clear policies, firm leadership and a sense of direction. The Alliance have a serious role and mission, all the same. That is to help shape the other voice in the debate about Britain's future. We must be sure that they are given enough thinking time to achieve that purpose and to sort out what they want to say.

On the basis of this analysis we can move forward to considering policy for the next Parliament. We do not do so with any kind of complacency. With such tragically high unemployment figures, there could be no excuse for that. That level of unemployment is, above all, the price the /country is

country is paying now for failures over many years past: the failure to embrace - rather than to put off or fight - necessary changes in the economy, and the failure to combat inflation. But that is no reason for giving low priority to the fight against unemployment. Indeed it is in the campaign for more jobs that the whole range of our policies must, in time, secure real and lasting gains. That is why we attach so much importance to progress with deregulation - in order to encourage those jobs to be created. And it is why we will not be diverted by other transient problems from the need to make Britain's economy more competitive, so that we can win orders and hold our own in tough international markets.

That means taking a deeply realistic view of what we can afford and of our position in the world. It means being sensible about defence and other spending programmes. It means not entertaining delusions of international grandeur but

/rather developing

rather developing constructive and enduring relationships with our partners in the European Community. It would be a tragedy if the real advantages in trade and jobs which flow from EC membership continued to be obscured by unfair budgetary arrangements. That underlines the importance of securing a fair and lasting settlement of the European budget problem. It means promoting and defending a liberal trading system throughout the world. Commonsense and realism, not make-believe, are important in every aspect of our national and international affairs, if we are to tackle effectively the great economic problems which have plagued us so long.

2. Policies for the Next Parliament

2. Policies for the Next Parliament

The Conservative approach, then, is a profoundly practical approach to tackling Britain's long term problems and offers the only acceptable vision of her long term future. Much of our first Parliament has been taken up with overcoming the Labour Government's disastrous legacy of high inflation and unrealistic plans for public spending. Moreover, we have had to do this during a deep international recession. We have been riding out a world-wide economic storm. The price of oil is now some 25 times its level of 1970. The world has faced two oil shocks, each reducing OECD output by the equivalent of 2 percentage points. The growth of the OECD economies and the growth in volume of world trade have halved since 1973. World markets are more volatile. We inherited a wage explosion from the Labour Government. Our competitiveness was seriously damaged by a doubling of our unit labour costs between 1975 and 1980. We have had to overcome long standing problems without the cushion of international prosperity to make the remedy less

/painful.

painful. Not even North Sea Oil was enough to offset that.

Yet this first Parliament has seen firm foundations laid in economic and social policy on which we can build during the rest of the decade. A return to modest but sustainable economic growth will allow many of those achievements to bear fruit. Increased incentives through our first Budget's cut in marginal income tax rates, deregulation of business activity and help for small firms: all of these will continue to yield results. And our continuing struggle to rein back public spending will be shown to be worthwhile if, with more economic growth, it begins to take a smaller ratio of GDP. In countless ways a more buoyant economy would allow potential gains to become real ones.

But relying on growth alone to solve our problems would be quite unrealistic. Past Governments have constantly fallen into that trap. Unrealistic projections of growth have led to unrealistic

/commitments and

commitments and spending plans. So we have to think hard about ways in which we can preserve realistic totals for public spending - and gain room within which to prune the worst features of our tax system. For that is essential for sustained growth.

Even within the relatively generous scope accorded to speakers on occasions such as this, no attempt to spell out policies for the decade could be comprehensive. And, necessarily, much of what I have to say touches upon areas where firm decisions have yet to be made. But I can make clear what I believe should be the heart of our approach.

It is to continue in three main directions. First, and no-one should doubt our determination in this, it is to tackle the root causes of the scourge of unemployment which weakens our economy and threatens to embitter our national life.

Second, it is to reduce the fiscal and regulatory

/burdens of

burdens of the State on people and business and to promote the enterprise which they stifle.

Third, it is to extend choice as widely and effectively as possible.

/Curbing Unemployment: reform of the
labour market

3. Curbing unemployment : reform of the labour market

Unemployment is a great evil. No party understands better than ours, with our philosophical and practical commitment to self-fulfilment, the frustration and waste which unemployment brings. But customers, not governments, generate lasting jobs. It is the operation of markets, the willing response to the need for innovation - that is of choice - rather than the actions of government, which offer the best hope of fuller employment. Of course, we are right to do all we can to match large expenditure on special employment programmes with the natural desire for opportunities for real work. But even with direct government action of this kind, it must remain our object to complement, and not frustrate, the working of the labour market.

The fundamental causes of today's lack of competitiveness and loss of jobs lie deep in the past. Not all are understood. Lost markets have meant lost jobs. Part of our uncompetitiveness has resulted from misguided government policies - over-spending, over-borrowing, over-taxing and inflating. And manipulation of the exchange rate

/did little or

did little or nothing to ameliorate the consequences. Between 1967 and 1976 the effective exchange rate fell by over a half; but competitiveness improved by only about a tenth as much. For domestic costs, particularly wage costs and prices, rose quickly to offset our original competitive advantage. Of every £ of increased demand, 95p went on imports and higher prices; only 5p on higher output.

The unpalatable lesson is that we have to deal with uncompetitiveness through higher productivity and higher profits, and lower wage and other costs. And we have to restore badly squeezed levels of profitability. For it is the pressure on company profits and finances which has forced today's workers on to the dole queue and aborted tomorrow's investment and tomorrow's jobs.

In the long and the short term it seems certain that real wage inflexibility, excessive bargaining power, irresponsibly exercised, and restrictive practices have been major causes of unemployment. Successive governments have tried to tackle the /problems.

problems. The Industrial Relations Act, the Employment Act, and the measures in the current Employment Bill are all attempts to restore order and balance to the labour market. All have been resisted by trade unions, determined to achieve wage levels and conditions which could only be secured at the expense of jobs. But there is growing evidence that the link between pay and jobs and the crucial importance of profits are being grasped - at least outside some union leaderships. It is far too early to proclaim victory on this front. In a sense, indeed, the battle for economic reality is never won. But, from Plymouth to Port Talbot there is a good deal more commonsense.

We must build on that understanding. The exchange of views in which we engage regularly at the NEDC is one way of doing this. It should be the rule not the exception at every level of industry. We shall need to consider whether unions themselves should be made more democratic to reflect this growing understanding. Already we have done much to protect the rights of non-union employees. There

/are arguments

are arguments for moving further to give the unions themselves back to their members by ensuring that they have a genuine say in the conduct of the union's affairs. That could be a first step towards a reformed and de-politicised trade union structure, genuinely reflecting the needs of tomorrow's industrial life - rather than the assumptions of a century or more ago.

We have also to remove the inflexibility in the labour market which government, employers and unions together have conspired to achieve. Old assumptions need to be challenged. Is there really a case for wage councils imposing minimum rates which frustrate market forces? Can we afford to move so painfully slowly towards a revived, de-regulated private rental sector of housing which would allow people to move quickly and easily to find jobs? How long must we wait for the pension funds to respond to the pressure for early leavers' benefits?

/Adaptibility

Adaptibility and mobility are the preconditions for an efficient labour market. And only efficient labour markets can provide tomorrow's jobs.

/ 4. Reducing Controls

4. Reducing Controls

I have long been convinced that de-regulation is vital to create an encouraging environment for enterprise and jobs. Over the years governments have lost sight of how and why wealth and employment are created - that is by satisfying customers. As a result they have bowed to calls from sectional rather than general interests to inhibit and to control.

Already we have made major steps in reversing that process. Price, pay, dividend and exchange controls, Industrial Development Certificates and Office Development Permits: all have gone. And the burdens of employment law and planning controls have been eased.

However, we must go further. We need a searching scrutiny of all the regulations procedures and restrictions which still inhibit

/enterprise.

enterprise. Even during international recession and high unemployment, so-called secondary and tertiary businesses can and do flourish. They offer real hopes of new employment. But they need to be free to do so. In Britain, the instinctive answer to the question: "Can I do something?", is too often "No" instead of "Yes". The de-control which has played such a vital part in the success of our 11 Enterprise Zones - a concept which I launched in a speech on the Isle of Dogs, only four years ago - has potential application throughout the economy. The lessons of this experiment should be carefully absorbed by everyone involved in local government.

The counterpart to de-regulation is the promotion of competition. Both are vital to make markets work and generate growth and jobs. More competition is a vital ingredient in the search for efficiency and value for money. We

/have strengthened

have strengthened existing legislation by making it possible for any individual firm's anticompetitive practices to be investigated and stopped. We have given the Monopolies and Mergers Commission the power to look into every aspect of nationalised industry's efficiency, be it costs, operations or working procedures. The Commission have already produced invaluable reports, and we have now taken steps enabling them to continue and expand this role. We have also acted to curb effective monopolies in telecommunications and in transport, benefiting industry and customers alike.

5. Taxation

We are firmly resolved to continue to try to reduce the burden of personal taxation. It is worth remembering exactly why that is of such importance.

The reasons for reducing high marginal rates are no less compelling now than they were in 1979. Their damaging effects have been well set out by Monsieur de Larosiere, Managing Director of the IMF, in a lecture in March:

"At those high marginal tax rates, individuals are likely to substitute leisure for work; consumption for saving; non-taxed activities for taxed ones; to rely more on underground activities; to become less compliant with the tax authorities; to become more wasteful vis-a-vis deductible expenses; and generally to be less concerned with efficiency. The net result will be that the supply of resources is likely to fall and the factors
/of production

of production will be less efficiently allocated. When high marginal tax rates are combined with high rates of inflation all these effects become even more pronounced. In sum, when the tax burden is already high, it becomes increasingly difficult and costly to finance additional public expenditure through tax increases."

These were the problems we sought to tackle in our first Budget. We made fundamental cuts in the basic rate and in the higher rates of income tax. This brought the top rate into line with our European partners and significantly improved incentives. The more desirable balance achieved between tax on spending and tax on earning was a vital step in increasing incentives. We must continue to ensure progress in that direction, remembering there are few income levels at which thresholds are not of significance, as well as rates.

/Our second area

Our second area of achievement has been on capital taxation. We have corrected the worst features of capital transfer tax, raising the thresholds significantly and reducing the rates. This has removed from the tax net a high proportion of the estates which would otherwise have been liable and removed most of the deterrents to lifetime giving.

We have also introduced radical changes to capital gains tax, removing the double charge, raising the threshold and more especially tackling the long-standing injustice of taxing paper gains which have arisen from inflation. We have not, of course, been able to go as far as we would have wished. Nor have we necessarily arrived at an ideal solution. But we have undoubtedly moved towards a fairer basis for the tax than the one we inherited.

Thirdly, we have introduced four enterprise

/packages in as

packages in as many budgets, aimed at helping small businesses start up and grow and encouraging individuals to invest in them. As many entrepreneurs - would-be and successful - have told me, this has produced a sea-change. The tax system now works positively in favour of smaller businesses: instead of against them.

The most radical innovation was the Business Start-Up Scheme which the CBI described as "one of the most important contributions any Government has made towards encouraging the starting up of new firms". Coupled with the Loan Guarantee Scheme and the Venture Capital Scheme it provides a bold and imaginative array of small business incentives unprecedented in any other country.

Finally, our fourth area of significant success has been in using the tax system to promote wider ownership. That is a fundamental social as well as economic aim. Since we took

/office, the

office, the number of employee profit sharing and share option schemes has risen from 30 to over 400, covering some 270,000 employees. Our privatisation proposals have been accompanied by special provision for employee share ownership too - as in the cases of British Aerospace, Cable and Wireless, and Amersham. We continue to attach great importance to employees — at all levels having the opportunity to build up a capital stake. Our aim is wider ownership. And our housing policy, of course, is equally aimed in that direction. A quarter of a million council tenants have bought their homes since we took office, and by the end of last year almost half a million right-to-buy applications had been received. Conservative Governments have always encouraged home ownership: under post-war Conservative Governments the proportion of the population owning their homes doubled. It is a tradition we intend to continue.

/We have to

We have to reconcile ourselves, however, to major obstacles which must slow the pace of the progress we should like to make.

The constraints on pursuing further and faster the path of tax reform are well known. The first, of course, is the momentum and size of public spending programmes and the need to raise revenue to finance them responsibly.

The second is our inheritance of legislative lumber. We believe in pursuing a simplification of the tax system to make it more intelligible to the man in the street and less complex in administration. But we have to find a sensible path between simplicity which may be commendable for fiscal reasons and the survival of reliefs which though anomalous are designed to serve a social purpose.

/The third is

The third is that whatever the merits of particular reforms we cannot lose sight of the fact that implementing fundamental changes in a complex manual based tax system is expensive and time-consuming. The computerisation of the PAYE system balanced against any move towards tax self-assessment is, therefore, likely to be a major factor in shaping the future.

The fourth is the important political consideration that it is bound to be difficult to introduce major improvements and reforms to the tax system on a revenue-neutral basis. All too often there are, in the jargon, nasty and often unexpected "distributive" effects lurking in the woodwork. 'Losers' always seem to outnumber 'gainers'; and the 'losers' know that they will lose, while the 'gainers' doubt whether they will really gain.

These considerations apply to each of the major policy areas which we have to consider. It's

/worth setting

worth setting out the basic issues. Would it be appropriate to reform and reduce the level of reliefs in personal and corporate taxation? And to what extent could we reconcile such reduction with our broader social aims? Again, how far can we deal with the obvious inequities in the taxation of savings? We cannot easily justify, in a society that needs to look with favour on risk-taking and innovation, a specially high rate of tax on investment income. Nor is it easy for ever to accept that self-help and thrift in provision for retirement is better encouraged through institutional than through private saving.

Not the least intractable problem is, of course, the poverty trap. In order to cater for those in need, successive governments have raised benefits and allowed real tax thresholds to drop in order to pay for them. The effect on incentives is undoubtedly harmful. Even renewed economic

/growth will

growth will only provide a solution here so long as it is accompanied by continuing restraint on public expenditure.

What is clear is that we have to continue to combine boldness in analysis with caution in implementation. The technique of advancing carefully through extensive consultation on the issues involved, which has governed much of our work this far, needs to be still more widely applied. It is the only way to safeguard the quality of tax legislation.

We would not, for example, think it wise to attempt any reform of company taxation without the most thorough prior consultation of the type we have tried to generate through our Green Paper on Corporation Tax.

Equally we could not contemplate moving towards a structure of personal allowances

/that was less

that was less dependent on sex or marital status, without testing opinion through the our Green Paper on 'The Taxation of Husband and Wife'.

Our future programme will only emerge as a result of the most careful consultation. We firmly believe that issues should be set out for full public debate before decisions are taken.

/6. Inflation and Interest Rates

6. Inflation and Interest Rates

The speed with which we can introduce desired tax reforms necessarily depends on our ability to curb inflation and control public borrowing. So the next area to be considered is our financial policies. The experience of these last three years confirms the importance of having a medium term strategy for reducing the rate of monetary growth and the size of public sector borrowing as a share of our national income. Our aims were, of course, to tackle inflation on a lasting basis and achieve lower interest rates for businesses and families alike. The crucial test was the 1981 Budget - denounced by our critics as wilful folly. We were widely expected to respond to the pressures of the recession by reflatting the economy in traditional, if perennially unsuccessful, fashion. Instead, we continued to treat the fight against inflation and the maintenance of downward pressure on interest rates as our first priorities; and to that end we were prepared to increase some taxes.

/As a result,

As a result, to the perplexity of our critics, there was a fall in interest rates and economic recovery began. This was indeed what we foresaw.

This was because we realised that the connection between beating inflation, lowering interest rates and controlling public spending is close and crucial. Lower inflation itself paves the way for lower interest rates, more confidence, and less acute problems for industry and financing expansion. A lower PSBR makes for lower interest rates, less difficulty in controlling the monetary aggregates, and hence surer control of inflation.

We should never forget that inflation is a great moral evil. Nations which lose confidence in their currency soon lose confidence in themselves. As a result of our policies inflation has come down fast, interest rates have fallen and economic recovery, albeit slow and somewhat hesitant, has begun. International problems - in particular rising US interest rates - checked that progress in the last quarter of 1981. Of course, the international trading environment is not buoyant and the prospects for our own economy are necessarily bound up with those of the

/world economy

world economy. The outlook is now for a resumption of growth in world activity, though the pace of this will obviously depend on how soon American interest rates decline from their present damagingly high levels. At home it would be possible to destroy our achievements, and force up unemployment still further by irresponsible pay-bargaining. But provided we hold to our strategy for bringing down inflation, the prospects for renewed sustainable growth in the years ahead are encouraging.

The lessons are clear. We must press on in the next Parliament with bringing down inflation and inflationary expectations. Inflation is less than half the level reached in the spring of 1980; in single figures; below the average for major European countries; and still falling. We will be the first government in a quarter of a century under which the average inflation rate during our term of office is lower than that of our predecessor. But we have to go further. It is not so long since one of my Conservative predecessors,

/Derek Heathcote Amory,

Derek Heathcote Amory, presided over a whole year of zero inflation. With other OECD countries achieving lower inflation we cannot afford to ease up. Our inflation rate is still three times that of Japan and almost twice that of Germany. For us to have the sort of inflation rates to which they have become accustomed would be the single most important boost to industrial confidence and competitiveness which government can provide. And since past inflation and the expectations it aroused are the major cause of today's unemployment, the defeat of unemployment would be advanced immeasurably by the defeat of inflation. This is why our policies to control inflation are policies to fight unemployment. The pressing forward of a strategy of limiting money growth and Government borrowing in the next Parliament is therefore essential. What we have to do is to ensure that the defeat of inflation is permanent and is seen to be so. We have to encourage further reductions in the rate of increase in nominal costs and pay and clearly establish a trend towards price stability. This approach is essential in order to encourage and sustain lower long-term interest rates - so important to achieving sustained economic growth.

