

~~03.~~
Part. C

SECRET
(Circulate under cover and
notify REGISTRY of movement)

begins: ~~2/12/82~~ 3/9/82.
Ends: ~~3/12/82~~ 10/11/82.


 PO -CH /GH/0022

 PART C

Chancellor's (Howe) Papers:

**POLICY WORK PUBLIC
OPINION AND THE 1983
GENERAL ELECTION**

Disposal Directions: 25 years

D. Anderson
24/7/95.

PART C

Ch OR with papers.

SECRET

E.6

FROM: ADAM RIDLEY
3 September 1982

CHANCELLOR

cc CST
FST
EST
MST(C)
MST(R)
Sir Douglas Wass
Sir A Rawlinson
Sir K Couzens
Mr Burns
Mr Quinlan
Mr Middleton

THINKING THE UNTHINKABLE

Before I go on leave, I thought it might be worth offering you some very hurried first reactions to the various papers which have been circulating under this rubric, not least Sir Douglas Wass' report which I gather will be reaching you shortly. I have no doubt that the unthinkable is worth thinking about, as your initial minute invited us to do; and I hope I shall be back in time to offer some more considered thoughts when you come to discuss it.

2. I start off from an instinct about the output prospect. Though it may well be that we shall see, and rightly forecast shortly, a reasonable rate of growth over the next eighteen months, I would have thought that there can now be no sure guarantee of it, and a very significant risk of continuing stagnation. Particularly if that does happen, but even if it does not, we can equally not rule out some spectacular and unpleasant (if localised) corporate closures, and extremely embarrassing domino effects following in their train. There are two significant if atmospheric reasons for thinking thus. First, the recovery process now seems to have been checked not once but twice in the last two years, against an underlying trend that was never very vigorous anyway. Coming as such checks have done shortly after the worst recession for decades, it would not be surprising if those checks had largely absorbed momentum of the nascent upswing at a time when the world economy was visibly going sour at the same time.

3. At another level, I would agree strongly with Tony Rudd and others that the speed of adjustment demanded of economic

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agents in the last three years has been impossibly quick. However culpable management and unions may have been in the past, however monstrous the degree of managerial slack and "X-inefficiency", we cannot get round the fact that there are strict limitations on the speed at which people can respond to major changes of direction, particularly if they do not chart them out accurately from the start, as has been the case this time. One of the most obvious reasons for their sluggishness lies in the simple but vital fact that wages are only negotiated once a year. In an economists' ideal world they would be renegotiated every day, or even possibly more often than that! Under those circumstances adaptation to changing conditions would be almost instantaneous. But we do not, alas, live in that world. If one notes the simple fact that the labour cost competitiveness relationship leaves us, despite recent improvements, some 30% or so less competitive than we have normally been in the past, we have in mind a salutary reminder of the vastness of the improvements that are needed in firms in the trading sector (at any rate) before they can be returned to profit. A rate of return on capital of, on average, 2%, probably means profit margins of the order of 4 or 5% at most as a percentage of turnover or ex-works prices. A 30% loss of competitiveness not only wipes out that profit completely, but leaves a vast deficit, of the order of 25%, to be recovered. A few firms will be well enough led, and endowed with a sufficiently aware labour force, to be able to achieve staggering increases in productivity such as we have seen in BSC - particularly after the industry has already suffered some appalling salut^ory death blows. But in other areas the speed of recovery and improvement and profitability required will vastly exceed what is possible. As a result a large number of firms in the trading sector (and to some extent elsewhere, too), have been plunged into a life and death race: which will win, their march to competitive costs, or their creditors? Many of them are living off their reserves, rather like someone holding his breath under water. They can do this for a limited period, but sooner or later what is asked of them will become impossible, and they will be forced to close. This will be all the truer to the extent that rationalisation imposes very substantial costs, which mean that many of

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the firms which are already in great difficulties will have to be discharging an added burden of debt which may swamp the reward to ultimate virtue as their current account operations move towards profitability.

4. Coupled with this we should also perhaps consider the following possibility. It is perfectly possible that the general tightness of policy has demanded too much, at least from an ideal point of view, from the international trading sector; while at the same time imposing far too modest a set of pressures on the sheltered (mainly services) sector, where as we know profits have remained surprisingly buoyant. It would be foolish to say that the pressures on the trading sector are not intolerable merely because we can observe that the same taught disciplines when applied to the services and other industries are not apparently creating any great trouble. It would be even more foolish to refuse to relax pressure on the hard hit trading sector on the ground that this would make life too cushy for the services firms - the right answer would surely be to pursue measures which would intensify the pressure on them.

5. Turning, then, to what might need to be considered in the way of policy in the immediate or distant future, I have a number of thoughts about the trend or direction of macro-economic policy. As you will know, I have been anxious for some time lest the tightness of monetary policy - as measured by the exchange rate and real interest rates - might be too great. This idea can be expressed in its most simple form by means of the very childish graph attached to this minute. That graph sketches out a curve indicating what I believe to be the kind of relationship that one can expect between the tightness of monetary policy (X axis) and the economic growth rate that will be achieved under it. My fear very crudely is that we are at some point like A on the curve, when in reality we ought to be moving out a little nearer B. [The point of the curve is that it suggests there is an optimum tightness of monetary policy, as defined in terms of the rate of growth associated with it. If monetary policy is significantly tighter, then one will stifle growth by the processes which we may be witnessing now, while if it is too loose, then we are accommodating inflation with all the damage that that can do.] I am reinforced to some

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extent in this view by the feeling that money GDP may, indeed, be undershooting as a distinguished journalist has pointed out recently. While not buying all of his argument, I think there is enough in it to make me uneasy as I study the latest statistics.

6. There is one component of the macro-economic picture and a measure of the tightness of policy which makes me particularly uneasy, and that is the exchange rate. We continue to chug along with an effective in the 91.5 zone, and I can see no end to this process for a good while yet. That is an exchange rate significantly above what has been forecast in recent national income forecasts, as I recollect. I do not believe for one moment that it is tenable in the longer run. And I am sure it ought to be lower. I have already offered my views on this issue at greater length elsewhere, and will not repeat them now, except to stress once again that we need to think rather more logically about our posture than I fear has been done at present. If we think the rate is going to fall at some stage, for example back to where the NIF has suggested it might be, then the longer we stay on the present plateau, the more precipitate the ultimate decline will be and the more the risk that it will be an extremely embarrassing and uncontrollable force. If, for whatever reason, the exchange rate were to go down a little in the near future, then there would be less of a problem of anxiety and lack of confidence about its decline. We are already in the position where there is no easy way out - and the true choice is between permitting a tricky but intrinsically not unmanageable process of decline in the relatively near future, or a far greater and almost certainly deeply troubling tumble at what might be the worst possible time in the lifetime of this Parliament. Nothing I have seen in the report from Sir Douglas Wass makes me change my view on this; indeed almost everything I have read there on this subject deepens my anxieties about the de facto nature of present policies as regards their impact on the exchange rate.

7. The next obvious area to consider is fiscal policy in a narrower sense, while I would straight away join the Chief Secretary in taking a very dim attitude to any major changes

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on the spending front, with only a few important exceptions which need not concern us here. Going back for a moment to my anxieties about there being no guarantee of a substantial rate of growth hereafter, they could perhaps best be expressed in the following way. In any largely capitalist economy the long run rate of growth is likely to be a positive function of the rate of profit. If the rate of profitability settles at a level below some critical threshold, then investment, research, productivity growth and all the rest will be insufficient to generate significant growth. The risk we face is that we are below that critical level now. I have illustrated this thought on my second simple-minded graph, also attached to this minute. My thought is that we might at present be at point A on the graph, that B marks the rate of return at which zero growth is to be expected, and that C is the kind of position in which a healthy economy would ideally be if we could bring it about.

8. If, then, we are afraid of the unthinkable, it is easy enough to see that we follow the CBI prescription - not only in order to cut costs, but in order to increase the profit share and value added and raise the rate of return above that unknown but very real minimum threshold just identified. If short run anxieties are paramount, one has little choice but to make such a switch - which necessarily comes out of the share of labour or wages, however engineered, even if we suspect that in the longer run employees and unions will between them bid back what has been transferred temporarily out of their pockets. We would have to tolerate that risk because there is no alternative left to us; the transfer would have some substantial initial benefit, if a wasting one; and the fact that the risk exists is no argument against taking it.

9. There are obviously many ways in which such a transfer could be engineered - cutting NIS, industrial rates, energy prices and so on. The really interesting point is not how one would give the money to industry, but how one would raise it initially before so doing. If we fear that relying largely on interest rates and the measures already inherent in current policies is not enough, then there is no alternative but to grit

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one's teeth and either explicitly sacrifice the government's objectives for lowering personal taxation. This could in turn be done in many ways. One method would be a direct one, involving overtly leaving income tax higher than one had hoped, rather as in 1981. The second and more devious route would be to operate on the national insurance contribution in this coming autumn, rather as was done a little while back, too.

10. Using the national insurance contribution route would not be without certain modest political attractions. Quite apart from anything else, it could be presented as either or both of the following:

(i) Helping people to pay fully for the "cost of unemployment". In the most extreme, far the theoretical, case, one could bump up the NIC on employees pro rata (crudely) with the cost of the Department of Employment's various job creation measures.

(ii) The other alternative would be to present this increase as a very explicit investment in future jobs and growth, in which case it would be possible - were one so minded - to make a linkage (simultaneous or otherwise) with a further cut in NIS.

I think that such moves might be surprisingly welcome to a large part of the population; but they would have to be introduced very carefully, and soon, too, if they were to have any useful effect within the next year or so.

11. At the more micro-economic level, I remain as uneasy as before about the process of closure, liquidation and so on. You will have seen already the interesting thoughts which the Midland Bank drew to our attention the other day. There is no easy solution to anything in what they are proposing, but I think there are some valuable ideas lurking there. The crude point is that, just as we do not put BA into liquidation but permit it a capital reconstruction in order to launch it as a new viable entity, the same thing needs to be done, if only in

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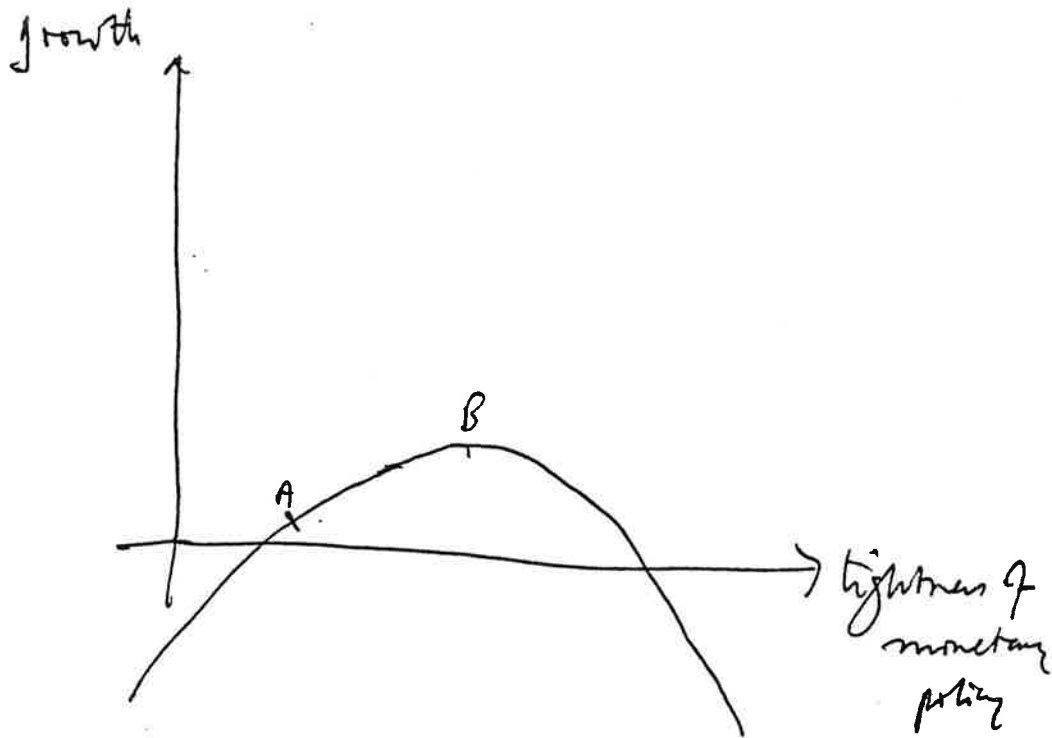
smaller measure, when a newly-rationalised firm emerges once again into the open but with a vast burden of debt on its back. I also suspect that in an ideal world we would be looking rather more carefully at the Cork Report, and drawing a lesson or two from what is currently happening to AEG in Germany. The procedure by which AEG has "composed" its debts with its creditors is not, as I understand it, open to British firms in difficulties. Certainly there can be much less assurance that they could follow such a constructive route. If a number of big firms are going to get into difficulties before long, there are a number of issues which need looking at here.

12. The final point which emerges from the discussions I have been having with a number of informed observers recently is the constant harping on the shortage of equity which constrains so many firms today. I suspect that, however wise it may have been to devote so much time to ensure an easier flow of lending to the corporate sector, we should be looking much harder (as the FST has recently observed) at the rejuvenating influence of relatively small slugs of equity. There are vast problems as soon as one tries to follow such thoughts in practice. However, vast though they may be, I think we have little alternative but to look at them if we are, indeed, concerned with the risk of really unthinkable things happening!

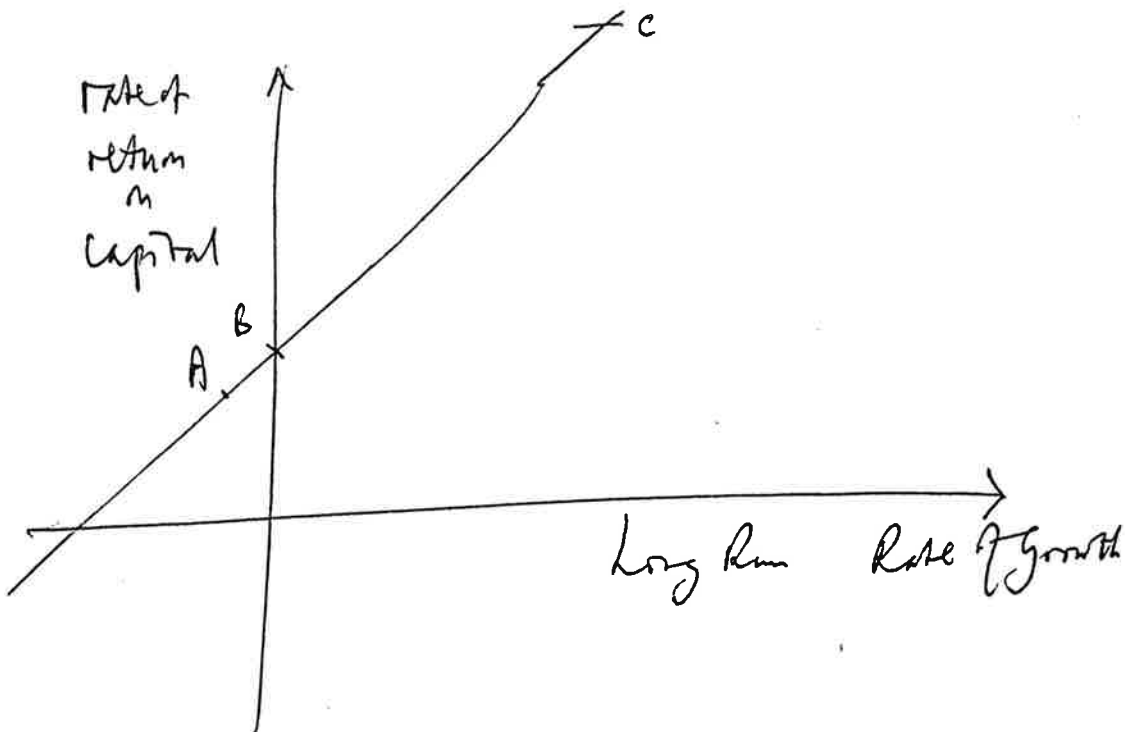
John Ridley

PP A N RIDLEY

Simple Graph no 1: Growth & the tightness of monetary policy:



Simple Graph no 2: Growth & the rate of return on capital



SECRET



FROM: MISS J M SWIFT
DATE: 7 September 1982

PRINCIPAL PRIVATE SECRETARY

Without attachments:

cc Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir A Rawlinson
Sir K Couzens
Mr Burns
Mr Quinlan
Mr Middleton
Mr Ridley

HOLIDAY THINKING OF THE UNTHINKABLE

... The Chief Secretary commends to the Chancellor the attached analysis by officials commissioned in response to Peter Jenkins' minute of 10 August to the Chief Secretary.

2. The Chief Secretary notes that the conclusions of the report are very much in line with his own initial thoughts on this issue recorded in John Gieve's minute to Sir Douglas Wass of 24 August ... (copy attached). The Chief Secretary is also inclined to agree with the report's tentative thinking on the PSBR for 1983-84.

*M attach re August
classer } x a next
page]; and re Chero's
own copies of re Wass paper*

MS
MISS J M SWIFT

ju

SECRET

SECRET



FROM: D L WILLETTS
DATE: 9 September 1982

CHANCELLOR_____

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

THINKING THE UNTHINKABLE

The Financial Secretary has read with interest the recent papers on this subject and looks forward to a meeting to discuss/ ^{them.} Meanwhile, he would like to record that whilst he agrees with much of Adam Ridley's minute of 3 September he is rather uneasy about his particular proposals for an increase in the NIC to finance some relief to industry. His worries about increasing the NIC are three-fold:-

- i) many people do not pay NICs and if there is to be further misery for the personal sector he believes it should be more widely shared;
- ii) he does not believe it is desirable to narrow still further the gap between the post-tax incomes of those in work and those out of it (the employment trap);
- iii) the Financial Secretary is not convinced that one must recoup all the help that might be given to industry. He has commented that if Adam Ridley believes that monetary policy is a bit on the tight side, then one way to relax it would be to cut industrial taxes in 1983-84 by £1 billion or £2 billion without recoupment:
only if the tax reductions were larger than this would some measure of recoupment be necessary.

Dhw
D L WILLETTS



Office of the Secretary of State
Washington, D.C.



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

TRAINING THE POLICE

The National Academy has been authorized to conduct the study of the police training problem in a series of reports to be submitted to the Department of Justice. The study will be conducted in a series of three phases: (1) a study of the present situation; (2) a study of the needs of the police; and (3) a study of the methods of training. The study is being conducted in cooperation with the Department of Justice and the Federal Bureau of Investigation.

- (1) The study will be conducted in a series of three phases: (1) a study of the present situation; (2) a study of the needs of the police; and (3) a study of the methods of training.
- (2) The study is being conducted in cooperation with the Department of Justice and the Federal Bureau of Investigation.
- (3) The study will be conducted in a series of three phases: (1) a study of the present situation; (2) a study of the needs of the police; and (3) a study of the methods of training.

W.D.
SECRET

SECRET



FROM: T A M POLLOCK
DATE: 9 SEPTEMBER 1982

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Sir Douglas Wass
Sir A Rawlinson
Sir K Couzens
Mr Burns
Mr Quinlan
Mr Middleton
Mr Ridley

THINKING THE UNTHINKABLE

The Economic Secretary has seen Mr Ridley's note of 3 September.

