

Opposition Day

[5TH ALLOTTED DAY]

Government Economic Policies

5.3 pm

Mr. Deputy Speaker (Sir Paul Dean): May I repeat Mr. Speaker's appeal for brevity? No fewer than 50 hon. Members hope to speak in this debate. At present the Chair does not have the power to impose a 10-minute limit on speeches because it has not yet been renewed. Hon. Members should restrain themselves and be as brief as possible. Mr. Speaker has selected the amendment in the name of the Prime Minister.

Mr. Roy Hattersley (Birmingham, Sparkbrook): I beg to move,

That this House condemns Government economic policies, which have divided the nation, induced a collapse in the manufacturing base, created mass unemployment, led to a serious loss in world trade and an impending balance of payments crisis, and permitted a destructive merger mania to imperil British manufacturing industry, as typified by the lamentable decision of the Secretary of State for Trade and Industry not to refer the BTR bid for Pilkingtons to the Monopolies and Mergers Commission; and demands that the Government now use all available resources on investment in the people of the United Kingdom, in jobs, in public services, in manufacturing and in training, so that the nation can once more compete effectively and pay its way in the world.

The Government are now embarked on a campaign of calculated deception. It is a campaign of deception about the state of the economy, about the impending crisis and about their own responsibility for bringing it about. The Government's friends in Fleet street are accessories to that fraud. This week *The Daily Telegraph*, the *Daily Express* and the *Daily Mail* all paraded sets of phoney figures, clearly taken down at dictation speed from the Chancellor's spokesman. I propose to give three examples of what those newspapers said and to look at the examples in some detail, leaving aside for a moment their repetition of the old deceptions about job creation and reduction in unemployment. The *Daily Express* said:

"The latest retail figures confirm the strength of the consumer boom. In the fourth quarter of 1986 retail sales were 2.5 per cent. up on the previous three months and 7 per cent. up on the previous year."

It did not go on to say that while consumer spending rose by 7 per cent. the production of consumer goods in Britain rose by only 2 per cent. To have added that would have demonstrated not the strength but the weakness of an economy about to slump into a £7.5 billion balance of trade deficit. [AN HON. MEMBER: "Rubbish."] It is not rubbish, because the figure of £7.5 billion is the Chancellor's and not mine. [Interruption.] I thought he read the statistics about this. *The Daily Telegraph* tells us that manufacturing output was at its highest level since 1980, but did not add that manufacturing output is still 4 per cent. below its 1979 level. Even on the Chancellor's own statistics and estimate, manufacturing output will not be at 1979 general election level by the time of the next general election. To have added such figures would have demonstrated not industry's success but the Government's abject failure.

My third example is from the *Daily Mail*, which tells us that the outlook for exports is bright. It cited motor cars

as an example but did not give any figures. It did not add that motor vehicle output fell by 5.1 per cent. in the last recorded year, and that it is now 29 per cent. lower than it was in 1979. If those figures had been given, they would have revealed the damage done to the motor industry by the medium-term financial strategy and by the total absence of any Government industrial strategy.

Mr. Eric Forth (Mid-Worcestershire): Will the right hon. Gentleman give way?

Mr. Hattersley: No.

The campaign of deceit is as damaging as it is dishonest. In an attempt to create the illusion of success, the Government behave in a way which makes the crisis more certain and brings it nearer. The campaign of deceit is as callous as it is cynical, because in order to pretend in some parts of Britain that Government policies are succeeding, other parts have to suffer, and are suffering, wilful neglect.

No Government this century have so ignored the needs and so damaged the interests of the people whose votes they have already lost. Hence the occasional whine that we hear from Tory Back Benchers in marginal constituencies like the hon. Members for Langbaugh (Mr. Holt) and for Bury, North (Mr. Burt) who know that they, like the areas that they represent, have been written off by the Government.

Mr. Richard Holt (Langbaugh): Would the right hon. Gentleman care to comment on a BBC statement last weekend to the effect that since I was elected unemployment in my constituency has fallen by nearly 20 per cent?

Mr. Hattersley: I am almost as pleased to hear that as I am sceptical about the figure. It must be something about the hon. Gentleman's character and personality that makes his constituency a haven of success in a wilderness of Tory failure in the north-east.

Mr. Holt: Will the right hon. Gentleman give way?

Mr. Hattersley: I shall not give the hon. Gentleman a chance to say something else because I can tell him—

Mr. Holt *rose*—

Mr. Deputy Speaker: Order. The hon. Gentleman must not persist if the right hon. Gentleman does not give way.

Mr. Holt: On a point of order. Is it not the convention that when an hon. Member is attacked he is given a right of reply?

Mr. Deputy Speaker: That is a matter for the right hon. Gentleman who has the Floor.

Mr. Hattersley: I hope that we shall hear from the hon. Gentleman and I shall give way to him again just as I did a moment ago. I wonder whether he will want to say anything after he has heard the Government and the Chancellor boast in this debate—having ignored the jobs that have been lost since 1979—about the jobs that have been created since 1983. Perhaps the hon. Gentleman has information about the jobs that have been created in Langbaugh. I can tell the House only about jobs that have been created in the area of which his constituency is a part. Even on the Government's own figures, the north has been scandalously neglected since 1983 in the business of job creation. On the Government's own figures there are 446,000 new jobs in the south-east, but only 135,000 new jobs in Scotland, the north-west, the north, Yorkshire and Humberside all added together.

Mr. Ian Wrigglesworth (Stockton, South): The hon. Member for Langbaugh (Mr. Holt) has mentioned the unemployment figures for his constituency. I have just received for this debate the figures for Cleveland county. In the county as a whole the unemployment figure is 20.8 per cent. and in Langbaugh it is 16.5 per cent. That is considerably higher than 1983 when the hon. Member for Langbaugh was elected.

Mr. Hattersley: Since the hon. Member for Langbaugh has become the fulcrum and the focal point of this debate, I have little doubt that you, Mr. Deputy Speaker, will wish to call him. If he is fortunate enough to catch your eye he had better make his peace with his constituents and the statistics.

Mr. Holt *rose*—

Mr. Hattersley: The hon. Member for Langbaugh must know, as the House knows, that outside the magic triangle of the south-east Britain is short of jobs, public services, and amenities. Even within the south-east, areas which once relied on manufacturing industry — the decaying hearts of old cities in particular—are similarly and savagely affected. At the same time, 9 million people, or 17 per cent. of the population, now live on or below the poverty line. That is an increase of families living below the poverty line of 47 per cent. since 1979. Against that background the Chancellor has set out his own priorities. I want to quote them to the House. On 5 January he told the *Financial Times* that his aim was to bring our top rate of tax down further. The following day the *Daily Express*, with typical eloquence and originality, copied the story. It described the same facts as “Lawson’s dream” and said that his dream was a promised reduction in income tax for big earners. The *Daily Express* went on coyly to reveal that cutting income tax for big earners is part of the Chancellor’s election strategy.

Let me tell the Chancellor now that if he wants to fight the next election on tax cuts, he can begin this afternoon by answering some direct questions on the subject, initially concerning his social priorities and the reason he wants to bring about those tax cuts. I ask him directly: why are tax cuts—let us say 2p off the standard rate at a cost of about £3 billion—more important than reopening hospital wards which have been closed because of cuts in the Health Service budget? Why are tax cuts more important than providing nursery school places, textbooks and the 16-plus maintenance allowance? Why are tax cuts more important than revising the housing investment programme, building houses for rent, and reducing the number of homeless families, the number of which has doubled under this Government to 100,000?

Why are tax cuts more important than restoring the link between the pension and average earnings and paying the pensioners the increase of which they have been cheated? Why are tax cuts more important than increasing child benefit and bringing the most effective form of help to the hard-pressed low-income families? Putting aside those social questions, which I know the Chancellor will not even attempt to answer, I ask him about unemployment.

Mr. Patrick Nicholls (Teignbridge) *rose*—

Mr. Phillip Oppenheim (Amber Valley) *rose*—

Mr. Nigel Forman (Carshalton and Wallington) *rose*—

Mr. Hattersley: I want an answer from the Chancellor, not from insignificant Members of the Back Benches.

Mr. Forman On a point of order, Mr. Deputy Speaker. Is it in order for the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) to address me directly and then not give me a chance of intervening?

Mr. Deputy Speaker: I remind the House that this is a short debate and many hon. Members wish to speak.

Mr. Hattersley: Having asked the Chancellor questions about his social priorities, which I know he will not dare to answer, I want to ask him about unemployment. If he has £3 billion to spare in the next Budget, and if putting Britain back to work is honestly one of the things that he regards as important, why does he not use that £3 billion in the most effective way to secure that objective of lower unemployment? The Treasury’s own model confirms that if job creation is to be the objective, public sector capital investments is twice as effective, and public sector revenue spending is four times more effective than tax cuts, not least because it does not suck in the imports, about which the Chancellor ought to know something. If there is £3 billion to spare, why do the Government not use it to tackle or improve what their own National Economic Development Council called dilapidated Britain? We need to rebuild our old hospitals, replace decrepit schools, repair and extend our housing stock, extend our road systems and modernise our railways.

Why are not all those objectives, the urgent necessities of jobs, schools, pensions, hospitals and houses, more important than cutting 2p off the standard rate? The answer lies in the Government’s well-known belief—indeed as far as the next election is concerned their well-known hope—that nobody with a conscience ever votes Conservative. Tax cuts are the wrong social choice. Nor are they the choice of a nation which wants to see a reduction in unemployment and improved social services. Nor are they the right economic option. Britain now faces a growing balance of payments difficulty. We are simply not paying our way in the world. I doubt whether even the Chancellor, with his well-known record of statistical integrity, will deny the facts on our balance of payments position.

The right hon. Gentleman now admits that the balance of payments will be in deficit by £1.5 billion this year, compared with the £3.6 billion surplus in 1985. Independent forecasters believe that even that admission is over-optimistic. The London Business School says the deficit will be £2.5 billion; Phillips and Drew say it will be £3 billion; the OECD say £3.2 billion, rising to £5.7 billion in two years’ time; James Capel says £3.4 billion; the National Institute says £5.8 billion. The Treasury’s own forecasts for 1986 have deteriorated from a surplus of £4 billion, which the Chancellor promised us in the autumn statement of 1985, to a surplus of £3.5 billion promised in the Budget debate, to a breakeven promised in the autumn statement of 1986. In March the Chancellor made the silly boast that, thanks to his policies, Britain had survived the reduction in oil prices “unscathed”.

The price we have paid is a balance of payments which is now sliding into chronic deficit. The price we have paid is a sterling which is already in crisis. The pound is being held on a life support system of the highest real interest rates in our history.

Sir William Clark (Croydon, South) *rose*—

Mr. Hattersley: I shall give way to the hon. Member for Croydon, South (Sir William Clark), in a moment. If he is not telling me that sterling is kept at acceptable figures only because we have the most damaging and debilitating highest real interest rate in our history and in the industrialised world, perhaps he will tell me why that is so.

Sir William Clark: I am grateful to the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley). Would he not agree that between 1974 and 1979, when his party was in government, each year there was a balance of payments deficit which totalled something like £4 billion over the four years? If one takes the balance of payments, the deficits and the surpluses over the past seven years, it can be seen that in the whole history of this Tory Government there has been a surplus of £23 billion.

Mr. Hattersley: I give the hon. Member for Croydon, South credit for knowing the answer to his own question. Oil is the answer to his question. This Government were washed to power on the prospects of a prosperity greater than anything this country could have anticipated without the oil. But the oil has been squandered. We ran a surplus on our manufacturing balance. Does the hon. Gentleman suggest that in the general election of 1979, when he and other members of his party were promising that if they were elected they would put everything right, he would have conceived for a second that, with the oil revenue now being enjoyed, the balance of payments would be back in deficit this year? Of course, he does not believe that. It is back in deficit for the reasons I propose to describe. Because of the deficit, sterling is being held up at acceptable levels only by a real interest rate which is deeply damaging to the economy. That is not simply the view of the Labour party. It is the view expressed yesterday by the CBI—not especially noted, certainly not this year, for supporting the views on the economy espoused from these Benches. But what it says about manufacturing industry, real interest rates and now what it actually said about tax cuts is a condemnation of the Chancellor's position.

Mr. Alan Howarth (Stratford-on-Avon) *rose*—

Mr. Hattersley: I will put the hon. Gentleman out of his misery.

Mr. Howarth: If the right hon. Gentleman even sets off down the road of embarking on his party's programme of increasing spending by £28 billion, what will happen to real interest rates?

Mr. Hattersley: Even the Chief Secretary is not hawking the £28 billion figure round any longer. He has had a rush of integrity to the head and has abandoned that figure.

The Chief Secretary to the Treasury (Mr. John MacGregor): Withdraw.

Mr. Hattersley: It is clearly my duty to withdraw what I said about the rush of integrity.

Mr. MacGregor: The right hon. Gentleman might consider the integrity of his own figures. I have persistently urged him to make clear what he would withdraw from the £28 billion. He will know perfectly well that although some figures have been withdrawn, others have been added, which certainly make the £28 billion accurate and, if anything, an underestimate. It is up to the right hon. Gentleman to make his figures clear. I am not withdrawing that total until he does so.

Mr. Hattersley: The Chief Secretary asked for an independent assessment. He got one from the Institute for Fiscal Studies. The only problem was that it did not give the same answer as he gave. I am prepared to rely on the independent assessment. I do not believe that the Conservative party does itself any good in wanting to run away from the real issues by inventing figures which are now generally accepted outside the 1922 Committee as being wholly spurious and wholly unworthy of examination.

The reason we shall avoid the balance of payments crisis that I have just described is—

Mr. Holt: That the labour party will not come to office.

Mr. Hattersley: That we shall concentrate on the real needs and the real economy. The Government have scandalously neglected those areas of the economy for which they do not have an emotional sympathy and a deep political interest. That is why the Government have concentrated so much in their economic management and fiscal strategy on the interests of the City of London and on those who work within it. That is why the Government are so reluctant to act against City fraud. That is why the Government are unwilling to operate an effective system of supervision over the financial institutions. That is why the Government are operating a monopolies and mergers policy which encourages merger mania, with all its waste of efficiency.

Mr. Bill Walker (Tayside, North) *rose*—

Mr. Hattersley: Some surprise has been expressed in the House and outside that the Secretary of State for Trade and Industry, who has now come amongst us, is not speaking in the debate, particularly since the motion specifically criticises him for failure to act over the recent proposed merger, abandoned today, but abandoned only after a great deal of time and effort had been wasted in both companies and, most important, after Pilkingtons had been forced to take a number of decisions to protect itself against the merger which are deeply damaging to the long-term interests of that company.

The Prime Minister announced today that the failure to refer the Pilkington bid was a victory for the swift resolution of the matter because, she said, had there been reference, the matter would have dragged on for weeks or possibly months. I give the Prime Minister credit for having said that by mistake, because she must know that the purpose of a tough monopolies and merger policy is to prevent unreasonable predators from making their strike in the first place. The Secretary of State for Trade and Industry must know, as I suspect, that a predator went into the Department to find out whether reference was likely. If he had been told that reference was likely, the proposal would have been abandoned two weeks, three weeks or a month ago and the damage that has been done to Pilkingtons would not have arisen.

That being said, and surprised as I am that the Secretary of State for Trade and Industry should prefer to defend himself to a Back-Bench committee rather than here, I do not believe that the personalities in this matter are the most important issue. Support for the City, for its greed, for its obsession with short-term speculation and for its sleazy undercurrent of corruption is the inevitable extension of Tory economic philosophy.

Mr. Michael Heseltine (Henley): As the right hon. Gentleman knows, I have some sympathy with his worries

[Mr. Michael Heseltine]

about the uncertainties that the takeover process injects into the management of companies. However, can he explain how a manifesto behind which he will campaign, which threatens the whole of British industry with the spectre of the nationalisation proposals of his party, will somehow improve that position?

Mr. Hattersley: I hope and believe that we shall write into our next manifesto the monopolies and merger policy which the last Labour Government put to the House a few months before their defeat—a tougher monopolies and merger policy than existed at the time, a tougher policy than exists now, and one which the Cabinet of which the right hon. Gentleman was a member scuppered because it was too tough for their friends in the City.

Mr. Stephen Dorrell (Loughborough) *rose*—

Mr. Hattersley: I have given way a good deal. Mr. Deputy Speaker has asked us to make progress; I still have a great deal to say, so I propose to say it without further interruption.

Clearly, as is demonstrated by the behaviour on the Conservative Benches, there is a great deal of panic within the Government about the monster that the big bang has created. Naturally, the panic about the reputation of the City rubbing off on them has been increased by the news from Morgan Grenfell today. Hence the off-record briefings about seven-year sentences and about Home Office crime squads. Hence the tough talk off the record about how the Government will behave in future.

The truth is that the Tory party cannot act against the City because the City reflects Tory values. As Tory values have deteriorated over the past 20 years the City has reflected that decline. Inevitably, support for the City has been matched by wanton neglect of manufacturing industry. That in its turn has done savage harm to Britain outside London as the interests of the regions and the interests of manufacturing industry are synonymous. We shall not get jobs outside London or in the decaying central areas by increasing the number of currency speculators, stockbrokers, or merchant bankers. We shall not solve any of our problems by changing Britain from the workshop of the world into the home of insider dealing.

What is more, the interests of the regions, of manufacturing and of the balance of trade are all identical. I know very well that the financial sector contributes £7.5 billion a year to our balance of payments but its policies and the policies which support it and which make that possible make it difficult for other sectors of the economy to operate efficiently. Indeed, the City is like an opening batsman, so obsessed with his own average that he does enormous damage to the team in which he plays and prevents the team from winning.

Those policies and the Chancellor's policies have done massive damage to manufacturing industry. Manufacturing trade has moved from a £4.5 billion surplus in 1981 to a Government-estimated deficit of £7.5 billion this year. Manufacturing industry can no longer keep pace with demand for manufactured goods at home. Motor imports increased by 15.5 per cent. between the third quarter of 1985 and the third quarter of 1986, and the import of other consumer goods rose by 19.5 per cent.

Our share of world trade had fallen since 1979 and our share of world manufactured trade has fallen massively by

over 24 per cent. Indeed, manufactured output is still 4 per cent. less than in 1979. To be fair and honest, I must admit — [Interruption] — that four other countries have a worse record than ours for manufactured output since 1979. Those countries are Fiji, Argentina, Senegal and Barbados. I have nothing to tell the House about the capital expenditure of manufacturing of those four countries. However, even when leasing is included in the calculations, in Britain that figure is 18 per cent. less than in 1979.

The Chancellor will rise in a moment — [HON. MEMBERS: "Hear, hear."] I am not surprised that Conservative Members do not like the truth about the economy. However, they should rest assured that they will get the unremitting truth from Opposition Benches, day after day between now and the general election.

We know that there was a bit of an economic spurt a few months ago because we read of it yesterday in the *Daily Mail*. So, it must be true. I find it pathetic that there should be so much rejoicing when a brief improvement does nothing more than increase output to 4 per cent. below its 1979 level, especially when it will soon be impossible to sustain even the illusion of economic strength. It cannot be sustained because as well as facing a collapse in manufacturing and a deterioration in our balance of payments, we are now caught in the biggest credit explosion in our history.

Mr. David Heathcoat-Amory (Wells) *rose*—

Mr. Hattersley: I hope that the Chancellor will not deny the facts because they were given by the Governor of the Bank of England; they are not mine. Those facts reveal that Britain is being run like a pawnshop. Personal indebtedness increases at the rate of 20 per cent. per year. Personal credit now stands at almost twice the level to which it rose during the ill-fated Barber boom—a part of history that I thought had been removed from Conservative archives. Indeed, we may have the rehabilitation of the right hon. Member for Old Bexley and Sidcup (Mr. Heath), if we are to emulate the policies that preceded the 1974 general election, which in no small part resulted in the defeat of the Conservative Government, because it was realised then, as it will be realised now, that a consumer boom is a spurious indication of a nation's success. The present consumer boom is almost twice as high as the Barber boom of 1974.

In such a situation it would be criminally stupid to encourage increases in credit, suck in more imports and worsen the balance of payments by tax cuts. Therefore, as I know that the Chancellor will not explain his social reasons for cutting taxes, I ask him to explain the economic justification for making the tax cuts that I have no doubt will come about.

I hope that we shall be spared the hypocritical nonsense about lower tax rates yielding higher tax revenues. The increased revenues collected from the higher tax bracket are not the result of harder work encouraged by lower marginal rates. They are the product of the widening divergence between the primary earnings of the rich and the primary earnings of the rest. It was not lower marginal tax rates that encouraged the chairmen of recently privatised industries to double their salaries the moment that they left the public sector. It was not tax cuts that produced those City salaries which the Chancellor

described as looking like telephone numbers. To justify tax cuts as a way of making the rich pay more is greed dressed up to look like benevolence.

If the Chancellor disputes that judgment—I have no doubt that he will—

The Chancellor of the Exchequer (Mr. Nigel Lawson): I shall certainly dispute it.

Mr. Hattersley: The right hon. Gentleman has said that he will certainly dispute it, so I offer him the chance to prove me wrong. He has in his possession the Brown report on tax rates and their incentive effect. He has suppressed that report because it is not convenient to his case and it proves him wrong.

Mr. Lawson: I advise the right hon. Gentleman that that document, which originates from a commission during the period of office of the Labour Government and which he alleges that I have suppressed, has been in the Library of the House of Commons for over a month.

Mr. Hattersley: The right hon. Gentleman knows that it is not in its full and complete form and that in its full and complete form it will prove me right and him wrong.

Mr. Lawson: What is wrong with that?

Mr. Hattersley: What is wrong with it not being in its full and complete form is that, in its full form, it proves me right and him wrong. [HON. MEMBERS: "Withdraw."]

The Government do not have to act on unemployment because it is now beginning a genuine decline. The excuse given is that the Government have created jobs at such a rate that no change of policy is necessary. However, the truth is that we have lost a million jobs in this country since the Tory Government were elected. Recent claims about reductions in the number of people unemployed are largely the result of increases in the so-called schemes and measures.

There are 46,000 young people on youth training schemes and 55,000 people on unemployed schemes. None of those people is doing the real job that the Prime Minister promised in 1979. Few of them are doing real training to improve the skills of our work force which are desperately needed. Some of them, as illustrated last Thursday on the "This Week" programme on television that examined youth training schemes that were nominated for such examination by the Government, are carrying out tasks that are so inappropriate to modern industrial needs that they humiliate the participants and shame the Government who descend to such deceit to reduce the unemployment position.

Mr. James Couchman (Gillingham): *rose*—

Mr. Hattersley: We no longer have a thread of coherent and consistent policy from the Government. Instead we have cosmetics. We do not have a constant thread of industrial or fiscal policy from the Government. We have cosmetics. That is why, after seven years of boasting about public expenditure cuts—admittedly calculating the numbers in different ways according to the Chancellor's convenience—we now have a year of public expenditure increases.

I should like to ask the Chancellor another question, still vainly believing that he might attempt some sensible answers. If the public expenditure increases are right this year, why were they wrong last year and why will they be wrong again next year? What is so special about this year

apart from the fact that there will be a general election? That is why we shall have tax cuts, which are socially and economically wrong and unsustainable.

I must advise the Chancellor of something that he already knows: whichever party wins the general election, the tax cuts that he makes in this Budget will be reversed. I make it absolutely clear that we shall vote against tax cuts and that when we are elected, we shall restore the level of taxation to approximately what it is now.

Mr. Forman (Carshalton and Wallington) *rose*—

Mr. Hattersley: That is the truth about both parties.

However, as well as restoring tax cuts, the Tory party will make deep cuts in public expenditure. It is planning them now. The White Paper that was published two weeks ago reveals that the Government plan to cut public expenditure on the capital account. The difference between the parties on tax cuts and what follows is the Labour party's willingness to face the facts and the Conservative party's refusal to tell the truth.

Mr. Forman *rose*—

Mr. Hattersley: The real Tory slogan for the next election is, "Vote now, pay later". We know how the Chancellor will react to this sudden exposure to the truth. In a moment there will be long passages of bogus statistics, rather like those that I quoted at the beginning of my speech. [Laughter.] There will be passages of ritual abuse and the insistence that everything is for the best in the best of all free enterprise worlds. The Chancellor will ask the people to believe him when he says that if he cuts taxes, he will not increase them again. Every Conservative Government in the recent past have been prepared to deceive the people over taxation.