7. Public spending

As I said in my first Budget statement, "Finance must determine expenditure, not expenditure finance". So a closely related and equally important aspect of our policy must be the control of public spending. Of course, the rise in public spending as a share of our national income is in some measure a long run phenomenon, and not one unique to Britain. But it is the post-war growth of spending in the 1950s and 60s with these momentum we now principally contend. It was believed that high economic growth rates would continue indefinitely. And politicians vied with one another in promising ever more costly electoral inducements. It is promises of that kind which set the long term trend so firmly in the wrong direction.

For too long, the control of public spending has been regarded as a negative exercise aimed at frustrating improvement. That is totally wrong. In fact, through the disciplines and pressure which arise from the need to control public spending, governments have been spurred on to overdue changes and reforms. That is true both in economic and social policy.

/Let me stress

Let me stress here that our analysis of Britain's problems is not the result of some revolution in economic or social theory. The balance of measures, may, and should, change. But the understanding and the aims which underpin them have been consistent and developed gradually through the years.

It is twenty-three years since Tom Hooson and

/I, in our CPC/Bow

I, in our CPC/Bow Group pamphlet, "Work for Wales", called for "courage in facing facts, courage in making policies, and courage in adapting the Welsh economy swiftly to the new era". But alas! it is only in the last three years that the people of my home town of Port Talbot have been obliged to discover that 5,000 people can make as much steel as 12,000 people had been employed to do. "The longer we avoid facing reality", we wrote in 1959, "the greater will be the hardship when we are eventually obliged to do so".

For too many apparently comfortable years the warning went unheeded. And so the long term difficult questions continue to crowd in upon us today.

Let me give some examples. Do we aim to find ways of providing better for those in need without increasing burdens on the private sector?

/Yes, we do.

Yes, we do. Today's question, and today's right response, are still along the lines that I suggested, in a CPC pamphlet, "In Place of Beveridge", as long ago as 1965. Do we now recognise that it is not by more regulation but by less that we can encourage wealth creation? And do we acknowledge the tension between the protection of the public interest - on health and environmental grounds - and the need to liberate enterprise? Again we do. In my days as Minister of Consumer Affairs and as Shadow Chancellor, I tried to address those problems in two other CPC pamphlets in 1973 and 1977 ("Action for the Consumer" and "Too Much Law").

For much longer than that, Conservatives had publicly questioned whether subsidised universal provision would effectively help those in need. Recent research has confirmed the earlier findings of Fabians like Professor Brian Abel-Smith, that subsidies in housing, transport, education and health give more help

/proportionately

proportionately to the better off than to the poor. And they encourage waste, inefficiency and lack of cost-consciousness in the organisations which provide them. In fact the experience of the Conservative Party - and my personal experience in Opposition and in Government - reflects the experience common to all in public life. We have seen confirmed, in different circumstances and on different occasions, the analysis and prescriptions which, as Conservatives, we would instinctively adopt. So as to limit the risks of mis-government, we have striven to produce a healthier balance of countervailing forces against the rigidity of bureaucratic inertia.

What threatens that balance above all, is the unresponsiveness of a burgeoning public sector. And the best way to loosen the grip of the public sector is by fostering that balance of interests which the market provides through 'competition'. We entertain no prejudice against those who work in the public sector. No Minister worth his salt

/could fail to

could fail to appreciate the work of his civil servants. And no politician should underestimate the great problems which nationalised industry managements have faced over the years. Yet the fact remains that the spontaneous countervailing pressures of competition do not apply within large parts of the public sector. This is one reason why the problems have remained so intractable. I was struck only recently by the observation in a speech on 2 June by Sir Robert Marshall. Persuasively and fairly he listed the problems which he faced as Chairman of the National Water Council. And every one seemed to me a reflection not of the defects of individuals at a particular time or place, but of the inherent nature of the public sector itself.

It cannot, for example, be good for our institutional arrangements to do as much as they do to encourage the management of the Health

/Service or British

Service or British Rail to make common cause with those whom they employ in seeking to enlarge their resources not through higher efficiency but through campaigning for more public money. Nor can a situation in which some sectors of the economy insist that not only their jobs but their terms and conditions of service - however manifest the overmanning and inefficiency - must be regarded as immutable, at whatever cost to the taxpayer. All too often they do so by means of industrial action. Too few people in the public sector feel that they can advance themselves through success at work rather than by doing battle in the political arena. Too few people in the public sector - not least because of the hopelessly over-centralised structure of much of our administration - have any opportunity whatever by their own efforts to influence their own working environment. That is wrong, and it can be dangerous.

/ That is one

... That is one reason why private ownership and competition are ideas whose time has come. They came long ago. In a speech to the Selsdon Group last August, I drew attention to the paradox that "given the immense unpopularity of nationalisation, not least among Labour supporters ... the Conservatives (until recently) shrank from undoing it." Well, we shrink no longer. And we will go further, as I shall explain. But the vital point is that our policies and programmes, our whole approach, have been justified by events. It has become in truth a Conservative consensus.

8. Privatisation: industry

The growing problems of nationalised industries and local government have highlighted and reinforced the case for more privatisation. We do not pursue this case because we entertain an irrational prejudice against publicly owned industry. Nor do many people now regard it, as they used to do, as another round in a doctrinaire game of tit-for-tat. It is a highly practical attitude, based on many years of unceasingly sad experience, which have led the large majority of people to the same conclusion. Already in this Parliament major steps have been made. British Aerospace, Cable and Wireless, the National Freight Company, some British Rail subsidiaries, parts of British Steel and various NEB shareholdings have been sold. BNOC's exploration and production activities and the British Transport Docks Board's ports should shortly follow them into the private sector. Beyond that there are firm plans for selling British Gas's oil interests, and also British Airways as soon as it is back on the road to profitability.

We must go further. Public utilities and the so-called "natural monopolies" cannot all be allowed

/to remain

to remain without change or challenge within State ownership. Increased competition must be accompanied by progress towards more real public ownership - ownership by the public, not by the State. This may require new structures for managements and accounting. It may also require the institution of regulatory bodies to protect the public interest and ensure fair competition. But the moral of the ceaseless debate between Government and nationalised industry managements about investment and efficiency and between the industries and their customers on prices and service is simple and fundamental. It is that State ownership and control should be displaced or supplemented, wherever sensibly possible by the discipline and pressures of the market place and of some degree of private ownership.

9. Privatisation: Local Government

A similar moral can be drawn from our difficulties with local government. We face immense problems in trying to ensure that our national policies for the revival of Britain's economy, for more growth and jobs, are not thwarted by the inertia as well as, in some cases, the ill-will of local councils. The origins are as much constitutional as economic.

We must not, though, lose sight of the longer term problem which underlies present difficulties. Generally speaking spending in local government has over many years risen faster than in Central Government, and (since the end of the last century) faster than GNP. In the early 1930s, and in the late 1960s, local government lost control of a whole range of services which were transferred either to Central Government or other bodies. It is that, rather

/than other factors,

than other factors, which accounts for the relative fall in local government as a proportion of total government spending. So the fact that, after losing so many functions, local authorities are still responsible for some 25% of total public expenditure and unable or unwilling to limit their demands upon the rate payer, while about half of their expenditure is met by the taxpayer, is deeply worrying.

In the past the only effective way of achieving notable reductions in local authority spending has been through the transfer of services elsewhere. That may yet be true again. If so, it should be to private enterprise not the state or its agencies that such a transfer of functions must be made.

We must strengthen local government's accountability and reform the rating system. We must combine sensible central management

/of the big

of the big issues with a high degree of local autonomy. All that is very difficult to achieve. But this much is crystal clear: the more private individuals and businesses can be brought to perform some part of what is now performed by local government, the easier those problems will be to resolve.

10. Privatisation: Social Policy

Putting markets and competition to work in the nation's interests is not just a policy for industry or local government. It is an approach which has as yet barely impinged upon the apparatus of the welfare state. Yet there are powerful reasons why we must be ready to consider how far private provision and individual choice can supplement or in some cases possibly replace the role of government in health, social security, and education. Many of these reasons are economic. But it is important never to lose sight of other reasons too. As Conservatives, we believe in true 'devolution' - that is, not setting up new layers of bureaucracy, but devolving power and responsibility to the lowest level. More flexibility and adaptability result. Monopoly and quasimonopolies make for bad, slow decision making, misuse of resources and exploited, frustrated customers. That is no less true in welfare than in commerce .

/In the whole

In the whole debate about social policy political prejudices and irrational expectations have been dominant, rather than cool-headed analysis. The use of economic pricing of services is currently restricted to only small areas of the programmes concerned. Opening up the supply of a much wider range of goods and services to something approximating to the market place may be a way of enriching and enhancing the quality and variety of what is provided.

In some cases, a system of charging can help to direct resources where they are most required and at the same time induce a sense of priorities among recipients of the services involved. In some cases charges might be a preliminary to some form of private sector involvement. As we develop our thinking along these lines we must never cease to proclaim that the objective of such an approach is not to defend a rump of privilege for the few, but to enlarge the bridge head of choice for the many.

/The need to

The need to reform our system of social provision would be pressing on public spending grounds alone. The social security budget constitutes about a quarter of total public spending. About 80% of it is effectively indexed. It is all demand determined.

The burden of funding retirement pensions alone has risen in real terms by over 60% in the last decade. Yet our GDP grew by only ^{some} ~~5%~~ ^{10%} over the same period. The Health Service budget continues to grow so as to accommodate a real growth in services. Education spending, because of difficulties in adjusting provision to take into account falling pupil rolls and because 65% of the programmes goes on staff costs, is only contracting slowly. Local authorities find it difficult to adjust provision in line with falling rolls. This overall picture of increasingly heavy burdens placed upon the working population by those not in work is not

/confined to

confined to Britain. For the seven major industrial countries the ratio of total public expenditure to GDP rose from 29% in 1965 to around 37% in recent years. In all cases, entitlement programmes and other transfers were the main source of that expansion.

The way forward must embrace a constant readiness to review our commitments and to consider market mechanisms as a means of promoting greater cost-consciousness and of extending choice. We must meet the increasingly frustrated demands of society in a fair and efficient way.

Take health. Contrary to what our critics claim, we have increased planned spending on the Health programme by about 6% in real terms. We accept the need to provide an adequate standard of health care for all, regardless of their means. We want to keep the best of the present system while looking for new ways of tackling its weaknesses. This means, in particular, considering

/the scope for

the scope for more consumer choice, more cost consciousness and more private provision. Private health insurance is already one of Britain's growth industries. By 1981 the number of people covered by private health insurance schemes had risen by over 70 per cent since 1978. We must encourage that proportion to grow faster and ensure that it is by no means confined to the better off.

/Another and

Another and closely linked issue is the role of voluntary organisations. Over the decade to 1980, the number of registered charities increased by over 25,000, that is by 28%. Of these the number of non-education charities increased by a third. In the personal social services, the amount of voluntary effort has been estimated as greater than that provided through local government's statutory services. The 'voluntary' effort represented by the family itself cannot, either, be overrated particularly in case of the elderly. That is something we need to encourage. My 1980 Budget contained important measures to encourage charitable giving. But there are major questions which still have to be tackled. What scope is there for a further movement towards encouraging voluntary effort in personal social services? And, with unemployment the grave problem that it is, are there ways in which the charities could be brought individually or collectively together to provide jobs for young people and more care for those in need?

/A similar

A similar approach could be attractive in education as well. Widening choice, encouraging private provision, ensuring more flexibility, while improving value for money: those are our proper goals. The 1980 Education Act was a significant step towards ensuring parental freedom of choice and encouraging parental involvement. A voucher system whereby parents, would have an even greater choice of schools for their children and whereby standards might be raised through more competition is one possibility.

Student loans to encourage greater responsibility and self-help are another. Perhaps there is scope for more community involvement in the financing and management of local schools. All these approaches, to the extent that they are compatible with our over-riding public spending and monetary objectives, are worthy of serious consideration.

/Conclusion

Conclusion

All of these policy areas are of deep concern to ordinary people. In all of them our approach of widening choice and ownership, of de-regulating and of making markets work in the common interest is widely accepted. Few seriously believe that the Socialist alternative, in whatever guise, could do other than ~~harm our~~ economic prospects and worsen the outlook for long term material and social improvement. The Conservative Party has taken upon itself the mantle of reform. It is we who advocate and implement change; the other parties and the inert power blocks and the vested interests they represent which oppose it. We must try to present our programme for the next Parliament in that context.

The crucial determinant of our ability to do so will be confidence. The abiding importance of the much discussed "Falklands factor" will probably be two-fold. First, it has increased confidence in our ability to see difficult decisions through, both at home and abroad. In itself, that may have desirable economic consequences. Secondly, events there have graphically

/demonstrated

demonstrated the supreme importance of individual heroism and personal endeavour, of people - not institutions - working together against enormous odds to turn humiliation into victory. Our aim must be to build on and increase that confidence which people feel in us and in themselves. We must look ahead and share with the public what we see. For this we know: our long term vision is also theirs.



FROM: P S JENKINS
20 July 1982

MR RIDLEY

cc Mr Kemp
Mr R I G Allan

THE GOVERNMENTS REGIONAL AND INDUSTRIAL POLICIES: CONSERVATIVE
RESEARCH DEPARTMENT PAPER PIC(82)3

The Chancellor thought that the attached paper put together for the supply day debate on July 14 an extremely useful and effective summary. I have passed this on to Peter Cropper.

2. The Chancellor has suggested that it might be worth considering a distribution of the paper in some form to certain outsiders - possibilities include Walter Goldsmith, Joe Egerton and even possibly the CBI. He would be grateful for your advice.

3. Central Unit may find the paper of some use as a quarry for speeches etc.

PJ
P S JENKINS

CONFIDENTIAL

Ref: PIC(82)3

THE GOVERNMENTS REGIONAL AND INDUSTRIAL POLICIES

It is hoped these notes will be ^{Useful} useful for the supply day debate on July 14th 1982.

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Pls see PC + L.R. ✓ done
Linda Rice.

(Primarily
(U + EB main
copies?)

ANR:
with copy
a distrib. to
certain articles?
Gordon?
Egerton?
CBI??
Adrian

Conservative Research Dept.,
32 Smith Square.

LR/hn
13.7.82

THE GOVERNMENT'S INDUSTRIAL POLICY

The government's industry policy has three objectives:

- * creation of a climate in which industry can flourish;
- * positive action to make markets work more freely;
- * positive stimulation sharply focussed on those areas where this is a cost-effective use of taxpayers' money.

The industrial climate. The government's main contribution has been the fight against inflation. Inflation makes planning for the future hazardous and so delays investment; it sours industrial relations and puts pressure on wage costs; it hampers competition with overseas producers; and it forces up interest rates.

The government has, despite the difficulties in recession, maintained downward pressure on its borrowing and financed its deficit responsibly. Inflation is down sharply, and interest rates, already 3½% lower than in the autumn, are still on a downward trend. The government cannot undo the effects of high US interest rates - yet it can and it has refrain from adding further to industry's problems.

Market efficiency. The government has abolished pay, price, dividend and exchange control. The 1980 Competition Act provides new and effective methods for dealing with restrictions on competition.

The Employment Act 1980 and the Employment Bill are steps taken towards achieving a more appropriate balance of bargaining strength between employers and trade unions. Some of the rigidities in labour markets introduced in the 1975 Employment Protection Act have been removed, and the government has lost no opportunity of stressing the link between levels of pay and job security. Wage Councils have been instructed to take more note of conditions in the labour market when setting minimum wages, and the Young Workers Scheme subsidises the employment of young people where this is at a realistic level of pay.

Labour mobility is crucial to an efficient labour market. The sale of council houses to tenants is of great value here. So too is the work of the National Mobility Office, which helps in the allocation

of public sector housing where people want to move for job reasons.

The planning regime has been streamlined, particularly as it affects small businesses. Enterprise zones in specific locations are showing the potential which exists for further measure of deregulation. The system of issuing Industrial Development Certificates in non-assisted areas, supposedly to encourage investment in assisted areas, was suspended in December 1981, since the scheme impeded development and rarely had its desired effect.

Reduction of the State Sector. However firm the financial discipline imposed on the state sector, it can never reproduce the effectiveness of the market in increasing efficiency. Yet, improved efficiency in the state sector is crucial to the creation of a better climate for industry. The government's achievements in reducing the size of the state sector are summarised at Appendix A. The aims of its policy for the state sector are:

- Where possible to return nationalised industries or their subsidiaries to the private sector:
- To remove statutory backing the state monopolies, and minimise the extent of monopoly operation;
- to pressurise nationalised industries to greater efficiency, and open them up to scrutiny by the MMC;
- to ensure that the state is an intelligent purchaser of industry's goods and services, with a helpful and constructive relationship with suppliers.
- to encourage local authorities to introduce more privatisation in their areas.
- to review and to improve the efficiency of central government.
- to devise a system of remuneration for state employees which recognises the realities of the labour market and the economic realities.

Government stimulus to industry: The government maintains that the most effective boost to British industry will come from lower inflation,

lower interest rates, moderation in labour costs and continued improvements in productivity. It has also acted to cut employers' National Insurance Surcharge and reform the system of stock relief. More specific stimulation is, however, cost-effective in some areas:

- * Small businesses. A battery of measures has been designed to make it easier for new and small businesses to raise loans and equity finance. The tax climate in which they operate has been transformed; the weight of bureaucracy upon them has been reduced; and the advisory services available to them have been strengthened.
- * Technological developments. The government has a clear role in supporting basic research, and in promoting new products and processes which would otherwise not be developed. It has taken unprecedented steps in promoting awareness and adoption of new technologies, in particular in the field of information technology. Increased investment in BT (over £2 billion per year) will allow the complete modernisation of Britain's telecommunication network, and this and measures to liberalise the telecommunications monopoly will greatly facilitate the development of IT industries in Britain. Support is also given to accelerate development in microelectronics, robotics, fibre optics, computer-aided design, biotechnology and other advanced technologies.