The Economic Secretary has commented that with regard to paragraph 6 he has never been able to follow the "precipice" projection for the exchange rate. It does not mean going over a precipice simply because the NIF assumes a lower rate in the future. Otherwise the causation is far from clear to him.

Secondly, the suggestions in paragraph 9 would result in reducing both the cost of employment and its remuneration. Whilst that may be the desired result, it will not be easy to achieve.



MISS T A M POLLOCK



Foreign Secretary 233
0762 81640. 4650

~~John GAMES | A. J. W. B. GAMES~~
~~- BAVEL WHITE & CO.~~



Chancellor

12.15.

Adam will come round at ~~10.00~~
to No.11 to discuss this. Ian Gow
is in today but I haven't asked
him to the meeting."

JR
25/8



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

10 September

The Lord Thomas of Swynnerton
29 Ladbroke Grove
LONDON
W11

A handwritten signature in dark ink, appearing to read 'John Major'.

With the Government already well into its fourth year of office, the Prime Minister has asked Cecil Parkinson and me to organise a number of party policy groups to supplement the extensive policy work already in hand within the Government. My purpose in writing to you now is to ask if you would be prepared to consider serving as chairman of a policy group to be set up to study Britain's relationship with the community and how it should be handled over the rest of this decade.

In keeping with normal party practice, our general aim is to set up a number of small, confidential groups composed of interested backbench Members of Parliament, peers, sympathetic experts and others such as party activists in Local Government and elsewhere who may have valuable experience and ideas to contribute. We would expect each group to number about 5-12 members, but there can obviously be no rigid limits in such matters. We would expect them to consult not only Ministers in the Departments relevant to their areas of study, but outsiders as well if that is appropriate. Our plan is that each group should report in the early spring of 1983, in practice by the end of March. We have identified the broad themes we hope each group will study. But naturally we would expect to consult each Chairman fully before fixing final terms of reference or membership. At this stage, I have the following terms of reference in mind for your group:

"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".

The broad purpose of all the groups (and it is in truth as relevant to your group as to any other) can be stated easily enough. For the rest of this decade the pressure on Government spending and finance is likely to be scarcely less fierce than recently, and the imperative need to encourage enterprise and wealth creation will remain vital. In that framework the task of each group will be to identify the tasks a Conservative administration should be undertaking in its area of study over the next decade; to make proposals for action where possible; and where it is not to identify subjects calling for further work.

It is impossible to say a priori how much of your or any one's time this work might take. I am well aware that there are already many heavy calls on your



time and energies. However I can promise that the Conservative Research Department will service each group and provide a secretary, and that we would do all we can to ensure you are not lumbered with any unnecessary work. If the groups can get down to work this autumn, they should have time in which to make a substantial contribution.

If you are at all attracted by this invitation, I should much like to get in touch with you soon - ideally to meet to talk it over further or, if that is not possible, to have a word on the 'phone. Unfortunately I shall be away until September 22nd. If, however, you would like to talk the matter over in the near future, please feel no hesitation about contacting Peter Cropper at Research Department, who is fully au fait with the exercise and whom I have asked to look after these matters in my absence. And if in particular you were free to call on me shortly after my return let Peter know and he will do his best to arrange it.

GEOFFREY HOWE

A handwritten signature in black ink, appearing to read "Geoffrey Howe", written in a cursive style.



Pl Hgr.
✓ 10/9

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Timothy Renton Esq MP
House of Commons
LONDON SW1

Lord [Mark] Thomas
The Lord Thomas of Swynnerton
29 Ladbrooke Grove
London W11

*Lucy 7/11/82
ADDRESS
11 August 1982
(ASK P.C.)*

Tim

Britain's relationship with the Community

With the Government already well into its fourth year of office, the Prime Minister has asked Cecil Parkinson and me to organise a number of party policy groups to supplement the extensive policy work already in hand within the Government. My purpose is writing to you now is to ask if you would be prepared to consider serving as chairman of a policy group to be set up to study the problem of unemployment and what to do about it over the rest of this decade.

how it should be handled

In keeping with normal party practice, our general aim is to set up a number of small, confidential groups composed of interested backbench Members of Parliament, peers, sympathetic experts and others such as party activists in Local Government and elsewhere who may have valuable experience and ideas to contribute. We would expect each group to number about 5-12 members, but there can obviously be no rigid limits in such matters. We would expect them to consult not only Ministers in the Departments relevant to their areas of study, but outsiders as well if that is appropriate. Our plan is that each group should report in the early spring of 1983, in practice by the end of March. We have identified the broad themes we hope each group will study. But naturally we would expect to consult each Chairman fully before fixing final terms of reference or membership. The broad purpose of all the groups can be stated easily enough. For the rest of this decade the pressure on Government spending and finance is likely to be scarcely less fierce than recently, and the imperative need to encourage enterprise and wealth creation will remain vital. In that framework the task of each group will be to identify the tasks a Conservative administration should be undertaking in its area of study over the next decade; to make proposals for action where possible; and where it is not to identify subjects calling for further work.

At this stage, I have the following concerns in mind for your group: (X) for for best letter.

and it is in fact... as relevant to your group as to any other



It is impossible to say a priori how much of your or any one's time this work might take. I am well aware that ~~the Backbench Employment Committee and your other interests will already be~~ ^{many} making heavy calls on your time and energies. However I can promise that the Conservative Research Department will service each group and provide a secretary, and that we would do all we can to ensure you are not lumbered with any unnecessary work. If the groups can get down to work this autumn, they should have time in which to make a substantial contribution.

If you are at all attracted by this invitation, I should much like to get in touch with you soon - ideally to meet to talk it over further or, if that is not possible, to have a word on the 'phone. Unfortunately I shall be away ~~on holiday from August 11th to 22nd and again from September 3rd onwards~~ ^{until September} for some time. If, however, you would like to talk the matter over in the near future, please feel no hesitation about contacting ~~my special~~ ^{Pete Cooper} adviser here in the Treasury, Adam Ridley, who is fully au fait with the exercise and whom I have asked to look after these matters in my absence. And if in particular you were free to call on me ~~in either of the weeks immediately before or after the Bank Holiday,~~ let Adam know and he will do his best to arrange it.

Pete

at current interest

Shall be off my return

GEOFFREY HOWE



FROM: ROBIN HARRIS
DATE: 15 September 1982

2 — CHANCELLOR
CHIEF SECRETARY

cc Mr Kemp
Mr Hall
Mr Ridley
Mr French

IN CONFERENCE

You have both received invitations to contribute articles to Andrew Bell's magazine.

I have talked to him about this project - indeed I have known him quite well since Oxford. On balance, I would advise in favour of acceptance by one (though not both) of you. Apparently, Mr Jenkin and Mr Heseltine have agreed to write articles and I understand that Mr Parkinson has given it his blessing. The only nagging doubt I have is whether like many such good ideas there may be some unforeseen practical, not to say financial, difficulties. In order to ensure that the standard of production is as we would wish and in order to be quite sure that no last minute horror stories are inserted, I would propose that in the case of one of you accepting the invitation to contribute you require that I should have a look at the proofs in advance. The time scale is, incidentally, not quite as pressing as the letter suggests. But I could provide either of you with a draft in good time, in any event.

RH

ROBIN HARRIS
15 September 1982

1917



TO THE
ATTORNEY GENERAL
WASHINGTON

DEPARTMENT OF JUSTICE
WASHINGTON

MEMORANDUM

FOR THE ATTORNEY GENERAL
RE: [Illegible]

[The following text is mirrored and illegible due to the document being upside down. It appears to be a memorandum detailing a legal matter.]

[Handwritten signature]

Very truly yours,
[Illegible Name]
Attorney General

Still with you
M
17/9

FROM: MISS J M SWIFT

DATE: 16 September 1982



PS/CHANCELLOR ↙

cc Mr Kemp
Mr Hall
Mr Ridley
Mr French
Mr Harris

IN CONFERENCE

Mr Harris minuted the Chancellor and Chief Secretary jointly yesterday about the invitation to contribute an article to Andrew Bell's magazine "In Conference".

2. The Chief Secretary is happy to contribute an article if the Chancellor would prefer not to, or to leave it to the Chancellor if he would like to do it himself.

MISS J M SWIFT

CHANCELLOR OF THE EXCHEQUER

16/9/82.

MISC 14: RESEARCH AND DEVELOPMENT

At its meeting on 17 March (MISC 14(82)2nd Meeting, Item 2) MISC 14 discussed a paper by the CPRS on the monitoring of Government research and development. The Group endorsed in principle the proposals put forward by the CPRS for improving departmental monitoring of Government research and development, but, since these were couched in fairly general terms, you asked the CPRS to let you have the draft of a letter for you to send to Ministers with research and development responsibilities explaining the CPRS proposals in some detail.

2. The second section of the CPRS paper discussed very briefly a number of topics, the essence of which was how better to establish priorities for research and development, which the CPRS suggested would merit further consideration by Ministers. Some of these topics had already arisen in previous discussions of this general area in MISC 14, and some were new. But the Group did not have time to deal with this part of the paper, and the CPRS was therefore asked to produce a further paper discussing each of the topics they had raised in some detail and putting forward specific proposals for further work.

3. For a variety of reasons the preparation by the CPRS of both the draft letter and this further paper has been delayed; and in the intervening period two developments have occurred which supersede and subsume the work commissioned by MISC 14. First, although it was outside their terms of reference, the Rayner scrutiny of support services in Government research and development establishments made some strongly critical comments about the monitoring of research and development in departments; and as a result the Prime Minister is pressing Ministers to improve the arrangements for monitoring the value for money from research and development projects. Second, in its response to the report from the House of Lords Select Committee on Science and Government, the Government announced the establishment of annual reviews of research and development, which will be conducted in the course of the Public Expenditure Survey. Exactly how these annual reviews are to be carried out is still being considered, but clearly their prime focus must be whether present research and development priorities are broadly right or, if not, how and where changes should be made.

4. These two developments seem to me, and to Dr Nicholson in the CPRS to represent a good start towards tackling the points of concern to MISC 14 in this particular area. I suggest, therefore, that MISC 14 should not, at least for the time being, pursue the work commissioned from the CPRS at its meeting in March. If you agree, the other Members of MISC 14 ought to be told how this work is to be pursued and I therefore attach a draft of a letter for you to send to Sir Keith Joseph for this purpose.

5. I am sending a copy of this minute to Dr Nicholson in the CPRS.

M.S.B.

M S BUCKLEY

Cabinet Office

16 September, 1982

Attachment:

re. hype

DRAFT LETTER FROM CHANCELLOR OF THE EXCHEQUER TO THE SECRETARY OF STATE
FOR EDUCATION AND SCIENCE

MISC 14: RESEARCH AND DEVELOPMENT

At its meeting on 17 March, MISC 14 discussed a paper by the CPRS (MISC 14(82)2) on the monitoring of research and development. We endorsed in principle the CPRS's recommendations in respect of improved departmental monitoring of research and development, but since these were couched in fairly general terms I asked the CPRS to let me have the draft of a letter to send to departmental Ministers setting out in greater detail the improvements in monitoring procedures that seemed desirable. The second section of the CPRS paper discussed briefly a number of ideas for further work which in essence were concerned with the determination of priorities for research and development effort. However, the Group did not have time at that meeting to discuss this section of the CPRS's paper, and we therefore asked them to prepare a further paper amplifying their ideas and suggesting those areas on which further work might most usefully concentrate.

2. For a variety of reasons, the preparation of both the draft letter and this further paper has been delayed. In the intervening period, two developments have occurred which appear to me to supersede and subsume the work commissioned from the CPRS by MISC 14. First, the Rayner scrutiny of support services in departmental research and development establishments was critical of some aspects of departmental monitoring of research and development and recommended that Permanent Secretaries in relevant departments should examine their monitoring practices in the light of the criticisms and report back to Ministers by the end of the year. The Lord Privy Seal supported this procedure in her minute to the Prime Minister of 9 June 1982 and the Prime Minister then endorsed the Rayner recommendations. Second, the Government's response to the report from the House of Lords Select Committee on 'Science and Government' announced the introduction of annual reviews of research and development. The details of how these are to be conducted are still being worked out; but clearly the main focus will be whether the present priorities for research and development are broadly right and, if not, how and where changes should be made.

3. In the light of these developments there seems no need for MISC 14 to pursue the work commissioned from the CPRS in March, at least for the time being.

4. I am sending a copy of this letter to the other members of MISC 14, to Dr Nicholson in the CPRS and to Sir Robert Armstrong.

RESTRICTED

C. I think that
the most important one
is 6. So I'd
reorder as shown



FROM: ROBIN HARRIS
DATE: 21 September 1982

CHANCELLOR — 2

cc Chief Secretary
Mr Ridley
Mr French

Before he went on leave, Adam Ridley asked me to prepare an "annotated agenda" for the extended political discussion which has now been arranged for Tuesday 28 September. Adam Ridley suggested a number of possible topics, some of which you accepted and some of which you did not. Since then, I have briefly discussed the possibilities with the Chief Secretary. I would suggest that the following might be a reasonable basis.

(1) 1. The Opposition Parties

- Liberal and Labour Party Conferences: what do they tell us of their main likely lines of attack in the run-up to the next election? What contrasts with Labour and Liberal (and Alliance) policies do we want to point up over the next year or so?
- Opinion Poll Evidence: what are our main continuing weaknesses? And strengths? Has Labour become once more the main threat? If so, does this have presentational implications?

(5) 2. Long Term Public Expenditure

Review the press fallout of the leaking of the CPRS document; and the Chief Secretary's response. Should we take the argument forward positively in public or concentrate on damage control?



THE STATE DEPARTMENT
WASHINGTON, D. C. 20520

TO: [Illegible]
FROM: [Illegible]

DATE: [Illegible]

[Illegible text block]

[Illegible Section Header]

[Illegible text block]

[Illegible text block]

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[Illegible text block]

(8) 3. Values of Society

if time allows

Can further use be made of this exercise in order to achieve Treasury goals?]

(4) 4. Public Expenditure Round

The Chief Secretary to report on the state of play.

(2) 5. Pay

- Public Service Pay Factor: the issue of publication.
- Objectives in the next pay round.
- Review the "day of action".
- NHS dispute.
- Forthcoming problems: eg the miners.
- Implication of pay and disputes for election date and election issues.

(2) 6. State of the Economy

- Prospects on Inflation, Output and Unemployment: implications for tone and timing of next election.
- The Recovery: public stance and relations with the CBI.
- Steering public expectations for the next budget eg on tax cuts.

7. (4) Main messages for your Conference Speech.

(4) 8. Report on actions and plans for policy work.]

(4) - if time allows

Undeniable Thoughts
and
PM's forward
look
exercise

Perhaps you could let us know which of these topics (and any others) you would like further work prepared upon. I could then, if you think this would be useful, circulate a fuller note before the meeting.

RH

ROBIN HARRIS

21 September 1982



C
You may remember that last Spring MISC 14 discussed the monitoring of Government research & development and agreed that you should write to Departmental Ministers inviting them to review their R & D effort.

In fact, this was never done and the exercise has now been overtaken by the Rayner Scouting & the Government's response to the Lords' Select Committee on "Science and Government".

The Cabinet Office recommend that you write to MISC 14 colleagues reporting the outcome. We've had the draft typed up for your signature, although you've not yet approved it.

MM

20/9

Chief Secretary
 Financial Secretary
 Economic Secretary
 MST (C)
 MST (R)



Sir D Wass

Sir A Rawlinson Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Mr Quinlan

Mr Wilding

Mr Kitcatt The Rt Hon Sir Keith Joseph, MP

Mr Lovell Secretary of State for Education & Science

Elizabeth House

Mr Christie York Road

Mr Kemp London SE1 7PH

Mr Ridley

22 September 1982

Dr Keith

MISC 14 : RESEARCH AND DEVELOPMENT

At its meeting on 17 March, MISC 14 discussed a paper by the CPRS (MISC 14(82)2) on the monitoring of research and development. We endorsed in principle the CPRS's recommendations in respect of improved departmental monitoring of research and development, but since these were couched in fairly general terms, I asked the CPRS to let me have the draft of a letter to send to departmental Ministers setting out in greater detail the improvements in monitoring procedures that seemed desirable. The second section of the CPRS paper discussed briefly a number of ideas for further work which in essence were concerned with the determination of priorities for research and development effort. However, the Group did not have time at that meeting to discuss this section of the CPRS's paper, and we therefore asked them to prepare a further paper amplifying their ideas and suggesting those areas on which further work might most usefully concentrate.

2. For a variety of reasons, the preparation of both the draft letter and this further paper has been delayed. In the intervening period, two developments have occurred which appear to me to supersede and subsume the work commissioned from the CPRS by MISC 14. First, the Rayner scrutiny of support services in departmental research and development establishments was critical of some aspects of departmental monitoring of research and development and recommended that Permanent Secretaries in relevant departments should examine their monitoring practices in the light of the criticisms and report back to Ministers by the end of the year. The Lord Privy Seal supported this procedure in her minute to the Prime Minister of 9 June 1982 and the Prime Minister then endorsed the Rayner recommendations. Second, the Government's response to the report from the House of Lords Select Committee on 'Science and Government' announced the introduction of annual reviews of research and development. The details of how these are to be conducted are still being worked out, but clearly the main focus will be whether the present priorities for research and development are broadly right and, if not, how and where changes should be made.



3. In the light of these developments there seems no need for MISC 14 to pursue the work commissioned from the CPRS in March, at least for the time being.

4. I am sending a copy of this letter to the other members of MISC 14, to Dr Nicholson in the CPRS and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G. Howe", written in a cursive style.

GEOFFREY HOWE

(pwp)



FROM: ROBIN HARRIS
DATE: 22 September 1982

C.
PS/CHANCELLOR — 2

cc Mr Ridley
Mr French

CONSERVATISM IN THE EIGHTIES

The Chancellor's CPC Lecture (now entitled "Conservatism in the Eighties") is to be published by the CPC on Tuesday 28 September with a short (and unobjectionable and uncontroversial) press release. This seems a good date and fits in with the Chancellor's wishes.

A large, stylized pink handwritten signature, possibly reading "RH", is written over the main body of the letter.

RH

ROBIN HARRIS
22 September 1982



Printed and Published by
H. K. Lewis, 10, South Street, London, E.C. 4.



THE
LONDON

PRINTED

PRINTED IN GREAT BRITAIN

The Publishers of this book (who are also the publishers of the
"LONDON" series) are to be held responsible for the accuracy of the
information contained therein. This book is published in the
English language.



THE
LONDON

PERSONAL

Mr HUNTIS



Ch. Ex

I have deliberately left off the agenda for Tuesday the single most important issue: namely the bearing which our assessment of the state of the economy will have on choice of election date. You may not want to have a discussion on such a topic in as large a meeting: and doubtless your mind is turned to that matter during many waking hours! However, clearly, if you wish to seek views on this you might wish to do so at the conclusion of item (ii).