The Government came to power in 1979 committed to cutting overall taxes and they repeated that promise four years later. Our total annual tax bill is now £29 billion higher than it was on the day when the Labour party left office. In 1955, a Conservative Government, who were in much the same position as the present Government, cut taxes within a few weeks of a general election and reimposed them a few weeks after the election.

If the House wants a more up-to-date example I shall gladly give it one. During the general election campaign in 1979 Labour Members warned that, once elected, the Conservative Government would double VAT. "Double VAT" was exactly the phrase that I used at a press conference at Transport house. The present Foreign Secretary could not have been more explicit in his denial. At Conservative Central Office on 21 April 1979 he said:

"We have absolutely no intention of doubling VAT."

The *Daily Mail*, which tomorrow will undoubtedly dismiss any chants of crisis, listed the allegation that the Tory party would double VAT as a Labour lie. Within three weeks of the election, VAT was increased from 8 per cent. to 15 per cent. [Interruption.]

The truth is that the Tory party has never been trusted over its taxation proposals when a general election has been in the air. Conservatives cheated the country in 1979 and I have no doubt that given the chance they will do so again. Fortunately, that chance will be denied them.

5.42 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): I beg to move, to leave out from "House" to the end of the Question and to add instead thereof:

[Mr. Nigel Lawson]

“congratulates Her Majesty’s Government on the success of its economic policies which have led to six years of healthy, balanced economic growth, have brought inflation down to its lowest levels for nearly two decades, have enabled industry to become more profitable than at any time since 1964, have brought the fastest productivity growth among major European countries since 1979 and have fostered the conditions in which a million new jobs have been created throughout the country since 1983.”

This is not only the first economic debate of 1987; it is also the first since the tragically premature death of the Liberal party’s economic spokesman, David Penhaligon. His breezy good humour, but always thoughtful contributions to our debates will be greatly missed. [HON. MEMBERS: “Hear, hear.”] No hon. Member was more widely liked.

I turn now to the speech of the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley). The fact that he has to resort to predictions of bad times just around the corner—I shall examine that proposition in a moment—is eloquent testimony that even the right hon. Gentleman in his heart of hearts at last recognises how well the economy is doing now.

We are now in our sixth successive year of steady growth, and still going strong. Year in, year out, we have been averaging getting on for 3 per cent. growth a year. Indeed, since the last election, ours has been the fastest growing major economy in the European Community; in sharp contrast to the 1960s and 1970s, when we were falling ever further behind.

We have achieved this while getting inflation down and keeping it down—a combination unknown for a generation. Inflation last year, at 3½ per cent. was the lowest for almost 20 years, and although this year it will be slightly higher than that, it will still be far lower than anything the last Labour Government even so much as aspired to, let alone attained.

Moreover, the growth that we have seen and that we shall continue to see has been balanced between consumption and investment. Indeed, for the whole of the period since the upswing began—[*Interruption.*] Opposition Members should listen to the truth. During the whole of the period since the upswing began, while consumer spending has risen at an average of 3 per cent. per year, investment has risen at 4 per cent. a year—twice as fast as the European Community average. By contrast, under the Labour Government’s brief upswing from 1975 to 1979, consumer spending grew twice as fast as investment. So much for the right hon. Gentleman’s strictures about the balance between consumption and investment under this Government.

When we first took office in 1979, inflation was in double figures and accelerating fast. Not only have we brought it down dramatically, but our relative performance, although still not good enough, has markedly improved. Under Labour, the United Kingdom’s inflation averaged seven percentage points more than in the world’s seven major industrialised nations as a whole. During the whole of our term of office so far, the inflation gap has been reduced to two percentage points.

Mr. Hattersley: Could we now have the proper comparison—the percentage difference between Labour and Europe and the percentage difference between this Government’s inflation record and the European record?

Mr. Lawson: The comparison that I gave is a correct comparison, accepted by all the international economic bodies.

Or look at that other perennial British weakness of the past—our persistently low growth of productivity, which compared so badly with that of our major competitors. Here, too, the picture has been transformed, with productivity since 1979 growing faster in Britain than in any of our major competitors with the solitary exception of Japan.

Inevitably, in the short term, this sharp improvement in productivity, although badly needed—this was recognised on all sides of the political divide at the time—meant fewer jobs. But that phase is now behind us. During the present Parliament, the number of jobs has risen steadily, quarter by quarter, without a break—the best performance for almost 30 years. Altogether the number of jobs has grown since 1983 by more than a million—a bigger increase than in the whole of the rest of the European Community put together. [HON. MEMBERS: “Where?”] It is now clear from the latest figures that unemployment—I hope that Opposition Members will listen to this because they profess to care about unemployment—is now on a steady downward trend—[HON. MEMBERS: “Where?”]—something which the whole House will welcome.

What of exports and the external position of the British economy? Since the upswing began, while most of Europe has seen its share of the world markets decline, ours has held steady and exports continue to rise fast. As for the external position as a whole, this is now the strongest that we have known at any time since the war. Our net overseas assets are second only to those of Japan—a far cry from the relative pittance the present Government inherited in 1979.

It is against that background that we have to assess the fact, which assumed such momentous proportions in the speech that we have just heard from the right hon. Member for Sparkbrook, that our balance of payments is now in deficit on current account. Once again, the contrast with the Labour years is instructive. During the whole of Labour’s period of office there was a cumulative deficit on current account which is now put at some £5 billion. During the first seven years of the present Conservative Government, we were continuously in surplus, to a cumulative total of £21 billion. [*Interruption.*] Those are the facts.

Since then, the collapse of the oil price has for the time being pushed us into deficit, but that was only to be expected. It is clearly arithmetically impossible for every economy in the world to be in surplus every year, even though it is not necessary to be in deficit four years out of five, as the Labour party was when it was in office.

What matters is that we should keep control of our domestic costs, so that the exchange rate adjustment that has followed the oil price collapse and which is now completed, will lead in time to a compensating improvement on our non-oil account, both visible and invisible. In this context, the most recent figures for the growth in the United Kingdom’s unit labour costs are most encouraging.

Of course, good news for the British economy is clearly bad news for Labour. The right hon. Member for Sparkbrook is determined that there is a disaster in the offing. The trouble is that we have heard his predictions before.

In May 1983, he confidently predicted that inflation would rocket after the election and within a year would be in double figures. That is what he said. The outcome was that a year later inflation was 5 per cent. Of course, it has since fallen further still. That was Old Roy's prediction for 1983.

He was at it again at the end of 1984, warning that over the next 12 months we faced what he described as a "slump" — I quote his very word, that is what he forecast. The outcome was that in 1985 we grew faster than any other country in Europe.

He was at it again in 1985, confidently predicting lower living standards. That is what he was predicting then. The outcome was that living standards rose to record levels and they are still rising. Indeed, the right hon. Gentleman is complaining that they are rising too fast.

Now, of course, the right hon. Gentleman is predicting an economic crisis. No wonder share prices have risen sharply since the latest gipsy's warning first hit the Reuter screens. The markets have learned from long experience the precise value of the right hon. Gentleman's predictions of gloom and doom.

Ms. Clare Short (Birmingham, Ladywood): Will the Chancellor give way?

Mr. Lawson: The plain fact is that, leaving aside the risk of a world economic crisis, which did not appear to be what the right hon. Gentleman had in mind, the only thing that could precipitate an economic crisis in Britain would be the election of the right hon. Gentleman and his colleagues to office.

Ms. Clare Short: I am grateful to the Chancellor for giving way. He has put his finger on the spot and he has shown the division between the view on Conservative Benches and that on Opposition Benches about what is a healthy economy. The Chancellor's view of a healthy economy is governed by share prices, ours by jobs for people and long-term wealth for the economy.

Mr. Lawson: I have already mentioned jobs. That is something which this side of the House attaches great importance to. I am sure that the hon. Lady will welcome the fact that there are now over 1 million more people in work in this country than there were at the time of the last general election.

Of course, economic crisis is what we always associate with the Labour party. That is what occurred when the Labour party was last in office. It is instructive, as we have just published our public expenditure White Paper which my right hon. Friend the Chief Secretary to the Treasury will be opening a debate about in due course in the House, to look back at Labour's public expenditure White Paper of 1977, published exactly 10 years ago this month.

The conduct of economic policy, as the House will recall, had by then been handed over to the International Monetary Fund to which the Labour Government had had to go, cap in hand, the previous September, as they became engulfed in the worst economic crisis since the war. The balance of payments 10 years ago this month was in deficit. Inflation stood at 16½ per cent. Productivity growth, according to the White Paper, was barely two thirds of the average for the major OECD countries. Strikes were rife. The public sector borrowing requirement had been allowed to rise to the equivalent, in today's terms, of £35 billion. To recover from this, the White

Paper announced plans to cut public expenditure by the equivalent, in today's terms, of £4 billion. Not only were the cuts savage, but they were concentrated heavily, if not exclusively, on capital spending.

From its inception in 1974 to the IMF crisis of 1976, the Labour Government had boosted current public expenditure by a staggering 17 per cent. in real terms. When they were forced to cut, the Labour Government found themselves unable to undo the current spending spree they had unleashed, and savaged capital spending instead.

As a result, during the whole of their time in Office, public sector capital spending fell by 25 per cent., with capital spending on the Health Service slashed by more than 30 per cent. and on major roads by almost 35 per cent. That was the inheritance of devastation that we had to make good — as we have been, with spending on major roads up 30 per cent. and on hospitals up by 31 per cent. in real terms since 1979.

Mr. Neil Kinnock (Islwyn): What about housing?

Mr. Lawson: Since the Leader of the Opposition mentions housing, I will add that spending on housing renovation is up by over 50 per cent.

So much for the right hon. Member for Sparbrook's cant about the public sector capital stock which his Government ran down and which we have been seeking to rebuild.

However, I have to concede that the right hon. Member for Sparbrook was on stronger ground when he spoke about the differences in prosperity in different parts of the country. For there are undoubtedly regional and local variations, just as there always have been and just as there are in other industrial countries. On clear reason for this is the pattern of industry that history has left us. It is not a simple matter of north versus south. There are prosperous parts of the north just as there are areas of dereliction in the south — and I speak as a midlands Member which, according to the Labour party definition, places me in the north.

Mr. D. N. Campbell-Savours (Workington): Will the Chancellor give way?

Mr. Lawson: But in general, jobs have been hardest hit wherever the local or regional economy was most heavily dependent on traditional manufacturing industry — not because all such industry is in decline, although some is.

Mr. Campbell Savours: Will the Chancellor give way now?

Mr. Lawson: In a moment. But even those manufacturing industries not in decline have expanded their output while reducing the number of workers employed. In general, traditional manufacturing industry tended to locate itself in the midlands and the north. If the problem has been more acute in Britain than in most other countries, that is only because, thanks to Labour policies, our manufacturing industry was the most heavily overmanned to start with.

Mr. Kinnock: Does the shift in the industrial pattern of development which the Chancellor has described with some accuracy explain the fact that since 1979 our trade in high-tech products has moved from a surplus of £1 billion to a deficit of £2 billion under this Government?

Mr. Lawson: The matter that I am talking about has nothing to do with our trade in high tech. Our exports of high tech, have been increasing very substantially.

Mr. Campbell-Savours: Give way.

Mr. Lawson: I have given way once. I will give way again but not now.

The difference to which I have alluded is also an inner-city problem and once again most of the big industrial cities are in the north. This Government have taken a whole battery of measures to help those parts of the country that have suffered from the highest levels of unemployment.

Mr. Campbell-Savours: Give way now.

Mr. Lawson: I will finish this passage first.

Regional assistance, although reduced in overall size, has been much more closely targeted on jobs. We have multiplied spending on top of that on specific employment and training measures tenfold and this massive expenditure has in practice been heavily skewed towards the north. We have also greatly expanded urban development grant spending, where each £1 of public money has levered in £4 of private sector financing. My right hon. and learned Friend the Paymaster General, when he winds up, will mention some of the other initiatives that we have taken.

Mr. Campbell-Savours: Is the Chancellor aware that, in the words of the Confederation of British Industry, one of the biggest impediments to regional growth is the two-month moratorium that has been introduced on the payment of regional development grants? Is he further aware that people in industry all over the country are complaining, and that that moratorium is having a devastating effect on regions such as mine in Cumbria? Will he get together with the Secretary of State for Trade and Industry and reconsider the matter, rescind it and ensure that development takes place and that the grants are paid when they should be paid?

Mr. Lawson: If the hon. Gentleman had looked at the White Paper published earlier this month, he would have seen that provision for regional expenditure had been increased. There is an obstacle that we have come up against time after time. That has been the behaviour of hard Left Labour local authorities.

Mr. Robert C. Brown (Newcastle upon Tyne, North) *rose*—

Mr. Lawson: I have just given way.

As Robert Kilroy-Silk — a name known to Opposition Members—said in his latest book:

“The Militants and their ilk in Liverpool are the biggest deterrents to job creation on Merseyside that there have ever been.”

The same goes for other anti-business Socialist local authorities up and down the country. Time after time that is the problem.

Mr. Robert N. Wareing (Liverpool, West Derby) *rose*—

Mr. Lawson: Although manufacturing output overall is rising strongly, the decline in employment in the traditional manufacturing industries is unlikely to reverse itself fully, and to the extent that it does, there is likely to be a constant drift from the cities to the outlying areas. How, then, to attract new firms and industries—

manufacturing as well as service industries—to fill the gap? Certainly not with councils such as that of Liverpool. Nor is that the only one.

Mr. Hattersley: The right hon. Gentleman must have misheard my hon. Friend the Member for Workington (Mr. Campbell-Savours). He asked the specific question, why a moratorium and how can he justify it? Will he answer that now?

Mr. Lawson: It is not a moratorium. It is a delay in payment that allows a significant increase in regional assistance over what was previously planned. That is clearly stated in the White Paper.

I say this in all sincerity to the right hon. Member for Sparkbrook and Opposition Members: it does not help to imply, as the Opposition all too often do, that the whole of the north is a disaster area, a picture of industrial devastation. That is just the sort of image that does the most damage to the north and, of course, it is not true either. The revival of the hard-hit regions of our country will come about only on the basis of enterprise, whether local or coming in from outside. The Government's task is to create, so far as local government allows us to, the climate for enterprise of that kind.

Mr. Wareing: Is the right hon. Gentleman aware of a survey that was recently carried out for the Institute of Directors? The members of the institute were asked which of, 11 different factors they thought were the cause of lack of investment and whether they were relevant to business locational decisions. Local authority rates appeared to be the eight factor among the 11. Most of the problems were related to locational factors, having no bearing whatsoever on the activities of local authorities. That includes Liverpool, where some people, including the Government, think the rates have been kept too low. That is why councils are currently facing the law.

Mr. Lawson: I regret having given way, because that was more of a speech than an intervention. If the hon. Gentleman thinks that business men, particularly small business men, are indifferent to the level of local authority rates, he is not living in the real world. He is even more living in cloud cuckoo land if he thinks that the only anti-business practice of some Labour local authorities—not all—is high rates. There are many other impediments that they put in the way of business, including the refusal of planning permission and so on.

Mr. Campbell-Savours: On a point of order, Mr. Deputy Speaker. You will have heard the Chancellor make a statement about the controls on regional development grant not being a moratorium. May I refer you to page 93 of the White Paper, which the Chancellor said that I had not seen? That page refers specifically to moratoria—*[Interruption.]*

Mr. Deputy Speaker: Order. The hon. Gentleman knows perfectly well that that is a matter for debate, not a point of order.

Mr. Lawson: I am well aware of what is in volume II of the White Paper and I stand entirely by what I said.

Fortunately, all the signs are that employment prospects have improved considerably in the north as well as in the south, as the economy surges forward.

Mr. Tony Marlow (Northampton, North): My right hon. Friend said that there were other habits and actions

of Socialists that caused problems with employment. Has my right hon. Friend seen the document from the Library that sets out the level of unemployment by constituency? Is he aware that there is a close correlation between high levels of unemployment and Socialism? For example, in London the 11 constituencies with the highest levels of unemployment all have Labour Members of Parliament and they all have Socialist local authorities. Is it not the case that the main creative force behind unemployment is Socialism?

Mr. Lawson: As usual, my hon. Friend makes a telling point.

My own local paper, the *Leicester Mercury*, which I was looking at on Thursday, carried 17 pages of job advertisements. That is substantially up on a year ago. I had some inquiries made—

Mr. Campbell-Savours: Get back to the moratorium.

Mr. Lawson: I am talking about jobs, which the hon. Gentleman professes to be concerned about — [Interruption.] The hon. Gentleman clearly does not care about jobs.

I had inquiries made of some other leading provincial newspapers. Job advertising in the *Manchester Evening News* last week was 11 per cent. up on a year ago. For the *Newcastle Evening Chronicle* the increase was around 30 per cent. For the *Birmingham Evening Mail*, there was a rise of 40 per cent. in jobs advertised, and from the *Sheffield Star*, an estimated 50 per cent. increase in the number of jobs advertised compared with a year ago.

Lastly, in this context, given the terms of the Opposition's motion, let me add that there is no evidence whatever that industrial mergers have any responsibility for regional and local differences in employment. The right hon. Member for Sparkbrook referred briefly to the BTR bid for Pilkington. I understand that it must be galling for him to find that his fox has been shot. The plain fact is that my right hon. Friend the Secretary of State for Trade and Industry correctly accepted the clear advice of the Director General of Fair Trading that the proposed merger did not raise significant competition issues. BTR's withdrawal from the bid this afternoon in the light of Pilkington's dramatically improved profit forecast, is equally clear vindication of the Government's view that other issues are generally best left to the verdict of the market.

As for "merger mania"—I quote from the motion tabled by the Opposition—I pause merely to observe that in the 1960s that was precisely the declared industrial policy of the Labour Government through the agency of the so-called Industrial Reorganisation Corporation.

Mr. Robert C. Brown rose—

Mr. Lawson: I must get on with my speech.

I turn now to the City, because the right hon. Member for Sparkbrook referred to the City at some length in his speech. While employment in manufacturing has been declining, in the service industries it has been steadily growing, and nowhere more so than in the financial services industry. Over the past five years, the numbers employed in the financial services industry have been growing at the rate of 5 per cent. a year, to reach 2¼ million at the latest count. The contribution of the financial sector to Britain's invisible trade surplus is now running at some £7½ billion a year.

By no means all of that is concentrated in London. Edinburgh, for example, is a major financial centre in its

own right, and Scotland now employs more people in the financial services industry than in steel, coal mining and shipbuilding put together. But there is no doubt that it is London that is the pre-eminent financial centre, not merely of the United Kingdom but of Europe and, arguably, of the world.

To maintain that position, it is essential that London zealously preserves its worldwide reputation for integrity and probity, and we have taken effective steps to that end. Soon after taking office, we legislated to make insider trading illegal, which it never was under Labour and we are now giving urgent consideration to making it an arrestable offence.

Mr. John Smith (Monklands, East): Will the right hon. Gentleman give way?

Mr. Lawson: I shall give way in a moment.

Following the report of the Roskill committee, we are strengthening our armoury against financial fraud, with the setting up of a new serious fraud office, changes in court procedures to make it easier to bring charges and to present evidence, and increases in the penalties for fraud and corruption, all with precious little help, I have to say, from the Opposition.

Mr. John Smith: Before the Chancellor's imperfect recollection leads him into greater error, let me remind him that in 1978, as Secretary of State for Trade, I introduced a Companies Bill that made insider trading a criminal offence. If we had had co-operation from the Conservative Opposition at the time, the Bill would have been on the statute book before the 1979 general election. The Companies Act 1980 followed the provisions that the Labour Bill introduced to the House of Commons. Will the Chancellor now withdraw what he said?

Mr. Lawson: I shall withdraw nothing. As the right hon. and learned Member has owned up, the last Labour Government had a deathbed repentance. Right at the end of their term of office, they suddenly got around to the question of insider trading. They were never able to get it on the statute book during their period in office— [Interruption.]

Of course, we have also put on the statute book the new Financial Services Act to ensure the effective regulation of the securities industry. How this will work out in practice it is still too soon to give a final verdict. Many aspects of the Act are not yet in operation. However, let no one be under any illusion that there is anything soft about the regime that it introduces. Although built on the foundation of the City's traditional pattern of self-regulation, it is a fully statutory system, and one which, incidentally, gives inspectors appointed by the Department of Trade and Industry far more power than is possessed by the SEC in America. That is a fact.

Mr. Allan Rogers (Rhondda): Will the Chancellor give way?

Mr. Lawson: If the hon. Gentleman is an expert on this subject, certainly.

Mr. Rogers: Before the Chancellor concludes his remarks, will he give the House details of the number of inspectors who look for or follow up allegations of fraud in the City of London, compared with the number of inspectors who look for social security fraud?

Mr. Lawson: If the hon. Gentleman has any evidence or suspicion of fraud, will he please give it either to me or

[Mr. Lawson]

to my right hon. Friend the Secretary of State for Trade and Industry, and appropriate action will be taken. If the hon. Gentleman has no such evidence, he should not pretend that there is anything going on there.

Mr. Bill Walker *rose*—

Mr. Lawson: I shall not give way.

I give the House this assurance: the Government are determined to act promptly and effectively whenever such action is warranted, and this has been amply demonstrated by the decision to put DTI inspectors into Guinness, and by the developments that have already occurred as a result. I give the House a further assurance: should the Guinness inspectors at any time uncover any evidence that would warrant a criminal prosecution, that evidence will be passed on to the appropriate authorities, irrespective of whether the inspectors have completed their own inquiries.

Attention has also, inevitably, been directed to Morgan Grenfell, Guinness's financial advisers. As a bank, Morgan Grenfell is subject to the supervisory authority of the Bank of England and to the terms of the Banking Act.

The Bank of England was closely involved in setting up and determining the terms of reference of the high-level internal inquiry into the management of Morgan Grenfell, which was announced last week and, at the governor's suggestion, the inquiry team is now to be strengthened by the addition of a senior independent auditor. The group chief executive of Morgan Grenfell and the director at the head of its corporate finance division have today announced their resignations, and an executive committee of the board will manage the group pending the appointment of replacements. Meanwhile, the governor of the Bank of England has asked for an interim report by the end of this month, in the light of which the Bank of England will decide whether further action is required.

Any information suggesting criminal activity will, of course, be passed promptly to the appropriate authorities. In particular, the Bank of England is keeping both me and the Department of Trade and Industry fully informed.

Ours is the party of law and order, and this Government are determined to do all in their power to prevent, to detect and to punish wrongdoing, wherever it may occur.

Mr. David Clelland (Tyne Bridge): Will the Chancellor care to tell the House when was the last time, before the Government came to office riots occurred in the inner-city streets?

Mr. Lawson: I regret that there are many occasions of riots in our long history, but I am glad to say that none is taking place at present.

But it is important that, serious though the matter of City wrongdoing is, we keep it in perspective. As the hon. Member for Dagenham (Mr. Gould) at least has conceded, the guilty are a tiny minority. The overwhelming majority of those who work in the City are honest and are as eager to root out the wrongdoers and their practices as anyone in this House.

The attempt by the right hon. Member for Sparkbrook to smear the entire City with guilt by association, describing it as "sleazy", "seedy", "an alien force" and "the least reputable sector of the economy" is wholly false and insofar as anyone believes him—which may not be many—highly damaging to this

country, for which the City's reputation is a priceless national asset. Indeed, if the truth be told, it is the very success of the City in the world market that the Labour party cannot abide. For Labour is comfortable only with failure. Indeed, Labour Members understand nothing else. They knew nothing else but failure when they were last in office, and would condemn our country to even greater failure were they ever to return to office.

Mr. Robert Sheldon (Ashton-under-Lyne): Of course we are pleased with the successes in the City of London. Is the right hon. Gentleman aware that, without the Ivan Boesky affair, and without the SEC in the United States, it is doubtful whether any of these allegations would have been made, let alone the facts discovered?

Mr. Lawson: The right hon. Gentleman should have the courage to concede—he knows more than his colleagues on the Labour Front Bench—that we have acted promptly and effectively in each of these cases and in every case that has come to light.

What is the Opposition's economic prescription? The right hon. Member for Sparkbrook has, I concede, by his standards been relatively honest and open about it. It is higher Government spending, higher borrowing and higher taxes. He has made that plain.