The NEB and NRDC have been merged to form the British Technology Group, which aims to spur technological progress in co-operation with the private sector.

- * Help with investment. Companies operating in Britain receive considerable incentives through the tax system to invest in their businesses. Companies may deduct 100% of the cost of most capital goods from profits for the purposes of Corporation Tax.

The government actively encourages inward investors to Britain by publicising this and the specific investment incentives in the designated regions (see below) and under other Industry Act provisions; and by its sound financial policies which create a climate attractive to overseas investors.

The DoI Invest in Britain Bureau spearheads the government campaign to attract inward investment to Britain. Norman Lamont pointed to the folly of "the growing proliferation of local agencies attempting to mount their own campaigns in different parts of the world". He said that this is wasteful of public money, and confusing and irritating to the potential investor, and concluded:

"I do not believe we can allow it to continue". (Brighton, 1st July, 1982).

* Help with exports. The government is active in promoting worldwide free trade, because Britain depends upon trade for its prosperity. Where competition is unfair, the government accepts its duty to act; but as far as possible, it has aimed to achieve fair competition by persuading other countries to abandon subsidies and protection.

Through Ministerial visits, export credits, aid and trade provisions and greatly improved co-ordination in support of firms pursuing major export orders, the government ensures that Britain's exporters receive assistance as good as that available to their competitors.

The old, declining industries. Patrick Jenkin has said:

"Over half my Departmental Budget goes to supporting the casualties of the past. Every one due directly to past Government interference". (CBI dinner, 24th May 1982)

There has been continued determination to ensure that support of this kind will be temporary and tapering, and that it is used to return the recipients to commercial viability.

Regional Policy. The government accepts that every country in Europe has particular regions which need special support. The characteristics of its regional policy are:

* selectivity. When Labour left office, 40% of the workforce was in designated areas. However, the evidence is that regional policy becomes less effective as it becomes less selective. Following changes announced on 17th July 1979 and 28th June 1982, the regional map has been redrawn, and assistance concentrated upon 27% of the workforce. Within that total, the differentials

between incentives to special development, development and intermediate areas have been increased.

* stability. If investment decisions are to be affected by regional policy, that policy must be stable and predictable. In downgrading areas to increase selectiveness, the government has proceeded slowly, and phased the process where more than one step (e.g. special development to intermediate status) has been involved.

* value for money. The criteria for regional selective assistance under section 7 (and general assistance under section 8) have been tightened (a) to include only those projects which would not go ahead without it; and (b) to concentrate on the provision of increased efficiency and more productive and more secure jobs.

* flexibility. The government has responded to changed circumstances in the regions. For example, Shotton became an SDA and Corby a DA, in December 1979. Port Talbot became an SDA and Newport, Cumbria and Scunthorpe became DAs in July 1980. All these designations were in response to steel closures. In July 1982, Teesside became an SDA and Rochdale and Rossendale a DA, again in response to their changing fortunes.

* attractiveness to investors. The government has been concerned that regional aid should be in a form most effective in attracting investors to designated areas. In addition to general help with investment, more tailored incentives are available:

- Help with training costs. In April 1980, an in-plant training scheme was introduced under section 7 which offers grants for training costs in SDA's and DA's. This is a positive move to attract new industries and modern technologies to the regions.
- Provision of advance factories. The English Industrial Estates Corporation and the Welsh and Scottish Development Agencies remain active in the provision of factories in the regions, ready to meet the demand from new investors. This has proved a very cost-effective way of attracting firms to the regions, particularly since the Industry Act 1980 has

increased the scope for private sector involvement.

The Development Agencies. Mr Lamont made the following statement in Brighton on 1st July 1982:

"It is often alleged that in the field of overseas promotion the English regions - especially the Assisted Areas in the North and South West - are treated shabbily by comparison with Scotland and Wales. The promotional agencies in those countries, it is said, have resources far superior to any available in the English regional associations - the North of England Development Council and others. I admit that there is something in this argument. I met the Chairmen and Directors of the four English Regional bodies on 1 April and I was impressed by what they had to say. I hope to meet them again in the course of the next few weeks to talk about the grant which we pay to them and which is coming up for renewal next April. I am inclined to agree that there should be greater equity of treatment between the component parts of Britain and that the English Regional Agencies should indeed have more money.

"But - and this is a vital consideration in my view - I would only consider a really sizeable increase in the contribution we make if I could be certain that each Regional Organisation was going to lead and actively co-ordinate the overseas effort on behalf of its region and that local authorities and New Towns were going to put their own resources behind that regional body rather than trying to maintain independent and unco-ordinated activities overseas."

PUBLIC EXPENDITURE ON INDUSTRY

	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>
<u>Department of Industry</u>									
<u>Regional and general industrial support:</u>									
1 Regional Development Grants	392	385	406	312	474	598	353		
2 Provision of land + buildings	15	17	24	24	30	45	23		
3 Selective assistance to industry in assisted areas	25	24	68	54	42	52	50		
4 Other regional support				1		1	1		
5 Residual expenditure under repealed sections of the Local Employment Act 1972	-6	-5	-5	-7	-3	-1			
6 Selective assistance to individual industries, firms and undertakings	51	46	93	53	49	62	66		
7 National Enterprise Board	23	33	45	70	49	41	25		
8 Investment grants	26	7	3	1					
9 National Research+Development Corporation	-5	-6	-6						
10 Other support services			1	1	2	3	4		
11 Future industrial support						6	12		
TOTAL	519	502	629	509	644	807	534	680	590
<u>1 Scientific + technological assistance:</u>									
2 General industrial research and development	43	46	57	86	102	122	167		
3 Aircraft and aero-engine general research + development programme	20	20	16	19	24	30	33		
4 Space	34	35	34	37	44	59	50		
TOTAL	98	100	106	142	344	212	249	280	300

	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-4</u>	<u>1984-!</u>
<u>Support for aerospace, shipbuilding</u>									
<u>steel and vehicle manufacture</u>									
1	48	48	42	23	36	32	29		
2	72	2	12	104	117	193	91		
3	1	5	50			5			
4	71	-92	-18	-30	-31	-45	-38		
5	44	22	38	59	67	55	58		
6	14	35	20	48	70	82	72		
7	2	3	8	22	40	100	43		
8	100	325	174	150	300	620	360		
	<u>351</u>	<u>349</u>	<u>326</u>	<u>376</u>	<u>599</u>	<u>1,043</u>	<u>606</u>	<u>60</u>	<u>-</u>
Other central and miscellaneous services									
	<u>25</u>	<u>29</u>	<u>32</u>	<u>35</u>	<u>42</u>	<u>48</u>	<u>51</u>	<u>50</u>	<u>50</u>
Total Department of Industry	<u>993</u>	<u>980</u>	<u>1,094</u>	<u>1,062</u>	<u>1,628</u>	<u>2,109</u>	<u>1,440</u>	<u>1,080</u>	<u>940</u>

LABOUR'S INDUSTRIAL POLICY. The most recent policy document from Labour was "Labour's Programme 1982", published on 24th June 1982 in "Labour Weekly". This will be voted on at the next Party Conference, and if it is accepted, will represent party policy. The industrial policy elements are:

Planning agreements. Major companies will be required to negotiate agreed plans with a new planning bureaucracy (see below). These will cover "purchasing policy, import penetration, investment plans, pricing strategy and training policy".

They will be backed by statutory powers, "to ensure companies participate constructively." Companies complying will benefit from relaxed price controls, preferential access to credit, protection by import controls and discretionary financial support. Other statutory powers to be taken include "powers to issue directives on a wide range of industrial matters: to invest in individual companies or to purchase them outright by statutory instrument approved by Parliament; to exercise discretionary control over corporate purchasing policy; and to put an Official Trustee in temporary control of companies which fail to meet their responsibilities."

Planning bureaucracy. We are promised:

- * a new Department of Economic and Industrial Planning, with more powers than the old Department of Economic Affairs. It would be staffed by graduates from a new National Planning College. The corollary would be a weaker Treasury, which would be effectively a Ministry of Finance with no control over public expenditure.

- * a "strong Cabinet Committee for Economic Planning" chaired by the new Secretary of State for Economic Planning, which would "re-inforce the commitment of the government to full employment and industrial revival." In other words it would ensure that financial responsibility did not prevail.

- * a National Planning Council superceding the NEDC, with "more resources and greater powers". This also would be chaired by the Secretary of State for Planning. It would contribute to the national economic assessment, and to the five year national plan, which would have "significant sectoral content." We are told: "The aim will be to translate this information and analysis (ie the national plan) into action"

at company level." This would be the basis of the statutory Planning Agreements with companies, discussed above.

Trade Union Power would increase significantly.

- "The trade union movement would be able to make a systematic and detailed input into national planning."
- "The ability of trade unions to participate actively (in planning within companies) will turn on new statutory rights":
 - *Rights to information about company finance and policy;
 - *Rights to consultation through "workplace planning committees"
 - *Rights to "parity representation on the board".
- The Employment legislation of the present government would be repealed, restoring the uniquely powerful and privileged position the unions enjoyed up to 1979. In addition:
 - *Labour will create legal rights for unions to organise effective industrial action without being subjected to legal challenge."
 - *Labour will support effective union membership (ie closed shop) agreements which have done so much to stabilise bargaining arrangements and improve industrial relations in this country. "
- Mr David Basnett has said that the unions would be involved in the operation of the Price Commission (London 15 March 1982)
- Mr Michael Foot has said that there would be discussions with the unions in drawing up the Budget. (BBC Radio 4, 3 Jan. 1982)
- 'The Times' reported that, at the press conference to launch Labour's plan for jobs, Mr David Basnett "appeared to envisage constant involvement in drawing up policy" (16 March 1982)

This all adds up to a formidable set of powers for trade unions, which would have implications not only for the economy and industry but also for democracy in Britain.

Nationalisation. Labour's Programme promises:

- to renationalise businesses privatised by the government. Mr Tony Benn has pointed out that the policy endorsed by the TUC and Labour Party Conferences is for renationalis^{ation} without compensation. (Hansard, 10th November 1981, col 499). However, Labour's Programme takes the Shadow Cabinet line:

"shareholders should be repaid precisely the amounts which were paid for the assets at the time they were denationalised."

- to restore statutory monopolies in posts and telecommunications, and "restore the rights" of BGC and BNOC.

- to introduce or increase public ownership in electronics (includes proposal to nationalise GEC), pharmaceuticals and health equipment, the construction industry and building materials, road haulage, major ports, forestry and timber products, and North Sea oil.

- to consider taking one or more major clearing banks into public ownership and to take powers to acquire other financial institutions.

The programme says: "We have learned the lessons of past mistakes and will not overcompensate" the owners of businesses to be nationalised.

Regional Policy. Labour set up the Scottish and Welsh Development Agencies in 1975 and 1976 respectively. Labour's Programme 1982 proposes similar agencies for the English regions. It says that Local Enterprise Boards will have a part to play, and that Regional Industrial Planning bodies will also be set up to "develop local and regional economies". This policy represents a proliferation of bureaucracy.

By 1979, more than half the country and 40% of the working population were in areas designated for assistance. Labour's Programme gives no hint of whether they would return to this poorly-focussed approach. Another criticism of the Labour Government's policy is that it lacked consistency. In August 1974, the Regional Employment Premium (a subsidy then paid for employment in designated areas) was doubled. In December 1976, the government announced that it was to be phased out in 1977. Labour's Programme does not indicate whether a more consistent approach is now to be adopted. We are, however, told that the Labour Party and the TUC are currently working on the details of a new regional policy.

Co-operatives. Labour's Programme proposes positive measures to encourage co-operatives, including: "The next Labour government will.. ..provide a statutory right and mechanism for workers in private firms - subject to government consent - to convert their enterprises into a workers' co-operative by acquiring the assets of the firm, and provide assistance for this purpose." No mention is made of the need for the consent of owners of the assets.

In his book 'Inside the Treasury', (Andre Deutsch 1981), Mr Joel Barnett says that the workers' co-operatives financed by the last Labour government (Meriden Motorcycles, Kirkby Manufacturing and Engineering and the Scottish Daily Express) were "sometimes known as Benn's Follies". These ventures were in a poor financial state when they became co-operatives. Labour now plan to try out the co-operative option on profitable ventures commandeered for the purpose.

Sectoral Policy. Two sectors are singled out in Labour's Programme 1982 for special mention. a) Steel. Labour would once again invest in more capacity, despite the fact that capacity worldwide is acknowledged to be excessive. BSC would be required to provide a full range of steel products. Parts of BSC hived off would be renationalised, and "the public sector should also acquire a strong preserve in the stockholding sector of the market". b) Construction. One or more major contractors would be nationalised to form the National Construction Corporation, "a pacemaking public competitor" in the market. Other major contractors would be required to 'agree' Development Plans with the bureaucracy. Direct Labour Organisations would have their activities extended. A holding company - the Building Materials Corporation - would acquire a major stake in the various sectors of this market. A statutory decasualisation scheme would be used, and measures which counter tax evasion under "the lump" would, "if necessary", be strengthened. Demand management would smooth the cyclical pattern of the industry.

Finance for industry. Labour's Programme blames what it sees as "inadequate capital investment" upon inadequacies in the financial system. Methods of correcting this are proposed. There is no recognition that investment demands the prospect of a reasonable return.

No firm proposals are put forward, but possibilities include bank nationalisation and the acquisition by the state of other financial institutions. Mr Callaghan has described the proposal for bank nationalised as "an electoral albatross" (Blackpool 29th September 1976). It would be useful to probe Shadow Cabinet views in this area, and to investigate how the proposals would safeguard the pensions and other savings of the customers of the banks and institutions involved.

General Economic Policy. Labour's promised reflation would probably destroy the economy before their industrial policies could destroy private enterprise in Britain.

They propose import controls and withdrawal from the EEC, both of which would bring retaliation against our exports. Increased government borrowing, and devaluation would lead to inflation, and import controls would also put up the level of prices. The proposed cuts in VAT and NIS, together with subsidised nationalised industry prices, could only have a short-term palliative effect. Price controls could only reduce the profitability of the private sector, particularly since Labour's Programme states: "We have made clear our opposition to any policies of wage restraint."

The Programme appears to have as its objective, the destruction of the private sector and the jobs therein. Britain would be left with a bureaucratic planned economy, of the type so conspicuously unsuccessful in Eastern Europe.

SDP Policy. The SDP have recently published three policy (Green) papers:

- No 1 "Towards Full Employment" (7th June 1982)
- No 2 "Partnership and Prosperity" (19th June 1982)
- No 3 "Decentralising Government" (7th July 1982)

There is as yet no official SDP Policy, but these papers represent the views of SDP Policy makers.

Green Paper No 1: Economic Policy

"The PSBR should be allowed to rise both absolutely and as a percentage of GDP".

An uncosted package would be introduced "selectively and gradually" to include items from the following: VAT cut, NIS Abolition; increased current and capital spending; NI subsidies.

A further £1.3 billion per year would be spent on special employment measures.

This reflation would occur: "only if the inflation constraint is not endangered by excessive wage demands." If prices and incomes policy fails, what would happen to reflation and to unemployment?

An exchange rate policy would keep a "competitive index" steady. Initial devaluation would claw back ground already lost.

- This is not consistent with ERM/EMS participation.
- As they admit: "There could be initial short term difficulties."
- They propose temporary import and exchange controls to help.
- Devaluation would boost inflation and put pressure on incomes policy.

Incomes Policy: List of desired characteristics:

- permanence
- flexibility
- decentralised
- involving a minimum of "allocative inefficiencies and inequities."
- gradually redistributive
- working with not against markets
- generally accepted to be fair.
- "cannot be entirely voluntary".

The Liberals go further on the last: " I most certainly believe that for an incomes policy to succeed, the government of the day may have to provide a statutory framework." (Hansard, 27th July 1982, col 840).

Even if it is accepted that incomes policy could be a permanent answer, and that a perfect system could be designed, the SDP would still have to explain how they would obtain union acquiescence. The Liberal's economic spokesman Mr Richard Mainwright has asked: "How can we credibly present to the voters a policy which is based on the bland assumption that the TUC is going to change its heart and mind overnight?" (Llandudno 18th September 1981). The only SDP reference to this key issue has come from Mr Dick Taverne: "We may have to face a trial of strength in the public sector, I hope we can avoid confrontation." (Financial Times, 10th October 1981).

In fact, three possible "precise mechanisms" are discussed (including the inflation tax), but none are found fully to fill the bill. This is put out for further discussion.

The Green Paper admits: "There is no hope of sustaining expansion and keeping unemployment on a downward trend without establishing some means of incomes restraint." Without this vital ingredient, their policies add up to nothing. It is therefore extraordinary that they have yet to arrive at the precise form the policy will take.

Green Paper No 2: Industry Policy

The proposals involve extra expenditure as follows:

- £300 million per year to subsidise industry's interest rates
- £200 million per year through BTG into high risk ventures
- £150-250 million per year into other projects like those of present government - regional policy, training, R&D etc.

It is always easy to spend more on worthwhile projects. It is harder to obtain value for money; and to balance the benefits against the costs in terms of higher inflation and higher interest rates.

Subsidised interest rates would (a) induce government to cover its borrowing outside the market and (b) put the cost of borrowing by consumers, house buyers/owners up. The latter would hurt industry. The former would fuel inflation.