RH

24/9/82

P.T.②

Also: We need

to identify some

issues (e.g. tax

reform) which the

Committee do not

to follow up

I a v. n

(Program
reports
only)

Can you find for us

- for my use -

an agenda (noting

different views)

of the views of

(V. Summary)

We discussed to

consider implications

of Friday's head stones

in Times & Standard

RESTRICTED

FROM: ROBIN HARRIS
24 September 1982



cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Ridley
Mr French
Hon Peter Brooke MP
Ian Stewart MP

AGENDA FOR POLITICAL DISCUSSION AT 4.30pm 28 SEPTEMBER 1982

(as agreed)
(but see also
PK below)

(i) The Opposition Parties

- Liberal and Labour Party Conferences: what do they tell us of main likely lines of attack in the run-up to the next election? What contrasts with Labour and Liberal and (Alliance) policies do we want to point up over the next year or so?

- Opinion Poll Evidence: what are our main continuing weaknesses? And strengths? Has Labour become once the main threat? If so does this have presentational implications? (see my minute of 24 September: a further note will be circulated)

(ii) State of the Economy

* - Issues raised in exchanges on "Thinking the Unthinkable": see minutes from the Minister of State (R) (17 August), the Financial Secretary (19 August), the Chief Secretary and the Economic Secretary (both 24 August); Sir Douglas Wass' minute of 1 September; and Mr Ridley's minute of 3 September, together with the comments on it by the FST and EST (both 9 September).

(iii) Pay

- Public service pay factor: the issue of publication.

- Objectives in the next pay round.
- Review the "day of action": state of play in the NHS dispute.
- Forthcoming problems: see Chancellor's covering minute and note on "Potential Trouble Spots" to the Prime Minister on 29 July: implications of pay and disputes for election date and election issues?

(iv) Public Expenditure Round

- Chief Secretary to report on the state of play.

(v) Long Term Public Expenditure

- Review the press response to the leaking of the CPRS document and to the Chief Secretary's speech . How should we take the argument forward positively in public?

(vi) Initiatives for the Medium Term

[ie reaction of the Chancellor's Departments to the Prime Minister's "forward look" minute of 16 September].

(vii) Party Conference Speech

- Main themes: any possible developments likely between now and then which will alter the message?

(viii) [If time allows] Values of Society

- Can further use be made of this exercise in order to achieve Treasury goals?

(ix) Policy Groups [Again, if time allows]: Plans for policy work.

RH

ROBIN HARRIS

24 September 1982

PERSONAL AND CONFIDENTIAL



ROBIN HARRIS

24 September 1982

CHANCELLOR

cc Chief Secretary
Mr Ridley
Mr French
Mr Kemp

AGENDA FOR POLITICAL DISCUSSION ON TUESDAY 28 SEPTEMBER

... I benefited from a discussion with Mr Kemp about points which Treasury Ministers might wish to consider at 4.30pm on Tuesday 28 September. The attached note was prepared for my own enlightenment, but it seemed so useful and comprehensive that I am sending it in full to you and to copy recipients. I would be grateful if you could indicate which of the points it contains you would like to have inserted into the agenda which I will circulate on Monday. Perhaps I could also at the same time have your views on the original skeleton agenda which I submitted on Wednesday 22 September. *

* I have just received
Mr Kerr's Minute of 24
Sept. about the agenda - which
I will act upon as soon as possible

RH

RH

ROBIN HARRIS

24 September 1982



Department of Education
Division Office
Cebu City

MEMORANDUM

TO: THE DEPARTMENTAL SECRETARY

Reference is made to the report of the Division Office on the subject of the proposed new curriculum for the elementary schools. The report contains a list of the proposed new curriculum and a list of the proposed new textbooks. It is suggested that the proposed new curriculum and textbooks be approved for use in the elementary schools. It is suggested that the proposed new curriculum and textbooks be approved for use in the elementary schools. It is suggested that the proposed new curriculum and textbooks be approved for use in the elementary schools.

Very truly yours,
[Signature]

I have the honor to acknowledge the receipt of your letter of the 15th instant.

Very truly yours,
[Signature]

[Signature]

POINTS FOR TREASURY MINISTERS' ATTENTION 25 SEPTEMBER 1982

There are a number of ways in which Treasury Ministers might now be addressing the future. One approach is to look at it in timed sequence, thus (a) getting through this coming Autumn (b) getting through the 1983 Budget (c) getting through the next General Election and (d) setting out on the Second term. Of course all these interact closely and it is not really possible to set out a list of points that follow that order. But in political terms there seem to be staging posts worth bearing in mind.

2. The following points, set out in telegraphese form, indicate in more detail the sort of elements which Ministers might wish to address themselves to.

Background

- a. The Autumn forecast
- b. The current public expenditure round
- c. The world economic situation
- d. Home political and other pressures
- e. Current indicators - inflation and interest rates good, output and unemployment less good
- f. An Election within 18 months
- g. Party Conference very shortly

Autumn action?

- a. Political pressures/unemployment, output etc
- b. Await forecast, see how current PSBR looks
- c. Options - "thinking the unthinkable" - what sort of action (as opposed to announcement affecting 1983-84) might be appropriate; effects of any 1982-83 action on 1983-84
- d. Scope for further interest rate reductions? exchange rate?
- e. Need to avoid mini-Budgets and the like that might erode confidence;

Towards the Autumn and the Budget - 1983-84

- a. As before, political pressures and consideration of Autumn forecast

- b. Completion of public expenditure round
- c. Consideration of monetary and fiscal policy for 1983-84; exchange rate
- d. Assessment of scope/need for fiscal action 1983-84
- e. Budget themes. Identify "packages" (tax and/or expenditure) now?
- f. How to use/take any fiscal action - industry? persons?
note doubtful state of industry but also poor record
on personal taxation, poverty, unemployment traps etc
- g. Particular problems of NIS ($\frac{1}{2}$ per cent consolidation) and NIC
- h. New sources of tax - banks, oil, other?
- i. CPRS Report on Unemployment - calling for action? Minford?
- j. When to announce anything in the Autumn? or keep until Budget?
if in the Autumn, whether in the Autumn Statement or by way of
"trickle"

The longer-term

- a. Follow-up on longer-term Cabinet of 9 September
- b. Special areas - health, education, housing, defence
- c. Particularly special area going more widely, pensions
- d. Next Parliament tax items
- e. Next Parliament privatisation drive - grounds to be laid now

Other important areas for attention

- a. Pay - further steps, speech-making etc. Major disputes/
problems looming - query miners. Interaction of November/
December announcements
- b. Britoil sale
- c. EC Budget - how to press forward keeping Treasury interests
in mind
- d. World banking system generally - stability, risks, action to
be taken. Follow-up on Versailles
- e. New look at indexation - note for instance 11 per cent Autumn
social security uprating $6\frac{1}{2}$ per cent (minimum) next Budget
Rooker-Wise
- f. Living with lower inflation
- g. Export credits/subsidies policy
- h. Civil Service public service matters; manpower controls, pay
(Megaw/Scott) efficiency, management
- i. 5 year 'forward look' - No 10 letter of 16 September
- j. Mansion House speech
- k. Queen's Speech on Opening of Parliament



FROM: ROBIN HARRIS
DATE: 24 September 1982

CHANCELLOR - 9

cc Chief Secretary
Mr Kemp
Mr Hall
Mr R I G Allen
Mr Andren
Mr Ridley
Mr French

*In v.m.
A few changes*

DRAFT ARTICLE FOR "IN CONFERENCE"

... I attach a draft article for the magazine which Andrew Bell is producing for the Party Conference. Since Mr Tebbit is writing the article on employment, I think that you rather than the Chief Secretary would be more appropriate as the author for this article on the work of the Treasury. A hitch has, it seems, presented Mr Jenkin from providing his promised article on the work of the Department of Industry, so I have included a short passage on privatisation in our Treasury contribution. Similarly, I have included a paragraph on de-regulation. I have agreed over the telephone that we can have a couple of hundred extra words in order to do so. The omission of mention of trade unions and the labour market stems of course from the fact that Mr Tebbit will doubtless be dealing with these at some length.

RH

ROBIN HARRIS
24 September 1982

Mr. [Name] [Address]
[City] [State] [Zip]

100

Dear Mr. [Name]:

[Faint, mostly illegible text body]

Very truly yours,

[Signature]

[Faint typed name]
[Faint typed address]



UNITED STATES POSTAL SERVICE
FIRST CLASS PERMIT NO. [Number] [City]

100

✓ 17 | 9

DRAFT ARTICLE FOR "IN CONFERENCE"

Just a year ago, at our last Party Conference, ~~how difficult~~ ^{certainly} ~~it was to persuade the doubters that~~ ^{then was how} the firm policies we were pursuing would ^{long} bear fruit. Now all that has changed. The tough decisions made last year allowed us in the latest budget to cut taxes, particularly taxation on industry, while firmly controlling Government borrowing too. Inflation has been falling dramatically - down from a peak of 22 per cent in the spring of 1980 to 8 per cent now, and on course for $6\frac{1}{2}$ per cent by the end of the year; that is better than even we had hoped. We will be the first Government in 25 years to pass on a lower average rate of inflation that we inherited. That is particularly encouraging; ~~for~~ the next Government is us.

And interest rates, so long so high in spite of firm fiscal policies, have been falling dramatically too. Bank base rates are down some $5\frac{1}{2}$ percentage points since last October. With each 1 per cent off interest rates estimated to be worth some £250 million to companies' cash flow, that is good for industry and so good for job prospects. And, of course, it is good for home buyers too.

Unemployment remains tragically high. No-one regrets that more than Conservatives. We, of all people, are appalled by the waste and frustration which unemployment brings in its train. If there were some simple, quick solution available to overcome the problem, no-one would seize it quicker than I. But it is precisely because successive governments eschewed long

term measures and preferred quick fixes that the present position is now so desperately bad.

Britain's jobs have gone the way of her market shares. Concealed unemployment, through overmanning, has become real unemployment. A deep world recession, affecting even the strongest of our neighbours, such as Germany, has added to our problems. So did the wage explosion we inherited from Labour, which squeezed profits and priced people out of jobs. Most people understand the intractable, deep-seated nature of Britain's relative economic decline. They understand that by 1979, when we took office, the British economy had become ^{one} of the weakest and most inflation prone economies in the Western world, and that the seeds of unemployment were already germinating fast. They do not expect miracles. But they do expect that our policies should be aimed at overcoming the fundamental causes of unemployment in a sensible and sustainable way. And that is precisely what those ^{policies} are designed to do.

We are determined to continue with the fight against inflation, by pursuing policies to control monetary growth and reduce public borrowing over the medium term as a share of GDP. Those policies are policies to overcome the scourge of unemployment. Today's unemployment is the terrible price we pay for years of failing to curb inflation. Inflation has eroded profits, discouraged investment, prompted irresponsible wage bargaining, and so destroyed and ~~aborted~~ jobs. It is not an alternative to unemployment. Over the years inflation and unemployment have risen together. The major success we have been achieving in tackling inflation is, therefore, itself the foundation for economic recovery and fuller employment.

I don't like 'aborted'!

Because of the pressures on public spending from recession and the need to reduce government borrowing, the overall burden of taxation is higher than we would wish. But despite this, no-one should forget how fundamental are some of the tax changes

which have taken place. The first Conservative budget dramatically reduced the top rate of income tax and cut the basic rate more than under any previous post-war Government. We have introduced three "enterprise packages" of measures specially designed to help small firms - including the Loan Guarantee and Business Start-up Schemes. The latest budget also tackled the inequity of taxing paper capital gains. The tax system has been used effectively to achieve wider share ownership by employees in the firms for which they work. In May 1979 there were only 30 employee profit sharing and share option schemes. There are now over 470 such schemes covering over 270,000 employees. We must go further still in all these areas. But in order to do so it is necessary to restrain the momentum of public spending growth. We have to master public expenditure - or it will master us. This is one reason, but by no means the only one, why we must press ahead even more vigorously with policies of privatisation. // Already British Aerospace, Cable and Wireless, the National Freight Company, some British Rail subsidiaries, parts of British Steel and some NEB holdings have been transferred to the private sector. British Gas's oil interests and Britoil will follow in due course. So will British Telecom. Moreover there is considerable scope for privatisation of many other functions and services throughout national and local government too.

Finally, we have been pressing ahead with reducing controls which inhibit and stifle enterprise and jobs. Already price, pay, dividend, exchange and HP controls have gone. So have controls on where to site factories and build offices. The burdens of employment law and planning have been eased. Eleven enterprise zones are in operation; and eleven more have been announced.

Although there is far still to go in order to regain the ground we have lost, British manufacturing industry ^{has} improved its cost competitiveness by between 10 and 15 per cent since the first quarter of 1981. Productivity has risen by over 12 per cent since the end of 1980. Our unit labour costs are now rising more slowly than those of the US and Canada, at a rate

comparable to Germany, only a little faster than Japan's. Continued commonsense on pay is essential ^{if we are to build} ~~Continued commonsense on pay is the best and vital way of~~

5767
1 fur an 20
~~building~~ on these achievements and pricing ^e workers back into jobs, *it is what this year has, better than this year than ever again to hopefully have the best*

The policies we have been pursuing are now widely recognised internationally as being the only sensible ones for responsible governments to follow. Indeed, we are leading the world in the fight against inflation and for sustainable growth and fuller, secure employment. And at home too the consensus on a wide range of social and economic issues is more than ever before Conservative. Our task now is to win a second term so as to achieve that goal which we set ourselves 3½ years ago: the revival of Britain.



FROM: J.O. KERR
24 September 1982

(PWP)

cc: PS/Chief Secretary
Mr. Ridley (o/r)
Mr. French

MR. HARRIS

MEETING OF MINISTERS AND ADVISERS : 4.30 PM 28 SEPTEMBER

The Chancellor was grateful for your minute of 21 September about the "annotated agenda" for next Tuesday's meeting. He would prefer the following re-ordering of the agenda:-

- (i) The Opposition Parties [as you suggest]
- (ii) State of the Economy [your para. 6]
The discussion on this item should cover, and the agenda should specifically draw attention to, the issues raised in this summer's exchanges on "Thinking the Unthinkable" i.e. the early round of minutes from the MST(R) (17 August), the FST (19 August), the CST and the EST (both 24 August); Sir Douglas Wass' minute of 1 September; and Mr. Ridley's minute of 3 September, together with the comments on it by the FST and EST (both 9 September).
- (iii) Pay [your para. 5]
- (iv) Public Expenditure Round [as in your minute]
- (v) Long Term Public Expenditure [your para 2]
- (vi) Initiatives for the Medium Term [i.e. the reaction of the Chancellor's Departments to the Prime Minister's "forward look" minute of 16 September.]
- (vii) The Party Conference Speech [as in your text]
And, if time allows:-
- (viii) Values of Society [your para 3]

RESTRICTED



(ix) Policy Groups [your para 8]

2. The Chancellor would be grateful if you could circulate an agenda on these lines before the weekend.

A handwritten signature in dark ink, appearing to be "J.O. Kerr".

J.O. KERR



CONSERVATIVE POLITICAL CENTRE

32 SMITH SQUARE · WESTMINSTER · LONDON SW1P 3HH

TELEPHONE: 01-222 9000

The Rt Hon Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
11 Downing Street,
London SW1.

24th September 1982

Dear Chancellor,

Time?

Conservatism in the Eighties

I enclose a few copies of our CPC pamphlet which we are publishing on Tuesday, 28th September.

I will send 50 to Douglas French at the Treasury for your general use on Monday, but I thought you might like to have some copies now.

I think the cover has come out very well at the expense of putting the price on the back!

Ask

Z

David

David Knapp
Director

Encs:



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

27 September 1982

David Knapp, Esq.,
Director,
Conservative Political Centre,
32, Smith Square,
Westminster
SW1P 3HH

Dear Mr Knapp,

CONSERVATISM IN THE EIGHTIES

The Chancellor has asked me to thank you for letting
him have an advance copy of the CPC pamphlet.

Yours sincerely,

Jill Rutter

JILL RUTTER

(pnp)

00.01 hours, Tuesday, 28th September 1982.

CONSERVATISM IN THE EIGHTIES

SIR GEOFFREY HOWE'S LECTURE at the 1982 Conservative Political Centre Summer School at Cambridge in July is published today as a CPC pamphlet 'Conservatism in the Eighties'.

In his lecture The Chancellor says that today's Conservative government is 'strongly committed to economic and social policies 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 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'. (p.5)

Sir Geoffrey makes clear what he believes should be the heart of the Conservative approach. 'It is to continue in three main directions. First, and no-one should doubt our determination in this, is to tackle the root causes of the scourge of unemployment which weakens our economy and threatens to embitter our national life.

Secondly, it is to reduce the fiscal and regulatory burdens of the State on people and business and to promote the enterprise which they stifle.

Thirdly, it is to extend choice as widely and effectively as possible'. (p.10)

On inflation Sir Geoffrey says, '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. 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.' (p.16 & p.17.)

'Conservatism in the Eighties', by The Rt Hon Sir Geoffrey Howe, QC, MP. Conservative Political Centre, 32 Smith Square, London SW1. Price £1.

rap



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

27 September 1982

David Knapp, Esq.,
Director,
Conservative Political Centre,
32, Smith Square,
Westminster
SW1P 3HH

Dear Mr Knapp,

CONSERVATISM IN THE EIGHTIES

The Chancellor has asked me to thank you for letting him have an advance copy of the CPC pamphlet.

Yours sincerely,
Jill Rutter

JILL RUTTER

CONFIDENTIAL



FROM: ROBIN HARRIS
DATE: 27 September 1982

CHANCELLOR —

cc Chief Secretary
Financial Secretary
Mr Burgner
Mr R H Wilson
Mr A White
Mr Ridley
Mr French

20

CENTRE FOR POLICY STUDIES MEETING WITH MR IAN MacGREGOR

Last Wednesday (22 September) I attended a meeting of the Centre for Policy Studies Nationalised Industry Policy Group at which Ian MacGregor was guest and speaker.

Mr MacGregor was pressed on the prospects for privatisation in BSC. Not surprisingly, he was generally pessimistic. He said that the hoped for cyclical upturn had failed to materialise. The decline of UK manufacturing industry, BSC's customers, continued. BSC were continuing to consolidate the good parts of the business. However, even these were not sufficiently profitable to be realistic candidates for privatisation. He argued that a profit record of perhaps ten years was required in order to attract potential buyers.

The tubular product business of BSC, which had been a promising candidate for privatisation, had run into difficulties with the decline in oil exploration in the US and in North Sea development.

He was pressing further with de-centralisation of BSC's structure and with the move to more locally earned bonuses. He felt that it was through moves in this direction resulting ultimately in employee equity participation/^{that} privatisation was most likely to be achieved. It was, as one would expect, a polished and impressive performance; but, in view of attitudes in the ISTC, privatisation via employee ownership and management seemed to those present (and to me) a fairly unconvincing prospect.

RH

ROBIN HARRIS
27 September 1982



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

Mr. [Name] [Address]
[City] [State] [Zip]

CONFIDENTIAL

LETTER FOR POLICY STUDIES SECTION WITH MR. [Name]

Dear Mr. [Name]: I am pleased to receive a copy of the letter
concerning the [Topic] and appreciate your interest in this
matter.

The [Topic] is a complex issue that requires a thorough
analysis of the various factors involved. It is important to
understand the underlying causes and the potential consequences
of different policy options. The [Topic] has a significant
impact on the [Area] and it is essential to develop a
coordinated response to address the challenges it presents.

The [Topic] is a complex issue that requires a thorough
analysis of the various factors involved. It is important to
understand the underlying causes and the potential consequences
of different policy options. The [Topic] has a significant
impact on the [Area] and it is essential to develop a
coordinated response to address the challenges it presents.