Let me take each of them in turn—first, spending. How much higher spending, and how is it to be financed? As my right hon. Friend the Chief Secretary has once again today pointed out, Labour's spending pledges add up to at least an extra £28 billion a year. How on earth do they imagine that they are going to finance that? I know that the right hon. Member for Sparkbrook tries to slide away from the £28 billion, by talking as he did today—or he has on previous occasions at any rate—of Labour's £3½ billion poverty package and £6 billion jobs package. Does that then mean that he is resiling from Labour's repeated promises to spend more on education, more on the Health Service, and more on overseas aid, to name but three? Will he answer? I will gladly give way to the right hon. Gentleman.

The right hon. Gentleman is struck dumb. He is not able to answer. Hon. Members will draw their own conclusion that the £28 billion still stands.

Let us give the right hon. Gentleman the benefit of the doubt. Let us suppose that he is resiling from all these pledges on health, education, overseas aid and the rest because they do not come in either the jobs package or the poverty package. Let us suppose that he is resiling from them and many others. I remind the House that to pay for the £28 billion of additional public spending—

Mr. Hattersley *rose*—

Mr. Lawson: I am not surprised that the right hon. Gentleman does not like this. It would mean a basic rate of income tax of 53p in the pound.

Let us suppose that the right hon. Gentleman has won his desperate battles with his pledge-happy colleagues. How is the £9½ billion to be financed?

Mr. Hattersley *rose*—

Mr. Lawson: In a moment. Some £3½ billion of it, we are told, will be financed by reversing the reductions that the Government have allegedly made in the taxation of the higher paid and the rest by an extra £6 billion of Government borrowing. It beggars belief. The right hon. Member for Sparkbrook claims that the economy is

overhead, that interest rates are too high and that there is a crisis round the corner, and he blithely proposes to borrow an extra £6 billion.

Mr. Hattersley: On this exact question, I spent, I think, the first quarter of an hour of my speech telling the Chancellor that we believed that if he had £3 billion to spend it would be better spent on education, health, pensions and housing than on tax cuts. I ask him to tell the House why he thought that tax cuts were a better choice than health, education, pensions and housing. That is the issue. Will the right hon. Gentleman explain the answer now?

Mr. Lawson: The point is the one I put to the right hon. Gentleman.

It is not even as if the so-called poverty and jobs packages consisted exclusively of capital spending. At least three quarters of the proposed total would be on current spending. So why does not the right hon. Gentleman take the honest course and admit that every penny of it would have to be raised by higher taxation on ordinary working people? Why does he not admit that? Is not the whole of the Opposition's case, which we heard again today, that public expenditure is in every way preferable to private expenditure and that the burden of taxation is of no consequence? Is that not their proposition? Why not at least have the virtue of consistency and promise to restore the basic rate of income tax from the present level of 29p to the 33p which we inherited from Labour? I wonder why the right hon. Gentleman does not promise that.

Apparently, as far as the right hon. Gentleman is prepared to go, at least until now, to promise, in the spirit, he says, of Mr. Walter Mondale, to undo any tax reduction that there may be in this year's Budget. I do not know whether there will be any tax reductions in this year's Budget. All I shall say is that the Budget this year will be on St. Patrick's day. *[Interruption.]* That is informing the House of the date of the Budget.

But the whole country must now be clear about the difference both in policy and in philosophy between the Government and the Opposition. The Government believe in reducing the burden of income tax on ordinary working people and the Opposition believe in increasing it.

As for Mr. Mondale, I can do no better than quote from the leading article in *The Guardian*—not a newspaper that supports the Conservative party. The article states:

"Mr. Walter Mondale, with energy and some honesty, based his entire 1984 American Presidential strategy on playing the spectre at the economic feast. He won only Minnesota. His candidature was a fiasco. The voters did not want to hear about the bad times that might follow the good times. They did not want to vote themselves immediate tax increases. Nor, if times were indeed going to turn sour, did they think that big spending Democrats were the natural first port of call. Mr. Mondale may have made a sincere pitch. But it was not, when the campaign actually got going, an effective or resonant pitch. It was a disaster."

The Labour party is, indeed, a disaster. The only bigger disaster would be a Labour Government.

I welcome this debate. It has been rather a long time coming. The Opposition emerged from their Bishop's Stortford conclave claiming, to quote the right hon. Member for Islwyn (Mr. Kinnock):

"The Election will be about the economy. Our campaign from now until election day will therefore be about this central issue."

Excellent—but what happened? They fell at the first fence last Wednesday, not because of cold weather but

because of cold feet. Since then, all we have had are further figures showing that the economy is in excellent shape. The prospects for 1987 are very good and I invite the House to reject the Opposition's absurd motion with the contempt that it deserves.

6.25 pm

Mr. Ian Wrigglesworth (Stockton, South): The Conservative party has been in office since 1979. We are entitled to judge its record on the basis of what has happened not since 1981 or 1983 but since 1979. Just as the Chancellor is happy to fight the general election on the Government's economic record, so, too, is the alliance. The central feature of economic policy and the central failure of the Government's policies is unemployment.

Since 1979, the number of long-term unemployed has increased fourfold from 300,000 to 1.36 million. I hope that during this debate we will not become too embroiled in percentages and big figures but will consider the implications of those figures. That is why I chose to start with the figure for long-term unemployment of about 1.3 million. In my constituency and in the rest of the north that means a very large number of families who have been suffering considerable deprivation, hardship and misery for a very long time. If the Chancellor is proud of his economic record and of recent economic events, he should spend a little more time not only in the northern region but in other parts of the country that have been hit by the scourge of unemployment in an unprecedented way since the Conservative party came to office.

On the basis of the way in which unemployment was calculated previously, there are at present some 3.7 million people unemployed. The Chancellor should remember that any comparisons that he wishes to draw to the attention of the House should be on that basis, unless he is prepared to reduce the old figures to compensate for the changes made by his Administration.

The long-term unemployed figures are higher than during the 1930s depression. There were some 483,000 long-term unemployed in 1933. By 1939 the number had been halved. It is an appalling fact that the Government have not merely matched the levels of unemployment in the 1930s but have beaten those levels time and time again.

We have heard much from Conservative Members about the number of new jobs created. The Chancellor, along with many of his supporters, has been preaching about the million new jobs which are supposed to have been created in recent years, but let us consider the actual record. There are now 1.6 million fewer jobs than in 1979 when the Conservative party came to office. Let us consider a different figure from the Government propaganda claim that about a million new jobs have been created in the past three years. According to the Bank of England, the number of full-time equivalent new jobs created in the past three years is only about 239,000. That contrasts vividly with the constant stream of propaganda—that is what it is—that we get from the Chancellor, the Prime Minister and other Ministers. For the benefit of the Chancellor, I repeat the Bank of England figure—239,000 full-time equivalent new jobs in the past three years. That is merely scratching the surface of the problem.—*[Interruption.]* I do not care if that figure has been revised by a minor amount, the fact remains that the figure given by the Chancellor and his colleagues is deliberately

[Mr. Ian Wrigglesworth]

and grossly misleading. There are now 1.6 million fewer jobs in Britain than when the Conservative party took office.

Mr. Jim Craigen (Glasgow, Maryhill): Does the hon. Gentleman agree that the steep rise in part-time employment considerably masks the failure of the Government's employment policies?

Mr. Wrigglesworth: I entirely agree with the hon. Gentleman. When the Government boast about all those new jobs they are really talking about a whole range of part-time jobs. For the unemployed and the long-term unemployed such jobs are meaningless. That is why I have referred to the Bank of England figure of 239,000 full-time equivalent jobs. That is the true record of the Government's job creation programme since they came to office.

Mr. Edward Leigh (Gainsborough and Horncastle): This is all very interesting but the House would be interested to know whether the hon. Gentleman is still committed to what he told fellow alliance Members—that they should spend £10 billion? Surely that would mean an income tax rate of 38p in the pound and a VAT rate of 26 per cent.? How would that help job creation?

Mr. Wrigglesworth: I will come to our proposals shortly, but the hon. Gentleman must get his facts right. The sum of £10 billion would be spent over our period in Government, not in one year as the hon. Gentleman seeks to imply.

Let us consider manufacturing output—

Mr. Tim Smith (Beaconsfield) *rose*—

Mr. Wrigglesworth: No, I cannot give way. Mr. Speaker has implored us to be brief because other hon. Members wish to speak.

We have heard the Government's boasts about the growth of the economy in recent years. The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) referred to the fact that the Chancellor had trumpeted about levels of production getting back to 1980 levels. What an incredible thing to boast about—getting production levels back to the figure reached the year after they came to office. What an achievement!

The decline in manufacturing output is the cause of our economic problems. Production levels are still 6 per cent. below 1979 levels. We have made absolutely no progress—we have gone backwards. In the eight years since the Conservatives took office we have still not reached the levels of production in the manufacturing industries that existed in 1979. We are still struggling to get back to the 1979 levels. Goodness me—even with the three-day week the manufacturing sector did better than it has done since the Government took office.

We have heard a great deal about the reason for the decline. We are told that the international economic situation has led to Britain and other countries to be hit in exactly the same way—what poppycock! It is simply not true that manufacturing employment in other countries has been so hard hit. Since the Conservative Government took office we have lost 28 per cent. of the work force in manufacturing industry.

Mr. Oppenheim *rose*—

Mr. Wrigglesworth: No, I will not give way. Most 30 per cent. of the work force in manufacturing industry has gone.

Mr. John Browne (Winchester) *rose*—

Mr. Wrigglesworth: No, I will not give way. Let us consider comparisons with other countries. In Japan there has been a 4.9 per cent. increase in manufacturing employment. In the United States there has been a drop of 2 per cent., in Canada 1.4 per cent., in West Germany 8.5 per cent. and in Italy 9.4 per cent. Incidentally, Italy has now overtaken Britain in terms of wealth per head of population, so in comparison with the original Common Market countries we are last in the league table. Our manufacturing employment is down by 28 per cent. and the worst comparison that we can draw is the 9.4 per cent. drop experienced in Italy. Britain's declining manufacturing industry is a direct consequence of the Government's policies.

It is no good the Chancellor trying to tell the House that the decline is due to our industries not performing as well as those of other countries. [HON. MEMBERS: "What about steel?"] In 1979 Britain produced 21.5 million tonnes of steel. Now, after seven years, the magnificent achievement of that industry is a total tonnage of 15 million. That is an illustration of the state of the economy and of our manufacturing industries. We are producing six million tonnes less than we did in 1979.

Mr. John Browne *rose*—

Mr. Holt *rose*—

Mr. Speaker: Order.

Mr. Holt: I am glad that the hon. Gentleman is discussing steel because, this morning I went to Steel House to discuss this matter with some senior executives. In my constituency in the north east and in the constituency of the hon. Member for Redcar (Mr. Tinn) there are 50 per cent. fewer employees than six years ago but the steel industry there is producing 120 per cent. more steel than in the past.

Mr. Wrigglesworth: We have heard all the boasts from the Chancellor and other Ministers about how the economy has picked up, but if we consider the production of bricks, steel and raw materials that go to make up the true economy we find that we are well behind the production figures that prevailed in 1979.

Mr. John Brown *rose*—

Mr. Wrigglesworth: No, I will not give way. Such a decline in production has implications for my region and the whole question of the north-side divide. This row has been hovering about for a number of years, but it really began with the publication of the department of employment census showing that 94 per cent. of total job losses had occurred in Scotland, the north, the midlands, Wales and Northern Ireland. It would be nonsense to suggest that unemployment is a problem only in the north and not in the south. Some areas in the south have been equally hard hit, just as some areas in the north, even in my constituency, are as prosperous in terms of income and housing as some areas in the south.

Nevertheless, overwhelmingly more people are unemployed in the north because the economy of the north has been dominated by old manufacturing industries which have been slipping into decline over a long period. That

decline has been accelerated dramatically by Government's policies. An inevitable consequence of Government policies and of the decline in our manufacturing base has been that the major manufacturing areas of Britain have been the hardest hit and have paid the price for the Government's policies.

If Conservative Members do not accept that that situation is a consequence of their policies, I refer them to the period when the right hon. Member for Leeds, North-East (Sir K. Joseph) became Secretary of State for Trade and Industry. It is remarkable how short their memories are. Some Opposition Members remember with amusement but also with dismay the reading list—Adam Smith and various other authorities—that the right hon. Member circulated to his civil servants about how manufacturing industry was not really important to the country and how the service sector would pull the economy, industry and the country up by the boot straps so we did not need to worry about manufacturing industry. That was the philosophy that the Conservative party introduced in 1979 when they took over the reins of power. The consequences of dismantling previous policies, many of which had been put on to the statute book under the Industry Act 1972 by the then Prime Minister and his colleagues, are there for all to see.

During this Government's period of office, employment in the south-east, East Anglia and the south-west has grown by 367,000, if the self-employed are included in the figure, but in the rest of Britain 1,047,000 jobs have been lost. As a percentage of the work force, registered unemployment has risen far more in the north than in the south. The figures and the census to which I referred earlier show that. One need only look at the Government's submission to the European Community's regional development fund showing that the regional disparity has widened in the past 20 years and that the worst hit regions in the United Kingdom are over-represented among the worst hit regions in Europe. We have five of the 12 highest unemployment regions in the European Community—Northern Ireland, Merseyside, Dumfries and Galloway, Strathclyde, Northumberland, Tyne and Wear and Cleveland. The only parallels are southern Italy, Sicily, Sardinia, Corsica and Ireland. Of the worst 30 regions, the United Kingdom has 10. We are far and away the worst hit area in the European Community. We have the worst regional pockets of unemployment in the whole European Community.

Mr. Piers Merchant (Newcastle upon Tyne, Central): Will the lion. Gentleman give way?

Mr. Wrigglesworth: No, I really must not give way again.

The situation that I have described is not surprising. The manufacturing sector has been predominantly in the regions and it is from that sector that we have lost the most jobs.

There is an overwhelming case for devolving far more power, authority and resources to the regions. The City plays a very important role, but it could make a much greater contribution to the regions than it does today. The malaise in the City is debilitating the financial institutions and our economy. It is also debilitating industry and commerce. An honest and open City would be a national asset, but a corrupt City is a national liability. Alliance Members have said before that the Government have not

given enough independence to the newly established Securities and Investments Board to enable it to carry out its role as the City watchdog. We should like it to have more independent members and I moved an amendment to the Financial Services Bill to that end. We should also like it to be financed and supported not by the City but by Government funds. It should be seen as a body that is independent of the City and not as one that belongs to and is dominated by the City.

In the light of recent events, the City is undoubtedly on trial. There have been too many scandals. I accept that a minority of people in the City are causing those scandals and behaving in an unacceptable way, but many people who have known the City for many years are becoming worried that that minority is too large and that too many people and institutions in the City have been infected by this sort of corruption. It is to be hoped that the Chancellor of the Exchequer and the Secretary of Trade and Industry will bring their investigations to a speedy conclusion so that this boil can be lanced and the good name of the City restored. It is also important that the Civil Service should be above any reproach or doubt. I was disturbed by a report in *The Times* this morning that the investigation into insider trading and into the role of some civil servants had not led to the suspension of the civil servants involved. In my experience, that would have been the normal procedure in a case of this kind. I should be grateful if the Minister would clarify what is happening about the Government's investigation of their own staff.

What should be done to overcome the problems that I have outlined and which have been exacerbated by the Government's policies? The Government began their monetarist experiment when they came to office in 1979. That experiment, and the Government's attitude to industry, have led to the present levels of unemployment and to the decline in manufacturing industry. The only way the Government can get us out of this mess is by expanding the economy and investing any surplus cash that the Chancellor of the Exchequer may have under the fiscal adjustment in the forthcoming Budget so as to ensure that the industrial base of the country is strengthened. That does not mean providing help only for research and development and for design and high technology, which the Government are now doing but were not doing when they first came to office. It means investing more money in education and training. The Secretary of State for Employment will doubtless tell us how much he is spending now on the youth training scheme, but that scheme has been spatchcocked together without any predetermined plan so it does not dovetail into the comprehensive training system that this country so desperately needs. We need to bring together the remaining industrial training boards, the work being done in further education and with apprenticeship schemes as well as the youth training scheme so that they all fit into a comprehensive system to provide proper training opportunities and qualifications for young people. Young people in Germany and Japan are being provided with training opportunities and qualifications of that kind. We need investment not only in industry but in people. The Government should embark upon that investment in the forthcoming Budget rather than cutting taxes to help those already in work rather than the millions still out of work.

If we are to increase the output of manufacturing industry and the performance of the economy generally,

[Mr. Wrigglesworth]

the Government must do something about the uncompetitive nature of unit labour costs, which increased from 4.6 per cent. to 5.75 per cent. last year. They are not the lowest in Europe by any means and the forecast is that in 1987 they will increase by 5.25 per cent. If that happens, we shall lose out to our German, French and other competitors. That will simply make worse the looming balance of payments crisis due to what has happened to the price of oil.

There is only one way to reduce unit labour costs—by the Government having a clear incomes strategy and working with the Confederation of British Industry and the Trades Union Congress to ensure that pay settlements are brought down and are in line with productivity. For some years the Chancellor of the Exchequer has exhorted industry to bring pay settlements down to a reasonable level so that they are more in line with inflation and productivity, but he has invoked no policy to bring that about. Such a policy is absolutely essential if we are to get the expansion of the economy in the real world and not go into consumption in the way that the Government are presently engineering.

Present forecasts suggest that the Chancellor will make a fiscal adjustment of between £2.5 billion and £3 billion. It would be scandalous if he used that to generate more consumer expenditure in the economy, which will merely create jobs in Japan, in America and in France and other EEC countries rather than in Britain. It is scandalous that the Government have allowed pay increases to go way ahead of the levels of inflation and allowed consumer credit to increase beyond all imagination. They are now to compound that by giving further tax cuts which will further boost consumer spending and create jobs overseas but not in Britain.

We urge the Chancellor to adopt the approach that I have suggested so as to ensure a rapid decline in the levels of unemployment to which we have been subjected by the Government over the past seven years. For the people in the regions and in the north, it is urgent that the change in economic policy should take place. Without it there will be no hope of getting the unemployment figure below 3 million and keeping it there and manufacturing industry will continue in the decline that has been taking place throughout the Government's period of office to the detriment of the regions and of the country as a whole.

6.51 pm

Mr. Edward Heath (Old Bexley and Sidcup): I intervene to make, as briefly as I can, four practical points. The first is on the question of the north-south divide, with which I understood the debate to be largely concerned. My right hon. Friend the Chancellor of the Exchequer is right that for a long time there has been a north-south divide. What is characteristic of these past few years is that the dividing line has moved further and further south. My right hon. Friend is also right that that is largely due to historical and geographical reasons—the placing of our industry and our ports and the changes in trade patterns that have occurred since.

Since 1945, in cyclical variations, Scotland, the north and Wales suffered first and came out of the cyclical arrangement last. With the development policies that were

pursued by successive Governments, that gradually changed. The first change came about in Wales, then later on in Scotland and the north-east.

In this decade the line has come south of Birmingham and the midlands, for the first time, has found itself affected by a post-war cyclical change, from which it has never suffered before. The consequence of that is that whereas the midlands has often complained about action which was being taken in development policies for the rest of the country, now the midlands is asking that it should be treated equally at least with the other parts of the country which are benefiting from regional policy.

The point that I would like to make to my right hon. Friend the Chancellor is that the Government are investing more in those areas outside the south, but they are not getting the benefit of what they are doing publicly because they are still emphasising—as he did in his speech, and as the Prime Minister has done—that there are rich areas in the north. That implies, “Why are you making a fuss?” They then say, “Everything must be left to competition.” Neither of those things is helpful with regard to the regions.

Some spots in Scotland, Wales and the north are richer than others, but they are limited compared with the south. The people who live in those areas know that perfectly well, and they know the appalling problems with which they are confronted from the point of view of jobs and certain other accessories of life. Therefore, as long as that attitude is adopted we cannot make the appeal to them that we ought to be making.

Then we have the claim that everything must be left to competition. It is quite plain that competition does not have an answer to these problems. There has been criticism of development policies—it used to come particularly from the midlands—that they had achieved nothing. That is a completely fallacious argument. The development policies achieved the changes that I have mentioned. When my right hon. Friend the Prime Minister says that it is wrong to treat those areas as if they were down and out, she is in part correct. The north-east has the finest infrastructure of any part of the country. Parts of Scotland have a magnificent infrastructure. When my right hon. Friend the Prime Minister says that there are high-tech areas in Scotland that are successful and profitable, she is right—but why? It is because we put the money into building Livingston and gave industry the inducements to go to Livingston. Therefore, Livingston has concentrated on high tech and it is successful. None of that would have happened had it been left to competition and the market.

Mr. Lawson: I know that the right hon. Gentleman is trying to make the most objective assessment that he can of regional policy in the past, but will he concede that the problem in the west midlands—it is the west midlands, not the east midlands; I represent an east midlands constituency and the east midlands is not a hard hit part of the country at all—arises in large measure because, under past regional policies, business men who wanted to place their investment in the west midlands but were prevented from doing so.

Mr. Heath: With great respect to my right hon. Friend, that is a repetition of the fallacy. West midlands businessmen wanted to expand at a time when the area was already understaffed from the point of view of working population and overcrowded from the point of view of

plant. That was the plain fact. But they wanted to follow their own interests and they said that they wanted to expand and go out in the countryside. They said, "Don't worry about the environment; let us go there." We asked about the shortage of people, but they said that that did not matter because they would bribe them to go there, and that was part of the wage spiral. That is the fallacy that lies at the root of the argument that all must be left to the market and competition.

Mr. William Cash (Stafford): Will the right hon. Gentleman give way?

Mr. Heath: No, I am sorry, I shall not give way, I am going to be brief.

Looking at the successes, various parts of Scotland and the north-east have been very successful as a result of development policy. When my right hon. Friend the Chancellor says that his area is not greatly concerned about unemployment, all I can say is that the line has moved so far south that the most delectable area of Sidcup has unemployment of 9.5 per cent. I do not regard that as satisfactory or bearable; it is deplorable. That is the way in which the north-south line has moved.

My conclusion is that, as the Government are investing in the regions, there are parts in which they should invest more, if they have available money, rather than reducing taxes they should go for investment. Then they should have a constructive, co-ordinated development policy for the country as a whole.

Scotland has the best policy, because it is a combination of Government money and private enterprise money and that is due largely to my right hon. Friend the Secretary of State for Defence, because he brought that about while he was Secretary of State for Scotland. That is the attitude that the Government should be fostering.

With great respect to my right hon. Friend the Chancellor—I have never paid so much respect to him before—mergers and amalgamations are associated with regional problems. One of the overall problems from which we are suffering as a result of development since we reached the height of the industrial revolution in this country, has been the movement of headquarters out of Merseyside or Newcastle-upon-Tyne down to London. When cyclical difficulties appeared, it was the places outside the headquarters that suffered. They were the bits that were closed down and where the jobs were lost. In the event of an amalgamation or merger by one of these hydra-headed concerns the chances are that the headquarters—in this case, on Merseyside—would have been closed, and later on, when things became difficult again, it would be that area that suffered. That is why there is a direct link between people's fears and amalgamations, mergers and absorptions, for which there is undoubtedly a mania at the moment. It is no concern to me whether that is the responsibility of the Labour Government in 1964 or 1970; it is past history. What does concern me is the present and the future.

Sir Peter Hordern (Horsham): In this particular case I think that my right hon. Friend will agree that there is no reason at all to suppose that investment at St. Helens would have been reduced by BTR. One has only to look at the way in which it managed to turn round Dunlop and the extra investment in that company, the extra employment and the extra profits that that company has continued to produce.

Mr. Heath: I greatly respect my hon. Friend's experience, but not everybody would agree with his assessment of what happened to Dunlop. I was reading today an account in the financial press which says that Dunlop is but a pale shadow of what it was as one of our major tyre producers. I do not trust any such organisations, because their purpose is to gain the money which is in an existing firm.

That brings me to the second aspect of this, which is that it is the short-term view which is being taken, not the long-term view. People want to get their hands on a firm, above all, a family firm, which takes a long-term view and sets aside money for investment. They do not want it for further investment, but so that later on they can, if they get the opportunity, sell it off and use the money for profit dispersal. That is what they want and that is what they do. One has seen that in the United States to an extent to which it has damaged United States' industry, and one sees the frailties of United States' industry. I have great anxieties that the same thing is happening here, and there is every reason to be anxious about it.