Proposals on BTG smack of Labour's wasteful use of the NEB when in government.

Planning. "There should be no attempt to draw up a grand plan, in the sense of a detailed blueprint for the development of all parts of the industrial economy, but rather a gradual development of policy within each sector informed by an overall view of the sort of developments to be encouraged" - i.e. less planning than the Conservatives - more than Labour.

Selective assistance. Criteria listed make it clear that in selecting sectors and companies within sectors for assistance, the SDP would attempt decisions which should be taken by the market.

A team of industrialists advising the Cabinet could not replace the market. Industrialists (a) would favour their own sector/company and (b) are notably better able to judge investments when their own rather than the taxpayers' money is at risk.

Nationalised Industries

- Competitive industries would be turned into Companies Act companies, and shares sold gradually.
- pressure on others to be efficient, although this is not easily reconciled with plans to give subsidies
- state monopolies need to be under tight control.
i.e. Conservative policy except in emphasis.

SDP Training Policy

- An end to age-restricted time-serving in apprenticeships and a switch to training to agreed standards via a modular system. (Green Paper)
- A remissable training tax (Green Paper).
- A stronger MSC, with a new "geographical" organisation. (Green Paper).
- A basic two year traineeship with third and fourth years for the higher skills. The first year in every case would consist of integrated work and study. (Mrs Williams, 'Guardian', 15.12.81)
- Trainee allowances, including those who stay at school. She could not decide upon the level : "The dilemma...is that the allowance is either too little to motivate the trainees....or is sufficient but impossibly expensive". (Mrs Williams 'Guardian' 15.12.81)

A remissable training tax was one of the ideas put forward by the Government in the White Paper 'A New Training Initiative' (December 1981). But employers would not welcome yet another tax, and the costs of collecting and policing it would be enormous. The old levy/grant system operated by the Industrial Training Boards foundered under the weight of bureaucracy that it involved.

The government has set 1985 as the year in which recognised standards will have been established for all the main craft, technician and professional skills, replacing age-restricted time-serving. Government aid to firms practicing apprenticeship will be made increasingly conditional upon such reforms.

Training 'contracts' are entirely feasible under the Youth Training Scheme (YTS) should firms wish to use them.

SDP plans are uncosted. The one-year YTS will be costing £1.1 billion by 1984-5; a two-year scheme would be extremely expensive especially if the SDP contemplated higher allowances than the £25 now proposed.

Regional Policy . The SDP believe that their decentralisation proposals (see below) would "encourage high-level management to move out of the South East", and cause more public expenditure in the regions and less in London. They propose a ceiling on Regional Development Grant paid "on any one premises", and that the saving would be used to fund a new type of regional employment

premium for highly qualified manpower.

The recent abolition by the government of Industrial Development Certificates has been widely welcomed by industry (see page 2). The SDP propose their re-imposition.

Green Paper No 3 : Decentralisation

Having published one paper on the need for centralised determination of prices and incomes, and a second on the need for centralised planning in industry, the SDP have now published a third on the need for decentralisation in government.

They promise to "try to ensure" that the setting up of a regional tier of government will not add to bureaucracy; and they see no reason to believe that it will add to costs. This flies in the face of accumulated experience in recent years.

The most likely consequence would be higher rates, higher taxes, and more bureaucratic interference.

PRIVATISATION:

THE COST OF NATIONALISED INDUSTRIES

1. Performance of Nationalised Industries 1945-75: Total Government subsidies, capital write-offs and other payments to the Nationalised Industries, amounted to nearly £8 billion (Hansard, 31st July 1975, WA, Co. 630)
2. From 1976/77 when the system of external financing limits was introduced, the burden on the exchequer has averaged £2.5 billion p.a.
3. In 1980/81, the level of the private sector financing deficit was reduced by £1.6 billion, while the level in the public sector rose by £700 million.
4. In 1981/82, 22% of the PSBR was accounted for by nationalised industry financing.

METHODS OF RETURNING INDUSTRY TO THE PRIVATE SECTOR

1. The public issue of shares eg. BAe, Cable and Wireless
2. Sale to employees/management consortium, eg. National Freight Corporation.
3. Placement with institutions/investors, eg. governments holding the British Sugar Corporation.
4. Sale of Assets, eg. BR hotels
5. Mergers, e.g. BR's Seaspeed with Hoverlloyd to form Hoverspeed
6. Contracting out of public services by central government or by local authorities.

SALES OF PUBLIC ASSETS:

SPECIAL SALES OF ASSETS
(effects on public expenditure)

1979-80

	£ million cash
Net reductions in expenditure	
Sale of shares in the <u>British Petroleum Co Ltd</u> (BP)	276
National Enterprise Board - sale of certain shares	37
Sale of shares in Drake & Scull Holdings Ltd	1
New Town Development Corporations and the Commission for the New Towns - sale of land and buildings	36
Regional Water Authorities - sale of land	3
Sale of shares in Suez Finance Company	22
Property Services Agency - sale of land and buildings	5
<hr/>	
TOTAL	370

Revenue offsets to planned expenditure	
British National Oil Corporation - receipts of advanced payments for oil	622
Stamp duty and VAT	7
<hr/>	
Grand total	999
<hr/>	

1980-81

Net reductions in expenditure	
Receipt of premiums levied on the seventh round of North Sea oil licences (less £15 million of payments on licences granted to British National Oil Corporation)	195
Sale of leases of certain motorway service area - sales of land buildings	28
Property of Services Agency - sale of land and buildings	4
Sale of shares in <u>British Aerospace Ltd</u>	43
New Town Development Corporations and the Commission for New Towns - sales of land and buildings	52
National Enterprise Board - sales of certain shares	83
<hr/>	
Total	405
<hr/>	

Revenue offsets to planned expenditure	
Change in level of receipts of advance payments for oil	-49
<hr/>	
Grand total	356
<hr/>	

1981-82

Net reductions in expenditure	
Motorway service area leases	19
British Sugar Corporation	44
<u>Cable and Wireless</u>	182
New Towns	73
Oil stockpile	50
Sale of other stocks	19
<u>Amersham International</u>	64
Forestry Commission	7
<u>National Freight Company</u>	5
NEB subsidiaries	2
Crown Agents - sale of property	7
Property Service Agency properties	1
Government's nil-paid rights in 1982 BP rights issue	8
<hr/>	
Total	481
<hr/>	

Revenue offsets to planned expenditure	
British National Oil Corporation - effect of delivery in 1981-82 of oil for which advance payment was received in 1980-81	-573
<hr/>	
Grand total	-92
<hr/>	

PUBLICLY OWNED SHARES HELD BY NEB
Sales since May 1979

Company	Receipts (£ million)
<u>1979</u>	
Hird Brown	0.4
ICL	37.2
<u>1980</u>	
Brown Boveri Kent (Holdings) Ltd	2.6
Barrow Hepburn Ltd	10.27
Computer and Systems Engineering Ltd	2.14
Fairey Holdings Ltd	21.8
Ferranti Ltd	55.2
Middle East Building Services Ltd	*
New Town Securities (Northern) Ltd	0.13
R.R. Chapman (Sub-Sea Surveys) Ltd	0.35
<u>1981</u>	
Automation and Technical Services (Holdings) Ltd	0.9
Negretti and Zambra Ltd	0.5
System Designers International Ltd	1.19
Energy Equipment Ltd	0.08
ClC Investment Holdings Ltd	+

1982

George P. Brown Ltd. - net proceeds £1.1 million

Consine Ltd. - proceeds to arise from levy arrangements linked to product sales to 1985.

Insac Products Ltd. - certain assets have been sold to Britton-Lee Inc. in return for a minority shareholding in that company; disposal of the remaining assets is under negotiation.

Burndept Electronics Ltd.
Doyce Electronics Ltd.
F.W. Elliot (Holdings) Ltd.
Hydraroll Ltd.
Innotron Ltd.
Powerdrive PSR Ltd.
Sonicaid Ltd.
Thandor Ltd.
NEXOS Office Systems Ltd.

These companies were disposed of to Grosvenor Development Capital Ltd., a private sector company but one in which the National Enterprise Board retain a 29 per cent holding.

Disposal of the assets are in varying stages of completion.

* The proceeds from this sale were a nominal sum of £1.

+ Receipts of £3 million accrued in 1984.

MAIN PRIVATISATION LEGISLATION

Industry Act 1980	NEB
Housing Act 1980	Right to buy council houses
Local Government Planning and Land Act 1980	Direct labour organisations of local authorities.
British Aerospace Act 1980	British Aerospace
Transport Act 1980	Bus licensing, NFC
Transport Act 1981	BR subsidiaries, BTDB
British Telecommunications Act 1981	Cable & Wireless, BT, Post Office
Oil and Gas (Enterprise) Bill	BNOC, BGC
Transport Bill	National Bus Co., HGV testing

FUTURE SALES include:

1. Legislation before Parliament will enable the government to sell its majority share holding in the exploration and production part BNOC, and BGC's offshore oil assets.
2. The Secretary of State for Industry has granted a licence to Mercury, a private telecommunications system, to compete with British Telecom.
3. The Transport Bill presently before Parliament will introduce more deregulation and competition in road transport.
4. Privatisation of the British Transport Docks Board and British Airways.

RESTRICTED



FROM: ROBIN HARRIS
DATE: 22 July 1982

CHANCELLOR —

cc Chief Secretary
Mr Ridley
Mr French

PARTY CONFERENCE SPEECH

Douglas French and I are coming to talk to you about your Party Conference speech tomorrow after prayers. In my sick bed I have been having a few (not, I fear, very detailed or profound but perhaps useful) thoughts about it.

✓ First, you may want to make the tone and content more forward-looking than you have been able to do in recent years. The hardened reflationists will still be clamouring, but the Party faithful will be more willing (some of them anxious) to take a long term analysis than they normally would - particularly because your CPC speech, and no doubt in due course, other leaks and rumours, will have strengthened your 'policy supremo' image.

✓ Second, realism on public spending - though hardly an uplifting theme - does seem one which should have a major place. One thought contained in your 'long term' recommendations was the need to avoid colleagues in their speeches giving costly commitments. Conference could be urged to exert maximum pressure on every level of government to reduce spending and so make tax reductions possible.

Third, no doubt every speech will contain Falklands factors lurking somewhere in them. In view of the attempts in the press, which are not going to go away, to place the 'blame' for alleged unpreparedness on the Treasury, I think that we perhaps ought to deal with the Falklands head-on. First, recall that at no stage did the Treasury place any cash ceiling on operations - as was constantly stressed by the Chief Secretary in the House. Secondly,

but not over-play it (what could lead to "we can't be prepared to...")



TOP SECRET
DATE: 10/15/50

TO: [illegible]
FROM: [illegible]
SUBJECT: [illegible]

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TOP SECRET

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FROM: T F MATHEWS

DATE: 23 July 1982

ppp

~~CHANCELLOR OF THE EXCHEQUER~~

cc Mr Ridley
Mr French
Mr Harris

PARTY CONFERENCE SPEECH

Agreed - already!

The Chief Secretary has seen Robin Harris' minute of 22 July. He has commented that the sick bed has been well used. He wholly endorses this approach. For the Bow Group Speech to be distinctive, he thinks it would be best to concentrate on the international side there.

TM

T F MATHEWS

Mr. Ridley
✓ 29/7
I 17

cc Mr. Kemp
✓ Mr. Allen
29/

FROM: A N RIDLEY
DATE: 28 July 1982

CHANCELLOR

cc Mr Kemp
Mr R I G Allen

THE GOVERNMENT'S REGIONAL AND INDUSTRIAL POLICIES:
CONSERVATIVE RESEARCH DEPARTMENT PAPER BIC(82)3

Mr Jenkins' minute of July 20 asked for advice on whether it might be worth distributing the Research Department's brief of the above number prepared for the July 14 supply debate to a number of outsiders. In particular he had in mind Walter Goldsmith, Joe Egerton and even possibly the CBI. My own view is that it might be sensible to get it into the hands of the Institute of Directors and Egerton; but I would not bother with the CBI. If ~~the Chancellor~~ agrees, the Special Advisers can do what is required easily enough.

AN

A N RIDLEY

Mr Ridley
Mr French
Mr Harris

For further advice to the Chancellor, please.



FROM: ROBIN HARRIS
DATE: 29 July 1982

RH

CHANCELLOR — 2

cc Mr Ridley
Mr French

PUBLICATION OF CPC SPEECH

The text which you approved for publication has now gone to David Knapp. There is, however, one point still outstanding: the title. I understand that there is no rush to decide this. It can wait until the text is in galley stage. Perhaps "the Conservative Consensus" might be appropriate? Or perhaps "Towards the next ~~£~~ Parliament"? If you make a decision in this matter while I am on leave, no doubt Douglas French will relay it to David Knapp.

Best I can think of;
but not very good

'Consensus' is too vague
a word. Any ideas?

Alternative is - as at £ -

a sort of PC I/PC II thing, like

'Laying the foundations'

or

'Laying the foundations'

RH

ROBIN HARRIS

29 July 1982

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From: DOUGLAS FRENCH

29th July 1982

CHANCELLOR OF THE EXCHEQUER 12/2

cc Mr Ridley
Mr Harris

TITLE OF CPC SPEECH

Little for this ✓
↓

✓ David Knapp seems keen on the title "Conservatism in the Eighties" which is simple but I think quite good. I am not quite so happy about "The Conservative Consensus" because there are passages which do not represent consensus and many people have not forgotten Mrs Thatcher's views on that word. Equally "Towards the Next Parliament" would probably give it a much shorter life in which it was regarded as "saleable". Perhaps "The Conservative Decade" might be suitable?

Douglas French

DOUGLAS FRENCH

pwf

From: DOUGLAS FRENCH

30th July 1982

CHANCELLOR OF THE EXCHEQUER

cc Mr Ridley
Mr Harris

I would suggest "Building on the Foundations" might be slightly more apt than "Laying the Foundations". I would still, however, favour something along the lines of "A Decade of Conservatism" or "The Conservative Decade" (as in my minute of 29th July). Alternatively, perhaps, "Conservatism on Course" or "On Course for Conservatism".

to Please replace to Direct

I note for it

SpW

*In the letter now
Conservatism - the 80s'*

Douglas French

DOUGLAS FRENCH



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

6 August 1982

The Rt. Hon. Francis Pym MC MP
Secretary of State for Foreign and
Commonwealth Affairs

De Francis

I trust you will pardon me for disturbing your holiday with a letter about business. As you will see, the matter I want to raise with you requires early thought and, possibly, some fairly early action involving us both.

As the Prime Minister explained after last Thursday's Cabinet we are now enjoined to consider launching some policy groups, and I have been asked to undertake the co-ordination for all this in consultation with Cecil Parkinson and with the support of Research Department. We need to consider soon both the composition and terms of reference of the groups to be set up if we are to get the most out of them, whether on matters of presentation or substance, without cutting across work or decisions already in the making within Government. Our timetable requires us to get reports back by March at the latest, and hence to start work fairly early in the Autumn.

To that end I need to agree Chairmen and terms of reference as soon as is conveniently possible. I have been able to have discussions with most colleagues (not all are involved, of course) who are still at their desks. This letter serves to open a similar dialogue with you.

The general brief for all the policy groups will be on lines of "to identify tasks for a Conservative administration during the rest of this decade, and make proposals for action where possible. Where this is not possible, to identify subjects for further study". The particular group about which we must think together is that suggested for EC matters. I attach draft terms of reference which Peter Cropper has prepared as a first rough cockshy, together with a note of who in the Conservative Research Department might provide the Secretariat.

As far as terms of reference go, I think it is right that we should not have a group which goes more widely into foreign affairs. The terms of reference are confined pretty strictly

/to presentation,

PERSONAL AND CONFIDENTIAL



to presentation, but you may feel it sensible to venture to some extent into the policy area as well.

Turning to the matter of Chairman, the general line being followed is to seek suitable backbenchers wherever possible. This is not always easy; and there are other candidates of whom one must take account. In particular one whose virtues are pressed on me in this particular context is Lord Hugh Thomas. I do not myself know him, but have no reason to think him an unsuitable Chairman. Obviously your views on this will be important.

As far as the members of the group go, it is clearly important that we seek to put together a fairly balanced collection of people. Choosing them is somewhat less of a priority than is settling the Chairman and terms of reference. In discussion with other colleagues we have not sought to restrict the membership in any particular way. Obviously there are a number of MPs, MEPs or Peers who maybe particularly suited. But we should certainly think carefully of others who belong to or support the Party who may have a useful contribution to make. I do not have any rigid views about numbers, but have generally been suggesting that they should fall somewhere between 5 and 12.

I shall be going on holiday between August 11th and 22nd, but will be back in London for a few days before the Bank Holiday. What I would much like to do is to arrange that we should either meet briefly in that period if you are in London, or at least have a chat on the telephone if that is not inconvenient. Indeed, I may have a shot at this during the coming weekend. I shall be asking my office to arrange this if it is possible. If we are not able to speak to each other, it would be very helpful if you could let me have any preliminary reactions, however briefly, on paper.

GEOPFREY HOWE

A handwritten signature in black ink, appearing to be 'G. Howe', written over a horizontal line.



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

PERSONAL AND CONFIDENTIAL

11 August 1982

Rt Hon Douglas Hurd, CBE MP
Foreign and Commonwealth Office
Downing Street
London S W 1

A handwritten signature in dark ink, appearing to read 'Douglas Hurd'.

As I depart on holiday, I am writing to you to follow up our recent contacts about policy groups. Though we have covered a lot of important ground, there remain a good many uncertainties which we need to resolve soon. To that end, as I suggested when we spoke, I should most welcome your further considered views on chairmen, members and terms of reference, ideally (alas) in writing by the last week in this month when I shall be briefly back in the office.