The [Topic] is a complex issue that requires a thorough
analysis of the various factors involved. It is important to
understand the underlying causes and the potential consequences
of different policy options. The [Topic] has a significant
impact on the [Area] and it is essential to develop a
coordinated response to address the challenges it presents.

[Handwritten signature]

SECRET
U.S. DEPARTMENT OF STATE

PERSONAL AND SECRET



FROM: ROBIN HARRIS
DATE: 28 September 1982

CHANCELLOR

THINKING THE UNTHINKABLE

[The official assessment under Sir D Wass's minute of 1 September you have sidelined and commented on, so it is not mentioned below]

ISSUES FOR DISCUSSION:

i) Recovery/State of Industry

- FST: not enough demand - fiscal stance probably too tight. So lower interest rates not enough - rather, more orders for British industry by cutting costs as CBI want. Pace of industrial change (as Rudd argues) just too hot.
- EST: problem is withdrawal symptoms from inflation; severe pressure on internationally open industries; no shortage of demand (cf FST supra) - shown by imports. Agrees fiscal stance tighter than planned at budget, also probably understating North Sea Revenue - but fiscal relaxation not very effective unless large drop in exchange rate.
- CST: recovery slower than expected, inflation better. Real interest rates still high; exchange rate stronger than anticipated at budget.
- AR: prospect of possible/^{output}stagnation for 18 months; also big closures; impossibly quick industrial adjustment; still uncompetitive; low profits; policy too tight (?)



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(i) Policy

- FST: lower electricity prices; full 1½% cut in NIS to run on; increase Aid - Trade Contingency in aid programme; index-linked and deep discount bonds; "save and build" policies for worst affected industry to replace plant; budget package of more help with investment in new and growing businesses.
- EST: agrees, continue 1½% NIS cut. Case for electricity subsidies. EC and GATT problems with subsidised "save and build" schemes; perhaps more 'enterprise measures'. Danger is of £ strengthening^{v.}/all currencies - UK less vulnerable than many - and very difficult to do much to counter it, though interest rates could fall quicker. Only protection offers a new approach - but must resist temptation. So use opportunity for faster progress on inflation and interest rates. No fiscal measures till budget.
- CST: accepts case for measures to boost industry now and at budget. Prefers general measures to help competitiveness, not sectoral. No tax changes pre-budget. Early public announcement that 1½% NIS cut continues. Strongly against extra public spending measures - not cost effective or quick. Prefers tax cuts. Bolder course in reducing interest rates in spite of exchange rate risk.
- AR: monetary policy too tight eg money GDP: exchange rate should fall - unsustainably high plateau; no major changes to increase public spending (like CST); follow CBI prescription - NIS, industrial rates, energy prices etc - and sacrifice objectives of lower personal taxes, or via higher employee NICs; try to tackle shortage of equity constraint on expansion; **lessons** from Cork report on liquidation.
- FST [commenting on above, 9 Sept]: 'no' to NIC increases - better to cut taxes on industry without recouplement.

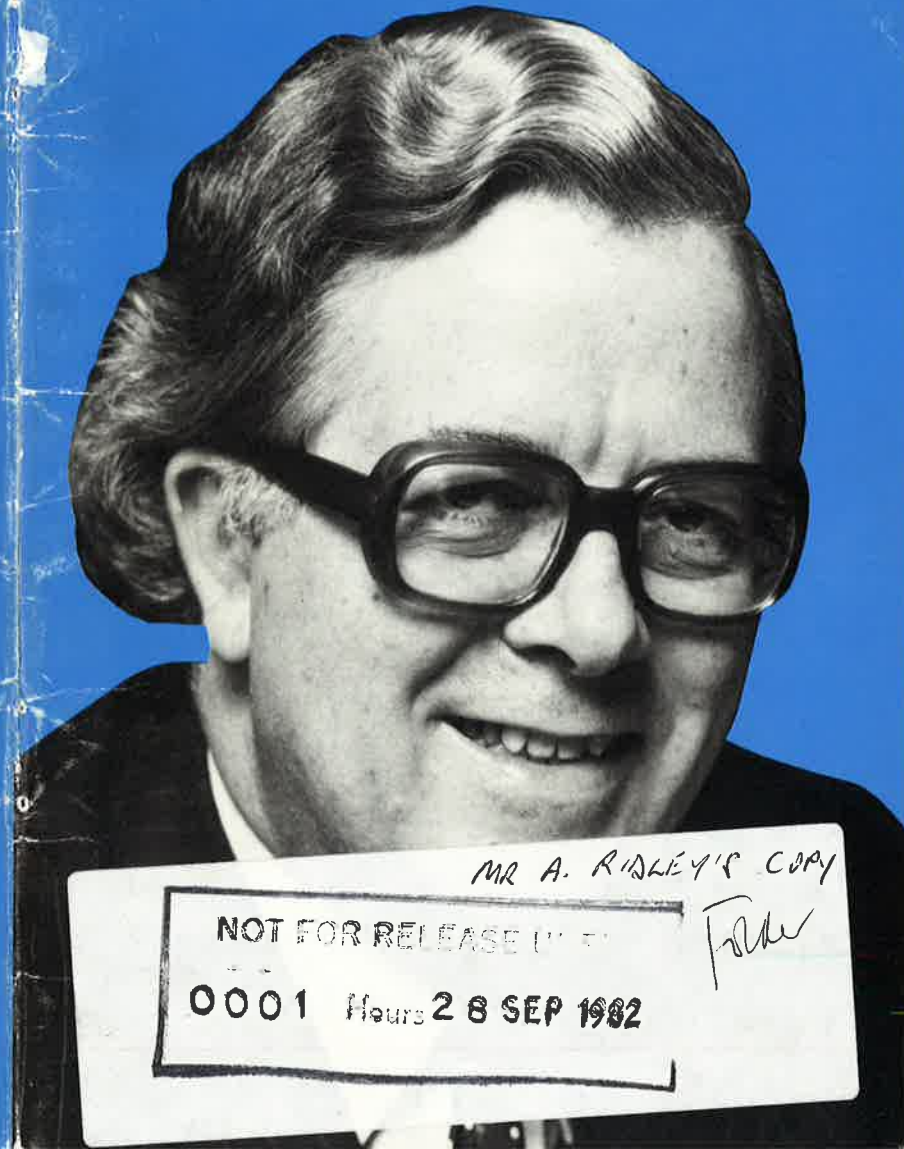
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ROBIN HARRIS

28 September 1982

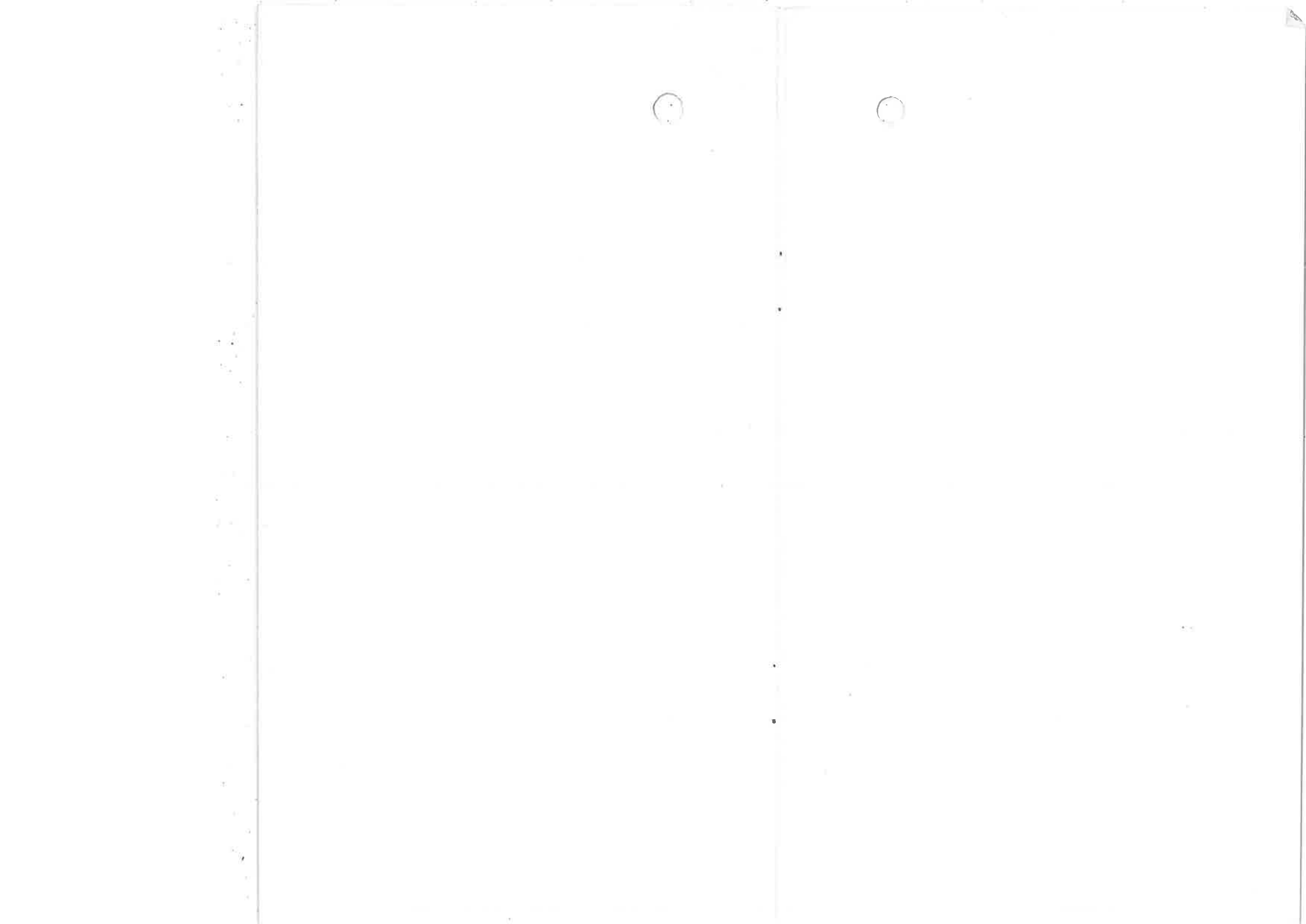
CONSERVATISM IN THE EIGHTIES

The Rt Hon Sir Geoffrey Howe, QC, MP



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CONCLUSION

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 the supreme importance of individual heroism and personal endeavour, of people – not institutions – working together against enormous odds to turn adversity into triumph. 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.

CONSERVATISM IN THE EIGHTIES

The Rt Hon Sir Geoffrey Howe, QC, MP

Conservative Political Centre
LONDON

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The Rt Hon Sir Geoffrey Howe, QC, MP on Saturday, 3rd July
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Cambridge.

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organisation. Over the decade to 1980, the number of registered charities increased by over 25,000, that is by 28 per cent. 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 care 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 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 overriding public spending and monetary objectives, are worthy of serious consideration.

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 deregulating 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.

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 other 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 bridgehead of choice for the many.

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 per cent 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 per cent in the last decade. Yet our GDP grew by some 10 per cent 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 which local authorities are experiencing in adjusting provision to take into account falling pupil rolls, and because 65 per cent of the programmes goes on staff costs, is only contracting slowly. This overall picture of increasingly heavy burdens placed upon the working population by those not in work is not confined to Britain. For the seven major industrial countries the ratio of total public expenditure to GDP rose from 29 per cent in 1965 to around 37 per cent 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 six per cent 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 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 closely linked issue is the role of voluntary

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CONSERVATISM IN THE EIGHTIES

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. Secondly, 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, 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 what 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 the poor and the weak as well as for the rich and 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

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 per cent of total public expenditure and unable or unwilling to limit their demands upon the ratepayer, 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 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.

Privatisation in 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. Monopolies and quasi-monopolies 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 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.

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 increasingly sad experience, which has led the large majority of people to the same conclusion. Already in this Parliament major steps have been taken. British Aerospace, Cable and Wireless, the National Freight Company, some British Rail subsidiaries, parts of British Steel and various NEB shareholdings have been sold. BNO'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 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 by some degree of private ownership.

Privatisation in 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, which accounts for the relative fall in

experience make us feel this way. In our scepticism of devices and panacea 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 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. We have given them the chance to do so. A quarter of a million council tenants have bought their homes since we took office. 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. That is a tradition which we intend to continue.

They also want to have a stake in the businesses for which they work. Again, this is something which we have sought to satisfy. For example, in transferring state-owned businesses to the private sector we have made provision for employee share ownership, as in the cases of British Aerospace, Cable and Wireless, and Amersham. And we continue to attach great importance to employees at all levels having the opportunity to build up a capital stake.

People 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 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, the message from heads of governments was the same. France is the latest convert. They seek, as we do, a stable international 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 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 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 observations 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 encourage the Management of the Health 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 their 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 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.

Privatisation in 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

*Privatisation: *The Way Ahead* (CPC No. 676, 1981)

Welsh economy swiftly to the new era'. But alas it is on 'in the last three years that the people of my home town of Port Talbot have been obliged to discover that 5,500 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 better ways of providing for those in need without increasing burdens on the private sector? 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 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 appreciate the work of his civil servants. And no politician should underestimate

The Labour Party and the SDP-Liberal Alliance now make the same sort of claims too. That is not surprising. For the electorate has 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 incompatible – for them that is 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 1975–6 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 able to command the instinctive loyalty of many working people who equally instinctively recoil from the Socialism of Mr Benn. It is important that the damaging, and truly unappetising, nature of today's Labour Party should be even more plainly perceived.

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

But the great changes which have to be effected in Britain's economy and society are too important to be managed by those who, when in the 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 has 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 paying now for failure over many years past: the failure to embrace – rather than to put off or fight – necessary changes in the economy, and the failures 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 de-regulation – 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 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 Community 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

competitive ness which government can provide. And since past inflation has raised 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.

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 whose momentum we now principally contend. It was believed that high economic growth rates would continue indefinitely, and politicians vied with one another 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. This is totally wrong. In fact, through the disciplines and pressures 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 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 Group pamphlet, *Work for Wales**, called for 'courage in facing facts, courage in making policies, and courage in adapting the

*CPC No. 208, 1959

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, 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 for 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. 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, 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

tackle effectively the great economic problems which have plagued us for so long.

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 worldwide 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. 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, de-regulation 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 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 at 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.

Secondly, it is to reduce the fiscal and regulatory burdens of the State on people and business and to promote the enterprise which they stifle.

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

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 governments, which offer the best hope for 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 – overspending, over-borrowing, overtaxing and inflating. And manipulation of the exchange rate 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

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

What is clear is that in all matters of tax reform 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 thus 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 dependent on sex or marital status, without testing opinion through 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.

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 reflating the economy in traditional, if perennially unsuccessful, fashion.

The most radical innovation was the Business Start-up Scheme which the CBI described as 'one of the most important contributions any Government had 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. Since we took office, the number of employee profit sharing and share option schemes has risen from 30 to over 460, covering some 270,000 employees.

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 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 so many of the tax issues which we have to study. How, for example, would it be appropriate to reform the level of reliefs in personal taxation? And to what extent could we reconcile any reductions 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

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. 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 there is a good deal more realism.

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 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 positively to the pressure for better benefits for early leavers?

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

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

Progress in taxation

We are firmly resolved to continue to try to reduce the burden of personal taxation. It is worth remembering exactly why this 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 Larosière, 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 savings; 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-à-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 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 that there are few income levels at which thresholds, as well as rates, are not of significance.

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 longstanding 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 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.

mp



FROM: ROBIN HARRIS
DATE: 29 September 1982

CHANCELLOR —

cc Chief Secretary
Mr Middleton
Mr Kemp *Mr Bottrell*
Mr Hall *Mr Burr*
Mr R I G Allen
Mr Ridley

.... I attach a draft "News of the World" article, as requested.
Miss O'Mara has kindly agreed to assemble comments and changes from
copy recipients. These should please be forwarded to her by midday
tomorrow.

RH

*In v.m.
Is it too long?
What is the requirement?*

ROBIN HARRIS
29 September 1982

*But substance
not too bad, I think.
Ca. MOM, JOK et al
w.a. so at checking style etc*

Clean draft, M
✓ 30/9

DRAFT ARTICLE FOR THE CHANCELLOR: "NEWS OF THE WORLD"

It is Party Conference season again. The conferences are understandably not quite as gripping for everyone as they are for the professionals. But they are important all the same. They're a chance for outsiders to see what the political Parties are really like. ~~It can be a pretty sobering experience~~

with ~~such~~ obvious relish. No wonder most people are alarmed at the idea of them getting their act together.

~~For Labour's Conference is never a pretty sight, with brother fighting brother. This year, of course, they have begun to get their act together. They usually do when there is an election approaching. But do not be fooled by the headlines about a "moderates' victory". For the constituency Party, the grass roots, are still in the hands of people who would not even have been allowed in the Labour Party a few years ago. Now they are fighting for control of it. And who are today's "moderates"? They are yesterday's extremists. And they all support a programme of ^{massive} printing, spending and borrowing, ^{more power for the trade} nationalisation, ^{controls} and trade union power, which would send us cap in hand to the world's bankers quicker even than before. That is Labour's Programme.~~

massive spending and higher taxes.

*Britain
even more surely than in 1976.*

I had almost forgotten the SDP-Liberal Alliance: haven't we all? We've heard a good deal about who will be their Prime Minister in waiting, their Leader, even their President. But not much sense about how they are going to tackle our economic problems. And not much reason to believe that ~~what~~ failed before should succeed now. ~~I wish the Alliance well. Unlike~~

the Tories will want them

The Alliance would be a more sensible (than Labour, of course)

~~Labour~~ they would be a worthy Opposition. But voting for them would be a terrible risk. For the most likely result would be ~~a Labour Government.~~ ^{to let us, that} It would be a tragic but fitting end for Roy Jenkins and his colleagues. Having lost the fight against the extremists in the Labour Party, they would finally succeed in handing Britain to them on a plate. It is up to us to see that does not happen.

So what about the Conservatives? Tory Conferences nowadays are far from the sham our critics used to pretend. There will be plenty of honest disagreement. And I know that there will also be plenty of passionate discussion of how to tackle the causes of today's tragically high unemployment. But there will also be understanding that ~~we owe it to~~ ^{it's a} ourselves, to Britain and ~~to the unemployed~~ ^{rather than} to avoid quick fixes, ^{we need, not short-term gimmicks,} long term solutions. It took years to get into our present mess. And we've always made clear that it will take years to get out of it.

Not quite right

That's not complacency. It's realism.

And we are successfully laying the foundations for tomorrow's ~~growth and~~ jobs. We are doing it by fighting and winning the battle for lower inflation. Today's desperately high unemployment is the ~~price~~ ^{cost} our people are paying for years of failure to curb ~~inflation.~~ ^{rising prices} ~~Inflation's~~ ^{letting prices up is} not an alternative to unemployment. It's a major cause of it. Today prices in the shops are rising by only 8 per cent a year - compared with 27 per cent at their ^{their} all/time record level under Labour. That's good news for Britain. And it's good news too for everyone seeking a

Too much to hope we can avoid what would "inflation"?

The rate of increase
job. ~~Inflation~~ should be down to $6\frac{1}{2}$ per cent by the end of the year. We'll be the first Government in over 20 years to pass on a lower average inflation rate than we inherited.