I come now to the decision of my right hon. Friend the Secretary of State for Trade and Industry. I have the utmost sympathy for my right hon. Friend, and I understand his position. It was difficult for him. He is not in any way at fault because he is governed, apparently, at the moment, by the Tebbit guidelines of 1984. Those cannot take the place of the Fair Trading Act 1973 which insists on the public interest. The Tebbit guidelines say that competition is almost the only thing that matters. No Secretary of State has a right to change the law in that way. I suggest to my right hon. Friend the Secretary of State for Trade and Industry that his first task should be to change the guidelines to enable him to get back to the public interest.

Now we are told that we have competition because it is competition which considers the public interest. That is obviously not the case and never has been. That is not what competition is about. Nor is it the business of shareholders to decide the public interest on a merger. Shareholders are not in a position to decide the public interest. We can blame a shareholder if he seizes a sum that he is being offered which it appears unlikely he will be offered again? There may well be a completely different attitude in a family business because the family will want to continue the business and will resist the short-term view and take the long-term view for the sons and grandsons. But that is not the case in a competitive firm such as we saw trying to take over Pilkington.

However, I must say that BTR has shown far more sensitivity, common sense and understanding of the political situation in Britain than General Motors did. If General Motors had done that, we would have been spared much of the agony and harassment which went on over that case. BTR should be given credit for having recognised the political climate on both sides of the House and for having acted accordingly.

Here I suggest that we immediately get back to the public interest. It can be referred and then come forward. But the Government of the day are the only body which can consider the public interest. It is the Government of the day who are responsible for doing that. The Government must not abdicate that responsibility by saying that they will leave it all to competition or to the market. I hope that, now that this incident has occurred and public opinion on Merseyside and in the House has

[Mr. Heath]

made itself so clear, my right hon. Friend the Secretary of State for Trade and Industry will move back to the official terms of the Act and get away from the Tebbit guidelines. Then he will be able to make a judgment in the public interest as a whole, which is the Government's responsibility.

My third point relates to the City. Because of the internationalisation of monetary institutions and the position of the City, official regulation is inescapable. I do not believe that the City is any longer capable of self-regulation. It is not an interest to declare, but I was brought up in the City in merchant banking. At that time, it was possible for the City to regulate itself. There was no legislation on insider dealing because nobody imagined for a moment that there would be an orgy of insider dealing. [HON. MEMBERS: "Come on".] With great respect, I was there before my hon. Friends and I know the philosophy and ethic of the City at that time. The City did not reckon to involve itself in that. I see the faces of all my younger hon. Friends. That is not something that they can ever visualise, but I am sorry, it happened.

If something was believed to be irregular or was likely to cause trouble, the Governor of the Bank of England just sent for the senior partner. When that happened we waited to see what the Governor had said. If he said, "I think that you are getting a bit low. You are under your 12 per cent.," one knew that that was the end of the matter and one had to get back quickly. If one did not, there was trouble. That is no longer possible today. Therefore, instead of trying to find a halfway house, we must face reality and recognise that there must be official regulation of the City.

The Securities and Exchange Commission has great powers. Under the Reagan Administration those powers have not been used because appointments to the SEC have been along the lines of President Reagan's own thoughts about capitalism and its operation. But now the SEC is coming back into its own. It is having to do so because of the present scandal. I think that my hon. Friend the member for Tayside, North (Mr. Walker) takes the view that he brought the scandal to the Government's notice, whereas most of us thought that it was because the SEC dealt with it. However, I am prepared to give credit to both.

The SEC dealt with the matter in three or four months [HON. MEMBERS: "Four years".] With great respect, it dealt with it in three to four months. A slight financial penalty of \$100 million was imposed and there was the knowledge that all the other scandals would be revealed.

The problem that we have always had to face—I hope that when my right hon. and learned Friend the Paymaster General replies he will deal with this—is, and I think that this is the truth of the inquiry being made at the moment, that the inquiry has no powers to enable it to follow with a prosecution. Therefore, everything which is done must be duplicated by those who can then make the prosecution.

In my experience, which is some time ago when we had the Rolls Razor case and Mr. Bloom, we set up an inquiry immediately. That is all right, but it is not the real point. The real point is how quickly action will be taken on an inquiry if one is trying to give the City a lesson on how it should behave, it is no use that happening many years hence. That lesson must be taken with prosecution in the immediate future. In the particular case that I am

mentioning, the inquiry took two and a half years, and then, in order to have a criminal prosecution, there had to be a replica of the inquiry by those with powers to take evidence in a form which could then be used in a criminal prosecution.

The question is whether this inquiry has the power to bring about a criminal prosecution or whether it will wait and then refer the matter to the Director of Public Prosecutions who will then have to get the evidence for the criminal prosecution. That means that there will have to be a replica of the hearings which have been held. That is an important point. If the situation involves duplication, then as a practical point I suggest to my right hon. Friend the Chancellor that the new body that he is setting up to inquire into fraud should have that power and should start at the beginning and not duplicate something that is already being done. That is my third practical point.

My fourth point is that constantly we seem quite incapable of getting Government and both sides of industry to work together on a problem. For a long time I have found that the most disturbing aspect of our national life. One sees it constantly. We saw it in the case of Nimrod and we see it in the Government's use of new technology imported from other countries. We have heard about the increase in imports. What is it in our national character that prevents us from doing what the Germans, the Japanese and the Americans can do? As a result, Germany and Japan have a much more successful industrial base than we have.

Only the Government can give a lead and the people who can follow are the Confederation of British Industry, the Institute of Directors, the trade unions and finance. Finance ought to be the servant of national life, industry, agriculture and production. As we have seen in the last few months, more and more it is becoming the master of national life. Finance takes the short-term view and allows three months only. If the results after that time do not seem satisfactory, the management is changed and somebody takes over the firm. There is no interest whatever in the long-term point of view.

For those who are working the markets, it is not even a three-month view, it is three seconds, and if the answer is not up on the screen in front of them in three seconds they must do something about it. We cannot have a successful industry or a successful national life on the basis of a purely short-term view, yet that sort of view is becoming more and more common and the City is giving a lead. Those are my four practical points.

There must be an overall development policy and in the public interest the Government must take the ultimate responsibility for amalgamations and mergers. Competition is not the ultimate public interest. In terms of the City, we have moved into an entirely new sphere of financial operations and financial life, in the same way as New York and Tokyo have moved. We must face that and it is much better to take clear and firm action now than to have it dragged out of us later.

Lastly, we need much closer working co-operation between Government and industry if we are to move forward and re-create the industrial base which is so badly needed to provide the employment that our people need. I hope that the Government will advance that view and say that they want to see these problems worked out jointly. We need to help one another if we are to solve the problems that exist.

7.13 pm

Miss Betty Boothroyd (West Bromwich, West): We are debating crucial and fundamental issues about the quality of life for millions of families. My chief concern is with the west midlands and I emphasise that the problems plaguing that area are related not only to jobs and industry. They are also to do with public services, housing, and inadequate resources for health care and training. The problems are all-consuming and have come about because of long-term problems associated with old industrial areas. That was mentioned by the right hon. Member for Old Bexley and Sidcup (Mr. Heath).

The problems have been compounded because policies pursued by the Government have made every problem worse.

In consequence, the entire economy of the west midlands region is collapsing upon itself. As one job is lost and as one firm and one industry has folded, each has sucked into that collapse other jobs, other firms and other industries which they previously sustained.

When she was Leader of the Opposition the Prime Minister visited Birmingham. She told the people of the west midlands at that time that unemployment was not inevitable. She insisted that job losses could be halted, that there was a cure for unemployment and that she had the medicine. That was in the election campaign of 1979. Since then whole industries have been destroyed and firms that were household names have gone out of existence. Yet there is a skill shortage, especially in engineering. A recent joint report by the CBI and MSC revealed that one in seven firms in the region has to restrict its production because it cannot recruit key workers. Some 71 per cent. of firms surveyed said that they had been short of engineers for over a year.

We are suffering from policies which have led to a reduction from 28,000 to 9,000 in the intake of apprentices into general engineering since 1979. That is a massive loss and I look forward to the Minister telling us how it can be made good. In the manufacturing sector alone more than 280,000 jobs have disappeared in the region and over 24,000 people in my borough of Sandwell have lost their livelihoods under this Administration.

Mr. David Winnick (Walsall, North): Will my hon. Friend give way?

Miss Boothroyd: I ought to make it clear that I do not intend to give way to any hon. Member. Too much time has already been taken up in this debate by interventions.

The Prime Minister's medicine is killing the patient.

Along with the dereliction of industry, we have also suffered an attack by the Government on public services such as transport, social services and housing — an attack on every essential of the life of the community. At a time when the demands on all those agencies is increasing because of job loss and industrial decay, money and resources for renewal to sustain the social structure have not been forthcoming.

The National Economic Development Council has warned that the infrastructure in the older industrial areas has been allowed to deteriorate so badly that there is a critical need for repair and renewal. That report argued for major increases in expenditure on roads, sewers, housing, schools and hospitals. That is not news to the Opposition because we have been arguing that case for a long time. I

should like to give a couple of examples from my area because nowhere are jobs and houses more crucially needed than in the west midlands.

We have 288,000 privately owned houses in need of urgent improvement. We have some 165,000 council houses with serious defects and 110,000 families on council waiting lists. Despite the fact that some 6,000 people are on the council waiting list for homes in my borough, the housing investment programme allocation for Sandwell has been massively reduced in the last seven years from £35 million to £12 million. Since the Prime Minister came to office, my borough has lost in real terms a massive £163 million in rate support grant. That loss is equivalent to £535 for every man, woman and child in the borough.

A letter from the Builders Merchants Federation expresses concern over the condition of the nation's housing stock. Perhaps other hon. Members have received the same letter. The federation says:

"We feel it important to remind the Government of the difference between spending money for the sake of it and spending on investment".

The letter goes on to say that around £2 billion a year is needed for refurbishment and renewal and that a long-term political and financial commitment to construction would have a minimal effect on imports and a beneficial effect on unemployment. Such a commitment would undoubtedly benefit the west midlands but it does not seem to be forthcoming. If we turn to the water industry in that region and the infrastructure there, the Severn-Trent water authority has 22,000 miles of sewer tunnels, all of them over 60 years old and much of it over 100 years old. The authority estimates that it will cost something like £10 million annually over 10 years to cope with actual urgent work to repair that infrastructure. This represents huge assets which are essential to support the industrial and social structure of that area. The number of complaints to the water authority about dirty water is evidence of the need to refurbish the water mains at an estimated cost of around £40 million. Yet the work is just not getting done because we are allowed to spend only half the money that we had 10 years ago for this type of renewal.

Anybody with common sense knows that the longer we delay tackling these jobs, the more it will cost disproportionately in financial and human terms. It does not seem to me that this Government understand about putting jobs and people together. That very revealing document submitted to the European Commission by the Government clearly showed that there are no plans to make any reduction in unemployment between now and 1990. For the west midlands the Government predict an increase in the working population and a fall in the number of jobs available. The document says:

"Continuing restraints on public expenditure . . . curtail the resources which central, local and public sector authorities have available to undertake development programmes or take advantage of significant infrastructure development opportunities. This in turn limits employment arising from construction programmes and major capital projects".

What an appalling admission that is. The Government know that the most effective way of getting people back to work is through public works programmes but the people of the west midlands can expect no such commitment from the Tory party.

Midlanders are decent people. They are men and women with families who seek the same comforts and

[Miss Boothroyd]

opportunities as all of us. They want to work, but when a job vacancy occurs 50 people chase after it. That is the reality of the great divide.

Of course the west midlands, like the rest of our devastated regions, has pockets of prosperity. The Minister, winding up, will no doubt refer to them. I tell him simply—if anything grows in the west midlands it grows not because of this Government, but despite them. In the west midlands, as throughout the country, there are pockets where business, organisations, communities and people, work to make things grow through the dustbowl of Thatcherism. Soon they will have a Labour Government working with them instead of a Government working against them.

In 1945 Clement Attlee described the mission of the Labour party as

“proving that socialism and common sense coincide more than our critics understand”.

That definition has an irresistible appeal today.

We know that it is common sense to put homes into good repair and not wait until they collapse. The Prime Minister prides herself on being a prudent housewife. No prudent housewife keeps her money under the bed when the roof is leaking. We know it is common sense to invest Britain's money in British manufacturing. The Prime Minister believes it more sensible to invest overseas to help foreign manufacturers compete against us. We know it is common sense to train a highly skilled labour force to compete with our overseas competitors. The Prime Minister believes it sensible to run down apprenticeships and starve industry of skilled labour.

We know it is common sense to make sure that mergers and takeovers are judged against the nation's interests. The Prime Minister seeks to let vital firms be tossed about like chips in a casino. We know it is common sense to provide health care for our people, to act against the causes of ill-health and disease. The Prime Minister thinks it more prudent not to meet urgent need and to keep people waiting for treatment. We know that it is common sense to use money to put people back to work. The Prime Minister believes it more sensible to borrow money to keep people out of work.

In every area of our national life policies of common sense can be applied. They are policies which work and will unite our country. They will heal the nation's wounds and bring the family of Britain together again.

7.25 pm

Mr. Michael Heseltine (Henley): As I listened to the Chancellor describing the achievements of this Government in gaining control over the economy, the one overwhelming thought that occurred to me is that it would have been very surprising if the record of a Tory Administration did not greatly exceed that of the preceding Labour Government. The debate in a sense, from their point of view, has an artificial ring about it because we are not dealing with problems that have emerged under this Government; we are not dealing with a change in the emphasis of our society or in our attitudes towards our industries that have suddenly sprung up. The problems we are dealing with—major shifts between one sector of the economy and another and one part of our country and another—are deep-seated and long-term.

I have no doubt whatsoever that my right hon. Friend the Chancellor of the Exchequer and his predecessor, the present Home Secretary, are owed an immense debt by the party to which they belong and by the country for the fact that they have fought valiantly to bring about a reduction in inflation, a recreation of incentives, and to inject into British industry a quality of productivity that has long since escaped us.

That is not the issue of the debate. The issue of this debate is what are we going to do with the growth which the Government have achieved and how is it to be spread through one region of this country as opposed to another. As the issues become more acute, as the problems which will face our economy increase, as gradually the benefits of North sea oil diminish, as gradually the ability of the Government to realise assets, reduces, and as the trade balance becomes more acute, then these issues and the balance within society will become that much more acute.

The shorthand of the “north-south divide” in a sense glosses over the realities of the situation. If one looks at the very large parts of the north of this country one sees areas of extreme environmental attractiveness and companies which are winning in the world arena. It is by no means irrelevant to this debate that one of the background judgments which the country has had to exercise is whether a quite excellent company called Pilkington should actually be merged with a midland-based company. The fact is that both of them are situated in the midlands or the north. Nobody denies that both BTR and Pilkington, each in its own way, are excellent. So to suggest that there is no excellence in the north or the midlands, when two of the companies at the heart of our debate are both excellent, is grossly to miss the point.

There is a substantial area of quality, both environmental and industrial, in the midlands and the north. If one wants to see the most significant area of urban reclamation it is not to be seen in the east end of London but in the east end of Glasgow. Glasgow is rebuilding itself on a mixture of public enthusiasm and the ingenuity of a capitalist system in a way that 10 years ago would have seemed inconceivable to those who knew Glasgow well.

Mr. John Smith: It is a public sector initiative.

Mr. Heseltine: I said public enthusiasm. Let me in no way try to run from the fact that a Labour-controlled local authority has had the vision to see the opportunities of partnership with capitalism. Before the right hon. and learned Gentleman makes capital out of that, let him consider the alternatives. What has been done by Labour local authorities, which reject capitalism as though it was a plague? The very point that the right hon. and learned Gentleman makes is the essence of the case. If only the Labour party in its totality of the north would recognise the need to embrace capitalism, we would not have the problems there that we have today.

Mr. John Smith *rose*—

Mr. Heseltine: The right hon. and learned Gentleman will have the last word when he replies to the debate.

Mr. John Smith *rose*—

Mr. Heseltine: All right, if the right hon. and learned Gentleman insists.

Mr. John Smith: Yes, I do insist. The right hon. Gentleman knows perfectly well, if he has studied the

GEAR project, that by far the greatest amount of expenditure has come from the public sector. It can far better be described as a public venture than some form of capitalism. Will he also take the opportunity to criticise a Government who prevent so many local authorities from taking initiatives like that in their areas?

Mr. Heseltine: As the Minister at the time responsible for imposing upon east end of London boroughs the need to recognise capitalism. I shall take no lesson from the right hon. and learned Gentleman in how to co-operate with Labour authorities. Let me say it if the right hon. and learned Member wants it; if Labour in local government would recognise the constitutional position of local government and co-operate with central Government, who have a superior mandate, we would have a far healthier climate in the regions.

On the other side of the equation which points to the dilemmas of the north has to be weighed the equal dilemmas to be seen in the most acute areas of poverty close to central London and, of course, the long-seated structural disability to be found in the far south-west. So we are not talking about a north-south divide but about a balance where relative prosperity in many parts of the south and southern-eastern areas is to be starkly contrasted with increasingly relatively under-privileged areas, particularly in the urban and more remote parts of the country.

The explanations for these things are complex. There have been without doubt long-term changes to which many right hon. and hon. Members have referred. It is obvious that if there is a broad concentration of manufacturing industry in the older towns and cities, a shift to service industry will upset the patterns of employment and prosperity. Equally, if the transport revolution, the house and property-owning democracy revolution and the destruction of the grammar schools all impose upon urban areas a lack of choice and a lack of quality, then those who have the strength to move will move. They will move to the suburbs and many of them will move to the south. If, over 30 or 40 years, there is a climate in which the tax system is orientated towards the destruction of family businesses and to the enhancement of institutional wealth, it is no surprise that increasing proportions of the power of the country become centralised in the City of London.

So great market forces and great changes, many of them beyond the control of the country, there have been, but the problem is that Governments of all parties have reinforced those market forces to a scale that I believe has been little perceived. I want to give just three examples. Mortgage tax relief has fuelled, rightly, the property-owning democracy. But a consequence of the incentives to the property-owning democracy has been to give to the insurance companies, which cover the mortgages encouraged by the incentives, a vast flow of the savings of the nation. Those savings were invested broadly from a southern-orientated position. That is a £5 billion subsidy within the gift of the Chancellor of the Exchequer.

Pension funds pay no tax on their income. The revenue forgone by the nation is £3.5 billion a year. The consequence is to take the savings of the companies that generate the wealth out of those companies and to institutionalise them remotely at a cost of £3.5 billion a year.

If someone has a small or a medium-sized family business there is hanging over him, and has been for most of the half century, the knowledge that it is a one-generation business. He cannot pass it on. If he wants to sell it locally, the local community will almost certainly pay cash as opposed to the tax deferred shares which he can get from the publicly owned companies. The publicly owned companies are again subjected to the disciplines of the institutional wealth of the City of London. My right hon. Friend has made a significant shift in the prospects for family owned businesses. I admire and praise that, but he has not gone all the way to remove the disincentives to the local transfer of power. He still permits the concentration of power which comes when a family business has to judge whether to take cash, most likely local, or whether to take shares with tax deferral.

All those incentives add up to almost £10,000 million a year, driving the market as opposed simply to reacting to the market. Over a period of decades under all Governments, that has been the centralising process that has led to the point where people criticise the accumulation of wealth in the City of London.

Against that annual incentive there is a total regional policy of £600 million, most of which is concentrated at the extremes of the regions. Basically, there is perhaps under £200 million of what could effectively be called regional policy in England as opposed to the best part of £10 billion which is drawing the forces south. Those are the issues underlying the north-south divide.

All other capitalist economies with which we have to compete have similar problems—the drift to the south, the institutionalisation, the scale of modern money markets. But all of them in some way, though different in every way, have dispersed power and perpetuated the dispersal of power within their political system. The Americans and the Germans have federal systems of powerful elected governors, state banks and major corporations based in local economies. Those are all there to fight the corner of the particular area.

In Germany, as everyone knows, they have far less institutional wealth. The banks stay much closer to the companies. The lander have a basis of strength for the local politicians who lead them and who are national figures in their own right. The two-tier boards make it difficult for any multinational or remote company to exert an overbearing influence.

In France, as everyone knows, there is a much closer relationship between the provinces and central Government simply because many Cabinet Ministers are mayors of the local communities that they represent.

In Japan there is the central thrust of the MITI organisation, co-ordinating the strength of the ruthlessly efficient capitalist economy. So there is in all other capitalist economies much the same problem but also an identification of it and a determination to try to counter and balance it. What do we in this country face by way of alternatives? There are things that the Government can and should do, and which a Tory Government ought to do because only a Tory Government effectively recognise the need and could do them.

We should recognise the strength of the Secretaries of State for Northern Ireland, for Wales and for Scotland, who have a regional responsibility as opposed to a narrow functional responsibility. There is a relatively simple way of doing that. Instead of each Minister who has a responsibility for a functional part of Government

[*Mr. Heseltine*]

representing only that aspect of Government, there would be little difficulty in associating each of those Ministers with a different part of the country, so that instead of having to go to an area to explain whether the transport, local government, housing or Home Office policies were right or wrong, the Minister would have to explain the totality of Government policy and would, therefore, be more aware of it.

Civil servants should be moved across the framework of Whitehall because at present they are orientated towards their departmental ethos. They are employed to brief Ministers to win for that Department, rather than to extend a Government policy more coherently.

I believe that it is necessary to neutralise those incentives that are having a significant effect in moving the forces of wealth creation to a central and remote control. In almost every policy, the Government's thrust, and the success of their thrust, is to push power further from the centre, for example, the sale of council houses and the start of the small industrial start-up schemes with all the incentives that they involve. When the education system has problems, we talk about giving teachers, head teachers and parents much more influence in the schools. However, we are still encouraging, with vast subsidies, the concentration of the major influences on wealth creation in the City of London. The incentives that are doing that should, at least, be neutralised.

I have no doubt that we must recognise the CBI's demands for an industrial strategy. Competition is of fundamental importance if one is to survive in a capitalist world. However, the nations with which we must compete do not rely wholly on a policy of competition. They are much more interested in balancing the excellence of competition with the strength of a coherent national endeavour to win.

One of the problems that we have inherited is the overbearing attitude of the Treasury, which dominates the climate of decision making. The public expenditure round sets the tone for policy-making in Whitehall and all else flows from that. That is not compatible with an industrial climate in which companies are trying to take long-term decisions about complex markets and investment for perhaps 10 years, as opposed to a relatively short period.

Therefore, it is necessary that a far more powerful Department of Trade and Industry should balance and counter the influence of the Treasury. The Pilkington case, which happily has now been resolved, would not have happened if this country had a clear understanding of the requirements of a long-term industrial strategy. The best solution would be for the institutional owners of wealth to organise themselves so that they could have a dialogue with the management of their companies and so that the managers who were committing themselves to long-term programmes knew that they had a certain degree of security from their owners. If managers do not get that security, they will invest for the short term, maximise the cash content of their companies and take attitudes towards training, research and development which will minimise their contributions in those areas. No other capitalist economy with which we compete behaves in that way. One way or another, all those economies are mobilising the resources of Government to back their capitalist systems and to give a degree of confidence to their managers to make them feel better able to make long-term investments.

The Government's record of innovation in city reclamation and the rebuilding of our cities is unlike that of that any other Government in recent times. We have proved that we know how to bring back life to the city centres. It has been done most conspicuously in the east end of Glasgow, but the Government have also pioneered various inner-city initiatives in the east end of London. The money that we are putting into that is trivial in the context of the needs and priorities of those areas which are relatively less prosperous.

There is no case for Scotland and Wales to have Scottish and Welsh development authorities when there is not exactly the same determination and co-ordination in England. It should be a first priority for the Government to establish an English development agency to co-ordinate the administration of the urban policies of the Department of the Environment, and to do so in a climate that fuses together the strength of the public and the private sectors. The instrument of that agency should be an urban development corporation for large-scale activity. Where the quality of local government is inimical to partnership with the capitalist system a range of other instruments have been pioneered, for example, the private sector trusts, such as those in Thamesmead or Stockbridge which deal with smaller areas of activity. However, the Government have proved that it can be done and I can see no reason why we should not build on that on a huge scale.

It is of paramount importance that that should be done by this Government because anybody who has looked at the alternative policies confronting the country will realise that those policies can bring about only a deterioration, not an improvement. When one listens to Opposition Members talking about a climate in which they will tax until the pips squeak, they are really talking about the destruction of individual entrepreneurial activity and the break-up of family businesses—the very things that they now come here to discuss and to which they would return, if they were returned to power.