There is one particular point on which I should value your advice. In identifying candidates for both chairmanship and membership we have ended up with a rather south-east, not to say metropolitan flavour. I should be most interested therefore in any names which might occur to you of suitable MPs (or peers and outsiders) from the Midlands, North and Scotland. Obviously I am most interested in them if they can be linked with the particular policy groups I have discussed with you. But good men or women would well be worth recording even if they are all-rounders or have expertise outside your own area which might be relevant to others.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe'.

GEOFFREY HOWE

P.S. May I take it you will be able to reply for both yourself and Francis? I gather that Hugh Thomas is not "mandatory" though he is acceptable as Chairman, so other names would be helpful for that slot.

SECRET

Pl. attach PPS related
to the 1st para + b/c 23/8



FROM : MINISTER OF STATE (R)

DATE : 17 August 1982

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Sir Douglas Wass
Sir Anthony Rawlinson
Sir Kenneth Couzens
Mr Burns
Mr Quinlan
Mr Middleton
Mr Ridley

Some comments on your Private Secretary's minutes of 10 August ("Holiday Thinking of the Unthinkable") and 11 August ("Public Handling of the CBI").

1. I have long felt that we have understood the difference in outlook between the institutional businessman, represented by and large by the CBI, and the true entrepreneurial businessman, whom many would think were represented by the various other bodies (small businesses etc). In fact the true entrepreneurial businessman is not very much involved in any of these organisations - he has too much to do making money, even today!
2. The CBI businessman has always thought of himself as close to Government of whatever colour, acting in what he considers a responsible way, and expects Government to take a lot of notice of his views. He has never in his business life taken any great financial risk himself; he does not identify with his shareholders; he looks to the City to provide his capital in whatever form seems best for him as a company man (not always best for the shareholders) and to estranged trade unions

SECRET



for his labour (not always best for the workers).

3. It thus comes very hard when the Government, particularly a Conservative one puts the emphasis as we do on non-intervention, on competitiveness and so on. It is not the world they were trained for, and they are floundering.

4. Thus Sir Terence Beckett says publicly on more than one occasion silly things, subsequently rings up the Chancellor or sees the Prime Minister and explains himself by the need to justify himself to his grass roots opinion. The fact is that the grass roots opinion is made up of provincial lesser "Sir Terence's" up and down the country. The real businessmen are getting on with the job.

5. Nevertheless the CBI we have is the only one we are likely to have and the damage they are doing is to confidence, and a price needs to be paid to lessen this continual sniping.

6. Both Douglas Moffitt and Tony Rudd are right in their way. The change is painful indeed and there is in my view an additional factor.

7. When businesses are really down, banks are forced to take a tolerant line, the underlying assets would be hard to sell, and the existing directors make the best caretakers. A slight upturn in the economy gives the banks options they did not feel that they had before and thus they start in pressurising their customers. A sign of an upturn in the economy could well be paradoxically more receiverships and liquidations.

8. I shall therefore be very interested in the Treasury assessment which has been commissioned. You will know from my various previous comments that I am a strong believer in the confidence factors. We have to counter the pessimists and it

SECRET

may cost us something possibly in the broad direction of Patrick Jenkin's recent approach to you.

9. More especially I am worried about a major collapse, for instance MF. This would have wide repercussions particularly on confidence. Its collapse would not incidentally be in any sense a true judgement of our policy. It would be hard to find a company with better products that have made more wrong decisions over the last ten years or so.

10. My conclusions therefore are that the CBI are no more representative of all the management in the UK than in the same way are the trade unions truly representative of the bulk of the workforce. We are right therefore to continue to appeal over their heads, but the CBI members do have control of a large part of British industry that is badly run and uncompetitive, and there is no quick and easy way that can be changed. With superb management the change would be hard enough: with indifferent management it is showing itself to be very difficult indeed.

PAM

PP JOHN WAKEHAM

(drafted by the Minister
and signed in his absence)

SECRET

SECRET



FROM: NICHOLAS RIDLEY
DATE: 19 August 1982

CHANCELLOR —

*I'm going to FSI & MS2(R)
for this ~~address~~ thought
readings - all of which are
going to the mind of our early
Sept. discussion. I don't not rule any
of FSI's bylines out of court at this stage.
(ii) is virtually in; (iii) is the one for
which I've had enthusiasm*

- cc Chief Secretary
- Economic Secretary
- Minister of State (C)
- Minister of State (R)
- Sir D Wass
- Sir Anthony Rawlinson
- Sir K Couzens
- Mr Burns
- Mr Quinlan
- Mr Middleton
- Mr Ridley
- Mr French
- Mr Harris

HOLIDAY THINKING OF THE UNTHINKABLE

Your private secretary's minute/^{to} the Chief Secretary of 10 August has prompted me to set out my own unthinkable thoughts.

There seem to me to be two different elements in the current slightly nervous atmosphere. First, there are international jitters mainly caused by worries about the international banking system but also caused by fears over the situation in the US which now appears to be temporarily at least, improving. Perhaps the sequence has been:-

- the Western determination to reduce inflation
- high interest rates as an instrument of a tight monetary policy
- reduction in demand for goods and services
- falling order books and high interest charges for companies
- mounting company failures and threats of failures
- pressure on banks.



OFFICE OF THE SECRETARY OF STATE
WASHINGTON, D.C. 20520

TO: THE PRESIDENT
FROM: THE SECRETARY OF STATE
SUBJECT: [Illegible]

[Illegible handwritten or typed notes]

[Illegible text]

[Illegible text]

[Illegible text]

[Illegible text]

[Illegible text]

[Illegible text]

[Illegible text]

[Illegible text]

[Illegible text]

The second element is the jittery domestic mood coming to a head at the end of July with the CBI's panic. The sequence I set out above has largely been repeated here, but there are some important differences:-

- major structural industrial change taking place too late and perhaps too quickly
- major strides towards better productivity, causing unemployment
- the overhead costs of rates and taxes are higher here
- interest rates have if anything been lower in real terms in the UK than in some other countries
- we started to apply firm policies much sooner than most.

The domestic and international difficulties are obviously linked. I believe that the international situation has impinged on us most through the effects of US interest rates, though of course a major collapse in the credit-worthiness of foreign countries and disappearance of foreign markets would cause us great problems. At present, however I believe that the basic strength of our economic situation keeps us fairly well insulated from anything short of a major disaster. With regard to the problem of US interest rates, as Friedman said recently to Schmidt, the best policy for the Europeans is to insulate ourselves from the US.

What then is wrong at home? Perhaps it can be summed up crudely by saying that there is not enough money around. The industrialists talk of a shortage of demand, the hotelier of a shortage of tourists, and the shop-keeper of inadequate sales. And whilst the service sector may be having a thin time, they are not/^{facing} the same sort of danger/^{as} manufacturing industry where the problems are very serious. This may be partly because manufacturers are hit worst and most directly by slack demands for goods and partly because they are the least competitive sector of the economy. After all, there are enormous export markets they do not get and the scope

for import substitution is equally enormous. It seems as if the world recession has tightened competition, leaving it even less room for British industry, despite our dramatic improvements in productivity.

Returning/^{to}the theme of "not enough money around" I do believe that as well as suffering from problems of competitiveness, industry is suffering from the fiscal stance probably being too tight. The monetary aggregates are well within their target ranges; inflation is coming down faster than we expected where/^{as}real output is growing less than we expected. This fiscal tightness may have reduced domestic demand by more than we intended at the time of the Budget.

What to do about it all? If the problem is a shortage of demand for certain British industrial products it is questionable whether the most helpful thing to do is to concentrate solely on driving interest rates further down. It is obviously helpful to lower them - it takes some of the load off industry and makes investment cheaper and more attractive. But the encouragement to investment provided by lower interest rates is ~~supply~~ less important than achieving reductions in current costs which may be achieved as well or even better by other devices. The problem it seems to me is to get more orders to British industry - both at home and abroad and that means making them more competitive by reducing their costs. This is why, I suspect, **the** CBI are arguing for cuts in rates, NIS, and interest rates (plus spending on sewers to give them more work). They need a breather: I fear that Tony Rudd may be right in saying the pace of industrial change is proving too hot for them.

One could of course argued that we are ceasing to be an industrial nation; that over the decades bad management and bad unions have priced us out of most manufacturing markets; and that this may be regrettable but it is also inevitable. Even/^{if}this is so the principles of comparative advantage must suggest that it only applies to some industrial markets and not to all. Moreover, the political implications of abandoning another whole slice of industry this time are frightening.

I therefore think there is a case for easing the pressure on the worst-affected areas of industry. A list of things I would suggest it worth considering comprises:-

- i) a substantial easing of electricity prices in favour of industry - perhaps even particular sectors of industry;
- ii) leaving the full 1½% cut in NIS to run through 1983-84 though this would I recognise benefit many firms who do not need it;
- iii) an increase in the Aid and Trade Contingency provision in the aid programme;
- iv) a subsidised package of index-linked and deep - and discount bonds for small and medium-sized industry (I hope to pursue this subject further with officials);
- v) perhaps some form of assisted "save and build" policies for some of the worst-affected industries. Such a scheme could be devised for British firms who replace aged plant with new British-made plant;
- vi) a new package - for the Budget - of enhanced assistance for equity investment in new and expanding businesses. The Business Start-Up Scheme has not produced big enough results to be significant and I think we should let provided/^aseparate wider relief.

The total size of these measures will be open to us to determine and I do not believe they would be more than we could afford.

D. L. Willetts
MR NICHOLAS RIDLEY
19 August 1982

C

EXCHEQUER	
23 AUG 1982	
TO	Mr Ridley
COPIES TO	

Foreign and Commonwealth Office

London SW1A 2AH

20 August, 1982

Dear Jeffrey,

Policy Group on EEC

*Hurd's decision
with ANR - +
Loving I. Gow
(was)*

I am so sorry I was away when your letter of 6 August arrived. I know, however, that you discussed a number of details with Douglas Hurd. I have seen the Note for the Record of your meeting on 9 August.

In response to your letter of 11 August I make some comments below. I would very much like, however, to discuss with Cecil Parkinson and Michael Jopling in the week beginning 30 August. I hope you will be able to let me have this amount of time.

With regard to membership my views are:

Chairmanship

I think Douglas Hurd would be best. Christopher Soames is a possible, and his wide experience very useful. I am not sure whether he would be acceptable. Douglas Hurd would seem to be the natural choice.

MPs

I would recommend John Gummer, Tom Arnold (a Northerner) and Michael Latham (as a sceptic: there are several candidates for this!).

I think we need a Scot. One possibility is David Myles and he could cover the farming aspect too.

The Rt Hon Sir Geoffrey Howe QC MP

/MEPs



*Jim Spivak
- Ed.*

MEPs

I would want to consult Henry Plumb here. Fred Warner would be good if his interest can be aroused. Also Diana Elles, who would be a good representative from the Lords. I would also recommend Robert Jackson, who is an activist with new ideas.

Academics

You suggested Hugh Thomas and I fully support this idea. He would be excellent.

Business

Mr Raisman of Shell seems an obvious candidate, although there are a number to choose from.

Terms of Reference

Bearing in mind the first point made at your meeting on 9 August, I suggest the following:

(+) "To consider future policy toward EEC and the problem of presenting our membership to the British people in such a way as to ensure that Britain remains a member and is genuinely perceived to benefit therefrom".

I am hoping to avoid coming to London next week, part of which I am devoting to my constituency. But we can easily talk on the telephone and I feel sure it would be helpful if we do.

*James
Inch*



FROM: ECONOMIC SECRETARY

DATE: 24 August 1982

CHANCELLOR —

*Too much - no complaints,
since I am most
grateful - for detailed
comment.
All good for
the Office comment
let's see if we
can take discussion
+ | When is it, or
why? We was
calling it "early"
left + then the
"early": probably best to settle for!*

- CST
- EST
- MST(C)
- MST(R)
- Sir D Wass
- Sir A Rawlinson
- Sir K Couzens
- Mr Burns
- Mr Middleton
- Mr Quinlan
- Mr Kemp
- Mr Hall
- Mr Allen
- Mr Andren
- Mr Ridley
- Mr French
- Mr Harris

HOLIDAY THOUGHTS: THINKING THE UNTHINKABLE, AND HANDLING THE CBI

*No: I'm not sure how that thing may
use "write"*

I was very grateful for Mr Allen's note of August 19th, which tended to confirm my impression over many months that the small print of the CBI surveys is both balanced and informative, but that the same cannot be said about the blush that Sir Terence Beckett and the CBI backroom boys put upon it. But I also agree that the gloom is not all got up by the CBI; and that we need to be cautious about shooting messengers.

2. The trouble is compounded, it seems to me, by Sir Terence's political naivete. He is under a lot of pressure from people like Tavare in the NW (see the attached extract from the Times of 21 August) and Walliker in ^{the} Midlands (Tavare at least is by no means averse to playing SDP politics) and he does not really know how to handle the likes of Peter Shore. But as Robin Harris has pointed out, the resultant foreboding does feed upon itself; and the CBI ought to take more account of this than it has been prepared to do to now.

SECRET

3. I agree that the Treasury does not want to become embroiled in a gunroom argument with the CBI. On the other hand, I hope we do not try to silence the likes of the Lord President (not that we would be likely to succeed if we did try). He was, after all, making a perfectly valid point of which the CBI and our backbenchers do need to be regularly reminded: that Government has quite different and much wider responsibilities than CBI or TUC or any other pressure group, however august. If this were to be the first post-war Government which could claim not to have been prompted by the producer interests (and it might be), then that would be no bad claim to fame.

4. Which leads one to the "Unthinkable". Here I continue to believe that fundamentally we are experiencing the extremely painful withdrawal symptoms from dependence on the drug inflation. It is an experience shared by the rest of the world, although as the Financial Secretary comments in his note of 19 August, we are somewhat ahead of the field. Unfortunately the symptoms are more acute and more painful here than elsewhere, because the arteriosclerosis of our labour markets is much further advanced. Yet we would be mad to abandon the therapy, since a renewal of addiction would easily turn out to be more than our political and parliamentary physique would stand. Besides, as the French experience has demonstrated, we have no choice: we are far too vulnerable to drop out on our own.

5. However, perseverance with the therapy does not absolve us from the need to worry lest it is applied with exaggerated stringency and speed. This applies internationally as well as domestically. A period of high real rates of interest is, I believe, a not uncommon feature of the end of a phase of high inflation, and it is bound to make a lot of the credit creation in the preceding years look mighty silly. Obviously a break in interest rates is bound to come under these circumstances; and let us hope that Mr Kaufman got it right, since a genuine break would do more than anything else to relieve the current pressures on the international banking system. Nevertheless, I do not think we should underestimate the severity of the contractionary

SECRET

influence which these pressures are likely to have in the months ahead on the sectors which produce internationally traded goods.

6. So what, if anything, can and should we do domestically? I do not really share the Financial Secretary's perception that there is evidently 'not enough money around'. Real post-tax take home pay has been growing again since the early spring. While there is evidently an acute shortage of demand for (eg) home-produced steel, there seems to be plenty of demand for the imported variety (partly, no doubt, the inevitable consequence of the self-inflicted damage of the steel strike: but fiscal relaxation would do little or nothing to enable Mr McGregor to earn his transfer fee). I agree that our fiscal stance may be tighter than we intended at time of the Budget - it looks as though we may be heading for another significant undershoot on the PSBR; and I suspect there is something in the recent external calculations that we have underestimated North Sea tax revenue. But I very much doubt whether a significant fiscal relaxation would do much for domestic demand unless it were accompanied by extensive protection or a large drop in the exchange rate (either of which would of course, put paid to our counter-inflation strategy).

7. Which does not mean to say that I necessarily dissent from the Financial Secretary's specific suggestions. Regardless of its merits, I have no doubt that we cannot withdraw the 1½% cut in the NIS. As the Financial Secretary has commented in the past we really ought to be tackling the grotesque commitment of the electricity supply industry to the preservation of museum-piece coalmines. But if we do not have the stomach for that fight, then there is a case for subsidising industrial electricity costs. Subsidised 'save and build' investment schemes tied to the purchase of UK equipment would run us into headlong collision with the EC and GATT; but certainly cash provided as a sweetener for shotgun marriages like River Don/Johnson Firth Brown has much more to commend it than lunatic capital-intensive job-creation schemes like the Shotton pulp mill. There may also be scope to do more on the 'enterprise' score, although we should not over-estimate its potential.

8. However, I confess to a wider worry. This is on the exchange rate front. Adam Ridley has already drawn our attention to the way in which the stability of the effective rate has masked the divergent performance of the £/\$ and £/EMS rates - a divergence which has been moving in precisely the least desirable direction, with dollar import costs hardening and EMS export prices weakening. I suspect the dollar part of this may be on the turn: if Volcker is now inclined to give higher priority to the security of the US banking system than to the control of the monetary aggregates - and it looks as though he may be - then the dollar may be in for a fall. If this were accompanied by a strengthening of EMS rates vis-à-vis the pound, then we could indeed be heading for the long-desired haven of a two dollar/four DM pound, accompanied by significant further falls in domestic interest rates. That would be the best combination we could hope for. But I cannot help feeling that there is at least another possibility: which is that of the £ strengthening against all currencies.

9. After all, if the markets are worried about banking exposure (and they are) then neither US nor Germany looks a particularly attractive haven just now (and in the case of Germany there are worries about political stability as well). Whereas here, by contrast, our banks look less exposed; the political outlook is thought to be set reasonably fair (although that could change); for all the gloomy talk we continue to earn a substantial trade surplus; and the prospect of falling interest rates adds allurements to UK gilts.