And interest rates have been falling dramatically too. That's not just chance, ~~And it's not just result of what is happening abroad.~~ It's happening here because our policies are working. ~~The same policy~~ *the policies* which Labour and the Alliance would have had us abandon ~~long ago.~~ *are working.*

in
Interest rates have fallen some [] per cent since last October. Each 1 per cent off interest rates is probably worth about £250 million to companies. That's more for investment, more for tomorrow's jobs. ~~And, of course,~~ *lower interest rates is* it's good news for home buyers too. The average first-time home buyer is paying [] *a year ago* less than he was ~~last October~~ in monthly repayments.

Of course, unemployment remains very high. No one regrets that more than Conservatives. ~~No one is more appalled by the waste and frustration which unemployment brings with it.~~ If there were some simple, quick solution available to that problem, does anyone seriously think that we - or Governments throughout the world - would not seize it?

As we priced ourselves out of markets abroad, and
There just isn't ~~Britain's jobs have gone the way of her market shares.~~ ~~And~~ *the reason why* a deep world recession, affecting even *to a* the strongest of our neighbours, like Germany, has made ~~every-~~ *it harder* ~~thing far worse.~~ ~~So has~~ the madness of irresponsible wage settlements inherited from Labour. ~~They destroyed profits.~~ *over*

simple, explain
Our goods will only sell abroad if they're available at the right time and the right price. And *or*

Insect X ~~is~~ And industrial disputes, causing ^{delivery delays} ~~are~~ ^{combined} ~~hardly less damaging~~. The ~~effect~~ ^{effect} was to ~~to our exports~~ ^{destroy jobs here}.

They priced ~~our~~ ^{them} goods out of world markets. And they priced ~~them~~ ^{far too many} people out of jobs. We cannot, any of us, afford to forget again that lost customers means lost jobs.

But

We've still got far to go in order to win back the ground we ~~had~~ ^{things are moving in the right direction} had lost.

~~Our manufacturing industry is 10 to 15 per cent more competitive than in the spring of 1981.~~ And productivity is up more than 12 per cent since the end of 1980. The wage costs of what we produce are now rising more slowly than those of the USA, at about the same rate as Germany, only slightly faster than Japan's.

The best way to price British goods back into world markets and British workers back into jobs is through even more common-sense on pay. I'm not suggesting that everything that's right for Japan is right for us too. But let's remember that with ~~inflation~~ ^{then} at [1½ per cent], unemployment only [] of ours, and a growth rate [twice] what we achieve, they are having no public sector pay increases at all. [~~America has done the same.~~] That is a measure of what we are up against. For we have got to do better than them if we want to make headway against our unemployment.

So when I speak to the Conservative Conference this week, ~~I'll~~ ^{I'll}

~~be putting over the same message as I have been for 3½ years.~~ I'll be setting out a consistent strategy to deal with what has been holding Britain back for decades. I won't

be promising easy answers. ~~But I shall be setting out~~ ^{and the next 13} policies accepted throughout the world as being ~~the only sense~~ ^{The Right - indeed}

~~ble ones~~ ^{Debs} for recovery. And I'll be talking to a Conference which is proud to know that ^{These days} Britain is not begging for handouts from the world's bankers. ^{That we are} ~~We are~~ ^{putting our house in order, and} showing the world how to get back to lower inflation, lower interest rates and lasting recovery.

Labour's Conference has surely told people all they need to know about Labour. I won't be ashamed of being judged by ours.

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SEQUENCE 1 - 1945 - THE END OF THE WAR

Britain emerged from the war exhausted, victorious, and resolved that the post-war world should never revert to the unemployment and poverty of the thirties. Even before the war ended, the Beveridge Report and the Butler Education Act pointed towards a brave new world. It was the duty of Government to ensure that every citizen had a job, a home, free health care, free education, a pension for his old age and a decent burial at the nation's expense. The Conservatives fought the 1945 election on Churchill's name and face, but even his immense prestige and popularity were not enough to blot our memories of the dole queues, the soup kitchens and the means tests that had blighted the 20s and 30s

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SEQUENCE 2

1945-51 THE FIRST LABOUR GOVERNMENT

The first ever majority Labour Government came to power with a mandate to build a new Britain. It was a huge burden. Britain was impoverished by 6 years of war, and already committed to large defence costs to meet the Russian threat. A huge expenditure on health, education, social welfare and housing must put enormous strains on the system. But then there was a big US loan, Britain's European rivals were even more shattered than Britain, and the Attlee government had inherited a massive apparatus of controls, regulations, rationing, and economic direction which it was very slow to dismantle. In fact food rationing did not end until 1954. With so much to pay for, it was a time of great austerity. Taxes were high,

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imports were dear, fuel was short, and belts were tight. But there was hope of a new source of cash. Those huge industries that had exploited the worker for private profit could be taken into public ownership and enrich the nation. So the railways and the airlines were nationalised. So were iron and steel. So were coal and gas and electricity. By 1949 the government was controlling the economic life of Britain to a degree that was beyond anyone's imagination 10 years ago. But there was curiously little complaint. Government was trusted and respected. After all, in the Public's eyes government had won the war, whereas Private Enterprise had lost the peace. So Britain gave birth to its bright hope in a bleak world. The child of a bitter peace and a terrible war, the paternal government of the welfare state was to bring equality, security, and prosperity to a nation that beyond any question had earned it.

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And yet there were already signs that Britain could not afford the child it had produced. After a massive US loan in 1945, marshall aid in 1948, and 30% devaluation in 1949, taxes were still high and food still scarce. As time passed, voters felt there was something wrong if they were no better off after 6 years of peace than they had been after 6 years of war. In 1951, they voted for change.

SEQUENCE 3

1951-64 - THE CONSERVATIVE YEARS

The 1951 Conservative Government might in theory have started to dismantle the government controlled welfare state they inherited from Labour. Had they looked at Germany they could have seen a model - in July 1948 Erhard abandoned all the postwar controls and economic restrictions and created what came to be called the German Economic miracle. But instead

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they accepted the heavy legacy of welfare socialism (apart from the token denationalisation of steel) and soldiered on under the burden of huge government expenditure.

In the early years it looked like a booming Britain, but the danger signs were there. It was taking Britain more men than her competitors needed to make a ship or a car. And there were signs of unemployment. To hide them, government added to its expenditure by starting a huge building programme to create jobs. These were the concrete years. From the late fifties onwards, National and Local Government bought unemployment away by vast schemes for houses, motorways, hospitals, schools, universities, civic centres and public and private skyscrapers. In parallel went the new national discovery of hire purchase. Of course some of this wealth came from higher productivity - but more and more competitors were producing

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better and cheaper goods. So spending money went on Italian shoes, German cars, Japanese motorbikes. By 1964 the cost of maintaining the huge burden of public expenditure was becoming clear. Taxes were too high, industry was under capitalised, and over manned, and inflation was starting to creep up as the government printed money to pay the bills it couldn't meet from taxes. The voters could sense that Britain was falling behind, and in 1964 they voted for the white heat of the technological revolution.

SEQUENCE 4

1964-70 - THE RETURN OF LABOUR GOVERNMENT

Britain's progressive commercial decline left the Wilson government a devastating inheritance. Industry was uncompetitive, there was a huge balance of payments deficit. And the Welfare State was costing more than ever. Inflation and unemployment, though not yet critical, were on an upward path.

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PAGE 7

The huge construction programme was roaring on and could not be stopped without throwing tens, maybe hundreds, of thousands out of work. The nationalised industries, which were supposed to be contributing the cash, were draining it away instead. The technological revolution started with massive tax increases, import surcharges, and a \$3bn loan to save the country from collapse. The insatiable appetite of Britain's postwar baby was too big a handicap.

The British people waited patiently at first, then less patiently, for the great renaissance. Instead of rising prosperity, they saw rising unemployment - half a million in 1968, the highest for thirty years. And 1968 brought the first sign of an ominous new trend : instead of "wildcat" strikes, the large official strike started to become a factor in Britain's economic life. By 1970 the technological revolution still had not taken place, and both unemployment and inflation stood at a new high.

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SEQUENCE 5

1970-74 - THE HEATH GOVERNMENT

By the time the Heath Government was elected in 1970, it was clear that the appetite of the growing child must be curbed or it would eat us all out of house and home. So cutting public expenditure became a high priority. But public expenditure is 60% wages, and it was now that the child showed its ugly adolescence. This was the start of regular strikes against the public and ugly picketing. Public employees - miners, power workers, postal workers, dustmen - threatened the life of the country, sometimes quite literally the lives of the citizens - to protect their jobs and wage and manning levels. The miners' pressure in 1972 proved too great, and another inflationary settlement set the stage for higher unemployment later. In 1972, unemployment passed the million. Then in 1973 came the historic OPEC price rise.

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Other countries coped by economising, but Britain got locked in a repeat of the 72 miners' strike and the 3 day week. Would Britain manage to hold prices, or would she print money to meet the higher wage demands to pay the higher prices caused by higher overall costs? This was the economic issue of the 1974 election, concealed by the political issue of who governs Britain?!

SEQUENCE 6

1974-79 WILSON AND CALLAGHAN

Wilson came back in 1974 obliged to settle the miners' strike on their own terms. This led to an inflationary wage round of dire implications. It was made worse by the spending implications of a pre-election expansionary budget by Barber which would have increased inflation very seriously on its own, plus a million more school children to pay for since the raising of the leaving age. And both inflation

./...

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21 D'Arblay Street, London W1V 3FN
(01-434-2660/01-439-6529)

T.V. SCRIPT

Date: 5th October, 1982.

Title: THE CURSE OF FRANKENSTEIN

Client:

Length:

Product:

Word Count:

SWO:

Submission Nos:

Picture

PAGE 10

Sound

and unemployment were still on an upward trend anyway. But instead of drastic measures to cut public expenditure, the government found a new way to increase the burden. It was called Government Intervention in industry. It meant trying to save jobs by pouring taxpayers money into ailing industries. Chrysler, BL, Rolls Royce - a 44% real increase in trade and industry expenditure in 5 years. All these calls on the public purse, with nothing like enough taxes or borrowing power to pay for them, could only have one consequence. The British people found themselves in a terrifying inflation - over 26% at its worst - while unemployment at 1.2 million was at a level that 10 years before would have been as intolerable as it was unthinkable. This was the start of the agony. Only an IMF loan could save Britain, and the IMF terms meant real cuts for the greedy child that had grown so large.

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PAGE 11

So the cuts were imposed, and now the British at last saw the face of the monster they had produced all those years ago. High public expenditure meant terrifying inflation, but cutting it meant cancer patients being sent home from hospital. The 1979 winter of discontent was precipitated by the lorry drivers' strike, but the real agony was caused by public sector unions, whose strike action since 1970 had been far more militant and damaging than private sector workers. It certainly damaged James Callaghan; his shaky majority vanished, he dissolved parliament, and Margaret Thatcher won the election.

SEQUENCE 7

1979-82 - MARGARET THATCHER

Up till 1979 every government for 20 years had increased inflation. Every government for 20 years had increased unemployment. Both were now higher than ever, and so was public expenditure.

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Mrs Thatcher set out to lead the first government for a generation to bring inflation down to lower than when it was elected. But the high Cleg settlement started by sending prices up. Only in Spring 1980 did they start to come down. But the cost was grim. Unemployment climbed to over 3 million, and the attempt to cut government spending was hampered by huge social security payments and Youth Opportunity schemes. A disturbing sign appeared - inflation was being controlled by a desperate squeeze on the wealth creating private sector much more than the public sector. Town hall costs were huge. Public sector prices were not bearing their share of the burden. Industry's profits collapsed in 1980-81, though they started to recover after that. Meanwhile any real attempt at significant cuts in public spending were met with violent threats of industrial disruption by public sector union leaders.

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As the Thatcher government moved towards the end of its first term of office, it had achieved its primary target and brought inflation down. It had also started the long delayed shake-out of overmanned private industry. But the real problem was not solved. Public expenditure was still huge, the public sector was still overmanned, public sector prices were too high, public industries like steel and railways were losing a fortune. Rates and taxes were still draining away billions that should have been spent on investment in productive industries.

Despite some privatisation, despite measures to boost businesses, despite a start on Trade Union legislation, the monster had not been conquered, only controlled - and perhaps only temporarily. Whether public expenditure could really be steadily reduced, whether private industry could really be revitalised and start creating the new jobs to start

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Picture

PAGE 14

Sound

bringing down unemployment - those questions
would have to wait until Mrs Thatcher's
second term. If she got one.

SAATCHI & SAATCHI GARLAND-COMPTON LTD.

REGISTERED OFFICE 80 CHARLOTTE STREET, LONDON W1A 1AQ. TEL. 01-636 5060. TELEX 261580.

Mr Ridley

20th October, 1982.

The Rt. Hon. Sir Geoffrey Howe,
Chancellor of the Exchequer,
H.M. Treasury,
Whitehall,
London SW1.

CH/EXCH/SECRET	
REC.	2 OCT 1982
ACTION	
COMMENTS	

Dear Sir Geoffrey

I enclose a revised version of the "Frankenstein" script. If you have any comments, I wonder whether you might let me have them some time next week.

*Yours sincerely
Michael*

MICHAEL DOBBS

Att:

*I believe you are
alongside this project?
Do you think it is
as complex + elaborate
as I do?
It is horribly but
my miss love?*

MIKE RUSSELL HILLS ASSOCIATES LTD

21 D'Arbly Street, London W1V 3FN.

01-434 2660/01-439 6529

19th October, 1982.

THE CURSE OF FRANKENSTEIN

1st Revise

Draft Commentary for
Statistical Animation Sections

SEQUENCE 1 - 1945 - THE END OF THE WAR

Britain emerged from the war exhausted, victorious, and resolved that the post-war world should never revert to the unemployment and poverty of the thirties. Even before the war ended, the Beveridge Report and the Butler Education Act pointed towards a brave new world. It was the duty of the Government to ensure that every citizen had a job, a home, free health care, free education, a pension for his old age and a decent burial at the nation's expense. The Conservatives fought the 1945 election on Churchill's name and face, but even his immense prestige and popularity were not enough to blot our memories of the dole queues, the soup kitchens and the means tests that had blighted the 20s and 30s.

SEQUENCE 2

1945-51 THE FIRST LABOUR GOVERNMENT

The first ever majority Labour Government came to power with a mandate to build a new Britain. It was a huge burden.

./...

Britain was impoverished by 6 years of war, and already committed to large defence costs to meet the Russian threat. A huge expenditure on health, education, social welfare and housing must put enormous strains on the system. But then there was a big US loan, Britain's European rivals were even more shattered than Britain, and the Attlee government had inherited a massive apparatus of controls, regulations, rationing, and economic direction which it was very slow to dismantle. In fact food rationing did not end until 1954. With so much to pay for, it was a time of great austerity. Taxes were high, imports were dear, fuel was short, and belts were tight. But there was hope of a new source of cash. Those huge industries that had exploited the worker for private profit could be taken into public ownership and enrich the nation. So the railways and the airlines were nationalised. So were iron and steel. So were coal and gas and electricity. By 1949 the government was controlling the economic life of Britain to a degree that was beyond anyone's imagination 10 years ago. But there was curiously little complaint. Government was trusted and respected. After all, in the Public's eyes, government had won the war, whereas Private Enterprise had lost the peace. So Britain gave birth to its bright hope in a bleak world. The child of a bitter peace and a terrible war, the paternal government of the welfare state was to bring equality, security, and prosperity to a nation that beyond any question had earned it.

But for those who could read the figures, there was an ominous sign.

ANIMATION

Animate the graph (top line) which is Chart 1 of David Smith's briefing paper. As the animated line comes to the end of each chronological section (pre-1st War, 1st War, inter-War period, 2nd War, 1945-51) solidify it into a block average, so that the final picture on the screen is a bar chart:



Up till the first world war, government expenditure had averaged about 10% of the nation's wealth, the Gross Domestic product. The war sent it up to more than 40% of GDP, and it never got back to the pre-war level. In the 20s and 30s the burden was much heavier, about 25%. World War Two sent it up to a new high, nearly 70%. Now the Attlee Government had committed itself to annual peacetime expenditure at the massive level of 40%, could Britain really afford this huge burden in the years ahead? Already there were signs that the child was too demanding. After a

LIBRARY FOOTAGE

massive US loan in 1945, marshall aid in 1948, and 30% devaluation in 1949, taxes were still high and food still scarce. As time passed, voters felt there was something wrong if they were no better off after 6 years of peace than they had been after 6 years of war. In 1951, they voted for change.

SEQUENCE 31951-64 - THE CONSERVATIVE YEARS

The 1951 Conservative Government might in theory have started to dismantle the government controlled welfare state they inherited from Labour. Had they looked at Germany they could have seen a model -

THE CURSE OF FRANKENSTEIN

in July 1948 Erhard abandoned all the postwar controls and economic restrictions and created what came to be called the German Economic miracle. But instead they accepted the heavy legacy of welfare socialism (apart from the token denationalisation of steel) and soldiered on under the burden of huge government expenditure.

Those years from 1951 to 1955 were the years of growing prosperity. There was work for all, the postwar world needed Britain's manufacturers, world prices were low, and you could have thought that everything in the garden was lovely. But already there was a deeply worrying sign. The industrial substructure of Britain was old and not being replaced. Coal, iron and steel, railways. The plant needed replacing but the money that should have bought new plants and machinery was going to pay for the new welfare state and meet the wage demands that financed the boom in cars and ~~work~~ machines and TV sets. The spectre of the 30s dole queues haunted managers and unions - so as a result, all over British industry there was evidence of overmanning in the factories, leading to overpricing in the shops all round the world. While Britain was spending and importing, other countries were re-equipping.

ANIMATION

- 1) Selection of Japan, USA, France, listing productivity, then UK not keeping up.
- 2) Same countries % of world markets rising, UK share falling.

and exporting. Their output per man started to rise dramatically. Britain's didn't - and Britain's share of world markets began to drop, first seriously, then dangerously.

./...

LIBRARY FOOTAGE

The Macmillan years 1957-63 are seen as the years we "never had it so good" - but already when he took over the rot had set in. All the traditional industries were losing ground - cars, ships, aeroplanes, textiles - and more and more of the affluent society's affluence was based on imported goods bought on the newly discovered HP. Taxation was still high, public expenditure was still high, and inflation was beginning to raise its ugly head. Industry was overmanned, under-equipped, and out-of-date. The first of the Japanese motorbikes in 1962 astounded the British public. Britain was the world's motorcycle factory - but here from the pre-war makers of cheap imitation toys was a better made, better looking product at a price which made British customers gasp and British manufacturers gulp.

The voters could sense that Britain was falling behind, and in 1964 they voted for the white heat of the technological revolution.

SEQUENCE 41964-70 - THE RETURN OF LABOUR GOVERNMENT

Britain's progressive commercial and industrial decline left the Wilson government a devastating inheritance. Industry was uncompetitive, there was a huge balance of payments deficit. And the Welfare State was costing more than ever. Inflation and unemployment, though not yet critical, were on an upward path. And there were signs of unemployment. To hide them, government added to its expenditure by starting a huge building programme to create jobs. These were the concrete years. National and

THE CURSE OF FRANKENSTEIN

Local Government bought unemployment away by vast schemes for houses, motorways, hospitals, schools, universities, civic centres and public and private skyscrapers.

The nationalised industries, which were supposed to be contributing the cash, were draining it away instead. The technological revolution started with massive tax increases, import surcharges, and a \$3bn loan to save the country from collapse. The insatiable appetite of Britain's postwar baby was too big a handicap.