When Opposition Members discuss repealing the Employment Acts introduced by the Government, they are talking about returning to the trade unions—that unique combination of anarchy and restrictive practices—precisely the power to undermine the country, which they used so successfully for so long. Hon. Members talk about more power for local government, but anyone who has perceived what local government in the hands of the Labour party has done to alienate anyone who has the choice to leave our cities will realise what the future offers. All this pushes on to the Conservative party an added responsibility not to innovate in a way that we have refused to do, or to go back on anything that we have previously said, but simply to do on a bigger scale and with greater conviction the things that we have already proved work.

7.45 pm

Mr. Robert Parry (Liverpool, Riverside): Mr. Deputy Speaker, I am glad to have caught your eye in this important debate on the Government's economic policy and its effect on the regions and on the division of wealth between the north and the south. Bearing in mind Mr. Speaker's request, I shall do my best to be brief so that my hon. Friends, particularly those from the north, can participate and make their contributions.

I support the general thrust of the Opposition motion and the arguments put forward by my right hon. and hon.

Friends on the Front Bench in their attack on our divided nation. That divide has been caused by the Government's deliberate policies since 1979.

I shall speak mainly on the effects on the city of Liverpool. The widening gap between north and south is made clear by irrefutable statistics which show the poverty and deprivation that are causing increasing difficulties in the inner urban areas of our major cities and regions. The city planning officer of the city of Liverpool has recently reported on the budget options to be considered by the city council which faces a £40 million shortfall. I am grateful to Mr. Hayes for the information that he has provided. Since 1979 more than 100,000 jobs have disappeared on Merseyside. That figure represents the population of a small town. Liverpool has felt the brunt of the job losses. Between 1979 and 1984 Liverpool lost 65,000 jobs, which is a decline of 22 per cent., and that is still increasing. About 40 per cent. of those jobs were in the manufacturing industries, where employment is down by 46 per cent. About 19 per cent. of all blue collar service jobs have been lost as a result of major closures by multi-national companies in Liverpool, for example, the sugar company Tate and Lyle, the brewing company of Whitbread, the tobacco industry at British American Tobacco, and the confectionary industries of United Biscuits and Lyons Maid, and the sweets and chocolate firms of Barker and Dobson and Tavener Rutledge. The Government would not intervene to save one of the thousands of jobs that were lost.

The public sector has become increasingly important in the local economy. Despite a reduction in public jobs between 1978 and 1984, those jobs increased as a proportion of all jobs from 31 per cent. to 35 per cent. The city council is the largest employer in the city with 32,000 employees, or 14 per cent. of all jobs in 1984.

In spite of the importance of the public sector and the city council in maintaining jobs, and the battle between the council and the Government to provide jobs and services, the councillors are now facing disqualification and bankruptcy and they are appealing to the House of Lords next week. I hope that they will get more sympathy and justice in the other place than they have received from the Government in this House.

My constituency has the highest level of unemployment on the British mainland—more than 35 per cent. right across the board. In some areas the figure is 55 per cent. to 60 per cent. Those figures are morally indefensible. Long-term unemployment is a curse and we need positive Government action to put it right.

It is a fact that urban decline is more severe in Liverpool than in any other British or European city. Population decline with the loss of rate support grant is another major factor in the economic decline of our cities. In common with other cities, Liverpool continued to lose population heavily between the 1970s and 1981. Since 1981 the rate of loss has fallen from 9,000 a year to 6,500 a year, but that rate remains significantly higher than that in other conurbation core cities.

The selective loss of younger more skilled workers is continuing. Many youngsters who are in despair of ever finding a job have taken the advice of the chairman of the Tory party, got on their bikes and left their families to find work and regain their pride. With the loss of traditional jobs in port cities, such as in shipbuilding, ship repairs and

heavy engineering, skilled and semi-skilled workers have left, leaving an ageing unskilled labour force looking for the few jobs that remain to be found.

The number of households has not declined, so an increasing number of one person and pensioner households have been left. The social characteristics of the population must also be considered. The proportion of the employed population in Liverpool decreased from 42 per cent. to 34 per cent. between the 1970s and 1985, leading to a more dependent population on those fortunate enough still to have work. The unemployed, the sick and pensioners accounted for 33 per cent. of the population in 1985, compared with 19.3 per cent. in the 1970s.

The EEC survey puts Riverside as having the highest unemployment in Europe. Given that low incomes are the main cause of deprivation, several groups are at risk, including the unemployed. More than 30 per cent. of the male unemployed and 25 per cent. of the total work force are on the scrap heap. The highest rates of unemployment are among the young with a rate of 44.5 per cent. for 16 to 19-year-olds. That is an appalling waste of our youth resources.

I shall now turn to those dependent on state benefits. In 1985, 76,000 people in Liverpool received supplementary benefit and 94,850 received housing benefit. Both figures have increased since then. Particularly vulnerable groups, such as the over 75s and the sick and disabled, are increasing. It is estimated that a third of all full-time and three quarters of all part-time workers on Merseyside earn low wages. That is why my trade union, the Transport and General Workers' Union, has campaigned for a minimum living wage.

The position of children in low income households is illustrated by the fact that more than 50 per cent. of all school children now receive free school meals. That is a disgraceful figure and I hope that the Secretary of State will take note of it. The lowest income households are concentrated in inner-city areas and the highest income households in the owner-occupied, plush areas of south Liverpool. People living in inner-city areas have low levels of skills and car ownership and the areas receive a high education award. But there is a high level of unemployment, with children receiving free school meals and sickness. Following bus deregulation the poor have greater trouble in visiting relatives and hospitals than previously.

I shall deal briefly with the Newcastle upon Tyne social audit which was carried out in 1985. Newcastle has many similar problems to those of Liverpool. The audit examined the impact of Government policies on the city's residents within the national context of unemployment increasing two and a half times, a 10 per cent. overspending in public expenditure, half of which was due to increased social security benefits, and increases in essentials, such as fuel and rent by twice the level of inflation.

It was estimated that in Newcastle Government policies between 1979 and 1984 led to a reduction of £70 million in disposable income—that is, £700 for every household. That figure can be multiplied to show the total reduction for all our major cities. The audit concluded that the quality of life declined significantly and it examined two particular factors—the reduction in the provision of public services and the quality of public-sector housing.

Liverpool city councillors have been trying to improve our housing stock by the demolition of pre-war slums and

[Mr. Robert Parry]

rat-infested multi-storey blocks of flats and by replacing them with new houses with gardens back and front. They are being crucified for doing so.

Finally, the audit identified the impact of unemployment. That was particularly marked in certain areas and groups, such as young people. The audit concluded that unemployment had serious effects on health, family life and crime. In Liverpool I know of the breakdown of marriages, of people having physical and mental breakdowns and of the increase in hard drug taking and petty crime, particularly among long-term, unemployed youth. One of the gravest problems of inner-city areas is the horrendous level of unemployment among young black people, but the Government continue to ignore that.

When the Paymaster General replies, I hope that he will not play us the same old record of how much the Government have already given in grants to the regions. I hope that he will address himself to the effect of long-term unemployment, deprivation and poverty in our regions and cities which is an affront to the pride and dignity of the poorest in our society. Since 1979, the Government have never made unemployment a serious issue. Can we hope for a change of direction? The right hon. Member for Chingford (Mr. Tebbit) is alleged to have stated that nobody with a conscience could vote Tory. Given the Government's disastrous record and their attitude to the poor, for once I am completely in agreement with him.

7.55 pm

Sir William Clark (Croydon, South): The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) seemed full of bluster but short on policy when he opened the debate. I would have thought that it would have been better if the Labour party had not selected the economy for debate. Labour Members postponed it last week, probably because they had cold feet as my right hon. Friend the Chancellor of the Exchequer suggested. I suppose that they attack the economy in order to play down their lack of a defence policy.

The Opposition have a cool cheek to attack the economy, considering their record. It is irresponsible for any Opposition Front Bench spokesman to talk down the British economy; I shall return to the gloom and doom of a balance of payments crisis around the corner, of which the right hon. Gentleman spoke. Their remedy is to tax initiative—we saw them do that when they were in office—and to borrow more. I remind Opposition Members that it is easy to borrow and spend, but difficult to repay. Considering that it costs between £17 billion and £18 billion to pay the interest on the national debt, it would be gross folly to increase it by any more than it is being increased at present.

Another plank of Labour policy is centralisation. Labour Members want to centralise control in local authorities and to tell local authorities to employ more people. They do not tell us what productivity figure we shall achieve from that. Any Government can cure unemployment by employing people in non-jobs and that is no doubt precisely what local authorities will do under a Labour Government. As my right hon. Friend the Member for Henley (Mr. Heseltine) said, that will return more authority to the trade union movement—we all saw what happened there—and centralise power in

Whitehall. We have been through all that before and seen the folly of it, yet the Labour party tells us the same old story.

We have heard a great deal about the divided nation. We should bear in mind that the trade union movement has a certain responsibility for some of our industries in the north. I remind hon. Members—they will probably remember—of the month-long strike in the shipbuilding industry caused by a demarcation dispute whether a wood or metal worker should put a rivet through a piece of metal and wood. It is small wonder that we lost orders.

Mr. Eric S. Heffer (Liverpool, Walton): Will the hon. Gentleman give way?

Sir William Clark: No, I will not give way. We do not have much time and I have promised to be brief.

Mr. Heffer: All that happened 35 years ago.

Sir William Clark: The demarcation disputes caused us to lose orders. Indeed, it is small wonder that we lost orders. How could we possibly retain our competitive position if we were arguing over such stupid frivolities?

The right hon. Member for Sparkbrook made much play about manufacturing industries. I am sure that the hon. Member for Liverpool, Walton, (Mr. Heffer) will have considered the figures with avid interest. If we consider the record on visible trade—not invisibles—which includes manufacturing, for the last four years of the previous Labour Government, we discover that there was an overall deficit on the balance of payments of almost £4,000 million compared with what has happened since 1979.

Since 1979, visible trade has shown a deficit for four years and a surplus for three, with an overall deficit of almost £4 billion. However, if we take invisibles into account, the overall surplus is about £20 billion to £21 billion. Consequently, to some extent when the right hon. Member for Sparkbrook says that there will be a crisis in balance of payments this year he is correct. There will be a deficit of about £1 billion to £1.5 billion. However, that is no reason to claim that the economy is bust and that it is all gloom and doom.

Consumer credit has been criticised. What would the Opposition do with consumer credit? The Government are not spending the money, the public are. Do the Opposition mean that the public must not spend money? Should we increase interest rates? If the hon. Member for Stockton, South (Mr. Wigglesworth) wants to criticise consumer spending, he should consider the bad debt record on the so-called plastic money. That record is extremely low—about 1 per cent. If the hon. Gentleman compares that with the debt in America, he will see that our spending nowhere approaches that in America.

Perhaps we will hear later how the Opposition would control consumer spending. Would they increase interest rates? Or would they tell the banks not to lend money and stop people spending their own money?

Great play has been made of taxes. I believe the late Iain Macleod once said that Labour increases taxes and the Conservatives reduce taxes. That is as true today as it was then. As my right hon. Friend the Chancellor of the Exchequer reminded us, the Government have reduced the standard rate of tax from 33p in the pound to 29p. There may be a further reduction on 17 March—who knows?

The Government's record with regard to the lower paid is very good. The starting rate of tax threshold has been increased by about 22 per cent. in real terms.

If my right hon. Friend the Chancellor has any adjustment or alleviation of tax in view, I hope that he will concentrate on thresholds in preference to the standard rate. We must remember that a married man starts to pay tax at the standard rate when he earns £70 a week and a single person after he has earned £45 a week. When we consider that the national average wage is about £190 a week, the priority should be on thresholds. If my right hon. Friend can accommodate both, all well and good, but I am convinced that he should concentrate on thresholds.

The Opposition have referred to reduction in taxation and claim that it should be spent on investment. Opposition Members must remember that some £25 billion is allocated for capital expenditure this year. Therefore, it is wrong of the Opposition to give the impression that the Government are not spending money on capital investment. It is also wrong for the Opposition to claim that the Government are trying to bribe the electorate because this is an election year. If that is the case, we have been bribing the electorate since 1979, as we have reduced taxes in successive Budgets since then.

Mr. Rogers: Will the hon. Gentleman give way?

Sir William Clark: I will not give way. However, I believe that I know what the hon. Gentleman wants to ask. The threshold has been increased 22 per cent. above inflation each year that we have reduced taxation.

The Labour party is threatening the taxpayer with increased taxation. If my right hon. Friend the Chancellor reduces the standard rate of tax by 2p or increases thresholds by 10 per cent. or whatever, will a Labour Government—if by mischance a Labour Government were elected—make a cancellation or reduction retrospective? The taxpayer is entitled to know the answer to that.

We have also heard an accusation about oil. When I tackled the right hon. Member for Sparkbrook about the difference in the balance of payments deficits that existed when the previous Labour Government were in power and that under this Conservative Government, he claimed that the difference was due to oil. However, he did not say that the total revenue that this Government have had from oil over the past six or seven years is about £60 billion. Our overseas assets have increased from £20 billion in 1979, to £95 billion today. That will obviously help our invisibles and our export potential.

As my right hon. Friend the Chancellor reminded the House, 1 million new jobs have been created since 1983. I know that that good news does not please the Labour Opposition and they always try to play that fact down, but having weathered a recession, that should be welcomed on both sides of the House.

The Labour party plans to let local authorities have more say in employment. The recent National Audit Commission report about local government expenditure was very interesting. The voter need only consider Brent and Haringey to discover what the Labour party will do if it comes to office.

It is impertinent of the Opposition to criticise the economic performance of this Government. Since 1979, we have come through a recession that was much deeper than most people had thought. Output and exports are up.

Investments are up. Unemployment is on the way down. Our borrowing is down and that is extremely important. Taxes and inflation are down and the standard of living for every man, woman and child is higher today than it has ever been. In addition, we must remember that the Government have repaid half of the debt that the Labour Government incurred from the IMF.

The Conservative Government have created not only 62 per cent. owner-occupation but, following on from the point made by my right hon. Friend the Member for Henley (Mr. Heseltine) about institutions, they have reversed the trend in the increase of wider share ownership. When the Government came to power, it was thought that there were about 3 million small shareholders. Today, with British Gas and British Telecom, there are more than 7 million small shareholders. That gives the shareholder, the voter, the ordinary man in the street, far more independence. I believe that it is much better to give the citizen more independence by allowing him to buy his council house and to encourage him to buy shares. I am convinced that that can only be achieved under a Conservative Government. It would be a disaster for the small man if there were ever to be a Chancellor of the Exchequer in a Labour Government.

8.8 pm

Mr. Jim Craigen (Glasgow, Maryhill): The Treasury Bench must always find comfort in the contributions from the hon. Member for Croydon, South (Sir W. Clark). If the north-south divide is the subject of today's debate, the Chancellor of the Exchequer certainly gave it a by-pass operation in his remarks.

Economic policy is now geared more to the election than to the longer term considerations of the country's economy. Frankly, I wonder what the past eight years of economic and fiscal policy have been about. The Chancellor can chide my right hon. Friend the Member for Birmingham, Sparkbrook (Mr. Hattersley) as much as he likes, but the Chancellor's November statement gave relaxation to the brakes that he was so insistent should be placed on public expenditure.

I listened to the right hon. Member for Henley (Mr. Heseltine) talk about regional policy. It was interesting that he mentioned the success of the Glasgow Eastern Area Renewal Project. The Government have pulled the plug on that project, as my hon. Friend the Member for Glasgow, Shettleston (Mr. Marshall) angrily had to point out when the decision was made to end it.

There is no doubt that the points made earlier by the right hon. Member for old Bexley and Sidcup (Mr. Heath) reflected the difficulties that have operated over the post-war years in respect of regional policy. However, the tide is now running out for the north of Britain in the operation of regional policy. So many of the in-built advantages of post-war regional policy have been eroded or dismantled. Apart from the pushes that the Macmillan and Heath Administrations gave, the great impetus for regional policy since the war has always come from a Labour Government.

I was interested to hear the right hon. Member for Henley extol the virtues of the Scottish Development Agency. It was the previous Labour Government who introduced that agency and the Welsh Development Agency. The Scottish economic picture would be infinitely worse had it not been for the contribution that the agency

[Mr. Jim Craigen]

has made, in spite of the fact that there has been a curtailment in its resources and the impetus that it has been able to bring.

I have never ceased to be surprised by the number of businessmen who come to me as a constituency member looking for support from public funds. I take the simplistic view that if it is jobs for my area then I am for it. I do not think that many building firms would willingly ignore the possibility of public contracts any more than a civil engineering company would not want to bid for any public project. Retailers will say that they want to see more people in employment so that there is greater purchasing power which will assist the economy and business.

If we are talking about the drift that has taken place from the north to the south, the sooner the Government get their act together the better. The real need is for the removal vans to be busier in the London area and for more Government offices to be dispersed to other parts of the United Kingdom so that the people involved in the decision-making will be working in different parts of the country. The United Kingdom seems to have a far greater percentage of corporate headquarters located in its capital than almost any other country. Therefore, there is a need to persuade many of the companies that they should be located in Manchester, Newcastle, Birmingham, Glasgow, Edinburgh, Dundee, Aberdeen or Cardiff. There is no reason for the concentration in the metropolis. That would have a beneficial effect. It would force an increase in the standard of living in many of those parts of the country if some of the top civil servants and company directors were living and working in those areas they would make sure that the housing, environment, schools, shopping facilities and the arts were all much better and much richer.

It used to be said that the Tories represented industry and commerce. Nowadays I think that they are far more influenced by the financiers who are concerned only with getting rich quick and flattered by some right-wing academics who have never done a hand's turn on the shop floor but can write a book about how British industry should be operated.

There is no point quoting unemployment figures, because the only quotations that the Treasury Ministers are concerned with are those from the stock exchange. It might have more effect if I were to quote such figures. In any case, we have had some 19 changes in the method by which the unemployment is calculated so that nobody really needs take it as seriously as they once did. However, the proportion of people in the hopeless position of being long-term unemployed is the most significant and worrying aspect of the unemployment problem.

We have heard today about the withdrawal of the BTR bid for Pilkingtons. Last week we seemed to be facing a worrying situation with the Barr and Stroud company in Glasgow which employs over 2,500 people. There was a concentration of research and development that would have easily been dispersed in favour of short-term profit. Eating the seed corn of tomorrow's investment for today's profit is seen in many other parts of the United Kingdom. A blood bath has taken place in Scotland in terms of Bell's Whisky and Distillers and Guinness has not come up to Scotland to locate its headquarters as promised. I speculate that perhaps the next merger will be Argyll and Guinness in order to avoid hefty legal suits.

The Chancellor talked about Edinburgh as an important financial centre, second only to London. It is a small second fiddle when it comes to some of the key decisions that have to be taken. Some of the people who are doing best in our society at present are advertisers, stockbrokers and company lawyers. They are all doing well out of the boom in mergers. We should not kid ourselves that it is all about improving competition and increasing the flow of benefits for the consumer because some of us are long enough in the tooth to know that it is nothing of the kind.

This new year Scotland has had a cruel Ne'er-day. There was the announcement about Caterpillar. We know that United States investment has been a sizeable segment of investment in manufacturing jobs in post-war Scotland. It is all too easy to write off the significance of manufacturing and to overplay the importance of the service sector. They are both important and the sooner we recognise the interplay of the two the better. Any advanced economy needs a good and strong manufacturing sector as well as a buoyant service sector.

The only growth industry we seem to have at Westminster is nostalgia. Even the Prime Minister keeps referring to the previous Labour Government. That was eight years ago. There are millions of young people who will vote for the first time in the next election. There are many young people who voted in the previous election but who did not remember too much about a Labour Government. I just make the political point that we are living too much in terms of past considerations. [Interruption.] I digress but if I were to take a walk down memory lane I could be every bit as selective as the Prime Minister.

In my area, unemployment has doubled and almost trebled. Many old age pensioners find that, in real terms, their pensions are worth less. Prospects for young people are infinitely more depressing in terms of real jobs, as the Prime Minister would say. Youth training schemes have not had the long-term success that some employment Ministers seem to have envisaged. Many training professionals realise that, in many ways, when one tries to generalise training, one loses out on the specific skills—high skills. Already there are signs of skill shortages. There is little evidence that the Government are doing a great deal to combat these shortages.

Benjamin Disraeli might be amused at the frequency with which his words, "Two nations", have entered the currency of today's language. Of course, he was talking about rich and poor rather than about north and south. The singular point that he made was that one set of people did not understand, far less comprehend, the values of the other set of people. It was evident, listening to the right hon. Gentleman, that the Chancellor, whatever he comprehends south of Blaby, certainly does not know much about what is going on in the northern parts or even the western parts of the kingdom.

The problem facing the country is not entirely an economic one. It is bound up with our political and social attitudes. It is evident that, with the loss of common identity that we have experienced during the period of this Conservative Government, there is no willingness to look beyond the immediate returns of the ballot box. The Government say, "If they do not vote for us, we are not interested in them." We require a new political willingness on the part of Government to accept their responsibilities. They have manifestly failed to do that.

8.22 pm

Mr. Leon Brittan (Richmond, Yorks): I do not for one moment accept the criticisms made by the hon. Member for Glasgow, Maryhill (Mr. Craigen) about the attitudes of Conservative Members.

As one who has always represented a constituency in the north of England, I shall focus on the regional aspects of the debate. Indeed, as Secretary of State for Trade and Industry, I said to the Conservative party conference in 1985 that I regarded the vast gulf between the different parts of the country as being the greatest social and economic problem that faced us as a nation. I went on to say that because regional industrial policy was one of the crucial instruments to bridge that gulf, we should never allow regional policy to become the Cinderella of industrial policy. I shall suggest some further important steps in regional policy that can and should now be taken.

Having said that, the picture presented by the Opposition has been an absolute travesty of reality. What is worse, the Opposition's policy proposals, if implemented, would make the disease far more severe. To inflate the economy by borrowing or to increase taxation on the scale that would be necessary to give effect to the Opposition's proposals would bring to a rapid halt the economic recovery and the expansion that are now taking place. As for the proposals by the alliance, although they may be wrapped up a bit more, they perhaps involve slightly less inflation in drag.

As some hon. Members have said, the divisions in the country are not only between the north and the south. That is a crude over-simplification. The divisions are between the older industrial areas and the rest. The west midlands is a good example of a part of the country that cannot be described as the north, even by shifting the map southwards, as my right hon. Friend the Member for Old Bexley and Sidcup (Mr. Heath) would have us do. It is important to understand what has happened and is happening in older industrial areas and not to accept a distorted view if we are to be able to take steps to put things right. Of course the recession involved an extremely sharp contraction in manufacturing activity and a tragically large number of job losses. Of course the assisted regions were hit worse. They were the areas in which, on the whole, old manufacturing industries existed.

Since 1981, there has been a significant increase in manufacturing output and investment. It is important that that increase has taken place in the regions as well as in the south-east. The economic growth currently taking place is substantial, impressive and soundly based. It will not collapse in an inflationary bubble, as happened with previous expansion. If regional disparities are more conspicuous now than in the past, it is not because the regions are still in decline but because the growth of development and prosperity in the rest of the country is proceeding at an even faster rate. That is the real nature of the problem that we face today, and a correct perception of it affects what we should do about it. Vital as industrial and regional policies are, in any country that does not have a Communist regime, or something approaching a Communist regime, economic rather than industrial policies most affect business men. What happens to interest rates? Where does the exchange rate stand? What are the levels and structure of taxation? What progress is made in fighting inflation? These factors most affect industrial prospects.

God help industry if those factors were to be determined by the kind of policies put forward by the Opposition. A sharp change in the exchange rate or a dramatic alteration in interest rates is likely to have far more effect on most companies than the introduction or withdrawal of some assistance scheme would have. The follies of the Opposition do not absolve us from the duty to do everything in our power to reduce the present gulf between different parts of the country. If hon. Members consider the congestion on the M25 before it was hardly open and examine the escalation of house prices in the south-east they will realise that it is quite apparent that progress towards the solution of the problem is just as important for the south-east as it is for other parts of the country. The solution is not to lure away vast numbers from the regions to swell the ranks of the south-east, even if we could find a way to do it. It would inevitably mean luring away a disproportionate number of the brightest and the best, leaving behind an increasingly pauperised population and an infrastructure that would become steadily more difficult and expensive to service.