10. It is, alas!, easier to foresee the risk than to prescribe the appropriate response. Obviously a strengthening exchange rate would offer scope for swifter action on interest rates (and we should have to resist the Bank's predilection for feeding the market with taps because it is hungry regardless of our need to fund; but then we should resist that anyway). But as I have argued before, falling interest rates can exacerbate market enthusiasm rather than dampening it down, at any rate for quite a long time. I am afraid the truth is that if the markets take a shine to one's currency, efforts to repel them are usually doomed to failure.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. The text also mentions the need for regular audits to ensure the integrity of the financial data.

In the second section, the author details the various methods used for data collection and analysis. This includes the use of statistical software and manual calculations. The document highlights the challenges of handling large volumes of data and the importance of choosing the right analytical tools.

The third part of the document focuses on the implementation of internal controls. It describes how these controls can help prevent fraud and errors. The author provides examples of effective control measures and discusses the role of management in ensuring their proper application.

Finally, the document concludes with a summary of the key findings and recommendations. It stresses the need for continuous improvement and the importance of staying up-to-date with the latest industry practices and regulations.

The following table provides a detailed breakdown of the data collected during the study. Each row represents a different category, and the columns show the corresponding values. The data indicates a significant increase in certain areas, which may be due to changes in market conditions or internal processes.

Category	Value 1	Value 2	Value 3
Category A	120	150	180
Category B	90	110	130
Category C	70	85	100
Category D	50	60	75
Category E	30	40	50

The results of the analysis show that the most significant changes occurred in Category A and Category B. These findings suggest that the implemented controls and methods are effective in identifying and addressing the issues. The document also notes that further research is needed to explore the long-term implications of these results.

In conclusion, the document provides a comprehensive overview of the study's objectives, methodology, and findings. It offers valuable insights into the challenges of financial data management and the importance of robust internal controls. The author hopes that these findings will be helpful to other professionals in the field.

SECRET

1.. My reluctant conclusion is that our ability to temper the wind to the shorn lambs is very circumscribed, unless we plump for the protection route. That is a temptation which I believe we must resist. However, I do wonder if we might make some gestures against the Japanese. In all probability, Japanese imports would simply be replaced by additional imports from elsewhere in the EC: but action against the Japanese might, I suspect, show willing and score some modest political pluses. Otherwise, I feel we have really no choice but to seize the opportunity to make faster progress in the one area where prospects do look relatively bright; inflation. That points to continuing priority to interest rates. For the rest, apart from the Financial Secretary's specific suggestions, or some of them, I believe we should keep our fiscal powder dry for the Budget.

CO Hanism
JOCK BRUCE-GARDYNE

SECRET

From the Editor of the Times
 Sir, The CBI, and in particular
 Sir Percival Tennant, must be
 congratulated for bringing the
 real state of the economy to the
 attention of the Government —
 and the Opposition.
 The CBI estimates of the
 economy, based on members'
 qualified staff, have been shown
 to be far truer than the most
 reliable forecasts that are available.
 Certainly, they have shown
 political wisdom in pointing to the
 need for a change in the direction
 of policy and this is a matter
 which is of the greatest importance
 to those who
 have such a strong interest in a
 better standard of living.
 The CBI members do not want
 their organization vilified by
 such a minority. The CBI
 represents its members and we
 want the facts presented to the
 Government, together with sug-
 gested remedies, that will allow
 us a situation of continuing
 decline.
 The facts are that output is
 low, our balance of payments is
 falling, workers' unemployment is
 increasing, there is no sign of
 the economy.
 The Government must do more
 to help correct this most serious
 situation.
 I speak for hundreds of CBI
 members who do not let the CBI
 become that is confused up by a
 few who are misled in or near
 Westminster.
 We wish the CBI to be the
 voice of the people.
 JOHN LAWRENCE, Chairman,
 CBI North West,
 Emerson House,
 Albert Street,
 Leeds.
 August 19.

Times "Sat 21 August 1982"
 Letters to the Editor

25/8/82.

MR FRENCH ✓

95/2

cc Mr R I G Allen
Mr Culpin
Miss Leahy

382/8

CHANCELLOR'S PARTY CONFERENCE SPEECH

Miss Leahy has suggested that you might like a form of words to pick up the Chief Secretary's suggestion about the local authority reference in the public spending section. I suggest that the third paragraph might read:

"Yet some areas of public spending are largely out of our control. Local authorities, for instance, are free to spend exactly what they like. Stopping them would mean damaging local democracy."

*John is to
text, but...*

P Diggle

P C DIGGLE

25/8/82?

From: DOUGLAS FRENCH
26th August 1982

CHANCELLOR OF THE EXCHEQUER 12/2

cc Mr Kemp
Mr Hall
Mr Macgregor
Mr Ridley
Mr Harris

CONSERVATISM IN THE EIGHTIES

David Knapp has proposed Monday, 13th September, as a suitable publication date for your CPC text. He proposes issuing a press release picking out an aspect of the speech not highlighted in July.

2. If recipients agree on this date, would they please advise Mr Ridley, in the absence of Mr Harris and myself on holiday, and would he please liaise with David Knapp.

J.W./M.N. etc:

Unwise to publish

(A) U. date to P.E. Lab

(B) while I. in U.S.

So, after my return, say 24?

Probably the snap

Decision will be



DOUGLAS FRENCH



FROM: ROBIN HARRIS
DATE: 27 August 1982

CHANCELLOR — 2

cc Mr Kemp
Mr Hall
Mr Macgregor
Mr Ridley
Mr French

CONSERVATISM IN THE EIGHTIES

pl. correct Mr French's minute of 26 August.

I would be wary of allowing CPC to issue a press release "on one issue not highlighted in July". I would just let it go out with a very short press release reminding people what it was.

RH

ROBIN HARRIS
27 August 1982

1954



100

Mr. Tolson
Mr. Boardman
Mr. Nichols
Mr. Belmont
Mr. Ladd
Mr. Clegg
Mr. Glavin
Mr. Harbo
Mr. Rosen
Mr. Tracy
Mr. Egan
Mr. Gurnea
Mr. Hendon
Mr. Pennington
Mr. Quinn
Mr. Nease
Miss Gandy

CONFIDENTIAL

CONFIDENTIAL IS THE EVIDENCE

IN THIS MATTER

The following information was obtained from a confidential source who has provided reliable information in the past and is being furnished to you for your information. It is not to be disseminated outside your office.

[Handwritten signature]

Very truly yours,
[Signature]

8/13/9
cc Mr Rolley
Mr Harris
To French
S/A 20
investigate,
admin,
propos
Jill
S/ix

In Conference

37, LONSDALE ROAD, W.11

cc Mr Harris

As unique Special Adviser-in-residence next week I feel it falls to you to look after this exercise.

31/8/82

JR
10/9

Dear Sir Geoffrey

I am writing to you to introduce "In Conference".

"In Conference" is a new concept in party journalism. It is an eighteen page tabloid which will be launched at the Conservative Party Conference at Brighton on 5th to 8th October. It will be distributed - free - to all 7,000 delegates.

It has one very simple aim: to provide a forum for written discussion, which in turn will provide a context for, and help raise the standard of, general conference debate.

Proceeds will go to the Conservative Party.

The editorial content encompasses the viewpoints of Government ministers, academics, party officials, pressure groups, business interests, and, of course, ordinary party members. It contains general features dealing with major topics like unemployment and Japanese industrial success. It remains strictly neutral on all matters of controversy within the Party.

One feature is to be a review of what has been achieved by this Administration, and what is going to be done in the remainder of its time. We are asking all departmental ministers to contribute up to 800 words on the work of their own Department. It is intended that as far as possible statistics or graphs will be used to support and break up the text, and that salient points of major legislation should be highlighted in boxes.

This is a unique opportunity to get a serious political message across to delegates - all of them - in a format which allows treatment of a subject in depth in a small space. I hope very much you will agree to contribute a brief piece on behalf of your Department, and also a photograph to accompany the text.

Our copy date is 20th September, but I should be grateful if I could hear earlier whether you are able to participate in this - as I am sure you will agree - potentially valuable exercise.

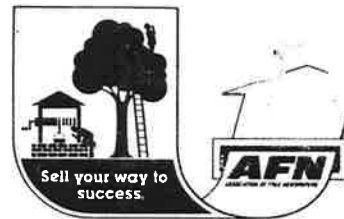
Yours sincerely,

Andrew R McM Bell

Andrew R. McM. Bell
Editor

Conference
Edition
23, 24, 25 September

AFN NEWS



Newsletter of the Association of Free Newspapers

SEPTEMBER 1982

VOL 4 NO 3

Conference looks like a sell-out

BOOKINGS received so far for the AFN conference in Birmingham from 23-25 September indicate a sell-out by the 1 September closing date Page 7

Teddy Taylor MP argues case for free papers

THE MP for Southend East argues why he believes free newspapers are the new strength of the regional Press Page 3

AFN ask to meet Excise over VAT

The VAT nettle has been grasped following the case of Geoffrey Snushall Page 12

An industry under siege

BECAUSE of their remarkable growth over the last few years free newspapers are still viewed with less than enthusiasm in some quarters. The battles for survival of two independents in Scotland and another in South London Page 3

Training courses for the new professionals

DETAILS of AFN training courses in 1982-83 Page 11

A journalism scholar looks at free papers

AN American graduate at Cardiff University writes penetratingly about the growth of the free media Pages 8 & 9

Access to the new free media

WHERE to find out about free newspapers and how agencies can secure block bookings on a regional basis Pages 4 & 5

Who's Who? in AFN — and who should join

MEMBERS of AFN, the Council and an explanation of what AFN is — and why Page 6

AFN NEWS

AFN News is the bi-monthly newsletter of the Association of Free Newspapers. Edited by Ian Locks, Executive Officer, AFN, Northgate House, Town Square, Basildon, Essex (Tel. 0268 289111). Distribution is to members only with the exception of the special conference edition.

Nearly 150 delegates have booked: Have you?

Details Page 7

Milestones reached in AFN development

THE Association of Free Newspapers — barely two years old as an organisation — reaches four important milestones as it prepares to mount its second annual conference during September.

With applications currently before the six-member council the number of members has reached the maximum allowed under the present constitution.

The number of titles produced by the AFN publishers has reached 140 with a total weekly distribution

exceeding 7m copies — more than one-third of the estimated 20m currently circulating in the UK.

And in June the Council, with the agreement of members at the last annual meeting, appointed a full-time Executive Officer to take over the growing volume of administration, which up to then had been handled by Council members — mainly at their own expense.

The AFN was established as a limited company in 1980 to raise the standards of the free

newspaper industry in general and to establish a higher degree of credibility for AFN member publications at a national level. This has been done very successfully through an initial advertising campaign coupled with presentations to advertising agencies, regular press releases on the work of the association and the publicity which surrounded the first, and now the second, annual conference.

The initial work of establishing and building the

AFN has been undertaken almost exclusively by independent publishers whose only interest has been free newspapers.

So important has the AFN stamp of credibility on a newspaper become that increasingly applications have come from older-established groups of paid-for newspapers who have recognised the power of free distribution.

Early in the development of AFN there was recognition that only by seeking to improve the

standards of free newspapers as a whole would the credibility of free newspapers be established. It therefore follows that all newspapers prepared to follow the AFN Code of Conduct should be encouraged to join the association.

At a business meeting on Thursday 23 September, at the start of the Second Annual Conference in Birmingham, members will be asked to lift the rule which currently limits membership.

Frees will soon be top local medium for ads

By Ian Fletcher
Chairman, Association of Free Newspapers
and Yellow Advertiser Group



ADVERTISING revenue in free local weekly newspapers has doubled over the last two years according to the latest figures issued by the Advertising Association.

On these trends revenue in free papers is likely to exceed that in the traditional paid-for weeklies within two years. With the increasing tendency for paid-for weekly papers to convert to free there seems little doubt that the outstanding recent growth-rate will continue.

Already free newspapers are moving into number one position in some areas. In London and the Midlands penetration is so high they are set to achieve supremacy much sooner than 1984-5.

The development and growth of freely distributed newspapers and shoppers is undoubtedly the biggest single media development in the last 10 years, outstripping that of the more glamorous electronic alternative — local radio.

Why have free papers grown so successfully and why is their growth accelerating?

The gap in the market emerged during the 'fifties and early 'sixties when the provincial press went through a period of major rationalisation. The large groups, such as Thomson, Westminster, Northcliffe and United, took huge shares of the market through takeovers and mergers of many smaller, family-owned publishers. While this was clearly a financially rewarding exercise for the publisher, it meant that in large areas of the country there was effectively a series of monopolies. Lack of competition tends to create a

degree of apathy and inefficiency.

All this coincided with the introduction of new printing technology, photo-composition and offset litho printing, which made the production of a newspaper a far less complicated procedure. And so the scene was set for the birth of today's free newspaper.

While the development of the modern free newspaper was spearheaded by independent publishers, bitterly opposed by the big battalions, the situation is now changing rapidly. A little over 50 per cent of Britain's free newspapers are now published by companies which traditionally have produced local paid-for papers.

The reason for this is that paid-for local newspapers are in decline. They are read by fewer and fewer people — reflected in their steadily reducing circulations. There are few local newspapers whose circulations have not declined substantially over the past 10 years.

But free newspapers are a result of this change rather than the cause of it.

Probably the most significant reason for falling readerships is the greater mobility of people, particularly younger people, resulting in a less entrenched identity with the area in which they live. Add to this the immediacy of television and radio, particularly local radio, and one can readily see why so many local weekly newspapers have an ageing

readership profile.

So what is the real merit of the free weekly newspaper? Quite simply it is the only media that provides the advertiser with virtually total coverage (95 per cent) of his targeted market. No other media can claim this level of market penetration.

This, of course, assumes free papers are delivered and, having been delivered, are read.

There are now two important ways in which the advertiser can evaluate the quality and professionalism of a publisher and his distribution system — the Association of Free Newspapers and Verified Free Distribution.

The Association of Free Newspapers is a trade organisation representing the interests of the publishers of free newspapers and has established a professional code which publishers are required to meet before being accepted into membership. This organisation now represents the publishers of some 7m free newspapers weekly.

Verified Free Distribution was established in 1981 and is a subsidiary of the Audit Bureau of Circulations. Its function is to provide a verification of the distribution of free newspapers. The VFD scheme, comparable to an ABC figure for paid papers, is due to be further expanded in 1983 with a Three-Star Scheme that will provide a fully researched average household coverage percentage figure for subscribing publications.

The other vital question is readership. Many leading free newspapers have invested large amounts in readership research and published figures show a high level of consistency between different publications. Household coverage averages around 90 per cent-plus and readership of 80 per cent-plus is the norm.

It is therefore abundantly clear that free newspapers are the major growth area in the provincial press — the largest sector of the media in Britain.

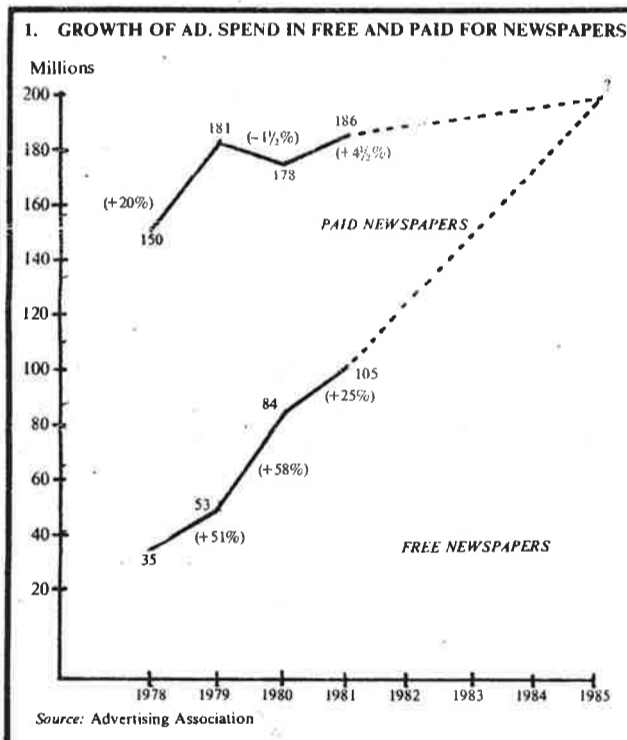
MP welcomes growth free newspapers offer

TRYING to prop up an industry in decline — the traditional lame-duck policy — whether by management-union alliance or by government subsidy — can only defer the evil hour at even greater long-term cost to business and in lost jobs.

Teddy Taylor, former Under-Secretary of State for Scotland and now MP for

Southend East, believes free local newspapers to be a vital and exciting development for the health of the regional press.

He has argued publicly that free local newspapers will be able to compete against other new and developing media like television, local radio and electronic media like Prestel. See Page 3.



READERSHIP RESEARCH

R.S.G.B — THE RESEARCH AGENCY WHICH...

- Understands the needs of newspaper publishers
- Has been the official research contractor since 1978 on the National Medical Readership Survey
- Has conducted over 40 surveys in the last 3 years for Regional Newspapers
- Has conducted numerous readership survey and distribution checks for magazine and newspaper publishers

DISCUSS YOUR RESEARCH PROBLEMS WITH RSGB AND BENEFIT FROM OUR EXPERIENCE

• Contact: Alan Higgs

RSGB Research Centre, West Gate, London W5 1EL
Telephone 01-997 5555 Telex 261978 RSGB G
Research Surveys of Great Britain Limited
A member of the Audit Bureau of Circulations

FROM: J.O. KERR
1 September 1982



pmf

cc: Mr. Hall
Mr. French (o/r)
Mr. Harris (o/r)

MR. RIDLEY

"CONSERVATISM IN THE EIGHTIES"

The Chancellor has seen Mr. French's note of 26 August reporting that Mr. Knapp proposes 13 September as a suitable publication date for his CPC text.