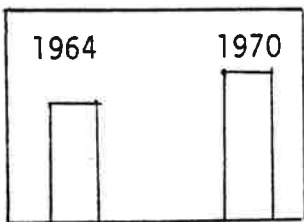
The British people waited patiently at first, then less patiently, for the great renaissance. Instead of rising prosperity, they saw rising unemployment - half a million in 1968, the highest for thirty years. And 1968 brought the first sign of an ominous new trend : instead of "wildcat" strikes, the large official strike started to become a factor in Britain's economic life.

By 1970 the great modernisation of Britain still had not taken place.

ANIMATION

Instead, public expenditure had climbed dramatically - in real terms from £30bn, 41% of the GDP in 1964 to £40bn, 48% of GDP, in 1970. Unemployment had climbed - from 372,000 in 1964 to 577,000 in 1970. And now inflation was climbing too - from 3.2% in 1964 to 6.2% in 1970.

3 successive charts -



jump on 1964 and 1970 bars with commentary.

./...

SEQUENCE 51970-74 - THE HEATH GOVERNMENT

By the time the Heath Government was elected in 1970, it was clear that the appetite of the growing child must be curbed or it would eat us all out of house and home. So cutting public expenditure became a high priority. But public expenditure is 60% wages, and it was now that the child showed its ugly adolescence. This was the start of regular strikes against the public and ugly picketing. Public employees - miners, power workers, postal workers, dustmen - threatened the life of the country, sometimes quite literally the lives of the citizens - to protect their jobs and wage and manning levels. The miners' pressure in 1972 proved too great, and another inflationary settlement set the stage for higher unemployment later. In 1972, unemployment passed the million. Then in 1973 came the historic OPEC price rise. Other countries coped by economising, but Britain got locked in a repeat of the '72 miners' strike and the 3 day week. Would Britain manage to hold prices, or would she print money to meet the higher wage demands to pay the higher prices caused by higher overall costs? This was the economic issue of the 1974 election, concealed by the political issue of who governs Britain?!

When Heath finally left No. 10 in 1974, the problems were even bigger than those he had inherited in 1970. In those 4 years the

ANIMATION

Three bar charts to show continuation of rising trend.

Previous chart updated.

average level of inflation had risen; the average level of government spending had risen: the average level of unemployment had risen: and Britain's share of world trade was still dropping. For those who could read, the writing was on the wall.

SEQUENCE 6

1974-79 - WILSON AND CALLAGHAN

Wilson came back in 1974 obliged to settle the miners' strike on their own terms. This led to an inflationary wage round of dire implications. It was made worse by the spending implications of a pre-election expansionary budget by Barber which would have increased inflation very seriously on its own, plus a million more school children to pay for since the raising of the leaving age. And both inflation and unemployment were still on an upward trend anyway. But instead of drastic measures to cut public expenditure, the government found a new way to increase the burden. It was called Government Intervention in industry. It meant trying to save jobs by pouring taxpayers money into ailing industries. Chrysler, BL, Rolls Royce - a 44% real increase in trade and industry expenditure in 5 years. All these calls on the public purse, with nothing like enough taxes or borrowing power to pay for them, could only have one consequence. The British people found themselves in a terrifying inflation - over 26% at its worst - while unemployment at 1.2 million was at a level that 10 years before would have been as intolerable as it was unthinkable.

*This last Budget was '73.
- hardly gov. election, since
it was less than three
years into the Parlt. +
in Dec. '73 he announced
+ forward-looking
rough things*

*Sequence 7
71 Industry
(1972) Act?*

Year by year bar chart animation.

*Don't say more again
- this is the
25 pages*

7.8/9

This was the start of the agony. Only an IMF loan could save Britain, and the IMF terms meant real cuts for the greedy child that had grown so large. So the cuts were imposed, and now the British at last saw the face of the monster they had produced all those years ago. High public expenditure meant terrifying inflation, but cutting it meant cancer patients being sent home from hospital. The 1979 winter of discontent was precipitated by the lorry drivers' strike, but the real agony was caused by public sector unions, whose strike action since 1970 had been far more militant and damaging than private sector workers. It certainly damaged James Callaghan; his shaky majority vanished, he dissolved parliament, and Margaret Thatcher won the election.

SEQUENCE 71979-82 - MARGARET THATCHER

Up till 1979 every government for 20 years had increased inflation. Every government for 20 years had increased unemployment.

ANIMATION

Reprise of 3 bar charts.

Both were now higher than ever, and so was public expenditure.

Explain?

Mrs Thatcher set out to lead the first government for a generation to bring inflation down to lower than when it was elected. But the high Clegg settlement started by sending prices up. Only in Spring 1980 did they start to come down. But the cost was grim. Unemployment climbed to over 3 million, and the attempt to cut government spending was hampered by huge social security payments and Youth Opportunity Schemes.

A disturbing sign appeared - inflation was being controlled by a desperate squeeze on the wealth creating private sector much more than the public sector. Industry's profits collapsed in 1980-81, though they started to recover after that. But public sector prices stayed high - public inflation did not respond like private inflation. And once again the British saw how the infant born amid the hopes of 1945 had turned into a monster that terrorised its parents. Strikes against the public, especially the sick and the old, now became the most frequent of all.

To be discussed.

ANIMATION

In 1974-1978, 32 million days were lost through strikes in the private sector and 5½ million in the public sector. In 1979-81, the private sector plummeted to 7 million, but the public sector soared to 18 million.

As the Thatcher government moved towards the end of its first period of office, the problems stood out clear and stark.

To be discussed.

ANIMATION

Public expenditure was still rising. The monster was clamouring for more and more, but a government can only raise money from three places - yesterday, today and tomorrow. Taxing yesterday is called inflation - eating away at everyone's savings. The Thatcher government saw inflation as Enemy No. 1 and set out to conquer it. It became the first government for a generation to achieve lower average inflation than its predecessor.

So that left today and tomorrow. Today's tax - income tax, VAT, Corporation Tax - was close to the limit. Since the 1950s more and more people had been drawn into the net

THE CURSE OF FRANKENSTEIN

and levels were close to the point where more taxation discourages people from working. Taxing tomorrow is called government borrowing. That had been rising in parallel to GDP for a generation, but in 1977 had started a leap that took it in 1981 to the highest point since the war. The average family was paying £12 a week just to keep up the interest on past government borrowing.

So there was nothing left after feeding the monster; but outside in the cold were

LIBRARY FOOTAGE

3 million people without jobs, desperately waiting for industry to start creating new jobs and take them on. New businesses and small businesses were encouraged, enterprise zones were started, and productivity was rising, but these were seeds that would take years to grow and bear fruit. Big tax cuts would free the cash for industry to expand with, but that meant cutting public spending, cutting supplies to the monster, and perhaps taking on the trades unions that had the power to bring the country to a standstill.

In the run-up to the 1983-84 election, Britain's future hung in the balance. Unemployment was

ANIMATION

huge, Public Expenditure was huge and rising, and output was stagnant. But inflation had been controlled, productivity was rising, and interest rates were starting to come down to the point at which expansion could start again. But whether this was the real turning point or just another pause before inflation, unemployment and public spending all surged up again - that question would have to wait until Mrs. Thatcher's second term - if she got one.

CONFIDENTIAL

Mr Ridley



FROM: ROBIN HARRIS

2 November 1982

CHANCELLOR

ANR
f is v. much
- not clear - unless
of how beginning
is then + show for us
to do + PPS?

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

GALLUP POLITICAL INDEX No.265: SEPTEMBER 1982

... The attached survey highlights several interesting points.

First, as we know, unemployment clearly remains the most important issue. But, encouragingly, 35% of those questioned think that no government can solve the problem.

Secondly, the survey highlights the continuing unpopularity of trade unions. An overwhelming majority think that trade unions are too powerful. And hardly any/^{one}thinks that they are not powerful enough. On the other hand, most people are unconvinced that trade union reform actually improves industrial relations. The single most popular reform would be to make postal ballots before strikes compulsory. This, of course, is SDP policy rather than ours. (Though, as other polling evidence shows, the SDP in practice have not been able to establish themselves *soon* in public preception as union reformers.)

Thirdly, the message of pay restraint is welcome. The survey links pay with inflation rather than unemployment: so it does not offer evidence about whether people are convinced of the argument which we make concerning "pricing people out of jobs .

Finally, and I think, most importantly, the survey confirms the extent to which we have still signally failed to convince

CONFIDENTIAL

most people of our success against inflation. This has been shown in earlier polling evidence. And here, notably on page 8 paragraph 6, our worst suspicions are confirmed. The story on food prices is, of course, a very good one but still 57% of those asked think that food prices have risen a great deal or quite a lot during the last year.

I suspect that the government and the Party should be doing much more to explain and demonstrate in simple, graphic terms what lower inflation means to the housewife. Mrs Oppenheim's shopping basket served its negative purpose during the last election campaign to demonstrate what inflation meant to household budgets. There might well be an argument for the Party asking Saatchi and Saatchi to recommend ways in which we could really get the message of lower inflation across well before the next one.

RH

ROBIN HARRIS

2 November 1982

Private and confidential

None of the contents of this
report may be published
without our written consent

GALLUP POLITICAL INDEX

Report No. 265

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202 Finchley Road
London NW3 6BL

September 1982

GALLUP POLITICAL INDEX

Report No.265

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10	Law and justice; the police	15
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Table 3 : Urgent problem; next election; unemployment; taxation v employment

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
1 What would you say is the most urgent problem facing the country at the present time?		(i)			
Unemployment	79	76			
Cost of living	5	6			
Other economic problems	2	4			
Strikes	3	2			
Law and order	2	2			
Other	8	10			
Don't know	1	2			
2 And what would you say is the next most urgent problem? (Includes top problem)			6 Do you think high unemployment is the kind of problem that no government can really solve, or do you think it could be solved if a government really tried to apply the right measures?		
Unemployment	89	86	No government can solve	35	NA
Cost of living	27	27	Could be solved	58	
Other economic problems	7	11	Don't know	7	
Law and order	9	9			
Strikes	8	8	7 When it comes to voting, which party would be more likely to get your support - the one that promised to reduce income tax, or the one that promised to reduce unemployment?		
Health/hospitals	8	8	Reduce tax	71	
Defence	6	4	Reduce unemployment	72	
Housing	4	5	Neither	6	NA
Education	4	4	Depends	4	
Pensions	4	4	Don't know	4	
Other	15	18			
Don't know	1	2			

(11-16.8.82)

(i) August 1982

Table 6 : Wages v prices; economic situation

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
1 Do you think the Government is or is not doing enough to control the rise in prices? Is Is not Don't know	34 59 7	(i) 29 65 6	6 Now what about food prices generally. Compared with a year ago, would you say that they had risen: A great deal Quite a lot Moderately Very little Not at all Don't know	24 33 33 5 1 4	(i) 27 33 31 3 0 5
2 Do you think the present rise in prices is bound to continue or can it be stopped? Bound to continue Can be stopped Don't know	51 42 7	58 34 7	7 Generally speaking, would you say that over the last year, wages have gone up less than food prices, more than food prices or wages and food prices have just about kept pace with one another? Wages have gone up less than food prices Wages have gone up more than food prices Both the same Don't know	55 7 28 10	62 7 24 8
3 Do the Government's policies for tackling the economic situation give you the feeling that they are or are not handling the situation properly? Are Are not Don't know	32 56 12	35 52 13	8 When you've paid all the things you can't get out of paying, for example, rent, rates, fares etc., would you say the amount left in your pocket is more than a year ago, the same as, or less? More - lot More - little Same Less - little Less - lot Don't know	1 7 20 34 33 4	2 7 19 34 36 2
4 Do you think that the Government's economic policies are or are not fair to all concerned? Are Are not Don't know	19 72 10	21 68 10	(18-23.8.82)		
5 Thinking about wages, compared with a year ago, would you say they had risen: A great deal Quite a lot Moderately Very little Not at all Don't know	3 5 40 36 9 7	1 6 37 40 8 8			

(i) July 1982

Table 7 : EEC Consumer Confidence

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
1 How do you think the general economic situation in this country has changed over the last 12 months?		(i)	5 How do you think the financial situation of your household will change over the next 12 months?		(i)
Got a lot better	2	2	Get a lot better	3	3
Got a little better	19	19	Get a little better	19	19
Stayed the same	16	19	Stay the same	46	46
Got a little worse	26	24	Get a little worse	20	19
Got a lot worse	34	33	Get a lot worse	7	7
Don't know	3	3	Don't know	6	6
2 How do you think the general economic situation in this country will develop over the next 12 months?			6 Do you think that there is an advantage for people to make major purchases (furniture, washing machines, TV sets, etc.) at the present time?		
Get a lot better	2	2	Yes, now is the right time	54	53
Get a little better	28	30	It is never the right time nor the wrong time	12	14
Stay the same	26	26	No, it is the wrong time. The purchase should be postponed	25	23
Get a little worse	21	19	Don't know	9	10
Get a lot worse	15	15			
Don't know	7	8			
3 By comparison with what is happening now, do you think that in the next 12 months:			7 Which of these statements best describes the present financial situation of your household?		
There will be a more rapid increase in prices	14	15	We are running into debt	3	4
Prices will increase at the same rate	33	33	We are having to draw on our savings	11	11
Prices will increase at a slower rate	30	28	We are just managing to make ends meet on our income	50	48
Prices will be stable	16	16	We are saving a little	31	32
Prices will fall slightly	3	4	We are saving a lot	3	3
Don't know	3	4	Don't know	2	3
4 How does the financial situation of your household now compare with what it was 12 months ago?			(1-12.9.82.)		
Got a lot better	3	4			
Got a little better	14	14			
Stayed the same	35	34			
Got a little worse	27	28			
Got a lot worse	19	18			
Don't know	2	2			

(i) August 1982

Table 7 : EEC Consumer Confidence (contd.)

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
8 How do you think the level of unemployment, (I mean the number of people out of work) in the country as a whole, will change over the next 12 months? Will it:		(i)	11 Over the next 12 months how likely are you, or any member of your household, to be able to save any money?		(i)
Increase sharply	21	19	Very likely	14	14
Increase slightly	48	48	Fairly likely	31	30
Remain the same	17	19	Fairly unlikely	17	19
Fall slightly	9	11	Very unlikely	34	34
Fall sharply	0	1	Don't know	4	3
Don't know	4	3	12 In view of the general economic situation, do you think this is:		
9 Compared to what it was 12 months ago, do you think the cost of living is now:			A very good time to save	16	18
Very much higher	19	17	Quite a good time to save	34	33
Quite a bit higher	28	32	Rather an unfavourable time to save	26	26
A little higher	37	36	A very unfavourable time to save	15	14
About the same	13	12	Don't know	9	9
Lower	2	1			
Don't know	2	1			
10 Over the next 12 months how do you think the amount of money you or any member of your household will spend on major purchases (furniture, washing machine, TV set, etc.) will compare with what you spent over the last 12 months? Will it be:			(1-13.9.82.)		
Much more	8	7			
A little more	13	13			
About the same	36	37			
A little less	13	15			
Much less	24	23			
Don't know	7	5			

(i) August 1982

Table 8 : Trade unions

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
1 Generally speaking, and thinking of Great Britain as a whole, do you think that trade unions are a good thing or a bad thing?		(i)	Q4 contd.		
Good thing	59	56	c) A ban on secondary picketing, that is, a ban on picketing a company not directly involved in a strike		(i)
Bad thing	30	28	Approve	67	66
Don't know	11	16	Disapprove	25	22
2 It has been said that the Conservative Government is hostile to the trade unions. Do you think this is true or not true?			Don't know	8	12
True	56	57	d) Public money to be used to encourage a wider use of trade union secret ballots		
Not true	34	30	Approve	40	40
Don't know	10	13	Disapprove	46	42
3 Do you think that in the future, relations between the Conservative Government and the trade unions will improve, worsen or stay the same?			Don't know	14	18
Improve	10	12	e) Removal of the right of those in key public service industries to strike in return for guaranteed wage increases		
Worsen	46	39	Approve	46	48
Stay the same	36	38	Disapprove	36	31
Don't know	9	10	Don't know	18	21
4 Can you tell me whether you approve or disapprove of the following suggestions for the reform of trade union law?			f) A secret ballot on whether or not to pay the political levy to the Labour party?		
a) Closed shops should be established only if a majority of the workers concerned vote for it			Approve	48	NA
Approve	69	65	Disapprove	33	
Disapprove	21	22	Don't know	19	
Don't know	10	13	5 Do you think that workers on strike at a company should or should not be able to picket the factory, so long as the picketing is peaceful?		
b) No strikes to be called until there is a postal ballot of union members involved			Should	80	76
Approve	83	81	Should not	16	19
Disapprove	11	8	Don't know	4	5
Don't know	6	11			
			(25-30.8.82)		

(i) August 1981

Table 8 : Trade unions (contd)

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
6 Do you think that people who are not employed by a particular factory or company where there is a strike should or should not be able to support the strike by joining the picketing?			11 Do you think the views of the trade union leadership are or are not representative of the views of the ordinary trade union member?		
Should	23	(i) 19	Are	22	22
Should not	71	74	Are not	62	60
Don't know	6	7	Don't know	16	18
7 Do you think that strikes for political reasons are or are not justified?			12 In a factory which has a union, should the workers who are not members be free to stay out of the union if they are getting union rates of pay or should it be compulsory to join the union?		
Are justified	24	NA	Free to stay out	66	71
Are not	63		Compulsory to join	28	22
Don't know	13		Don't know	6	7
8 Do you think that trade union leaders should or should not be sent to prison for defying the law?			13 Do you think employers should or should not encourage their staff to join a trade union?		
Should	54	NA	Should	42	38
Should not	34		Should not	46	49
Don't know	12		Don't know	12	13
9 The Trade Union Congress is meeting soon. What do you think is the most urgent problem facing the trade unions when they meet?			14 Do you approve or disapprove of the Government's plans to reform trade union law?		
Unemployment	54	(i) 54	Approve	43	43
Strikes; trade disputes	8	4	Disapprove	32	26
Rising cost of living, prices, inflation	3	4	Don't know	25	30
Wage claims	3	4	15 Do you think that the Government's plans to reform trade union law are helping or harming industrial relations in this country?		
Increasing production	2	2	Helping	13	18
Other	18	20	Harming	50	44
Don't know	13	15	No effect	10	9
10 Do you think that trade unions are becoming too powerful, are not powerful enough or are about right?			Don't know	21	28
Too powerful	63	60	(25-30.8.82)		
Not powerful enough	9	10			
About right	23	23			
Don't know	5	6			

(i) August 1981

Table 8 : Trade unions (contd)

Questions and answers	Today	Compa- rison	Questions and answers	Today	Compa- rison
16 In the present situation should trade unions hold back wage claims or go ahead with them? Hold back Go ahead Don't know		(i) 49 37 14			
17 As a measure to combat inflation would you, yourself, be willing or not to accept: a) a wage increase over the next 12 months that is about half the rise in the cost of living? Yes No If everyone did it (vol) Don't know b) No wage increase at all over next 6 months? Yes No If everyone did it (vol) Don't know		52 26 7 15 39 36 8 18			

(25-30.8.82)