We would be making a grave mistake if the Government thought that they could solve the problem by trying to decide which industries should thrive and which should fall, and deciding where that should take place, and then intervene on a massive scale to make it all happen. George Brown tried to do that. The ink was hardly dry on the national plan before it was hopelessly out of date. Cosmetic involvement by industrial institutions would not make such a plan likely to succeed today, as I heard hinted during the course of the debate.

My experience of politicians and civil servants does not lead me to believe that they are better able to pick the winners than those who put their own money at stake. Sometimes politicians and civil servants must make commercial judgments, but that is different from the Government seeking to design and put into place the future pattern of industry. Rather than doing that across the board, we should specifically tackle the problems of the regions both by action on the supply side and by direct regional assistance.

I do not accept the view of those who say that regional policy in the classic sense has failed. The latest study commissioned by the Department of Trade and Industry from the Cambridge department of land economy concluded that 630,000 jobs have been created over the years in assisted areas by regional policy. If we do not like the picture today—nor should we—the truth is that it would be far worse without such a policy. But it is obviously not enough.

I do not see any need for an ideological divide between those who wish to proceed along the route of regional policy in the classic sense and those who believe in supply-side action. Both are necessary. If we are candid, we must accept that we do not know with sufficient certainty what works, so it would not be wise to reject either approach. The problem is of sufficient magnitude for it to be necessary for us to accept both.

Turning to the so-called supply side, I welcome the increased interest and discussion about regional pay bargaining. I do not think that it is too much to ask those who are fortunate enough to have jobs in the assisted areas to take a lower increase in pay to let more people on the dole get jobs. The problem in the north-east, for example, is not that those in work are too poor. It is that too many people do not have a job at all.

[*Mr. Leon Brittan*]

There is much to be said on that side of the equation for urgently examining whether income tax or national insurance rates can be regionally slanted to encourage employment in the regions. In addition, I would go further with the direct assistance to the regions; here I join the hon. Member for Maryhill. I think that we should give serious consideration to a fresh programme for the dispersal of Government departments and agencies. There has already been substantial dispersal. If we are honest, it has brought problems as well as employment. If only people up to a certain grade move, the regional headquarters — they may be “headquarters” in name only — face the risk of becoming a backwater and problems of morale may be very great.

With totally new systems of communications developing rapidly, the need for top policy makers to stay in London is much less great than it was. We might well find on a fresh look that a whole new tranche of Government agencies could move out of London without any loss of efficiency. Although this step has not yet been taken, the Government have taken direct constructive action. I think that it is right to put on record the way in which regional policy has been evolving under the present Government. In recent months, there has been an announcement of new powerful urban development corporations — Trafford Park, Black Country, Tyne and Wear, Teesside and Cardiff Bay. That is a major new change.

It would be wrong to have a debate on this subject without referring to the city technology colleges. In the north-east, employers are saying that, with the upturn which has taken place, they have some jobs to give to youngsters. They regard it as a tragedy when people arrive hotfoot from school without the minimal skills of reading, writing and arithmetic which would enable them to be given the available jobs. Those colleges are part of regional policy and a major new development by the Government, but they are not the whole answer.

In many parts of the country, the problems of the regions are not just the problems of the inner cities. It would be a mistake to think that that is the case. There are parts of the regions—for example, the coalfields and the steel areas—where the problems are not in the cities but in the outlying areas. That is why I have become persuaded that a further necessary step is the creation of development agencies in some of the regions of England with a role comparable to that of the Scottish Development Agency and the Welsh Development Agency.

Mr. Peter Thurnham (Bolton, North-East): Is my right hon. and learned Friend aware of the support of north-west Members for a north-west development agency along the lines that he recommended in his excellent pamphlet “To Spur, Not to Mould”. Does my right hon. and learned Friend agree that the budget of £600,000 for the north-west’s existing agency Inward is meagre compared with the £90 million a year for the Scottish Development Agency?

Mr. Brittan: I am grateful to my hon. Friend for the support that he and many other colleagues from assisted regions have given to the ideas which I developed in that pamphlet. The argument against setting up development agencies in the regions has always been not that we do not like what such development agencies do but that there is nothing that they can do that cannot be provided by some other public body in England — the Department of

Trade and Industry, English Estates, new towns, the Manpower Services Commission, and so on. To a large extent, that is true but, as so often, it is not the whole truth. The proliferation of public bodies and departments, each with different powers and functions, is a real turn-off for industry. However much co-operation there is between them, the attractions of a one-stop shop are immense.

For all its remaining and substantial problems, Scotland has leapt ahead of several English regions. There are many reasons for that, but it is difficult to avoid concluding that the distinctively Scottish system of encouraging industrial development has played an important part. The key feature has been the SDA. Apart from the advantage of it being a one-stop shop, it has greater flexibility than the combination of institutions south of the border and east of Offa’s dyke. By being able to shift in a particular case as well as to deploy all forms of assistance, that flexibility is of great advantage to industry.

I make no apology for the fact that the Conservative party was extremely anxious about the SDA and the WDA when they were created. It had reason to be so, because at that time the tide of state ownership was rising. That is no longer so. My right hon. Friends the Secretaries of State for Scotland and for Wales, by changing the guidelines and the personnel running those institutions, have been able to allay the anxieties felt by the Scottish and Welsh Conservative parties.

In the case for development agencies in the English regions, one factor that is even more important than flexibility is the need to do something that will capture the imagination of people in the regions, not for political purposes but to stimulate growth and investment. The problems in the regions do not arise because of a lack of infrastructure, bad industrial relations or even lack of capital. Often they are caused by lack of confidence, an inherent pessimism which is the product of decades of decline. For that reason, I believe that a gesture of confidence, the creation of a regional focus in the setting up of development agencies, would stimulate industrial activity far more than the actual powers or levels of investment involved might lead one to expect. Let us not treat that as a panacea. It is one of many actions that must be taken on the supply side in relation to pay bargaining—a matter on which I have heard less enthusiasm from the Opposition for what I have said—and elsewhere.

It is just one further step along the road of progress. That is one road along which no one will be able to go far unless—quite apart from the specific measures that we take to deal with regional matters—it is paved with the fiscally sound anti-inflationary policies which are the unique hallmarks of the Government’s conduct of affairs.

8.38 pm

Mr. Donald Stewart (Western Isles): I regret the fact that time does not permit me to deal in detail with the speech of the right hon. and learned Member for Richmond, Yorks (Mr. Brittan). The parts when he dealt with Scotland showed that he knew little about the subject. His comments—he is not alone in this—revealed the problems that we suffer in Scotland. He was talking about the problems of the north-east. I have always been lectured that this is a unitary state and criticised for threatening the break-up of the United Kingdom. When some hon. Members talk about the north-east, they are talking about the north-east of England. The hon. Member for Bolton,

North-East (Mr. Thurnham) talked about the north-west. He did not mean my constituency, although it is in Britain; he meant the north-west of England. I knew long before I became a Member that Britain equalled England and that Scotland, Wales and Ireland were periphery colonies which did not matter all that much.

I want to comment on the terms of the motion. In the business of the House for the week, it was said that the motion for the debate would be:

"The Divided Nation — Failure of the Government's Economic Policies".

It is clear from today's Order Paper that we are discussing Government's economic policies. Why the fudge by the Labour party? What has happened to the divided nation? I think that the official Opposition are just as keen as the Conservative Government to hide the facts about the divisions between the north and south. There is no word either in the motion about regional policies. Is it the intention of the Labour Opposition to soft-pedal in order to keep the south happy for votes?

What is certain is that there is a north-south divide.

Everyone is aware that Scotland, Wales, Ireland the north-east and north-west of England and just recently the midlands are suffering. Certainly problems occur in a line from the Wash to the Severn. I know that there are areas of deprivation in the London area. I am also aware that there are areas of affluence in what is called the north. However, that does not alter the main argument, and any fair-minded observer would agree with the view of the editorial in *The Guardian* which stated:

"Britain is becoming two distinct economic nations—a prosperous south and a north in terminal decline."

It is not an answer simply to say that it is the old smokestack industries that are in decline. It is the duty of Government to assist in replacing those industries and they should do that with regional policies. I agree with the right hon. and learned Member for Richmond, Yorks (Mr. Brittan) that regional policy should not be the Cinderella of policies and he should draw that fact to the attention of the Government Front Bench.

It is not an answer to say that lower wages would attract new industries. The Low Pay Unit has demonstrated that the poorest paid areas are invariably those with the highest unemployment. An even more ominous factor for the Government is contained in the conclusion of *The Guardian* editorial:

"That economic divisions almost coincide with political allegiance. Nearly all of the heavy job losses have been in Labour voting areas (Scotland, Wales, the broad north) while job creations have been in the Tory-held prosperous south. Put cynically, the Government does not need to do much about this other Britain to stay in office."

That may rejoice the hearts of Tories in the short-term, but there are hidden time bombs.

At Question Time today the Prime Minister was still rejecting any talk of a north-south divide. However, there is now the available evidence of the census of unemployment. That evidence showed that 94 per cent. of jobs lost in Britain since June 1979 were north of a line from the Wash to the Bristol channel and only 6 per cent. in the relatively prosperous southern regions. Despite the caveats that have been put in about the north-south divide, can anybody deny that it exists? Job losses have proved that divide in the United Kingdom.

In the period from June 1979 to June 1986, Scotland lost 216,000 jobs. That conflicts with what the right hon. and learned Member for Richmond, Yorks said about

Scotland prospering. Since June 1986 the gap between Scotland and England has widened still further, with unemployment falling in England by 23,000 while it is still rising in Scotland where an extra 9,000 people have been put on the dole.

All this exposes the promises made, from time to time, by the previous Secretary of State for Scotland, who has now gone to the Ministry of Defence. He used to promise every year that Scotland's economy was on the turn. It also exposes the claim of the present Secretary of State that Scotland is leading the United Kingdom out of the depression. By God, if we are doing that the rest of the United Kingdom must be a poor soul.

The forecasts are not much better. The Mackay Consultants economic commentary forecasts that

"Scotland will suffer substantially from the fall in world oil prices. Obviously some firms and sectors will benefit from lower costs but these will be outweighed by the negative effects on the oil companies and the service companies directly involved in the North Sea."

The *Scottish Business Insider* magazine has found that the continuing erosion of control of enterprises within Scotland has occurred as a result of recent mergers and takeovers. That will have a serious effect on the country. It states that 53 per cent. of the total capital employed in the big manufacturing and industrial sectors has been lost through takeovers of Scottish-owned companies. The divide is only too real.

The answer for Scotland, as my hon. Friend the Member for Dundee, East (Mr. Wilson) and myself have pointed out, is independence. A Scottish Assembly would find the pull of London too powerful. Norway, Sweden, Austria and Switzerland have the lowest rates of unemployment in the world. It is that league, not as a deprived region of the United Kingdom, that Scotland's survival obliges us to join.

Several Hon. Members rose—

Mr. Speaker: May I remind the House that the Opposition Front-Bench spokesman will seek to catch my eye at 9.20 pm.

8.45 pm

Mr. Piers Merchant (Newcastle upon Tyne, Central): I represent a constituency with acute social problems of high unemployment and chronic economic difficulties of structural imbalance. I hope that the House will understand why I will concentrate on the region's economic issues and the so-called north-south divide.

Let me join with others, especially my right hon. and learned Friend the Member for Richmond, Yorks (Mr. Brittan), in dispelling two myths. The first myth, which is the most dangerous, is that there is no regional problem. Anyone can prove anything if they select their facts sufficiently ruthlessly, but that can have no credibility in the north and should have no credibility in the south.

The second myth is that of the north-south divide. It dramatically appeals to the newspaper headline writers who are keen to sell second rate newspapers and to Opposition politicians who are keen to sell second rate policies. It is a simplistic and sweeping interpretation of the regional problems and does no service to the people who are suffering from those problems. Indeed, this simplistic portrayal is distortive and insulting. Its innuendo is that anyone north of the Wash is second best, downtrodden, helpless and hopeless. That is a travesty and a typical piece of patronising Socialism.

[*Mr. Piers Merchant*]

How on earth can the hon. Member for Stockton, South (Mr. Wigglesworth) ever hope that the industry and investment which are seriously needed in the north-east can be attracted to that region if he pursues the tactics that he used when he talked about the north-east as if it was in the blackest possible situation, coming out with the whole issue of statistics and trying to prove that the situation was irredeemably hopeless? Frankly, his motive defeats me. It was a studied insult to those people who are trying to attract jobs and investment to the region by portraying the positive benefits, but the hon. Gentleman did not touch on those benefits. Let us talk about the positive side.

Unemployment in the north-east is now clearly and consistently falling, thanks to the Government's policies. In my constituency—a typical example—unemployment is now lower than it was in 1983. The old industries are being replaced and urban dereliction reversed. There are now new industries and investments which are being attracted to the area. The hon. Member for Stockton, South is obviously aware of the many good companies that have invested in the north-east in the past few years. Wealth is being created and as high a quality of life can be enjoyed there as anywhere else.

The region has an unparalleled number of attractions. Housing is of high quality but low price compared with elsewhere. Land is readily available for industrial development and there is a skilled work force ready to take the jobs. There are also many environmental attractions. Specific examples include 10,000 jobs that have been created by the Newcastle and Gateshead Enterprise zone. The massive Metro retail development—the biggest in Europe—has brought over 5,000 jobs. There is the great success of the Nissan plant that is already ahead of schedule with promises that 100,000 vehicles a year will roll off its production line in four years' time. Komatsu at Birtley has brought another 270 jobs; Barbour at Hebburn has created 100 jobs; Brown and Root at Jarrow, 117 jobs; and British Rail at Heaton has brought 180 jobs. Those jobs are connected with the east coast rail electrification, and that should win the support of the Opposition who are always talking about infrastructure development.

Mr. Jack Thompson (Wansbeck): Will the hon. Gentleman give way?

Mr. Merchant: I shall give way in a minute.

These are all examples from the last few months of jobs that have been created in the north-east. Two or three years ago, the Port of Tyne Authority made a regular loss of £750,000. It has now made a profit of £3 million. That is an important indicator of economic activity on the Tyne and in the north-east generally. It is not all gloom and doom.

Mr. Thompson: Does the hon. Gentleman realise that one third of the 83,000 young people in the north of England who are unemployed, have not had a job in the last 12 months? They will not find any comfort in the hon. Gentleman's comments.

Mr. Merchant: I should have thought that there was much comfort in the north-east for those youngsters who, unfortunately, have not had jobs made readily available to them in the last few years. The Government have done a

great deal for them. They have provided training opportunities and MSC schemes. I accept that only real and lasting jobs will result in real benefit, but the statistics demonstrate that real jobs are now coming to the north-east.

There is now great hope, but there are real problems. First, there is the social problem of unemployment, caused by the collapse of many traditional smokestack industries, the lack of competitiveness 10 or 20 years ago, caused by poor management and adverse labour attitudes, and the past lack of enterprise and investment and poor education and training.

Secondly, there has been structural inadequacy and a historic over-dependence on old, heavy industries. That has not yet been properly corrected. Thirdly, there is the problem of two-way labour immobility. Barriers have prevented managers and investors from moving to the north with their companies. Other hurdles have prevented employees from exercising their choice to move south to take up jobs. I shall deal with the latter point first, because it threatens to be the most serious problem. Certainly it is the most recent problem, and the Government must take urgent steps to tackle it.

Ironically, it is a function of the Government's success in economic terms that fast recovery and growth has taken place in the south-east. High and fast rising property prices in the south attract people both ways and inhibit the free operation of the market mechanism in regional and labour terms. These high prices are exacerbated by Government subsidies, hidden and otherwise, to housing and transport in the south-east. The north desperately needs the excess jobs of the south. It needs the companies and the investment that are locked near London. Northerners need the freedom to find homes in London, if they wish to move.

Mr. Michael Fallon (Darlington): Is my hon. Friend aware that there are 120,000 empty council houses in all parts of the country and that thousands more council properties are hard to let or are impossible to let? Would he favour a national, computerised system so that any job seeker could go to any housing department in the country, tap into a terminal and see what is available in the region to which he wishes to move?

Mr. Merchant: That is an excellent suggestion. It would unfreeze the current rigid system of council house allocations.

We must free the housing transfer process by encouraging more low paid housing in the south, thus reducing the speed of the price rise, while encouraging a high quality of environment and lower living costs—items like domestic rates—in the north. The advantages of the regions must be sold far more effectively.

Mr. Clelland: Will the hon. Gentleman give way?

Mr. Merchant: No, I shall not allow any other hon. Member to intervene, because time is short and I want other hon. Members to have the opportunity to speak.

In overcoming the historic image of the north, we must take firmer steps to diversify and modernise the industrial base of regions like the north-east. The Government deserve credit for what they have done. There have been some outstanding successes, but more incentives are needed. Grant aid is a great advantage, but that alone is not sufficient. Tax breaks, too, are essential. A uniform

business. There must be introduced swiftly, as high rates in the north-east, particularly in the north, which includes the highest rated authority in England, have strangled local industry.

Next, basic income tax rates must continue downwards. The lower the rate the better. A 20 per cent. basic rate would do wonders for the north. Every example throughout the world illustrates that. The Government must continue to concentrate on simple tax reduction, or must enable depressed areas to benefit from a differential advantage — as, in a sense, the enterprise zone philosophy pursues.

Planning constraints, too, must be lifted, especially in depressed areas. How often we hear of companies that are keen to invest but then have to wait weeks or months as planners pontificate and councillors interfere before they all say no. That is why I welcome the creation of the new Tyneside urban development corporation. It will have the power and the drive to overcome the inertia within some local government organisations.

When it comes to direct Government employment and procurement, a lead must be given. There must be an appreciation of regional aspects. I agree with my right hon. and learned Friend the Member for Richmond, Yorks (Mr. Brittan), who drew attention to the importance of having two approaches to regional policy, not just the classic one and not just the supply side approach, either. I do not believe that the Government have done enough to devolve Departments, state industries and direct employment to the north. Therefore, the people who make the decisions remain in London, with a myopic metropolitan view of matters.

Furthermore, when it comes to Government orders, the Government must appreciate that, whether they like it or not, their purchasing power is so great that they cannot ignore the regional aspect. I am not making a case for subsidy, or unwanted orders for old industries. Indeed, attempts to prop them up are bound to be counterproductive and a cruel deception. However, there are industries that desperately need orders. To place those orders could dramatically alter their position and that of the local economy.

As an example, let me take NEI Parsons, a large and highly successful turbine generator manufacturer. NEI, in Newcastle, is modern, forward-looking and vibrant. It is a growth company. It has an excellent management team, forward-looking and positive union leadership and a fully committed record of high investment and productivity, yet within the last fortnight it has declared 800 redundancies, partly because of the delay in domestic power station orders. This company does not ask for subsidies or for preferential orders. It is quite happy to stand by fair competition in the market place. It prefers fair competition. However, it needs orders to be available. There is a need for orders and I hope that my right hon. Friend the Chancellor of the Exchequer will take this point to his right hon. Friend the Member for Worcester (Mr. Walker), who on this matter has, I believe, been inert and complacent and who seems to be more worried about cranky rural pressure groups than about industrial jobs in northern Britain.

Mr. Bernard Conlan (Gateshead, East): Will the hon. Gentleman give way?

Mr. Merchant: I fear that, because of time, I cannot give way. I hope that I have addressed the points that are of concern to the hon. Gentleman.

However, nothing can compare with the sheer incapacity and the staggering incapability of the Labour bosses who have controlled the destiny of the north-east for more than half a century. Over this period, a Neanderthal attitude to economics, a Stalin-like obsession with central control and a fossilised self-view have catapulted this region backwards at a time when a pragmatic grasp of the opportunities available could have heralded a new era.

Mr. Conlan *rose*—

Mr. Merchant: Faced with the NEI redundancies, all that the Labour city council in Newcastle could do—and I fear that it reveals Labour's industrial policies nationally, too—was to waste yet further resources upon producing a boringly tedious and second-rate report and then to prepare a leaflet drop to every house in Newcastle, telling them what they knew already. However, it did not remind them of the NEI's rates bill of £2.1 million a year, which the city council levied, and the burden that that placed on the company. It is time that the Labour party faced reality and acknowledged that it has prolonged and wallowed in the concept of the north-south divide. When it had its chance, it did nothing to allay it. That is the reality that this House ought to be aware of, and it is the reality that people in the north of England know only too well.

8.59 pm

Mr. Allan Rogers (Rhondda): Other hon. Members have dealt with the broader aspects of this issue, but time demands that I should concentrate on regional and constituency issues. But some of the matters that have come up during the course of this debate have to be dealt with before I move on to talk about my region and constituency.

I agree with many Members that we are not necessarily talking about a north-south divide in the debate this evening. What we are talking about is a divide in this country between those who have and those who have not. Since the Government have been in power, that divide has grown even wider. In the majority of cases it is a north-south divide—although there is a substantial area to the west—but it would be wrong of us to polarise the issue into those geographical areas when there are high pockets of unemployment in areas such as Margate and Ramsgate in the south east of England. There are areas of poverty in the south-west and other parts of the southern half of this country. The argument is not about the north versus the south. It is about the rich versus the poor and the haves versus the have-nots.

No one can argue that there are not difficulties in the regions, because manifestly there are big differences by whatever parameter or socio-economic indicator is used. These are problems of the past, as the right hon. Member for Henley (Mr. Heseltine) said, but they are not only the problems of the past, or the decline of the smokestack industries. If we look quickly at one statistic in regard to Wales, for example, the coal industry has had a job loss of about 13,000 people since 1979. But the number of unemployed in Wales has risen by over 100,000. One cannot blame the decline of the coal industry for the

[Mr. Allan Rogers]

enormous increase in unemployment in Wales. Unemployment is a difficult problem that will not be solved by one simple action. It will take all the resources of Government, private industry and the public sector working together in an effective partnership to solve the problem. But it can be solved and I shall not get involved with the prophets of despair who are writing off areas such as the area that I represent.

The right hon. and learned Member for Richmond, Yorks (Mr. Brittan) talked about these regional differences. In one part of his speech he seemed to accept that they existed, but in the other part he did not want to accept them. Part of his panacea for the problems that are arising—I think I quote him rightly—was that “there should be regional pay bargaining.” I should like to point out to the right hon. and learned Member—at least, I would if he were present—that those regional pay differences presently exist. We do not need regional pay bargaining, and it is wrong of Conservative Members to say that workers price themselves out of jobs; that is manifestly not so. If we look at the difference in average wages between areas such as Wales and the south-east at the present time, it is £42.32. One can hardly accuse the Welsh of pricing themselves out of jobs.

I represent an area that is one of the most socially and economically deprived areas in the United Kingdom. My hon. Friend the Member for Caerphilly (Mr. Davies) helped me by providing some statistics, and I shall catalogue them in the hope that the Chancellor of the Exchequer and the Paymaster General will pay attention to the problems within my constituency. In my area we have the highest number of houses without indoor toilet facilities; the highest number of houses without a bath or shower; the highest number of pensioners lacking the same facilities; a perinatal mortality rate that is the highest in Wales; an unemployment rate of over 20 per cent.; an extraordinary high level of youth unemployment; more likelihood of children suffering from measles and whooping cough; and, not surprisingly, the highest percentage of permanently sick people in the United Kingdom. That is a catalogue of deprivation.

But the statistics do not adequately demonstrate the misery and poverty in which some individuals live in my constituency and in areas in the north and in the south that are suffering from unemployment. They do not illustrate the struggles and difficulties of pensioners to achieve a reasonable quality of life. They do not adequately demonstrate the tragedy and disappointment of the young mother who loses a baby in the early days of the baby's life because of a lack of facilities. They do not demonstrate the despair and disillusionment of a young man who has never had a job and has no likelihood of getting one in the foreseeable future. [Interruption.] I wish that hon. Members who have just come into the Chamber would listen quietly.

The Government amendment talks about the success of their economic policies and of healthy, balanced economic growth. We are entitled to ask the Paymaster General to tell us when he replies where that growth and success is and when we in Wales will have some share of it. We would certainly like to have some of it in my county and in my constituency.