2. The Chancellor does not think that 13 September would be a good date. It would follow hard on the heels of any report/rumours about the Cabinet discussions on 9 September. And it seems a pity to publish on a day when he is abroad, and therefore not in a position to deal with any new round of comments/criticisms. His own initial preference would therefore be for a date around 24 September. But he would like to have a word with you about this.

J.O.

J.O. KERR

Mr Kerr / Mr Knapp

I failed to contact

Mr Knapp on the phone, alas.

*Can I - with all apologies -
have the big book back to you?*

Mr 2/9

*Mr French's office
have decided.
JK
3/9*

2/9/82.

SECRET

HOLIDAY THINKING OF THE UNTHINKABLE

This paper was commissioned in response to the Chancellor's request for an appraisal of the articles by Douglas Moffitt and Tony Rudd. While both articles are concerned with the current industrial situation, Moffitt concentrates on the speed of adjustment imposed on industry by a combination of Government policies and world economic developments, while Rudd discusses the prospects for the engineering industry, suggesting that the industry might be on the brink of falling into a "black hole". However, an examination of issues of this kind inevitably tends to broaden into a general analysis of the current economic situation and raises the question of how far there is substance in the warnings of the CBI, and in the recent spate of critical comments on the Government's policy stance, some of these emanating from sources by no means hostile to the Government.

2. The paper is not intended to be a new forecast, but is confined to the more limited objective of identifying what indications there are that the economy is indeed facing a further deepening of the recession rather than the modest recovery envisaged in recent forecasts. It is in two sections:

Section I examines current economic conditions concentrating on the reasons why output appears to be failing to match up to the post Budget assessment. The analysis refers to possible policy responses in the area of monetary and exchange rate policy. The paper recommends immediate concentration upon interest rate reductions.

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The paper then reviews what is known in the micro-economic context about developments in industry at the sectoral and company level. An annex summarises such hard evidence that we have about potential closures and job losses in a number of industries and companies.

Section II considers a range of possible fiscal measures. Some of these measures would be widespread in their effects and expensive to implement, and would imply some easing of fiscal and monitoring constraints. This section concludes with a list of relatively minor fiscal measures. None of these measures would do no more than provide some marginal easing of the pressures on industry, although taken together, they could add up to a formidable increase in public spending.

I. ECONOMIC CONDITIONS

The Macro-economic context

3. Between the Budget and the June forecast the prospects for output growth deteriorated while those for reducing inflation improved. Such new evidence as has become available since the June Forecast indicates a further shift in this direction. The level of output this year seems likely to be even lower than we expected in June, principally because of a lower level of world activity. The short run prospects for reducing inflation are even better. The main nominal variables, money GDP, money supply and prices are now all growing more slowly than was expected in the MTF5, while the level of the exchange rate is higher.

Output

4. Since the trough of the recession in Spring 1981, GDP and Manufacturing Production have both risen by about

SECRET

1 per cent. This very modest recovery does not reflect a lack of domestic demand which appears to have grown by around 4 per cent in real terms over the last year. Against this, imports have grown much more rapidly than exports because (a) a large part of the rise in domestic demand is due to the turn around in stockbuilding (b) the slow growth of activity overseas and (c) the lagged response to the large loss of competitiveness during 1979 and 1980.

5. The MTFS envisaged that real GDP would grow by around one half per cent between the second half of 1981 and the first half of 1982. The June Forecast predicted little or no rise between these periods and the latest figures bear this out. The main reason why output has grown more slowly than in MTFS appears to be that world trade grew more slowly in the first half of 1982 than was expected in March. In addition, domestic demand seems to have grown more slowly in the first half of this year and our competitive performance was slightly less favourable than was expected at the time of the Budget.

6. Given the reasons for the lower than expected growth in GDP in the first half of 1982 it is not surprising that it seems to have been entirely concentrated on manufacturing industry. The MTFS envisaged that manufacturing production might rise by about $1\frac{1}{2}$ per cent between the second half of last year and the first half of this, while the June Forecast expected little change. The most recent estimates suggest that manufacturing output fell by around $\frac{1}{2}$ per cent between these two periods. The volume of exports of manufactures appears to have been nearly 3 per cent lower in the first half of this year than was expected at the time of the Budget, while imports of manufacture were about 1 per cent higher in volume terms.

7. The June Forecast has GDP growing at an average rate of $2\frac{1}{4}$ per cent per annum between the first half of this year and

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the second half of 1983. This is a slightly slower rate than in the MTFS. Over the same period manufacturing production was expected to grow by about $1\frac{3}{4}$ per cent per annum compared to just over 2 per cent in the MTFS. Recent figures for manufacturing production, together with the July CBI Quarterly Trends Survey (though this may be too pessimistic) must cast some doubt on whether the growth rate predicted in the June Forecast will be achieved at least in the short term. Very preliminary indications from the WEP round which is just beginning, indicates that the world economy may recover a little more slowly than was expected in June. It is worth noting that the very recent fall in US interest rates is being partly attributed to less buoyant prospects for the US economy.

8. One reason why economic activity has been lower than we and others expected, both here and in the rest of the world, may be that we have all under-estimated the effect on demand of the recent very high level of real interest rates. The effects of the latter may have been considerably enhanced because industrial companies, both here and abroad, are generally in a difficult financial position.

Inflation

9. The July RPI was 8.7 per cent higher than a year earlier compared with just over 10 per cent implied by the MTFS. The June forecast indicated that the annual rate of increase in the RPI might fall to $7\frac{1}{2}$ per cent by the end of this year, a rate which was not expected to be reached until the second quarter of 1983 in the MTFS. However, the June forecast envisaged a slight increase in the rate of inflation during 1983 and 1984 whereas in the MTFS it was assumed to continue falling. The most recent developments suggest that the prospects for inflation may be a little better than implied by the June forecast.

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10. It seems unlikely that the more rapid rate of fall in the RPI has been matched by the GDP deflator. To the extent that the recent fall in the RPI reflects developments such as the cut in the mortgage rate and the abatement of some assumed increases in local authority rents, it will be falling faster than other, more general, measures of inflation. There is certainly little evidence that pay is rising less than had been expected at Budget time; in the context of the economic prospect this is a crucial consideration.

Money GDP

11. The MTFS was based on a growth of money GDP of around $9\frac{1}{2}$ -10 per cent. The June Forecast suggested that the future growth of money GDP might be at the lower end of this range. More recently the CSO have estimated that, in the six months to the middle of this year, GDP at current market prices rose at an annual rate of just over $8\frac{1}{4}$ per cent compared with the 9 per cent implied by the MTFS. However, comparisons over this period may be distorted by the timing of the Budget and a reasonable guess might be that money GDP is growing by a $\frac{1}{2}$ per cent slower than in the MTFS.

Money Supply, Interest Rates and the Exchange Rate

12. The latest figures indicate that in the period February-July the main monetary aggregates were growing at rates at or below the centre of the MTFS ranges. At the same time interest rates have fallen much more rapidly than in the Budget forecast. For example, the three month interbank rate is now little more than 10 per cent, compared with $13\frac{1}{2}$ per cent assumed in MTFS and 12 per cent assumed in the June Forecast. Recent falls in UK interest rates have mirrored reductions in US rates. At the moment the latter are expected to continue to fall, though somewhat irregularly and there could be periods when they rise again. The sterling effective exchange rate has remained fairly flat since the beginning of the year, though in the last few days it has shown some tendency to rise. In the MTFS and June Forecast it was assumed to fall slowly.

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Company Sector

13. Both the MTF5 and the June Forecast assumed that real disposable income of companies would improve but that there would still be adverse pressures from a low level of demand and difficult competitive pressures, which in turn would squeeze profit margins. The overall financial position of the company sector, taking account of the prospective financial deficits and borrowing requirements, did not appear particularly difficult, despite a continuing high level of bankruptcies and company liquidations. Nevertheless non-North Sea industrial and commercial companies were forecast in June to run a financial deficit in four out of the five years 1979 to 1983 inclusive and it is not impossible that collectively they may be unwilling to do this.

14. The lower than expected level of output and the slightly less favourable prospects for future growth will have adverse consequences on the financial position of the company sector. Against this they will be helped by the more rapid fall in interest rates. Perhaps the biggest potential danger to the company sector could come from a collapse in confidence both by itself and by companies abroad. (It is interesting that recent press description of manufacturing industry in the US and Germany reads very much like the CBI's comments on the UK). Such a collapse in confidence could be self-fulfilling, as investment, stockbuilding and exports could all be reduced as a consequence.

Policy Considerations

15. The clear fact that output is below our expectations of only a few months ago and that it is unlikely to increase in the immediate future at the predicted rate, and the fact that inflation is coming down poses the question whether we should make a modest relaxation of policy in order to bring the economy back to its forecast course. The aim would be to increase money GDP by perhaps 1 per cent over the next year, with some increase in output at a cost of some increase in inflation.

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16. The increase in money GDP could theoretically be achieved by either fiscal means or by monetary means - in both cases by an expansion in the money supply and probably by a fall in the exchange rate. It is difficult to see, however, how in practice a modest and controlled relaxation such as this could be engineered in the middle of the financial year by fiscal means in a way that would reflect the imbalances in the economy. It would require an autumn budget, the presentation of which would be immensely difficult. There would be great administrative difficulties in making changes that helped the company sector in the period immediately ahead.

17. Monetary relaxation achieved by continuing to press the money market to reduce interest rates seems to be a more logical approach at present although not without difficulties. By historical standards real interest rates continue to be very high. Lower interest rates would bring an immediate benefit to company cash flow. In turn this would improve confidence, relax the pressure upon company budgets and probably increase the level of demand through its effects on construction, stockbuilding and purchases of large durables. Some of these effects would take time to come through but the confidence effects might be felt quite quickly.

18. The difficulty is that this would be highly visible and might lead the market to suppose that we wanted a lower exchange rate. At present this should not pose problems as the exchange rate has strengthened significantly relative to our expectations but excessive pressure might lead to an uncontrollable decline if exchange rate depreciation was seen as the objective. It continues to be important to present interest rate changes as being a response to our assessment of financial conditions generally.

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19. The macro-economic considerations seem to point to immediate emphasis upon interest rates (both from a demand and confidence point of view). For the next financial year there is a case for concentrating on fiscal measures which would improve the supply potential of industry, and would help to reduce industry's costs. These are discussed in Section II.

The Micro-Economic Context

20. Even if the economy begins to recover this does not imply that industrial restructuring will come to an end. Liquidations and rationalisations will still continue within existing firms and industrial sectors. In some sectors a reduction of capacity is needed to secure the longer term viability of the more competitive companies operating within the sector. Such evidence that we have of continuing and prospective job losses and closures does not in itself justify the view that the economy is performing significantly below forecast, since the forecasts implicitly allowed for some at least of these developments. The question is whether the totality of hard and anecdotal evidence which comes to our notice is sufficiently comprehensive and overwhelming to justify the view that industry is facing a much more serious situation than has hitherto been recognised. Clearly, there is a conflict of views within industry itself - as is illustrated by the public debate amongst informed commentators, including the two articles.

21. In the Treasury we have three sources of hard information. First, we know about the plans of the nationalised industries and publicly-owned companies. Second, we know about some companies in difficulty because their situation is brought to our attention by representations from the companies themselves, or by other non-Government sources. Third, the Bank of England and Department of Industry report to us on a periodic basis news about impending closures and rationalisations. A fourth source of information comes from chance contacts with businessmen and bankers, from press reports, from representations made to Ministers by Chambers of Commerce, Trade Associations and so on.

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22. These sources cannot provide a comprehensive picture and much goes on that the Government never hears about. What follows, therefore, is illustrative of the general situation in manufacturing industry rather than comprehensive in its scope.

The Sectoral Picture

23. The Department of Industry is developing an industrial model of the UK economy, the Disaggregated Information System (DIS). This is far from perfect as yet, so its output must be treated with caution. The model was used to provide a post Budget assessment of the prospects for a number of industrial sectors to end 1985. This does not help with the immediate cyclical problem. But it might suggest that sectors in current difficulty may be demonstrating an underlying structural decline which can be expected to persist even in conditions of modest recovery. A disturbing feature of the DIS assessment is that it suggests little prospect that the sectors which might be expected to provide growth points for the future will in practice fulfil this function. Overall a fall in employment in manufacturing output (about 8 per cent, 500,000) is expected between 1982 and 1985.

24. The DIS assessment is made in terms of the likely performance of sectors in relation to the expected growth of manufacturing output over the years to 1985. Sectors expected to perform above average are mainly traditional industries like food, drink, pottery and glass - the list is not impressive. It does, however, include chemicals which are expected to benefit from the continuing substitution by plastics for other materials. Mechanical engineering is also amongst this group, based on an assumed recovery in investment demand. The below average group is disquieting. Apart from textiles and footwear, which might be expected, it includes electrical engineering (covering information technology products) which is thought to be highly vulnerable to import penetration because of loss of competitiveness.

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25. Turning now to the immediate period, the main source of information on the sectors is the Index of Manufacturing Production which in the second quarter was $\frac{1}{2}$ per cent below its level, both in the previous quarter and in the second quarter of last year. In the 1982 first half compared with the previous six months there was some provement in mechancial and shipbuilding marine engineering. But other engineering sectors showed a further sharp decline. Altogether it is a mixed picture and it is difficult to identify a firm trend either way.

.....

Information on Individual Firms

26. A review of the records of discussion with the Bank of England and Department of Industry over the past ten months suggest that there was a period of quiet between November and May when very few companies were added to the list of companies in difficulties already known to us. But since May the number of companies in trouble, and brought to our attention has shown a noticeable increase. At a meeting in July the Department of Industry reported that there was increasing anecdotal evidence of pessimism in the business sector and that firms were looking for at best zero growth, with some forecasting a down-turn in economic activity.

27. We also know from contacts with the banking sector that the number of companies in so-called "intensive care" with the major clearing banks is increasing. The banks themselves claim that they are now providing assistance to companies at the limit or beyond of banking prudence in the hope of nursing the companies through to survival. A recent report circulated

SECRET

in the Treasury on the London Clearing Banks interim results reported that the four banks have doubled their provisions for bad debts. The inference is that the longer the recession persists the more difficult it will be for the banks to continue to provide this kind of support. The Midland Bank recently informed the Treasury in confidence that they have 10 major companies in intensive care, mainly in the engineering industry and employing some 35,000 people, which will almost certainly have to be put into liquidation in the coming 12 months.

28. There is also in the pipeline considerable restructuring contemplated, particularly in the petro-chemical industries. These are not recent developments and can be assumed therefore to have been reflected in earlier forecasts. BP and ICI are mainly involved. There have also been continuing reports of closures and rationalisation in companies like Tube Investment and GKN.

29. An annex provides material on a number of major companies known to be in trouble.

II REMEDIAL MEASURES

30. This section considers a number of specific fiscal measures which might be thought appropriate in the circumstances described in the preceding section. If such measures are taken they should meet two objectives:

- they should be reasonably quick acting in their effects. Measures which take time to implement and to become reflected in the cash flow of companies may come to fruition when recovery is already under way;
- they should contribute towards restoring business confidence.

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31. Two sets of measures are examined, all of them familiar to Ministers. The first are broad acting in their effects and would be intended to encourage the supply side of industry through reducing UK costs and increasing profitability. Measures of this kind, by their nature, would be expensive in terms of public spending or loss of revenue. The second set are relatively minor measures and would be selective in their effects. They would be less costly to the public purse. But even these restricted proposals, taken together, could add up to a formidable increase in public spending and might pre-empt the scope for action elsewhere in the fiscal field. Both sets include some of the proposals made by the Secretary of State for Industry in his letter of 13 July to the Chancellor on the outlook for Industry.

Cost Reducing Measures

32. The macro-economic effects which help to reduce industry's costs are difficult to predict; it is uncertain how far and how quickly the immediate improvement in industry's financial position would be reflected in lower prices, higher wages for the employees or retained as higher profits. Moreover, cost reductions of this kind take time to build up before they become fully effective. However, such measures might have an immediate effect in rebuilding business confidence, particularly if they were accompanied by assurances that the effects will not be clawed back by measures taken in other areas of Government policy.

National Insurance Surcharge (NIS)

33. This measure would appear to meet the two objectives suggested above, although it is expensive in terms of revenue foregone. The CBI strongly favour cuts in the NIS (above other ways the Government can reduce industry's costs) and assert there is little leakage into wages. This year's Budget cut the rate from $3\frac{1}{2}$ per cent (levied on earnings liable to

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employers National Insurance Contributions) to 2½ per cent as from this month; but to give a whole year's benefit of a 1 per cent reduction for the FY 1982-83, the rate has been temporarily cut to 2 per cent. The rate will rise again from 2 per cent to 2½ per cent on 1 April 1983 if nothing is done.

34. The earliest timetable for maintaining the reduced rate of 2 per cent or introducing a further reduction, is a decision and announcement in November with the changes coming into effect on 1 April 1983. Each 1 per cent reduction cost £640m in 1982-83 (assuming clawback from the public sector); about half the benefit goes to manufacturing and the construction industry.

35. It should be noted that decisions on the 1983-84 rate of National Insurance Contributions for employers and employees will also be due in November. Any increase in the employers rate would have to be offset against the gains from a reduction in NIS.