(i) August 1981

Table 9 : Honesty of groups

Questions and answers		Today	Comparison	Questions and answers		Today	Comparison
1 How would you rate the honesty and ethical standards of the people in these different fields - very high, high, average, low or very low?			(i)				(i)
a) Doctors	Very high High Average Low Very low Don't know	23 52 19 3 1 2	27 46 21 3 1 2	g) Police officers	Very high High Average Low Very low Don't know	12 44 33 7 3 1	14 40 33 7 2 4
b) University teachers	Very high High Average Low Very low Don't know	6 32 32 4 1 25	6 31 32 6 1 24	h) Engineers	Very high High Average Low Very low Don't know	6 33 43 3 0 15	6 27 47 4 0 15
c) Psychiatrists	Very high High Average Low Very low Don't know	7 26 24 7 3 34	9 26 23 8 3 32	i) Lawyers	Very high High Average Low Very low Don't know	8 40 35 7 1 9	9 34 32 10 3 12
d) Journalists	Very high High Average Low Very low Don't know	1 14 41 27 6 11	2 16 42 21 7 13	j) Business executives	Very high High Average Low Very low Don't know	2 16 49 14 3 15	3 15 48 13 4 17
e) Members of Parliament	Very high High Average Low Very low Don't know	1 14 52 21 5 6	2 14 39 28 12 6	k) Building contractors	Very high High Average Low Very low Don't know	2 10 47 24 6 11	2 8 47 23 7 13
f) Trade union leaders	Very high High Average Low Very low Don't know	1 12 35 29 18 6	2 13 38 24 15 9	l) Advertising executives	Very high High Average Low Very low Don't know	1 3 42 27 7 15	2 9 40 22 9 18
				(11-17.8.82)			

(i) October/November 1976

Table 10 : Law and justice; police

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
1 Do you think our system of law and justice:			3 Which of these statements do you believe is true in the main of the British police force?		
a) Is or is not efficient?		(i)			(i)
Is	55	46	They are efficient and do job well	48	58
Is not	39	49	They are not very efficient for various reasons - for example, because of the way they are organised	20	18
Don't know	6	5	There are cases of corruption and violence but these are very scattered	44	45
b) Fair or not fair to everyone?			Cases of corruption and violence occur too often	27	16
Fair	39	38	4 Do you believe or do you not believe that there are cases where people are sent to prison for crimes they didn't commit?		
Not fair	56	57	Happens a lot	7	8
Don't know	5	5	Just now and then	68	63
2 In your opinion, do the courts in this country dispense justice impartially or do they favour the rich and influential?			Don't know how often	10	9
Impartial	42	43	Don't believe it happens	8	14
Favour the rich	46	44	Don't know	6	6
Don't know	12	13			
3 Have any of the things that have happened recently made you feel uneasy about our police force or hasn't your attitude been affected? What has made you feel uneasy?			(11-17.8.82)		
Corruption, 'Countryman'	16				
Riots	5				
Police procedure inadequate	5				
Police violence/hostility to certain groups	4				
Recent publicity	3	NA			
Course of justice unfair	2				
Should have more power	2				
Racial prejudice	1				
Can't say why	1				
Other reasons	3				
Attitude hasn't been affected	63				

(i) May/June 1981

Table 11 : The 'Mary Rose'

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
1 Have you heard of the 'Mary Rose Project'?			3 What would you expect to pay in Portsmouth to visit the 'Mary Rose'? Please exclude any fares etc.		
If Yes: Do you know what the 'Mary Rose Project' is?		(i)			(i)
Mentions of Henry VIII/ Tudor	15	11	Nothing	7	7
Mentions of ship/boat	45	32	50p or less	11	11
Prince Charles	13	-	51p - £1	28	23
Portsmouth	8	6	£1.01 - £1.50	21	21
Other areas	3	-	£1.51 - £2.00	12	10
Treasures	6	-	Over £2	8	12
Preserving for display	5	-	Don't know	14	15
Other	3	3			
Heard of but no details	9	12			
Not heard of	53	43	(18-23.8.82)		
2 The 'Mary Rose Project' is an attempt to raise a warship of Henry VIII's period which sank off Portsmouth and to preserve it in a permanent exhibition centre. If the 'Mary Rose' is sited in Portsmouth how likely do you think it is that you would visit it?					
Definitely would	12	11			
Probably would	21	19			
May or may not	14	12			
Probably would not	22	24			
Definitely would not	31	32			
Don't know	1	2			

(i) February 1982 On behalf of The Mary Rose Trust

CONFIDENTIAL



ROBIN HARRIS
3 November 1982

C.
RW

CHANCELLOR

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

R

PUBLIC OPINION BACKGROUND NOTE 137

... The most interesting points to arise from the attached latest Note from Conservative Central Office:-

- the Gallup evidence suggests that our lead over Labour has been slipping, though both / ^{Gallup} and Marplan show it at over 10%. As the recent bye-election results confirm, the Alliance - at least under certain circumstances and with certain candidates - may, however, be under-rated by the Polls.

- secondly, we have still by a long way the "best policies" and by even further "the best leaders".

RH
ROBIN HARRIS
3 November 1982

Public Opinion Background Note 137
(Produced 31st October 1982)

1. Introduction

The results from our latest Gallup 'tracking' study are the same as those published in the Daily Telegraph on Thursday 28th October. The survey found 40½% claiming they would vote Conservative, 29% Labour, 15% Social Democrat and 12% Liberal. The interviewing for this survey was conducted from 20th to 25th October. A comparison of this latest published poll with previous published Gallup studies is shown below:-

Gallup - Published Polls 1982

	<u>Con</u>	<u>Lab</u>	<u>Lib</u>	<u>Social</u>	<u>Other</u>	<u>Con Lead</u>
				<u>Democrat</u>		<u>over Lab</u>
<u>1982</u>	%	%	%	%	%	%
January	27.5	29.5	13.0	26.5	3.5	-2.5
February	27.5	34.0	14.5	21.5	2.5	-6.5
March	31.5	33.0	11.5	21.5	2.5	-1.5
April	31.5	29.0	11.0	26.0	2.5	+2.5
May	41.5	28.0	9.5	19.5	1.5	+13.5
June	45.0	25.0	10.0	18.5	1.5	+20.0
July	46.5	27.5	7.5	16.5	2.0	+19.0
August	44.5	26.5	10.5	17.0	1.5	+18.0
September	44.0	30.5	8.5	14.5	2.5	+13.5
October	40.5	29.0	12.0	15.0	3.5	+11.5

Looking at published polls we find that Conservative support has fallen from 46½% in July to 40.5% in October. Labour support has increased from 25% to 29% over the same period. Liberal support has increased from 10% to 12% and Social Democrat support has fallen from 18½% to 15%.

Details of the trend in our weekly 'tracking' studies are shown in the table on the next page.

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

	<u>CON</u>	<u>LAB</u>	<u>LIB</u>	<u>SOCIAL</u> <u>DEMOCRAT</u>	<u>OTH</u>	<u>LEAD</u> Con over Lab	<u>LIBERAL & SOCIAL</u> <u>DEMOCRAT</u>
<u>1979</u>	%	%	%	%	%	%	%
May (GE)	42.9	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	+ 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	+ 11.5	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
2/7 June	48.5	23.5	11.5	14.5+	2.0	+ 25.0	26.0
9/14 June	45.0	25.0	10.0	18.5+	1.5	+ 20.0**	28.5
16/21 June	49.0	24.0	10.0	15.5+	2.0	+ 25.0	25.5
23/28 June	45.5	29.0	10.0	13.0+	2.5	+ 16.5	23.0
30 June/5 July	45.0	25.5	12.5	15.0+	2.0	+ 19.5	27.5
7/12 July	46.5	27.5	7.5	16.5+	2.0	+ 19.0**	24.0
14/19 July	44.0	27.5	8.5	18.0+	2.0	+ 16.5	26.5
21/26 July	39.0	30.5	10.0	17.5+	3.0	+ 8.5	27.5
28 July/2 Aug	43.5	30.0	8.5	16.0+	2.0	+ 13.5	24.5
4/9 Aug	46.0	28.0	9.0	13.5+	3.5	+18.0	22.5
11/16 Aug	44.5	26.5	10.5	17.0+	1.5	+18.0**	27.5
18/23 Aug	45.5	27.0	9.0	16.5+	2.0	+18.5	25.5
25/30 Aug	40.0	32.0	11.5	15.0+	1.5	+ 8.0	26.5
1/6 Sept	43.5	28.5	8.0	17.0+	3.0	+15.0	25.0
8/13 Sept	44.0	30.5	8.5	14.5+	2.5	+13.5**	23.0
15/21 Sept	42.0	33.0	8.0	15.0+	2.0	+ 9.0	23.0
22/27 Sept	43.0	29.5	12.5	13.0+	2.0	+13.5	25.5
29 Sept/4 Oct	40.0	31.5	13.5	13.0+	2.0	+ 8.5	26.5
6/11 Oct	42.5	32.0	10.5	13.0+	2.0	+10.5	23.5
13/18 Oct	43.0	31.0	9.0	13.5+	3.5	+12.0	22.5
20/25 Oct	40.5	29.0	12.0	15.0+	3.5	+11.5**	27.0

* First Gallup Post-Election survey, ** Published Polls, + Includes those saying they would vote for the Alliance.

2. Government Record

Our latest study found almost no change in the popularity of the Government - 40% approved, 49% disapproved and 11% had no view. Details are shown in the table 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
19/24 May	46	44	10
26/31 May	50	38	12
2/7 June	49	39	12
9/14 June	48	40	12
16/21 June	51	36	13
23/28 June	47	41	12
30 June/5 July	47	39	14
7/12 July	47	41	12
14/19 July	44	43	13
21/26 July	43	45	12
28 July/2 Aug	43	43	15
4/9 Aug	42	45	12
11/16 Aug	42	44	14
18/23 Aug	43	43	14
25/30 Aug	37	52	11
1/6 Sept	41	45	14
8/13 Sept	40	48	13
15/21 Sept	38	49	13
22/27 Sept	38	50	12
29 Sept/4 Oct	36	51	13
6/11 Oct	40	47	13
13/18 Oct	38	48	14
20/25 Oct	40	49	11

3. Popularity of Political Leaders

The latest published Gallup study found almost no change in Mrs Thatcher's popularity when compared with the results of our previous unpublished study. The study found a continued drop in Mr Foot's popularity from the sharp improvement after the Labour Party Conference. Mr Steel's popularity shows no sign of a significant upturn. Details of the trend of popularity for the leaders of the three main parties since the start of the year are shown in the table 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/1 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
2/7 June	53	42	5	15	74	5	61	21	18
9/14 June	51	44	5	14	75	11	62	21	18
16/21 June	55	40	5	17	74	9	58	20	20
23/28 June	52	42	5	14	75	10	62	19	20
30 June/5 July	53	41	6	14	77	9	64	18	18
7/12 July	52	43	5	16	72	12	61	20	19
14/19 July	49	46	5	14	75	11	60	18	21
21/26 July	47	47	6	15	74	11	59	21	20
28 July/2 Aug	48	46	6	14	73	11	62	18	20
4/9 Aug	48	47	5	12	73	12	60	20	20
11/16 Aug	49	47	4	15	74	11	62	19	19
18/23 Aug	49	46	5	13	74	13	58	21	21
25/30 Aug	44	50	5	18	72	10	61	19	20
1/ Sept	49	45	6	14	74	12	59	20	21
8/13 Sept	48	47	5	16	74	10	59	21	20
15/21 Sept	46	49	6	14	73	12	62	19	19
22/27 Sept	46	50	4	16	74	11	64	20	16
29 Sept/4 Oct	44	51	5	27	60	13	64	19	17
5/11 Oct	46	48	6	25	62	13	62	22	17
13/18 Oct	45	50	5	23	66	11	56	25	19
20/25 Oct	46	50	4	20	69	12	60	22	18

4. Published Polls(a) Gallup (Daily Telegraph 28th October 1982)

In addition to the standard Gallup 'tracking' questions the Daily Telegraph also included a range of other questions.

Gallup included the results from their standard issues questions - as to what the electorate regard as the most important issues facing the country. They found:-

	<u>Issues Facing the Country</u>				
	<u>All</u>	<u>Conservative</u> <u>Supporters</u>	<u>Labour</u> <u>Supporters</u>	<u>Liberal</u> <u>Supporters</u>	<u>SDP</u> <u>Supporters</u>
	%	%	%	%	%
Unemployment	88	86	90	91	93
Prices	26	28	30	30	19
Health/hospitals	10	9	12	7	13
Economic Problems	9	11	7	9	11
Defence/Nuclear Weapons	7	6	7	4	12
Housing/Rates/Mortgages	7	6	8	8	5
Strikes/Trade unions	6	10	2	5	4
Law and Order	6	6	4	8	6

Gallup asked respondents whether they saw each of the main parties as being united or divided. The survey found 12% of the electorate saw the Labour Party as being united, and 82% saw it as divided (6% did not have a view). 67% saw the Conservative Party as being united and 25% divided (8% did not have a view). 34% saw the Alliance as being united and 39% divided (26% did not have a view).

Gallup asked respondents which Party they saw as having the best policies and best leaders. They found:-

	<u>Best Policies</u>	<u>Best Leaders</u>
	%	%
Conservative	39	48
Labour	23	13
Liberal	8	11
Social Democrats	11	12
Other	0	0
Don't know	19	15

Gallup also asked who the electorate thought would make the best leader of the Alliance - 35% selected David Steel, 20% Shirley Williams, 17% Roy Jenkins, 15% David Owen and 1% William Rodgers.

(b) Marplan (Guardian 25th October 1982)

The Guardian on 25th October included details of a Marplan poll conducted from 11th to 13th October. The survey found 44½% claiming they would vote Conservative, 34% Labour, 19% Alliance and 2% for 'other' parties.



from M M DEYES
4 November 1982

MISS RUTTER

SDP AND ALLIANCE REFLATIONARY PACKAGES

I attach two annexes A and B .

Annex A reproduces the illustrative package of measures included in the SDP document 'Towards Full Employment ' published last June ,plus the 'health warning'on the last page which disclaims it as official Party policy . Nevertheless it was widely noted last summer as representing SDP thinking - even if not an agreed policy endorsed by the rank and file .

Annex B reproduces the illustrative package contained in the joint SDP-Liberal Alliance document published in September . This also has a warning note that an Alliance Government is not bound by it ; but it constitutes the best available indication of what the Alliance leadership is broadly aiming at doing .

M M Deyes

- * a rational budgetary policy;
- special measures to have an early and substantial impact on the level of unemployment;
- * careful management of the balance of payments and the exchange rate;
- * new ways of reconciling high employment with moderate inflation.

V. (A) A Rational Budgetary Policy

Social Democrats in Government would wish to pursue a more expansionary fiscal policy, supported by monetary policy which, subject to the requirements of exchange rate management, would broadly accommodate planned rates of real growth and inflation over the budgetary period.

A programme of budgetary expansion should be judged not by its effects on the intermediate objectives the present Government has adopted - the PSBR and M3 - but by its effects on the ultimate objectives: real output and employment and the price level. Provided this is recognised, it would certainly be possible to design a rational budgetary package, capable of having a substantial impact on unemployment and the inflationary consequences. The main principle is to choose fiscal measures (such as reduction in VAT, abolition of the NIS, moderation in public sector pricing) which directly reduce prices, and with a low balance of payments cost. These will offset the effects of other measures which perhaps have some inflationary effect whilst increasing employment. They will also moderate the reduction in the exchange rate which will probably also take place.

The table below lists a number of measures which might be gradually and selectively adopted in 2 or 3 successive Budgets.

ILLUSTRATIVE TABLE OF POSSIBLE BUDGETARY MEASURES OVER 2 OR 3 YEARS

Measure	GDP (%)	Unemployment ('000)	PSBR (net m)	RPI (%)
	Effects after 1 -2 years			
(a) VAT to 10%	+1.4	-125,000	+2,900	-2.0
(b) National Insurance Surcharge (2 % to zero)	+0.75	- 75,000	+1,500	-0.85
(c) Current Expenditure	+1.6	-200,000	+ 750	+2.5
(d) Nationalised Industries Price Restraints	-	-	+1,000	-1.0
(e) Increases in Public Capital Expenditure (concentrated on construction)	+0.5	-300,000	+1,500	+1.0
	+4.25	-700,000	+7,600	-0.4

views of all the relevant outside organizations, and holding discussions among trade unionists, managers, economists and interested individuals. We hope local SDP area parties will organize similar discussions and send us their views. The consultative assemblies of the Party will also be a means of organizing discussions leading up to debate and decision at the Council for Social Democracy at an appropriate time. This is the next stage in our economic policy-making.

The views expressed in this document are the views of the Economic Policy Group. They mark the beginning of a major consultation process, and do not represent the official policy of the SDP.



APPENDIX 1

Illustrative Package of Costed Proposals

An Alliance Government would wish to draw up its definitive programme in light of the economic situation at the time, taking account of the information available in Whitehall. The package outlined in this appendix should be regarded therefore as one possible option. Moreover the figures (in the absence of the full range available only to the government) should be treated as orders of magnitude rather than providing any precise forecasts. Nevertheless, we have derived our estimates as far as possible from official publications or the Treasury model and we consider that the cost of the package is reasonable in relation to a reduction in unemployment of over 1 million.

The programme outlined below would have a net Exchequer cost of £3.4 billion per annum by the 3rd year. The gross cost would rise to almost £9 billion per annum.

We have based our employment creation estimates of the above measures principally upon the work done by Lords Select Committee on Unemployment as their work was concentrated on examining the impact of specific low cost job creation. We have used the Committee's estimates that the Exchequer costs of unemployment are about £5,000 p.a. per person unemployed. The net additional cost p.a. in column 3 is calculated by subtracting from the gross cost any savings in Exchequer costs of unemployment and any additional expenditure already announced by the Government.

SUMMARY TABLE

	1	2	3	4
	Reduction in Unemployment	Gross additional expenditure p.a. £m	Net additional expenditure p.a. £m	Source
1. Investment Programme	240,000	2,000	530	(a)
2. Long term job creation (current expend.)	250,000	1,500	500	(a)
3. Environment Improvement Programme	100,000	750	300	(a)
4. Expanded Community Enterprise Programme	100,000	500	200	(a)
5. Abolition of Nat. Ins. Surcharge	90,000	3,000	1,000	(b)
6. Youth Training	150,000	675	375	(a)
7. Adult Training	40,000	300	175	(a)
8. Job Release	50,000	n.a	90	(a)
9. Pairing	60,000	250	120	(a)
	<u>1,080,000</u>	<u>8,975</u>	<u>3,290</u>	

Sources (a) Report from the Select Committee of the House of Lords on Unemployment, May 1982

(b) Ready Reckoners on the Treasury Model, House of Commons Library Research Division Nos. 95 and 99

ANNEX B

100



CONFIDENTIAL

C

I.8

FROM: ADAM RIDLEY
4 November 1982

CHANCELLOR

cc CST

PARTY POLITICAL BROADCASTS

In your ms comment on Robin Harris' recent note on opinion surveys you observed that we needed to ram home the falling inflation average and its corollaries, and asked me to consider the role of PPBs. This is obviously a good idea. But as it happens it raises a wider issue, since CUCO are now tending to plan PPBs with far less consultation with Departments such as the Treasury than in the past and we ought in any case to be reminding CUCO of our existence and special interests. This independence is not sinister, but the simple result of Chris Lawson's appointment. I would therefore suggest that you wrote to Mr Parkinson on the lines of the attached draft.