The Chancellor, the Paymaster General, the Secretary of State for Wales and the Prime Minister constantly

reiterate their excuses for unemployment. As I said earlier, they blame the decline of the coal industry for the problems that we face in south Wales, but our problems are much deeper seated than a simple decline in one industry. If we look across the job spectrum, we see that in manufacturing we have lost 113,000 jobs. In metal goods engineering and vehicles 52,000 jobs have been lost. Across the whole spectrum of industry we see that jobs have been lost. It is not simply the coal industry that is in decline; it is a region in decline and that region badly needs help. We are not pricing ourselves out of work. If the Government attach any importance at all to jobs in the engineering sector, they should help areas such as south Wales.

Earlier, I spoke about the statistics of my constituency which reflect the position in Mid-Glamorgan and Wales as a whole. I described what they meant for the pensioner, the young mother and the unemployed youngster. They mean despair, disappointment, disillusion, struggle, difficulty, and, in many cases, tragedy. That is mirrored elsewhere in the United Kingdom. That is the true meaning of Thatcherism. That is the true reality of Thatcher's Britain today. It is a divided Britain, governed by an uncaring Government.

9.8 pm

Mr. David Howell (Guildford): Not the least interesting aspect of the debate which is now coming to a close has been the distinct switch of emphasis that we have seen in the attempted assault of the Opposition Front Bench on my right hon. Friend the Chancellor and on the Government's record. Obviously, they have a major concern with unemployment, as we all do, and that has been reflected in many of the speeches. But they seem to be sensing that, now that my right hon. Friends are beginning to grapple effectively with unemployment and we are seeing the figures behave in a far more encouraging way, they must have a new theme. The theme that they have found is reflected in their motion on the Order Paper. It is the theory of the impending balance of payments crisis.

The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) has gone into the economic forecasting business. It is only fair to warn him before the debate is out that that is a hazardous business. It is all the more hazardous when he and his right hon. and hon. Friends appear to depend so heavily on independent forecasters in the much criticised City, as they do. They seem to refer again and again to what independent forecasters are saying about trade deficits, interest rates and sterling in the coming year and what that will do to our employment performance and the social problems that we face in the inner cities that we have been discussing this afternoon.

The difficulty is that at least half the independent forecasters have so far been spectacularly wrong. Perhaps the right hon. Gentleman should keep that in mind. They were quite wrong about interest rates in the autumn which they confidently forecast would go up by 4 percentage points but did not. There was then a forecast that there would be a huge sterling crisis this month, but, of course, there has been nothing of the kind. I do not know whether the Labour party associated itself with that forecast. There have been other problems which I shall deal with in a moment, but there certainly has not been the collapse or the further slide in sterling that was predicted.

There was equal puzzlement and a failure to appreciate what would happen about labour unit costs. If I may say so, that error was apparent on both Front Benches and there was a cry that we would all be ruined by an enormous rise in labour unit costs that would offset the devaluation of sterling against the deutschmark. It was said that that would mean we would not restore competition or create new jobs, but the opposite has happened and once again the forecasters have got it wrong. Labour unit costs are coming under increasingly effective control and the original statistics about output and recorded labour costs were probably grossly inaccurate and are becoming increasingly so. Even if they were accurate, those same figures are developing in a far more favourable way.

We could be seeing something that over the last 20 years many of us doubted could happen, a devaluation or depreciation taking place without consequent inflation and without the inflation of wage costs which wipes it out. I have never supported the proposition that we can devalue our way into competition and more jobs and by that means can restore jobs and opportunities to the north and to our cities. In America one hears people say, "If only we could get the dollar down, everything would be all right." I say to such people that we have tried that in Britain and quite often it did not work. It worked briefly in 1966, perhaps, but on the whole it is a path to perdition and always, inflation takes away the advantage.

It may just be that as a result of supply side changes taking place in our economy this time the depreciation will stick and, because labour unit costs are not going up, it may be that we have reached the point—an important turning point—when we are able to take advantage of a lower and more competitive currency and fairly pour our efforts into competition and export and provide the new jobs that we need, especially in the areas about which hon. Members feel strongly. The economists were wrong when they thought that labour unit costs were going through the ceiling. Hon. Members in the centre parties were muttering about incomes policies of bizarre kinds which would control this problem. Suddenly we see once again that analysis was wrong.

The second major area in which the independent forecasters upon which the Labour party has relied so heavily have been wrong, has been the staggering growth in invisible earnings. If one looks back to the forecasts one finds that none of these independent forecasters or Opposition critics at all foresaw what was happening. There was a widespread myth, shared by many commentators, that North sea oil had been wasted. That was an easy thing to say and an easy myth to peddle. People had not noticed, as my hon. Friend the Member for Croydon South, (Sir W. Clark) said earlier, that North sea oil proceeds were not being wasted.

Oil proceeds were being invested on a gigantic scale, largely, I concede, overseas, but as a result they are producing the most enormous annuity for Britain which can be invested in the competitive and high technology industries of tomorrow. As a result, Britain has become not a debtor nation like the United States but the world's second largest creditor nation after Japan and is in a position of immense potential power which will enable us to use those resources to solve our social problems and to underpin the new and more dynamic industries that we need for tomorrow.

That is another area where the economists got it all wrong. The independent forecasters did not forecast any

of that. Instead, they looked at the current physical trade balance and saw ahead disaster, to which they eagerly assented. What we will see is a considerable offset in annuity which will flow in on a gigantic scale, possibly rising to £14 billion a year by 1990. That means that the trade problems which will inevitably arise when the oil runs down and when we have a slightly weaker oil price can be handled and are being handled.

The third thing that economists and critics of the Government did not foresee was the enormous rise in non-oil revenues which are now benefiting my right hon. Friend the Chancellor and enabling him now to talk about the possibility of an undershoot for public sector borrowing this year and, in my view, a possible undershoot next year as well. That will give a leeway in our budgetary practice without imprudence, which we have not known for a generation. My own strong view is that in a sense an undershoot is not a good thing, but without a doubt, the leeway should be used. It is not good budgetary practice to achieve an undershoot, not least because in Whitehall the word goes out that pressure is off public spending and we can now put aside all those troublesome efficiency drives and all the rest. I hope that there will not be an undershoot and that the space will be used up by a judicious use of resources.

In my book, and I have never disguised this, we should concentrate, for social and economic and job reasons, on tax cuts. I cannot understand the view of the Opposition. I can understand the view of the more blinkered members of the Opposition but not the more sensible members when they are against tax cuts on low incomes. What are they talking about? Do they not listen to their own constituents or understand the enormous disincentives working on those on low incomes who have to pay some of the highest taxes and National Insurance in the Western world? Have they not read the stories around the world of those nations and states where low taxes have produced fantastic growth in jobs? Have they not noticed that in California, a state with half the population of Britain, 2 million new jobs have been produced while taxes have been cut by 23 per cent.? The tax cut opportunity must be seized, not least because our competitors, the United States, Japan, Germany and France are all going for major tax cuts and tax reform and changes in their structure.

If we do not follow that route we will be disastrously left behind in terms of creating jobs in the inner cities and the areas in the north where we must get them back. If hon. Members say that we should not have tax cuts now because it will increase consumption and suck in imports—and I do not believe it will—if that is the fear, let us go for the sort of tax cuts that encourage personal ownership and investment and savings. Let us copy the ideas of the Loi Monory in France and have front end relief for saving and transfer from State saving, which has on the whole been disastrously inefficient to personal ownership and personal saving which can be mobilised for the new industries and new jobs which we need. There is plenty for my right hon. Friends to do in that area on capital taxes and on all levels, basic rate tax and higher rate tax as well. Taking the example of capital transfer tax, in real terms, in the form of its inheritance tax, that is now higher than in 1974 when it came in. I hope that my right hon. Friend will bring that back to the level it was at when the Labour party introduced it.

Finally, as it has come into the debate in the motion on BTR, although that matter has been resolved, and I am

[Mr. David Howell]

glad it has been, I believe the Secretary of State was totally and utterly right in the line he took. I congratulate him on keeping his head and on keeping calm when those about him were losing theirs. I was glad to see that he stuck to the competition definition in his ruling. I was dismayed to see reports that some of the junior Ministers in the Department of Industry seemed to be putting distance between themselves and him. I hope that is not correct, that the newspaper reports were misleading and that the Ministers concerned will explain themselves. I believe that my right hon. Friend is entirely right. I did not like the ominous suggestion of some hon. Members that we should redefine a new idea of public interest for controlling mergers. We know where that idea goes, towards more bureaucratic vetting of mergers, back to the world of the IRC and all the monopolies and mergers which were put together in a spirit of rationalisation in this country with catastrophic results. We are living with them today.

If you like, the British Motor Corporation merger with Leyland was a classic example of alleged public interest prevailing over competitive forces. We do not want to go back to that kind of thing. I believe that we may be looking at the wrong end of the problem altogether. In America, they are terrified of mergers and I think that there is a merger mania as well. The answer probably is to look at the excessive ease with which people can raise capital to conduct these takeover raids, the world of jump bonds, leverage buy-outs and the rest. It may be that the view should be focused at the capital raising end to see if there is not an excessive ease for people, often of not the highest repute, to raise capital and raid much larger concerns. Policy should be concentrated on that end of the process rather than on worrying about the consequences at the other end. If the capital access side is cured and the financing of takeovers is better managed, the consequences will be much more satisfactory and we will not be left with the sort of rows that we have had over BTR and Pilkington.

I said at the beginning that the impending crisis thesis was put forward by the right hon. Member for Sparkbrook. In one sense the right hon. Gentleman might be right; there might be an impending crisis, not in this country—we are in a stronger position than we have been for a generation to meet the rough seas of the world—but in America. We may see there a real disaster—a crash landing for the dollar, a huge hike in interest rates and vast currency instabilities. All that could produce a crisis, but my right hon. Friend has built for us an economy that is stronger to face world difficulties than for many years past.

9.20 pm

Mr. Seamus Mallon (Newry and Armagh): Mr. Speaker, you have given me exactly one minute. I should like to say thanks; had I more time I would say, thank you very much.

That the only representative from the North of Ireland—the region with the highest rate of unemployment, the highest cost of electricity, gas, coal and food, and the lowest rate of wages—is allowed a one-minute contribution to the debate convinces me that the motion, which says that the economic situation has led to a divided nation, is right. Indeed, I might conclude that it is an ill-divided nation.

9.21 pm

Mr. John Smith (Monklands, East): It is sometimes said that the difficulty with the Government is not so much their policy as the way in which they present it. Time without number, speakers, particularly at Conservative party conferences, tell us that. I am afraid that in the case of the Chancellor of the Exchequer it appears to be both. Today he was asked in an intervention by my hon. Friend the Member for Workington (Mr. Campbell-Savours) about what some people regard as a minor point but what many people in the regions, particularly industrialists, regard as important—the moratorium which has been imposed upon the payment of regional development grants. The Chancellor replied that there was not a moratorium, merely a delay in payment.

To check the matter, I looked at volume II of the public expenditure White Paper; on the front it says:

“Presented to Parliament by the Chancellor of the Exchequer”.

What did I find? At page 93 it says:

“In order to spread this expenditure”—
that is, RDG expenditure—

“further moratoria have been imposed on payments of RDG, to cover new RDG as well as old.”

If that is not a moratorium—

Mr. Lawson: It is a delay in payment.

Mr. Smith: Ah, it is a delay in payment. I have obviously got it wrong again. I must try harder. Try as I must to say that this is not a moratorium, when I go back to consider the figures I find that the Chancellor unfortunately told Parliament in the document that was presented to us last week:

“further moratoria have been imposed”.

That seems to be a classic case of failing to present the case properly.

When we think about it, what is the difference between a moratorium and a delay in payment? Is not a moratorium no more, and no less, than a delay in payment? What is the Chancellor of the Exchequer trying to tell us when he says that it is not a moratorium but merely a delay in payment? I should be delighted to give way to the Chancellor if he would like to get to his feet and tell us the significant difference between a moratorium and a delay in payment. If there is a significant difference, significant enough for him to make such a point about it, it is time we knew what the difference is. If there is no difference, what on earth was he saying to my hon. Friend the Member for Workington? I do not see the Chancellor dashing forward to elucidate that point, but I think he should try a little harder. That is not a minor point—

Mr. Lawson: I was anxious, for the sake of the House and also for the sake of business and industry and, indeed, the areas, that they should not have thought that there was a period during which applications would not be accepted—[*Interruption.*] That was what I was making quite clear to the House.

Mr. Smith: That would be a moratorium on applications. Unfortunately, the White Paper says: “further moratoria have been imposed on payments”. Therefore, the Chancellor’s explanation will not do. It is disgraceful if the Chancellor does not know that it applies to people who have applied for and properly been given grants. Those people have already qualified, been told that they will get the grant and conducted their business on that

basis. However, suddenly out of the blue comes a moratorium, a loss of or delay in payment, and they are told that they cannot get the grant.

I refer to an article in the *Glasgow Herald* on 15 January 1987 on the reaction of one industrialist, Mr. Bill Miller, the managing director of an electronics company and the vice-chairman of the CBI in Scotland. He said that the additional delay would mean an overdraft for him of £200,000, and that it would stop the recruitment for three jobs in his company. He said that that would be repeated all round the country. Perhaps the next time that the Chancellor considers regional development grants, he will think a little more carefully about them.

While I am on the subject—

Mr. Lawson: I was absolutely accurate.

Mr. Smith: The Chancellor has indicated that he is not going to think any more about the matter because he says that he was absolutely accurate. However, I am not sure about that.

Mr. Brittan: If the right hon. and learned Gentleman wishes to be accurate and fair, will he point out that that is because expenditure on regional development grant has increased—[*Interruption.*—]—as my right hon. Friend the Chancellor made absolutely clear, in the sense that it is greater than that set out in the plans? The right hon. Gentleman should welcome that.

Mr. Smith: I must not blame the Chancellor for his right hon. and learned Friend's intervention, because I am determined to be fair. The notion that there has been an increase in regional development grants and that that has caused the problem can be assessed in the light of the following information. In 1982, regional development grants amounted to £812 billion. By 1986, that had been almost halved, to £396 billion. It has been projected to go down to £187 billion.

Mr. Brittan: That is entirely unworthy of the right hon. and learned Gentleman because he knows perfectly well that I was talking about the planned expenditure for the relevant year, which has been increased. The right hon. Gentleman will get nowhere with tricks and twisting of that kind.

Mr. Smith: The right hon. and learned Gentleman did not allow me to finish what I was about to say before he interrupted me again. I am anxious that the House gets all the facts and not just the facts that he wishes the House to hear.

I should make it clear that regional development grants were halved between 1982 and 1986 and that they will be halved again. The Government should not say that they are surprised at the job losses in the regions and that manufacturing industry is failing when money is being pulled out on such a scale.

Mr. Philip Oppenheim *rose*—

Mr. Smith: No, I shall not give way because I can handle only one intervention at a time. The right hon. and learned Gentleman said that there is a problem because there is an old scheme and a new scheme and that there is a slight increase in expenditure because the old scheme overlaps the new scheme. If that is not what he said, it is what the Treasury told me when I asked, and that is probably as good a source as any. If this slight bulge is to

be the reason for imposing a moratorium, one would have thought that the sensible thing would be just to pay the money to which people are entitled.

I shall leave the Chancellor of the Exchequer shortly. However, in the debate he told my right hon. Friend the Member for Birmingham, Sparkbrook (Mr. Hattersley) that he should have read the Brown report on the influence on income tax because it was in the Library. Taking the Chancellor at his word, I went to the Library and was told that not only is it not there, but that there is no record of it having been deposited there.

Hon. Members: Apologise.

Mr. Lawson: I have nothing to apologise for. The Library and I regret that it made a slight error which I shall come to in a moment. [*Laughter.*] The document was sent by hand to the Library on 18 December. When I heard that the right hon. and learned Gentleman had been unable to find it, I inquired of the Deputy Librarian what had happened. I have a letter from him, apologising to me for the fact that the Library had put it in the statistical section of the Library.

Mr. Smith: I am glad — [HON. MEMBERS: "Withdraw."] Faced with such overwhelming evidence, I have to withdraw the statement. However, the fact remains that when I went to the Library I could not get the document, so I am not gaining from this. Perhaps the solution is that the person who sent it to the Library said that there should be a moratorium on its being made available to the House.

At the heart of the Government's case has been an increase in productivity. They cannot say that there has been an increase in jobs in manufacturing industry, because we have lost 2 million jobs there, nor that there has been an increase in output, because it is still 4 per cent. below the 1979 level.

Mr. Lawson: It is not.

Mr. Smith: It is.

Mr. Lawson: Manufacturing output is.

Mr. Smith: Manufacturing output, then: we have got that right. The Chancellor agrees that manufacturing output is still 4 per cent. below what it was in 1979. We are told that that is all right because of an increase in productivity, but let us get one matter absolutely clear: anyone can achieve an increase in nominal labour productivity, if in a declining industrial economy job losses over the same period are even greater than the fall in output. Therefore, the Government have merely managed to ensure that output has not fallen so calamitously as jobs. For that reason there is an underlying growth in productivity. Productivity in a declining industrial economy, such as ours, is not what we want. We want increased productivity in an expanding industrial economy, and that we certainly have not had.

The proper indices in this matter are employment, output, investment and trade balance. They are far more important than this bogus productivity figure. The employment figure has decreased by 2 million, manufacturing jobs have decreased by 28 per cent., manufacturing output has decreased by 4 per cent., manufacturing investment has decreased 17 per cent. since 1979, the manufacturing trade balance was in surplus to the tune of

[Mr. Smith]

£5 billion in 1980 and the figures for 1986 are estimated to be £7.5 billion. It is not merely a matter of a deficit of £7.5 billion, but of problems with the new industries.

If the Chancellor considers the figures, he will discover that between 1979 and 1986, 211,000 jobs were lost in the electronic and electrical engineering industries. Well over 200,000 jobs have been lost in the new industries as well as in the old. As the Secretary of State for Trade and Industry should know, if he pays attention to these matters, there is a serious balance of trade deficit in the high-tech industries as well as in others.

The Secretary of State for Trade and Industry should have been replying to the debate. When we have a debate on regional policy and manufacturing industry, his place is at the Dispatch Box. We understand that he cannot involve himself with one half of his Department because of an interest through his family connections. However, he should not disable himself from the other half of his Department through non-interest in the House. It is his duty to answer such debates. I hope that on the next occasion that we debate manufacturing industry and regional policy, he will be present—[HON. MEMBERS: "He is here now."] He may be present now, and it might be helpful if we could have a contribution from him as he is responsible to Parliament.

Some hon. Members have queried whether the north-south divide, which has taken hold of the public imagination in recent weeks, exists. People will argue for ever about that. I want to consider a Government document—the submission to the regional development fund. That document can be found in the Library if one asks for it. However, the Government will not publish it. The only way to get anything from the document is to make a photocopy of the copy in the Library. I would not say that that was a symptom of the open society or a way of disseminating information, but if one is industrious enough and prepared to waste public money on the photocopiers information can be obtained.

The most important fact in the document is that unemployment in 1990, on the projection made to the European development fund, will be 3,117,000. What is all this nonsense about unemployment falling when in 1990, according to the Government document, unemployment will be above 3 million? That is only three years from now. Either the figure is wrong, in which case the Government are telling lies to the European Community, or it is correct. It is a forbidding prospect that in 1990 there will be more than 3 million unemployed on the basis of the Government's figures.

To support the Government's submission, the document recounts details of the various regions. It states about the west midlands:

"There is little prospect of an improvement in the region's basic unemployment problems between now and 1990."

About Scotland it says:

"Little possibility of sufficient expansion."

About Yorkshire and Humberside it states:

"Employment levels are unlikely to rise in the short or the medium term."

With regard to Wales it states:

"Overall economic activity lower than any other region of Great Britain and expected to remain so during the period to 1990."

With regard to the north-west, it states:

"Prospects for reducing unemployment are frighteningly bleak."

Mr. Philip Oppenheim: Will the right hon. and learned Gentleman give way?

Mr. Smith: I simply do not have time to give way. That is the Government's assessment of the north-south divide. Faced with that, the minister must not tell us that there is no north-south divide. Let him not tell us that there have not been significant job losses in each of those areas.

Since 1979, in manufacturing industry 281,000 jobs have been lost in the west midlands; 109,000 have been lost in the east midlands, 248,000 in Yorkshire and Humberside; 337,000 in the north-west; 140,000 in the north; 115,000 in Wales; and 132,000 in Scotland. That is a total of 1.5 million in those regions.

Mr. Philip Oppenheim *rose*—

Mr. Smith: It is not simply a north-south problem. Opposition Members who represent inner-city areas of London know perfectly well the serious problems that exist in the south. It ill becomes Conservative Members to remind us of that. Hon. Members who represent Luton and Swindon know perfectly well the serious problems that exist in manufacturing industry.

Some 476,000 jobs have been lost in manufacturing industry in the south—there is a north—south problem. However, overlying that there is the desperate problem of the decline of our manufacturing industry. That has been accentuated, because the Government have simultaneously withdrawn regional support and regions intertwined with industry have borne the brunt of the damage. However, all Britain has suffered. We are all diminished by the north-south divide and we are all impoverished by our industrial society.

That is why one of the greatest sins of the Government is to have turned their back on manufacturing industry. Where did they turn to? They turned to cast their favours on the City. I understand that the Chancellor of the Duchy of Lancaster said, in a television programme today that the Labour party did not even contemplate legislating about insider dealing. That suggestion has certainly been made on a number of occasions—[*Interruption.*] I hope that the right hon. Member for Chingford (Mr. Tebbit) will forgive me if I put the matter straight. I have to remind the House that the Labour party produced provisions for insider dealing in the Companies Bill 1978. The Bill did not reach the statute book because a general election intervened and the Conservative party would not agree to let the Bill go through—[*Interruption.*] The proof is that the same provisions appeared in the Companies Act 1980 initiated by the Conservative Government, and are now law.

Mr. Tim Smith (Beaconsfield) *rose*—

Mr. Smith: In the short time I have available, I can say merely that the City is racked by many scandals. We heard today from the Chancellor that there is activity by Morgan Grenfell and that the Bank of England is taking a close supervisory role. It is clear that the management of Morgan Grenfell will have to change substantially and that it will have to change its courses and priorities. I suggest that it stops paying £20,000 to the Conservative party. That would be a good start to its change of policy and direction.

In the debate on the Companies Bill in 1974 the Secretary of State for the Environment said:

"I wonder whether insider dealing . . . is such an abuse as is supposed by many right hon. and hon. Gentlemen. It could have some beneficial effects. If a company were to continue to conceal some catastrophe . . . or some great turn-up for the books made it a great deal of money, and this news was suddenly released, the change in the share price would be dramatic. But if there is some half knowledge of this event and buying and selling takes place, the change in the value of the shares will be moderate, with possibly beneficial consequences."—[*Official Report*, 17 January, 1974; Vol. 867, c. 983.]

I do not put that forward as a strong argument but it could be used for saying that a little knowledge of the affairs of companies leaking out is a good thing. That was the prevailing view of the Conservative party until recently. The Government are acting on the City because they have to. The Government need to take much tougher action and I hope that they will not resist doing so.

Above all, we condemn the Government for dividing us, for impoverishing us and for not showing the responsibility, which a former Prime Minister called for today but which I do not think the Government will be ever able to show.

9.43 pm

The Paymaster General and Minister for Employment (Mr. Kenneth Clarke): The right hon. and learned Member for Monklands, East (Mr. Smith) has just replied to what was billed as—[*Interruption.*] With his usual skill and wit, he took the first 10 minutes of his speech in this major debate arguing about a footnote in the White Paper about a delay on payments on regional policy. He then had a discussion about where in the Library it was possible to find a copy of a particularly readable report that was commissioned by the previous Labour Government. He then moved briefly through a discussion on a long-published document about regional development grants and wound up with his great defence about how in 1979 the Labour party had actually introduced a Bill dealing with insider trading, which was not a criminal offence during their period of office. I remind the right hon. and learned Gentleman that the Companies Bill 1973, which sought to make insider trading a criminal offence was dropped because of the 1974 election. The Labour party did absolutely nothing about it until, as death bed conversion, it produced a Bill in 1979 which fell at the election, so we promptly introduced the legislation upon which we are now relying. With that last, totally fallacious piece of City bashing, we saw the end of the Opposition's case, which as my hon. Friends will have noticed, did not include one word of policy on the north-south divide, the City, or anything else. That was the Opposition's case.