Industrial Rates

36. There is considerable pressure to reduce industrial rates particularly from small firms. The quickest and most comprehensive reduction would be achieved by a measure of de-rating (ie removal of a percentage of the rate burden). However, this would require primary legislation for England and Wales, probably a separate Bill. And Inland Revenue would need about six months to identify the properties qualifying for relief and make the necessary calculations. The earliest practical date for any reduction is the financial year 1983-84; even then, the reduction might have to be effected retrospectively later in the year.

37. Assuming unchanged local authority expenditure and a transfer from central government to the authorities, a

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10 per cent relief on all non-domestic ratepayers would have cost about £600m in England and Wales in 1982-83. Commercial companies would be the main beneficiaries; they account for half of non-domestic rate payments while only a fifth is paid by industrial companies. Consideration would be required of the relationship of such a proposal to the Government's campaign to bring down local authority spending and to reduce the Rate Support Grant percentage.

Energy Prices

38. There are no gas or electricity price increases for industrial customers planned before the end of this year. Gas prices are expected to rise by an as yet unspecified amount after the current freeze ends on December 31 1982. Electricity prices are due to increase in line with inflation on 1 April, 1983. But the size of the increase is likely to be reduced in accordance with the report on the Bulk Supply Tariff which indicated that electricity charges to both domestic and industrial users may be too high. There may indeed be a price freeze. The reduction in comparison to what would otherwise have happened will mainly benefit domestic and middle-sized industrial users: the heavy users like chemicals and aluminium smelters already receive quite favourable treatment. A cut in fuel oil duty to reduce oil prices remains extremely difficult because of the Frigg complication.

39. Short of reducing current gas and electricity prices, there is no scope for helping industry by this route for the rest of this year. Action is still possible to reduce or abolish the increases in gas and electricity prices planned for 1983. This would add to public expenditure in 1983-84 and subsequent years.

Employment Subsidies

40. Labour costs account for a significant proportion of the loss of competitiveness. A subsidy on labour costs will, at

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least in the short term, reduce average or marginal unit labour costs (depending on the type of subsidy) and hence improve competitiveness. Most attention has focussed on a subsidy to marginal employment of the Layard-type, as already operated under the Young Workers' Scheme. A subsidy of £x would be paid for each additional employee taken on so reducing the marginal cost to the employer below the wage. A scheme can be introduced quickly under existing UK legislation but there may be EC complications.

41. The benefits of such a scheme are that they buy a short term gain in competitiveness and hence raise output and employment. Against this must be set several costs; because of "displacement" of other domestic producers and "deadweight" payments of subsidy for jobs which would have been created anyway, Exchequer cost per genuine new job can be high. Moreover, it can be argued that subsidising labour delays or removes the need for desirable wage adjustments (ie the subsidy in effect leaks into wages).

42. For purposes of illustration, a subsidy of £50 per week confined to manufacturing and assuming combined deadweight and displacement effects of 50 per cent would create 10,000 jobs and reduce registered unemployment by 50,000. The net cost, taking account of all flowbacks (benefits and taxes) might be some £70m in a full year, but the gross public expenditure costs would be £290m, and the public expenditure totals would be inflated by this amount.

Minor Measures

43. This section discusses a range of possible measures of a selective kind which could contribute towards easing the pressures on industry. But such measures cannot be claimed to do more than ease these pressures at the margin. They fall into three parts; help to the construction industry; a review of possible measures which might help to create jobs; and the question of job preservation in relation to rescue operations.

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44. All these measures (with one exception) would add to public expenditure. They would increase the public expenditure totals for 1983-84 and subsequently as long as the schemes continue by the amounts directly involved. And in addition they would increase the political difficulty of Treasury Ministers in resisting the pressure already evident from spending Ministers for many other additions to programmes. In practice the addition to public expenditure would probably be considerably greater than the amounts directly quoted.

Construction Industry

45. This industry is labour intensive and has a low import content. However, major increases in spending on public sector construction generally have a long time lag before the decision to spend becomes reflected in actual increased activity. The time scale varies. Some additional minor works - on road maintenance, and minor improvements and additions to public sector buildings - could probably be implemented within a reasonably short period. Some minor amounts might be done in the current year 1982-83; but this would go against the current policy of stringency to the Contingency Reserve. For major works the lead time would be many months, taking the expenditure into 1983-84 and beyond. Apart from this defect help to the construction industry would be unlikely to have any general effect on business confidence.

Selective Assistance

46. There are no attractive options for increasing national selective assistance under Section 8 of the Industry Act. The existing criteria for general assistance under Section 8 allow grants to be given where they would enable a project to proceed earlier than it otherwise would; so there would be no point re-introducing an Accelerated Projects Scheme (the earlier scheme was closed in July 1976). What would be needed would be some relaxation in the other criteria - for example that the project must make a significant contribution to UK net output. Such a relaxation would inevitably tend to

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increase the deadweight in the assistance provided. It is also questionable whether yet further capital subsidies would be an appropriate response to concern about under-use of labour.

47. An alternative would be to introduce new sectoral schemes to promote rationalisation or new investment in particular industries. Sixteen such schemes ran under the previous administration but all were closed in 1979 except for the Micro-Electronics Industry Support Programme (MISP); the only new sectoral scheme introduced has been for private sector steel and is designed to counter the specific market imperfections in the steel industry.

48. One (fairly modest) expenditure measure which might be worth considering would be to re-open the Small Engineering Firms Investment Scheme (SEFIS). This was introduced soon after the Budget but attracted such a flood of applications that it had to close by the end of May. The scheme (which provided grants of $33\frac{1}{3}$ per cent for small firms investing in certain advanced technology capital equipment such as computer controlled machine tools) attracted 1,750 applications in the eight weeks it was open; DOI increased their level of funding from £20 million to £30 million but were unable to find additional resources from within their budget to keep the scheme open for longer. It is too early to form any firm view about the effectiveness of the scheme, but given the high level of demand it might be worth considering allowing DOI some additional expenditure in order to re-open the scheme. That scheme apart, there does not seem any call to provide additional support for small firms - the list of measures already in existence extends to nearly 100 items.

Car Tax

49. Car tax is charged at 10 per cent of the wholesale value of new cars and motorcycles, whether home produced or

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imported, and on used cars and motorcycles on first importation. It was introduced for cars in 1973 along with VAT in order to maintain the revenue from cars obtained from purchase tax by allowing VAT to be introduced with a standard rate of 10 per cent. The Budget estimate for the yield in 1982-83 was £600 million.

50. The Regulator powers do not extend to car tax, so that primary legislation would be needed to change the rate of the tax. If desired, however, immediate statutory effect to a change could be given by a resolution under the Provisional Collection of Taxes Act.

51. In their representations to the Chancellor before the 1982 Budget, the SMMT pressed for a halving of the rate of car tax as a first step to its total removal. We estimate that a reduction in the rate of car tax from 10 per cent would have a full year revenue cost of £310m in 1982-83 terms or £350m in 1983-84 terms. If the reduction were passed on fully to the consumer, retail prices of cars would fall by nearly 4 per cent. It is estimated that this would lead to an increase in sales of under 5 per cent.

52. A reduction in car tax would, of course, benefit foreign car sales. Moreover, the car industry has already received help from the recent abolition of hire purchase controls.

Rescue

53. Apart from the nationalised industries the Government has provided financial support to a number of publicly owned companies, inherited from the previous administration. The most important of these is BL, and it has also provided financial help under various guises to BAe and Rolls Royce. Since the Government took office however, its intervention in respect of private sector companies has been restricted to

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the guarantees provided in respect of ICL borrowing and one or two minor cases elsewhere. (This is apart from Northern Ireland where the conditions are special). The Government was prepared to offer subsidies to keep Invergordon open, but these proved to be insufficiently attractive. There has also been special aid to cover high energy costs to the fishing and horticultural industries. Generally, however, the Government has avoided becoming involved in rescue operations.

54. A large programme of selective rescue could clearly not be contemplated. Apart from the unacceptable financial cost, a programme of this kind would obstruct the necessary changes in the pattern of distribution of UK industry which are essential to secure the future viability of the UK economy. On the other hand the banks claim there are now a number of companies whose trading prospects are good but whose financial structure has been so weakened by the developments of the recent past that they are unable to survive without special support. On the whole the banks appear to be prepared to provide such support, but they may not be able or willing to do so if the recession takes a renewed turn for the worse. A recent Midland Bank memorandum, circulated by Mr Ridley suggests a number of specific ways the Government might help. Ministers might see value in having these proposals examined.

55. Associated with this question is how far the Government should acquiesce in a possible acceleration of closures over the immediate period ahead in companies and industries in which it has influence and control. Ministers might want to consider whether the bias of policy should move, at least temporary, in the direction of job preservation, even where commercial considerations might suggest immediate closure is justified.

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56. In this connection it is worth recalling that the NEB 'hospital' function to nurse specific companies in difficulties was retained in the NEB guidelines when the Board's functions were reconstituted in 1979. The BTG does not currently undertake this function, but would be prepared to do so if the Department of Industry selected the companies eligible for this assistance and provided additional funds for this purpose.

57. The problems associated with 'rescue' policies are:

- If such policies were to be extended to companies in trouble they would be arbitrary in their incidence and dependent on whether the companies themselves were brought to the notice of Government. Moreover rationalisation programmes would not be affected to any great extent. ICI, for example, would continue to close down capacity, although BL commercial vehicles, where on the face of it there is no case for continuing support, might be allowed to survive.
- Policies of this kind would not solve industry's current difficulties. But it would avoid adding to these difficulties, in particular by preserving companies in areas like the engineering industry, on which large numbers of medium-sized and small firms depend for their market.
- However this result would be achieved at the cost of pre-empting financial resources which might be employed for the benefit of industry elsewhere, and more effectively.
- Public expenditure would be increased at a time when we are struggling to hold to cash programmes.

Timing

58. Whatever measures might be thought appropriate there would be a problem of timing. If general cost-cutting measures (like the NIS reduction or industrial de-rating) were favoured they could hardly take effect before the beginning of the next financial year. Their effect would no doubt to some extent be anticipated, in the sense that they would raise industrial morale and perhaps increase willingness to borrow and finance expenditure. But the cash flow to industry would be delayed. If more particular measures were preferred, these could be announced and implemented at short notice; some of them, eg a more relaxed view towards rescue cases, would not call for announcement at all.

CONCLUSIONS

59. Contrary to expectations at the time of the Budget, the level of real GDP has stagnated so far this year and the level of manufacturing output has fallen. The prospects for the modest upturn envisaged in the MTFS are now less good. A less buoyant world economy seems to be the main reason behind these developments. They must go a long way towards explaining why the company sector seems to be taking a rather gloomy view about the prospects for economic recovery. At the same time inflation seems to be falling faster than was anticipated at the time of the Budget. The growth of money GDP is lower than expected while the growth of the main monetary aggregates remains at or below the centre of the target rates. The exchange rate is higher than was envisaged in MTFS. Nominal interest rates are lower (though real interest rates remain higher) and have recently been falling sharply.

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60. There is a case for continued pressure to reduce interest rates although this must not be pushed too far otherwise the threat to our achievements on the inflation front would be too great. Reducing interest rates might involve a lower exchange rate than would otherwise occur but recently the exchange rate has been somewhat higher than we expected at the time of the Budget. The only danger would be if the markets formed the impression that we were deliberately attempting to engineer a lower exchange rate which might lead to an uncontrollable decline.

61. No case seems to exist for measures now to relax fiscal policy. Whether at the time of the next Budget we stick rigidly to the PSBR figure for 1983-84 in the MTEFS or adopt a slightly more accommodating figure is not for discussion now. There is a case for contemplating some 'across the board' cost-cutting measures for industry (ie NIS reductions) on supply grounds; but these would not take effect until 1983-84. They would then add to the PSBR and monetary conditions would be easier unless their cost was met by expenditure reductions not otherwise achievable, by foregoing some tax reductions which could otherwise be secured, or by foregoing some of the decline in interest rates which would occur. But given the faster than expected progress towards reducing inflation and the weakness of output, some modest easing of overall financial conditions might be appropriate. At the particular and sectoral level, the Small Engineering Firms Investment Scheme could be re-opened and some modest increases in public investment involving the Construction industry might be looked at. Policy towards rescue cases might be examined. None of these measures would radically change the outlook for industry, but they might usefully save the marginal firm which might otherwise go out of business.

CONFIDENTIAL
AND COMMERCIAL IN CONFIDENCE

The position of individual companies and industrial sectors

This Annex summarises the information available to IA Division from its regular monitoring and sponsorship activities.

1 The motor industry

BL

1.1 The company has managed to keep within its financing provisions but at some cost to its investment programme. However, it is not achieving the kind of market share in the volume car market that it needs in order to provide a firm base for longer term viability. Thus while the planned plant closures and redundancies on the volume car side of the business are now complete the prospects for the Group are still very uncertain.

1.2 Particularly at risk is the commercial vehicles side of BL. Leyland Vehicles has already lost 2250 jobs this year and is to shed another 2,000 by the end of the year. These redundancies will be at Bathgate and Albion in West Central Scotland and Leyland in Lancashire.

Ford

1.3 No immediate plant closures are expected at Ford, but the company has warned Ministers that there is a question mark about Halewood where 13,700 are employed making Escorts. If Halewood closes Ford UK would no longer build Escorts in the UK and all domestic demand would be met from Ford of Europe's continental plants.

Vauxhall

1.4 Vauxhall has been doing better recently and plant closures are not likely in the near future. But the future of the Ellesmere Port car plant employing 5,900 and the Dunstable truck plant, currently employing 3,400 and operating at 30 per cent capacity must be uncertain.

Talbot

1.5 Talbot is in acute financial trouble as is its French parent Peugeot. The future of the Ryton plant at Coventry employing 2,300 and the engine plant at Stoke employing 2,000 is highly doubtful.

Commercial vehicles

1.6 Amongst the commercial vehicle manufactures Fodens has recently closed and Seddon Atkinson (an International Harvester subsidiary) is up for sale. Survival of ERF is doubtful. International Harvester has just closed its Bradford plant and made 500 redundant at its Doncaster plant. Another 1,000 may have to go at Doncaster.

1.7 International Messey Ferguson is in deep trouble as has already been reported to Ministers. Main implications are for the MF tractor operations in this country and for Perkins. If the attempt to provide an international banking rescue for MF fails the future of the UK side of the business will be in jeopardy unless quick and decisive action is taken.

Components

1.8 In the components industries closures are now common. AC DELCO (a GM subsidiary) and Alison Diesels of Peterhead have just closed. Automotive Products plan a further 900 job cuts at the Leamington and Banbury plants. Lucas CAV are making 590 redundant when they shut a plant in the near future.*

2 Shipbuilding

2.1 Over the past 5 years British Shipbuilders has cut the number of merchant yards from 27 to 15, marine engineering companies from 5 to 2, and the workforce from 87,500 to 66,300. All the remaining/^{merchant}capacity is at risk because the order books, for even the most efficient yards, only stretch to the end of 1983. Ship repairing is in greatest jeopardy and 1,500 jobs, mostly on the Tyne, are due to go.

2.2 The BS Corporate Plan for 1983 has just been submitted. The Plan is not good news. The Chairman reports that in terms of immediate market prospects the outlook is as poor as at any time since BS was formed, with every division facing declining markets. A reduction in employment of about 9,000 is envisaged over the four years to 1985-86, but on only mildly unfavourable assumptions there could be a need to shed 15,000 jobs. Even then large injections of public funds would be needed.

* Components suppliers are being badly hit by the 3-week lay-off of 7000 BL workers.

3 Steel

British Steel Corporation

3.1

(This paragraph now follows 6.1 below)

Private Sector Steel

3.2 Rationalisation in this sector is continuing. The latest proposal involving BSC and Firth Brown in the rationalisation of heavy forging and special steel making capacity is expected to involve the loss of about 1,800 jobs in Sheffield.

4 Aerospace

British Aerospace

4.1 BAe has avoided the need for heavy redundancies so far, but its future over the next year or so may depend on decisions regarding the development of new military aircraft and the company's participation in the European Airbus A320.

Rolls Royce

4.2 Rolls Royce has shed about 9,000 employees and a further 2,500 are due to leave by the end of the year. The long term prospects of the company will be affected by decisions on further developments on civil aircraft engines. But with the depth of recession in the airline industry in any event an extra 5,000-6,000 redundancies next year are expected.

5 Aluminium Industry

5.1 Following the closure of the Invergordon Smelter the UK has two major aluminium smelters left. Both are dependant on cheap power supplies under contracts due either to expire soon or which fall to be re-negotiated. The current levels of fuel prices in either smelter mean that neither smelter is anywhere near commercially viable. The NCB are seeking to end the provision of very cheap coal supplies to Alcan's smelter at Lynemouth which employs 1,140 and which even with very cheap coal is still making heavy losses. Closure of the smelter is likely to be accompanied by significant closures of Alcan's activities in this country.

5.2 Anglesey aluminium smelter (RTZ) made a loss last year, but is likely to continue in operation until charges for electricity are increased when Dungeness B comes on stream. The smelter employs 990.

6 Computer manufacture

6.1 ICL has shed over 10,000 of its 35,000 employees over the past two years. Although the company is now approximately breaking even at a lower level of business (and the Government's guarantee is in no apparent danger) it is not yet showing any sign of growth.

British Steel Corporation

3.1 Employment at BSC has fallen from 180,000 three years ago to less than 100,000 today. BSC's corporate plan envisaged some further 16,000 job losses in the next three years but no further major plant closures. Since then market conditions have been worse than then expected and BSC are accelerating their planned closure programme and making further manning and facility reductions beyond those envisaged in the plan. Their commercial judgement is that they may well be unable to support three strip mills in the longer term and one will have to be closed at some stage with the loss of a further 6500 jobs in an assisted area but they are not yet at the point where they would wish to put such a proposal to Ministers.