2. There are other points to bear in mind as well. First, Lynda Rouse, head of the CRD's economic section, has just been telling me about some of the lessons she drew from the bye-elections, having been drafted in herself to help John Redwood at Peckham. She reported that we are encountering very heavy and damaging criticism on the familiar grounds that Government policy is destroying the health service, primary schools and housing, almost all of which is based on misapprehensions which in turn are magnified by attacks from our opponents. The recent controversy over the so-called CPRS "report" has made it all much more telling. I conclude that we need to address ourselves to that problem too in PPBs on and off for some time to come. Then there is the issue of unemployment. I have been told that Central Office have recently undertaken some unusually interesting research into this, in liaison with Michael Dobbs. We need in any case to rethink the presentational issues in the light of the much gloomier forecasts which emerged from the latest NIF.

And also

3. I have raised both these issues in the letter as well. The draft suggests, as you see, that Mr Parkinson should

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The third issue is unemployment. The latest forecasts suggest a ~~significantly~~ higher level than ~~we~~ *has so far* previously expected and it is clearly time we gave more systematic thought to how we present the facts and arguments. I believe that there is some useful opinion research which has been undertaken recently which could have very direct relevance to our public posture. It would be very helpful if we could get to grips with the issue soon, together with Norman Tebbit.

As we are both so busy at this time, I would not propose that we should pursue these ideas ourselves, at least in the first instance. Perhaps the best thing would be, if you are content, if Chris Lawson ^{Michael Dobbs} and Adam Ridley were to put their heads together and we might then consider what to do.

A copy of this letter goes to Norman Tebbit.

G.H.

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. This ensures transparency and allows for easy verification of the data.

In the second section, the author details the various methods used to collect and analyze the data. This includes both manual and automated processes. The goal is to ensure that the information is both reliable and up-to-date.

The third part of the document focuses on the results of the analysis. It shows a clear upward trend in the data over the period covered. This indicates that the current strategy is effective and that there is significant potential for further growth.

Finally, the document concludes with a series of recommendations for future actions. These include expanding the current operations into new markets and investing in research and development to stay ahead of the competition.



Summary

Sam Brittain argues that:

- (i) Judged by the growth in money GDP, policy is too tight.
- (ii) PSBR and money figures are only a means to an end - ie. maintaining growth in monetary demand at a rate which will support a reasonable growth in output and employment at low and declining rates of inflation.
- (iii) Because money demand is being allowed to undershoot lower wages and productivity are not leading, as promised, to higher output and employment but "running to waste in slump and unemployment".
- (iv) Slow world growth is no excuse: it is a logical fallacy for all world leaders to point to other people as the cause of their own poor performance.
- (v) Fact that so much domestic demand has leaked abroad reflects poor competitiveness at current exchange rates. His prescription, as in other recent articles, is for:
 - (a) the complete abolition of NIS
 - (b) further falls in interest rates (by implication to get the exchange rate down)

Comment

There is some substance in Sam Brittain's argument. Internal papers by Terry Burns and MP on the policy implications of the forecast made similar points. But the policy judgment is more difficult than he allows:-

(i) There is a real problem in interpreting the different indicators. Policy certainly looks tight if you focus only on money GDP and the exchange rate. But the monetary aggregates are telling a different story. Sam Brittain is prepared to ignore them entirely. We think that is going too far, despite the continuing problems in deciding precisely what they mean.

(ii) Money GDP is not the robust indicator of monetary demand that Sam Brittain seems to think. Money GDP is an ex post measure of spending on domestic output. A lower growth in GDP may reflect lower ex anti demand (domestic or foreign) or a worse supply performance by UK producers. It is not clear that it is either appropriate or effective to respond to a faltering supply by pumping up demand. Last week's Lombard column ("How to measure monetary demand") suggests that Sam Brittain is becoming aware of this complexity. The suggestion, advanced there, that money GDP figures need to be interpreted in the light of movements in TFE, has problems too. The fact is that the money supply is not the only indicator that loses its beautiful simplicity once you start to rely exclusively on it as a guide to policy.

(iii) There are other problems with using money GDP as a guide to policy. It takes a long and variable time to respond to changes in policy instruments. That means it is not a good indicator of future inflationary pressures (it says more about the consequences of past than current policy decisions). The forecast that money GDP will grow relatively slowly over the next 18 months is no guarantee against a renewed upturn in inflation in 1984-85. It also means that it takes a long time to "correct" money GDP when it grows too fast or too slowly. In particular, tax cuts that have a favourable effect on costs or prices have very little impact on money GDP in the first year or so (because prices and real output move in opposite direction). The complete abolition of NIS in the AS would have done virtually nothing to push money GDP back to MTF5 levels either in 1983-84 or 1984-85.

(iv) The "shortfall" in money GDP is entirely due to weaker external demand, lower world trade and worse UK trade performance. The weakening of world demand is much more serious than Sam Brittain allows - the forecast for UK weighted world trade in manufactures in 1982 has been revised down from 4% at the time of the Budget to -2% in the Autumn Statement. The UK has contributed nothing to this slowdown in world trade - our domestic demand has been growing at a reasonable (and expected) 3% in real terms, and imports have been rising ahead of forecast. So there is no logical fallacy in our blaming our weaker performance on the rest of the world.

(v) It is not self evident - as Sam Brittain implies - that it is correct to respond to weaker world demand by adding to domestic demand. The UK was not notably successful in its last attempt to lead the world out of recession - the result was a collapse of the exchange rate (in 1976). Sam Brittain has not got to the point of arguing that this is to be actively sought - at most he seems to want the rate about 5% lower.

(vi) To an extent which is difficult to estimate, part of the recent faltering in money and real GDP is due to a worse UK share performance. We share Sam Brittain's worries about competitiveness and, as a result, his preference for cuts in NIS and interest rates, over cuts in income tax. The issue is only how far and how fast it is sensible to go in this direction at this stage.

(vii) On the tax point, there is a case for leaving some room for manoeuvre in the Budget; and the contrast between income tax cuts and cuts in NIS can be overdrawn - especially if higher allowances, by boosting real take home pay, encourage lower wage settlements. (The risk with lower NIS is that higher wage settlements will offset some of the initial fall in labour costs.)

(viii) On interest rates, there is certainly still some way to go. Interest rates are still high in real terms. But it would be unwise to throw the monetary figures to the winds, and still

more unwise to count on producing any given effect on the exchange rate. It is worth recalling the experience of 1977-78. A cut in nominal rates from 15% to 5% over the space of 6-9 months in 1977 failed to relieve upward pressure on the exchange rate, and led to an explosion in M1 growth which preceded, if it did not wholly cause, the upturn in inflation two years later. We would argue that decisions about interest rates must continue to reflect an overall judgement about monetary conditions (in which the exchange rate is only one element) and the need to prevent a resurgence in inflationary pressure.

BRITAIN'S ECONOMIC PACKAGE

From monetarism to immobilism

By Samuel Brittan

THE Treasury has, after nearly two decades of argument, accepted that the Autumn Public Expenditure Statement constitutes the budget in most sensible meanings of that word. It has made one tax decision—the limited 1 per cent compromise reduction in the Employers' Surcharge. On this basis it has at long last put expenditure and revenue estimates together for

The growth of output in 1983, whether expressed as year on year or second half on second half, is expected to be no more than 1½ to 2 per cent. The rise is not nearly enough to offset the natural increase of the working population and the rise in productivity of which the Government is, in other contexts, so keen to boast.

The Government Actuary has accordingly been "instructed" to assume an increase of 300,000 in the number of adult unemployed in 1983-84 and another 60,000 in school-leavers, temporarily stopped and so-on. Average earnings are expected to rise by some 6½ per cent in the next financial year compared with 9 per cent in this one. Inflation is expected to be around 5 per cent at most points in 1983, with some hint of a temporary dip below this in mid-year.

The Government's own budgetary position is still marked by undershooting; and in addition it looks as though the Treasury has been ultra-cautious in its estimates. The estimated Public Sector Borrowing Requirement for 1982-83 is put at £9bn, some £0.5bn below the last Budget forecast. For next year it is put at £8bn on the assumption that the Chancellor reduces taxes by another £1bn over and above the NIS and other adjustments that he announced today. (This is what is meant by "implicit fiscal adjustment.")

HOW TREASURY SEES BUDGET OUTLOOK

	(£bn)		
	1981-82	1982-83	1983-84
General government expenditure	120	130½	136½
General government receipts	111½	120½	129½
Implied fiscal adjustment	—	—	1
General Government Borrowing Requirement	8½	10	8
Public Sector Borrowing Requirement... as percentage of GDP:	9	9	8
	3½	3½	2½
Money GDP at market prices % increase shown now	10.4	8.3	6.9
% increase in 1982 Budget Red Book ...	10.8	9.8	9.6

Even on the Chancellor's own basis, the estimate for tax reduction is likely to prove too little; and we will be in the usual position — adjustments will have been left so late that a pre-election handout will be thoroughly approved by non-partisan officials and economists. Indeed, if some cyclical adjustment is made for the worse-than-expected recession, the figure of allowable reliefs could be raised to £3bn from the most impeccable "sound money" point of view—although as usual it will come too late.

On the monetary side the "Blue Book" sticks to the 8 to 12 per cent range for monetary growth this year and 7 to 11 per cent next year, although

hints at the perfectly respectable reasons why the narrow aggregate (M1) may go over the top of the range.

But neither the PSBR nor the monetary numbers are ends in themselves. They are simply means to maintain the growth of monetary demand and the money value of the national output at a rate which will support reasonable growth of output and employment at low or declining rates of inflation.

It is in this most fundamental sense that policies are undershooting. A growth of Money GDP of 9½ per cent in this financial year and next was projected in the last Budget Red Book. But this measure of the national income is now expected

to grow by about 8 per cent in 1982-83 and 7 per cent in 1983-1984. In other words, wage increases have moderated, productivity has increased; but instead of the benefits being felt in output and employment, as in earlier statements of the Government's financial strategy, it is running to waste in slump and unemployment.

There are two sets of figures in the Blue Book, on which the Prime Minister's speeches have drawn heavily. First, there are the forecasts of slow world growth (2 per cent in 1983). For the political leaders of every country to point at the bad performance of other countries as the main reason why they are performing so badly themselves is surely a logical fallacy.

The second, more local argument is that domestic demand has not increased all that slowly but that it has mostly leaked into imports. But is that surprising when, on average, British labour costs are some 30 per cent higher than competitors at current exchange rates?

The complete abolition of NIS which could easily be afforded on the Blue Book figures, would have done something to reduce costs. The alternative of income tax cuts—which the Blue Book ready reckoner shows to be enormously expensive if they are to have a notable impact—is attractive mainly for reasons of internal Conservative politics, as some Back Bench questions showed.

It is hard to see how any Treasury economist could either support the retention of NIS or accept that nothing should be done about the effective exchange rate which has, against all fundamentals, appreciated by a further 4 or 5 per cent in the last year.

Government statements about the 7 per cent reduction in short term interest rates are extremely misleading because the

Not profitable to take on labour

comparison is with a temporary peak last autumn. Compared with the spring of 1981 the reduction is only about 3 per cent—much less than the fall in the inflation rate.

Interest rates will surely have to come down a good deal more and Ministers will need to be much more active in finding ways of making it more profitable for employers to take on labour—instead of persuading them to split jobs, retire people earlier and do other things very far removed from the economic realism of which the Government likes to speak.

Growth of output no more than 1½ to 2 per cent

the coming financial year, not in "Green Book" but in a "Blue Book." The colour is not, however, a coded forecast of the next Election results.

But when it comes to content there is much less to cheer. Public expenditure in cost terms—that is after allowing for inflation—is expected to fall by about a ¼ per cent and from 45 to 44 per cent as a proportion of GDP. There could be more to celebrate in this achievement were it not taking place during a year which is expected on the Government's own forecasts to be one of deepening recession.

Lombard

How to measure monetary demand

By Samuel Brittan

ad wives of the for example—has the past few years of foreigners in could work has gain.

nger-term trends lded in the last e impact of a recession.

e, too, have been k of jobs, with under 20s regis- s rising 41 per

st year to 187,000. few weeks major h as Mannesmann

ding engineering photographic pro- liary of Bayer, and aerospace

rschmidt-Boelkow- announced plans ts in their work- north German

industry is threa- become another

of the clear pos- unemployement is ong-term problem, n growing discus- sional measures to

side the normal macro-economic little action.

main debate, and e labour econo- neglecting more

tions, has been the macro- political level. ons, still locked an view of the led for a demand

the Government by encouraging ctor in particu- capital invest- which will be competitive in ill be created.

h a year ago, ce no illusions e easy solution ment problem ons are un- ed that the e taking to cut

oving produc- costs and accept wage he rate of in- are not alone

electoral un- contribute to in investment specially if, the h has been

the political e change of e September

announced.

THE SUGGESTION has frequently been made in these columns (and at greater length elsewhere) that governments and central banks have a responsibility to maintain a reasonable growth of monetary demand, which would be consistent with rising output and employment, so long as inflation remains on a low declining path.

Such a strategy also makes clear that the Government cannot possibly commit itself to financing whatever rate of wage and price change emerges from the bargaining table. It does not matter whether the policy is called "monetarism without mumbo jumbo" or "new style Keynesianism." It is also consistent with one interpretation of the present British Government's Medium Term Financial Strategy.

The latter is best thought of in terms of Money GDP. It is this total that the Chancellor should be trying to influence. If this is emphasised, the more familiar monetary aggregates and public sector borrowing total can be seen to occupy the subordinate and intermediate role and be varied up and down according to technical conditions without disturbing confidence.

The suggestion is slowly but surely making headway. The last Budget Red Book had a projection for Money GDP growth of nearly 10 per cent, both this year and next.

Has it been attained or is the Government undershooting and maintaining too tight a policy stance, as even some of its "non-wet" critics claim? A handful of Treasury-watchers might have noticed a slight discrepancy between a claim by Sir Geoffrey Howe in a speech on October 29 that "demand" has grown by 11 per cent in the year up to the second quarter of 1982 and a Financial Times editorial of October 30 saying that "total spending" had fallen below the Red Book projection. The Chancellor's figure was clearly derived from a national income aggregate known as "total final expenditure," while the Financial Times was basing itself on Money GDP itself, which had grown by only 9 per cent.

There is strong impressionistic evidence for believing

that, since the first quarter of this year, demand has slowed down to a rate below either figure. But the issue of principle is important. All the different concepts emanate from the circular flow of funds in the economy, which can be measured either as expenditure or as the money value of national output, or as income received; and normally they come to almost the same thing. One reason for divergence is that these statistics are collected at different points and are never in practice entirely consistent. The London Business School has carried out an interesting study of the way in which expenditure has overshot output, simply due to measuring error.

But there is another more interesting discrepancy. This relates to the now notorious fact that much of the recent increase in total final expenditure has leaked into imports. There has been little benefit to output and employment. The Chancellor's higher 11 per cent figure for final expenditure represents demand from the point of view of purchasers irrespective of whether they spend their money in the UK or not. The 9 per cent GDP figure represents demand as it is experienced by UK producers for products they can afford to supply at current costs, selling prices and exchange rates.

The discrepancy between the two may be an index either of inflationary pressures or of an overvalued exchange rate. If the Government still maintained an "old Keynesian" real GDP objective, then it would be very important to differentiate between the two; and on many occasions wishful thinking would make the Government choose depreciation rather than domestic restraint.

But by thinking of a path for Money GDP designed to be consistent with falling inflation, we build in an automatic safety valve. If total final expenditure is on track, but Money GDP is not, this is a *prima facie* sign that the exchange rate is too high. The discrepancy would point not to direct intervention in the foreign exchange market, but to a shift in the policy mix towards still lower interest rates.

Avana rises 40% Sain

to £5m midway

SHARPLY HIGHER profits were returned by Avana Group for the 26 weeks to October 2 1982 the pre-tax figure rising by 40 per cent to £5.05m with the group continuing to make progress in all areas apart from the fruit juice market.

The net interim dividend is being stepped up from 2.4p to 3p per 5p share—a final of 3.6p was paid for the 1981-82 year when taxable profits totalled £9.67m.

The directors regard the first half results as satisfactory in view of intensely competitive conditions which prevailed in the food manufacturing sector.

They say that raw material prices were relatively stable and that the increase in sales (up by 19.4 per cent from £63.12m to £75.34m) was largely volume growth—the group's interests are in food processing.

It is pointed out that a "tremendous development effort" was rewarded by a good

customer acceptance of new lines and that further progress should be made in the second half of the year.

First half trading profits advanced from £4.85m to £6.37m to which a £40,000 (£30,000) share of associates profits was added. Deductions were £1.03m (£957,000) for depreciation, £90,000 (£93,000) for debenture interest and £236,000 (£225,000) for other interest.

Tax paid rose from £1.2m to £1.62m and minorities accounted for £652,000 (£636,000). Deferred tax was lower at £256,000 (£372,000).

Commenting on the interim results the directors say that although trading conditions in France were difficult following the imposition of price controls in July, business has remained profitable. The cost of financing French companies remained high as interest rates there have not yet followed the UK trend.

See Lex

TAXABLE PRO food distributor advanced by 18.7 £42.51m to £50.4 28 weeks to Sep on sales—incluc per cent ahead compared with 1985.7

And with ea share stated hi (8.83p adjusted) dend is being adjusted 1.625p year total of after allowing f scrip from pi £83.42m (£62.06)

The directors growth—sales a tion—was appre cent which is experienced in of last year. Wl better than anti was lower they

In real terms, rose by 9.2 per retail margin a being close to per cent of the half. This was

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corre- sponding div.	Total for year	Total last year
Aberdeen Trust	4.2	Dec 23	4	6.5	6.1
Avana Groupint	3	April 12	2.4	—	6
Berry Trust	1.8	Dec 11	1.7	1.8	1.7
Edinburgh General int	nil	—	0.3	—	0.3
Feedexint	0.5	Jan 7	0.5	—	1.15
Gieves Groupint	0.75	—	nil	—	nil
London Entertainments	1.8	—	1.8	1.8	1.8
North British	2	—	2	3.1	3.1
Peters Stores	0.5	Jan 21	nil	0.5	1.5
Safeguard Ind	4.1	Dec 15	4	5.9	5.8
J. Sainsburyint	1.9	Jan 21	1.63*	—	4.88*

Dividends shown pence per share net except where otherwise stated.

* Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM Stock.

NOTICE OF ISSUE

Abridged particulars—Application has been made to the Council of The Stock Exchange for the under-mentioned Stock to be admitted to the Official List.

The South Staffordshire Waterworks Company

(Incorporated in England on the 4th day of August, 1853 by The South Staffordshire Waterworks Act, 1853)

Offer for Sale by Tender of
£6,000,000
7 per cent. Redeemable
Preference Stock, 1987/89

Minimum price of issue—

Giev

AS PREDICTE return to profit dends has been Group, tailor, b publisher and p tax profits of p produced agai of £605,000 £10.51m comp The net int been proposed directors expe final at least

The normal the directors Gieves and H Redwood Burzine manufact profits in the financial year

In the las before tax ar (£1.09m).

Two small

Gu

Mr Edmut Guinness Pe the group at Meeting lat will be repl Morton, who chief execut

Mr Morto annual repc objective financial ser group, deplc make profits to a broad national in