The right hon. and learned Member for Monklands, East overran the time that was allocated to him in dealing with all that stuff. It is obvious that, having to put off this debate last week, having tried to turn it into a debate on Pilkington—which is why the Opposition said that my right hon. Friend should reply to it, and bearing in mind that the Pilkington issue is finished—Opposition Members are trying to talk it out. They actually asked for it. I remind them that, when it was first envisaged, the debate—I am as puzzled as the right hon. Member for Western Isles (Mr. Stewart) as to why it was asked for—followed the great Shadow Cabinet meeting that was meant to presage the pre-election attack on the economy and unemployment. Out of that Shadow Cabinet meeting we were supposed to hear the Opposition's economic policies. There was not a word. Only one word of Labour

policy has emerged from the debate, and that was the most astonishing commitment by the man who wants to be the next Chancellor of the Exchequer. He will put up taxation if we reduce it. That is the only statement that we have heard today on what is meant to be a serious economic and employment issue.

I propose to deal, as my right hon. and learned Friend the Member for Richmond, Yorks (Mr. Brittan), my hon. Friend the Member for Newcastle on Tyne, Central (Mr. Merchant) and others wanted to deal, with the alleged north-south divide that was trailed before the debate actually started. Of course we all accept that there is a marked difference between the economic and industrial life of the north and the south of England. There always has been—it is nothing new—and there always will be—[*Interruption.*]—a difference in the way of life. Of course we all believe in some regional distinctions.

During the debate we have been concerned, first, with arriving at a more sensible definition of the problem. Hon. Members, apart from Opposition Front Bench Members, have accepted that there is a far more complicated pattern of pockets of relative deprivation and problems alongside pockets of great prosperity. Parts of the north are exceedingly prosperous, and so are parts of the south. But we cannot walk around the streets of Peckham and tell people that the problems of employment are confined entirely to the northern industrial cities. They are quite large areas. Their economic activities differ. Unemployment in Clitheroe in Lancashire stands at 5.2 per cent. Unemployment in Thanet in Kent stands at 20 per cent. Obviously, we must tackle those differences, and those are the things that we are tackling.

Where there is a regional difference, and undoubtedly there is, it arose because, as most hon. Members who seriously addressed themselves to the problem have conceded, there has been a change following the reduction in employment in traditional heavy industries. Opposition Members have sought to express the view that the decline in employment occurred, for the most part, in those areas which, in the past, depended most on heavy traditional industry.

Mr. Allan Rogers: Will the right hon. and learned Gentleman give way?

Mr. Clarke: I shall not give way. I have used almost all my time. That decline has taken place most heavily in places that were most dependent on heavy traditional industry. This fall in employment in manufacturing industry has been taking place in the Western world. The loss of jobs in manufacturing industry was faster in the late 1960s and early 1970s than it is now. The reason why it was so severe in 1979, 1980 and 1981 was that we inherited over-manned and uncompetitive heavy traditional industry, so the fall became most marked.

Out of that, the Opposition tried to construct the north-south divide. As Opposition Members often do, they turned to the hon. Member for Dunfermline, East (Mr. Brown) to produce an analysis of an article in the *Department of employment gazette* to try to reveal new facts to support their case. No hon. Member could explain how the hon. Member for Dunfermline, East arrived at his conclusion that 94 per cent. of jobs lost were in the north of England figure. I shall explain it at length afterwards. I know how he did it. It was a clever analysis of a document that he got three days ahead of publication. In

[Mr. Clarke]

fact, manufacturing jobs have been lost in the manufacturing areas, but 28 per cent. of the manufacturing jobs lost have been in the south of England. According to the Labour party's definition, 40 per cent. have been lost. But that loss of jobs is not the problem that we are facing. We should be facing the situation of rising total employment. If there is a problem, it is that the additional jobs are increasing more rapidly in parts of the south than in parts of the north. But that is not the analysis put forward by the Opposition.

Over the past three years, a net growth in jobs has been taking place in each region in England—3 per cent. in the northern region, 1 per cent. in the north-west and 4 per cent. in Yorkshire and Humberside. Unemployment is falling steadily—that is the Opposition's problem. Over the past year, the fastest fall in unemployment has been in Wales, the north, the north-west and the west midlands. Youth unemployment is falling everywhere and is falling faster in the northern regions. Since 1983, 6 per cent. more jobs have been created in the south-east and in the south-west. In east Anglia there has been a 13 per cent. net additional growth in jobs. Now that we have growth, better economic performance and competitive industry, the growth in output and employment is occurring faster in some parts of the country than in others.

Like my right hon. Friend the Chancellor and some of my hon. Friends who have spoken in the debate, I am a northern Member. We must tackle the problem. Our approach when we see that the recovery and the growth of new jobs is occurring faster in the south than in the north is to address ourselves to the problems of making the north as attractive a place for new investment and new business as the south and of ensuring that it widens its economic base and attracts those types of industry that give rise to growth in the south.

We are looking forward to a new northern economy. We are bringing in new ideas to stimulate growth. We are encouraging enterprise and entrepreneurship there. Nevertheless, the Labour party takes a different view. It looks back to the heavy traditional industrial base of the north, talks about the old policies that it followed and tends in its pronouncements, especially simplified ones, to feed southern prejudices and images of the north which it has created with cloth-cap poverty and deprivation—the picture that Labour Members like to paint.

Labour Members have not addressed themselves throughout the debate to all the policies that are beginning to attract new industries to the north—what we are doing to put money in to clear up the derelict land; the urban development corporations which we have set up on Tyneside and Teesside and at Trafford Park to speed up development; the enterprise zones, which we have set up in the middle of the industrial cities there; the enterprise agency network, which we have set up across the country; and the work of the city action teams and inner city teams in Leeds and Middlesbrough, which are bringing new training and new employment opportunities to people in those places.

Labour Members have not addressed themselves to the way in which we are developing a public-private sector partnership, working beside groups such as Business in the Community and putting money into the Prince of Wales' youth business trust to get young people trained for a more modern economy. It is by giving people in the north more

training, not just in skills, but in entrepreneurship, and by making the area more attractive to new investment that we have enabled people to take advantage of the lower costs in the north and build on that growth in new jobs, which, I repeat is already taking place there.

Unemployment is falling faster in the north than in the south. It will be helped by better industrial relations in the north, by the fact that Nissan is attracted to Washington new town and by the ability to have a single union deal with the union that will promote flexible working practices—the type of things that the TUC and half the Labour movement spend their time resisting. Even when we look at regional pay differentials, as my right hon. and learned Friend the Member for Richmond, Yorks did, horror is aroused in the minds of most Opposition Members.

The Opposition emphasise a totally different approach to regional policy, one based on arguments about grants. It is about time that we acted as we have to make the grants more selective, to stop the waste that occurred under the old system and to concentrate grants, as we do, more on jobs and specific areas and to target them better. Just to defend regional policy in its traditional form, as my right hon. Friend the Member for Old Bexley and Sidcup (Mr. Heath) sought to do, is to ignore the failures of regional policy in the 1970s.

There are those who say that the west midlands is now an example of the north-south divide. It is no good going back to the west Midlands and saying that the regional policies of the 1970s, which barred new development in that region, did not contribute to its problems. It narrowed its economic base and that economy collapsed when the vehicle industry failed. It was a victim and not a beneficiary of the Labour party's regional policy. That is the opinion in the region.

Mr. Robin Corbett (Birmingham, Erdington): What do you know about it?

Mr. Clarke: I know the midlands better than the hon. Gentleman.

We have also been treated to a little bit of city-bashing. That was rather forlorn, because I was delighted to hear, as were, I am sure, many Members, that the Pilkington bid is now a dead issue.—[*Interruption.*] It is thanks to the fact that Pilkington was able to produce good profit forecasts. The bid has collapsed and the market has resolved the problem. We did not have the delay of a reference. It is no good Labour Members claiming that it was their lobbying that produced that result. That matter was satisfactorily resolved by the market.

My right hon. Friend the Member for Old Bexley and Sidcup and other hon. Friends have said that we should examine the rules in the light of the Pilkington reference. They believe that we have narrowed the rules too much by concentrating on competition. We have not changed the rules and it is still possible for Ministers to take a wider view of the public interest. I invite Members to consider the reference of the Gulf Resources' bid for IC Gas. [*Interruption.*]

Mr. Speaker: Order.

Mr. Clarke: It is simply not true that it is right to move in, ad hoc, in response to political pressures and make up the rules—as some hon. Members seem to imply—one by one as we go along. It is not right to apply political judgment to the way in which one makes efficient use of

assets. That is the danger of the approach that is suddenly advocated by the Labour party. It has given up any attempt to woo those in the city and has opted for crude city-bashing to arouse prejudice against the city across the country.

The idea that Labour Ministers will take a closer political role in making such decisions does not fill me with joy in regard to employment or any other matter. If Labour Members were in a position to take decisions on mergers, such decisions would be taken in response to lobbies from within unions, interest groups inside the Labour party and with an eye on marginal seats. Any assertion that jobs and companies in the north would be safe in the hands of the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) and his right hon. Friends should send a shiver down the spines of those not only in boardrooms but in the workplace of most companies likely to be affected. [Interruption.]

Mr. Speaker: Order.

Mr. Clarke: I was asked about controls within the City. The fact is that my right hon. Friend the Secretary of State and my hon. and learned Friend the Member for Folkestone and Hythe (Mr. Howard) have introduced a great legislative change that has greatly strengthened the powers of the inspectors and greatly improved the policing of the City.

Some have asserted that one can already demonstrate that self-control and self-regulation have failed. It is far too premature to do so considering that self-regulation has rapidly applied itself to the current problems in the City. That is thanks to the efforts of my right hon. Friend the Secretary of State and the Minister.

My right hon. Friend the Member for Old Bexley and Sidcup asked how fast the new machinery can work and he questioned whether there is a risk that prosecutions will be delayed as the case goes from the inspectors to the Director of Public Prosecutions. I remind hon. Members that allegations of insider dealing at Morgan Grenfell were immediately referred by my right hon. Friend the Secretary of State, and one member of that institution, Mr. Collier, has been charged as a result of the actions taken.

I have specified our position on employment, the economy and the city. Throughout the debate we have heard nothing from the Labour party about its proposals. We have had distortion of the figures in an attempt to try to construct a crude north-south divide. The vision that the Labour party offers the north is absolutely depressing. When it first tried to raise this issue, it organised a Jarrow march—not like the one that the Labour movement boycotted in the 1930s. This one was financed with all the media hype that the Labour party could manage—the brass bands, the trade union banners, the look back to the old image of the north that it was trying to revive. There is genuine unemployment in the north, which we are tackling. All the brass bands, all the banners and all the rubbish that we have heard in this debate offer no hope to the north.

Question put. That the original words stand part of the Question:—

The House divided: Ayes 206, Noes 355.

Division No. 61]

[10 pm

AYES

Abse, Leo
Adams, Allen (Paisley N)

Alton, David
Anderson, Donald

Archer, Rt Hon Peter
Ashdown, Paddy
Ashley, Rt Hon Jack
Ashton, Joe
Atkinson, N. (Tottenham)
Bagier, Gordon A. T.
Banks, Tony (Newham NW)
Barron, Kevin
Beckett, Mrs Margaret
Bell, Stuart
Benn, Rt Hon Tony
Bennett, A. (Dent'n & Red'sh)
Birmingham, Gerald
Bidwell, Sydney
Blair, Anthony
Boothroyd, Miss Betty
Boyes, Roland
Bray, Dr Jeremy
Brown, Gordon (D'f'mline E)
Brown, Hugh D. (Provan)
Brown, N. (N'c'tle-u-Tyne E)
Brown, R. (N'c'tle-u-Tyne N)
Brown, Ron (E'burgh, Leith)
Bruce, Malcolm
Buchan, Norman
Caborn, Richard
Callaghan, Rt Hon J.
Callaghan, Jim (Heyw'd & M)
Campbell, Ian
Campbell-Savours, Dale
Canavan, Dennis
Carlile, Alexander (Montg'y)
Carter-Jones, Lewis
Cartwright, John
Clark, Dr David (S Shields)
Clarke, Thomas
Clay, Robert
Clelland, David Gordon
Clwyd, Mrs Ann
Cocks, Rt Hon M. (Bristol S)
Cohen, Harry
Coleman, Donald
Conlan, Bernard
Cook, Frank (Stockton North)
Cook, Robin F. (Livingston)
Corbett, Robin
Cox, Thomas (Tooting)
Craigen, J. M.
Crowther, Stan
Cunliffe, Lawrence
Cunningham, Dr John
Dalyell, Tam
Davies, Rt Hon Denzil (L'Ili)
Davies, Ronald (Caerphilly)
Davis, Terry (B'ham, H'ge H'I)
Deakins, Eric
Dewar, Donald
Dobson, Frank
Dormand, Jack
Douglas, Dick
Dubs, Alfred
Dunwoody, Hon Mrs G.
Eadie, Alex
Eastham, Ken
Evans, John (St. Helens N)
Fatchett, Derek
Field, Frank (Birkenhead)
Fields, T. (L'pool Broad Gn)
Fisher, Mark
Flannery, Martin
Foot, Rt Hon Michael
Forrester, John
Foster, Derek
Foulkes, George
Fraser, J. (Norwood)
Freeson, Rt Hon Reginald
Freud, Clement
Garrett, W. E.
George, Bruce
Gilbert, Rt Hon Dr John

Godman, Dr Norman
Golding, Mrs Llin
Gould, Bryan
Gourlay, Harry
Hamilton, James (M'well N)
Hancock, Michael
Hardy, Peter
Harrison, Rt Hon Walter
Hart, Rt Hon Dame Judith
Hattersley, Rt Hon Roy
Healey, Rt Hon Denis
Heffer, Eric S.
Hogg, N. (C'nauld & Kilsyth)
Holland, Stuart (Vauxhall)
Home Robertson, John
Howell, Rt Hon D. (S'heath)
Howells, Geraint
Hoyle, Douglas
Hughes, Robert (Aberdeen N)
Hughes, Roy (Newport East)
Hughes, Sean (Knowsley S)
Hughes, Simon (Southwark)
Janner, Hon Greville
John, Brynmor
Jones, Barry (Alyn & Deeside)
Kaufman, Rt Hon Gerald
Kennedy, Charles
Kinnock, Rt Hon Neil
Kirkwood, Archy
Lambie, David
Lamond, James
Leadbitter, Ted
Leighton, Ronald
Lewis, Terence (Worsley)
Litherland, Robert
Livsey, Richard
Lloyd, Tony (Stretford)
Lofthouse, Geoffrey
McCartney, Hugh
McDonald, Dr Oonagh
McGuire, Michael
McKay, Allen (Penistone)
McNamara, Kevin
McTaggart, Robert
McWilliam, John
Madden, Max
Mallon, Seamus
Marek, Dr John
Marshall, David (Shettleston)
Martin, Michael
Mason, Rt Hon Roy
Maxton, John
Maynard, Miss Joan
Meacher, Michael
Meadowcroft, Michael
Michie, William
Millan, Rt Hon Bruce
Mitchell, Austin (G't Grimsby)
Morris, Rt Hon A. (W'shawe)
Morris, Rt Hon J. (Aberavon)
Oakes, Rt Hon Gordon
O'Brien, William
O'Neill, Martin
Park, George
Parry, Robert
Patchett, Terry
Pavitt, Laurie
Pendry, Tom
Pike, Peter
Powell, Raymond (Ogmore)
Radice, Giles
Randall, Stuart
Raynsford, Nick
Redmond, Martin
Rees, Rt Hon M. (Leeds S)
Richardson, Ms Jo
Roberts, Ernest (Hackney N)
Robertson, George
Robinson, G. (Coventry NW)
Rogers, Allan

Rooker, J. W.
 Ross, Ernest (*Dundee W*)
 Ross, Stephen (*Isle of Wight*)
 Rowlands, Ted
 Sedgemore, Brian
 Sheerman, Barry
 Sheldon, Rt Hon R.
 Shields, Mrs Elizabeth
 Shore, Rt Hon Peter
 Short, Ms Clare (*Ladywood*)
 Short, Mrs R. (*W'hampt'n NE*)
 Silkin, Rt Hon J.
 Skinner, Dennis
 Smith, C. (*Isl'ton S & F'bury*)
 Smith, Cyril (*Rochdale*)
 Smith, Rt Hon J. (*M'ds E*)
 Snape, Peter
 Soley, Clive
 Spearing, Nigel
 Steel, Rt Hon David
 Stewart, Rt Hon D. (*W Isles*)
 Stott, Roger
 Strang, Gavin

Straw, Jack
 Thomas, Dafydd (*Merioneth*)
 Thomas, Dr R. (*Carmarthen*)
 Thompson, J. (*Wansbeck*)
 Thorne, Stan (*Preston*)
 Torney, Tom
 Wainwright, R.
 Wardell, Gareth (*Gower*)
 Wareing, Robert
 Weetch, Ken
 Welsh, Michael
 White, James
 Wigley, Dafydd
 Williams, Rt Hon A.
 Wilson, Gordon
 Winnick, David
 Woodall, Alec
 Wrigglesworth, Ian
 Young, David (*Bolton SE*)

Tellers for the Ayes:
 Mr. Frank Haynes and
 Mr. Don Dixon.

NOES

Adley, Robert
 Aitken, Jonathan
 Alexander, Richard
 Alison, Rt Hon Michael
 Amess, David
 Ancram, Michael
 Arnold, Tom
 Ashby, David
 Aspinwall, Jack
 Atkins, Rt Hon Sir H.
 Atkins, Robert (*South Ribble*)
 Atkinson, David (*B'm'th E*)
 Baker, Rt Hon K. (*Mole Vall'y*)
 Baker, Nicholas (*Dorset N*)
 Baldry, Tony
 Banks, Robert (*Harrogate*)
 Batiste, Spencer
 Beaumont-Dark, Anthony
 Bellingham, Henry
 Bendall, Vivian
 Benyon, William
 Best, Keith
 Bevan, David Gilroy
 Biffen, Rt Hon John
 Biggs-Davison, Sir John
 Blackburn, John
 Blaker, Rt Hon Sir Peter
 Bonsor, Sir Nicholas
 Bottomley, Peter
 Bottomley, Mrs Virginia
 Bowden, A. (*Brighton K'to'n*)
 Bowden, Gerald (*Dulwich*)
 Boyson, Dr Rhodes
 Braine, Rt Hon Sir Bernard
 Brandon-Bravo, Martin
 Bright, Graham
 Brinton, Tim
 Brittan, Rt Hon Leon
 Brooke, Hon Peter
 Brown, M. (*Brigg & Cl'thpes*)
 Browne, John
 Bruinvels, Peter
 Bryan, Sir Paul
 Buchanan-Smith, Rt Hon A.
 Buck, Sir Antony
 Budgen, Nick
 Bulmer, Esmond
 Burt, Alistair
 Butcher, John
 Butler, Rt Hon Sir Adam
 Butterfill, John
 Carlisle, John (*Luton N*)
 Carlisle, Kenneth (*Lincoln*)
 Cash, William
 Chalker, Mrs Lynda

Channon, Rt Hon Paul
 Chapman, Sydney
 Chope, Christopher
 Churchill, W. S.
 Clark, Hon A. (*Plym'th S'n*)
 Clark, Dr Michael (*Rochford*)
 Clark, Sir W. (*Croydon S*)
 Clarke, Rt Hon K. (*Rushcliffe*)
 Cockeram, Eric
 Colvin, Michael
 Conway, Derek
 Coombs, Simon
 Cope, John
 Cormack, Patrick
 Corrie, John
 Couchman, James
 Critchley, Julian
 Crouch, David
 Currie, Mrs Edwina
 Dickens, Geoffrey
 Dicks, Terry
 Dorrell, Stephen
 Douglas-Hamilton, Lord J.
 Dover, Den
 du Cann, Rt Hon Sir Edward
 Dunn, Robert
 Durant, Tony
 Edwards, Rt Hon N. (*P'broke*)
 Eggar, Tim
 Emery, Sir Peter
 Evennett, David
 Eyre, Sir Reginald
 Fairbairn, Nicholas
 Fallon, Michael
 Farr, Sir John
 Favell, Anthony
 Fenner, Dame Peggy
 Finsberg, Sir Geoffrey
 Fletcher, Sir Alexander
 Fookes, Miss Janet
 Forman, Nigel
 Forsyth, Michael (*Stirling*)
 Forth, Eric
 Fox, Sir Marcus
 Franks, Cecil
 Fraser, Peter (*Angus East*)
 Freeman, Roger
 Fry, Peter
 Gale, Roger
 Galley, Roy
 Gardiner, George (*Reigate*)
 Gardner, Sir Edward (*Fylde*)
 Gilmour, Rt Hon Sir Ian
 Glyn, Dr Alan
 Goodhart, Sir Philip

Goodlad, Alastair
 Gorst, John
 Gow, Ian
 Gower, Sir Raymond
 Grant, Sir Anthony
 Greenway, Harry
 Gregory, Conal
 Griffiths, Sir Eldon
 Grist, Ian
 Ground, Patrick
 Grylls, Michael
 Gummer, Rt Hon John S
 Hamilton, Hon A. (*Epsom*)
 Hamilton, Neil (*Tatton*)
 Hampson, Dr Keith
 Hanley, Jeremy
 Hannam, John
 Hargreaves, Kenneth
 Harris, David
 Harvey, Robert
 Haselhurst, Alan
 Havers, Rt Hon Sir Michael
 Hawkins, C. (*High Peak*)
 Hawkins, Sir Paul (*N'folk SW*)
 Hayes, J.
 Hayhoe, Rt Hon Sir Barney
 Hayward, Robert
 Heath, Rt Hon Edward
 Heathcoat-Amory, David
 Heddle, John
 Henderson, Barry
 Heseltine, Rt Hon Michael
 Hickmet, Richard
 Hicks, Robert
 Higgins, Rt Hon Terence L.
 Hill, James
 Hind, Kenneth
 Hirst, Michael
 Hogg, Hon Douglas (*Gr'th'm*)
 Holland, Sir Philip (*Gedling*)
 Holt, Richard
 Hordern, Sir Peter
 Howard, Michael
 Howarth, Alan (*Strat't-d-on-A*)
 Howarth, Gerald (*Cannock*)
 Howell, Rt Hon D. (*G'dldford*)
 Howell, Ralph (*Norfolk, N*)
 Hubbard-Miles, Peter
 Hunt, David (*Wirral W*)
 Hunt, John (*Ravensbourne*)
 Hunter, Andrew
 Irving, Charles
 Jackson, Robert
 Jessel, Toby
 Johnson Smith, Sir Geoffrey
 Jones, Gwilym (*Cardiff N*)
 Jones, Robert (*Herts W*)
 Joseph, Rt Hon Sir Keith
 Kershaw, Sir Anthony
 Key, Robert
 King, Roger (*B'ham N'field*)
 Knight, Greg (*Derby N*)
 Knight, Dame Jill (*Edbaston*)
 Knowles, Michael
 Knox, David
 Lamont, Rt Hon Norman
 Lang, Ian
 Lawler, Geoffrey
 Lawrence, Ivan
 Lawson, Rt Hon Nigel
 Lee, John (*Pendle*)
 Leigh, Edward (*Gainsbor'gh*)
 Lennox-Boyd, Hon Mark
 Lester, Jim
 Lewis, Sir Kenneth (*Stamf'd*)
 Lightbown, David
 Lilley, Peter
 Lloyd, Sir Ian (*Havant*)
 Lloyd, Peter (*Fareham*)
 Luce, Rt Hon Richard

Lyell, Nicholas
 McCrindle, Robert
 McCurley, Mrs Anna
 Macfarlane, Neil
 MacGregor, Rt Hon John
 MacKay, Andrew (*Berkshire*)
 MacKay, John (*Argyll & Bute*)
 Maclean, David John
 McLoughlin, Patrick
 McNair-Wilson, M. (*N'bury*)
 McNair-Wilson, P. (*New F'st*)
 McQuarrie, Albert
 Madel, David
 Major, John
 Malins, Humphrey
 Malone, Gerald
 Maples, John
 Marland, Paul
 Marlow, Antony
 Marshall, Michael (*Arundel*)
 Mates, Michael
 Mather, Sir Carol
 Maude, Hon Francis
 Mawhinney, Dr Brian
 Maxwell-Hyslop, Robin
 Mayhew, Sir Patrick
 Mellor, David
 Merchant, Piers
 Meyer, Sir Anthony
 Miller, Hal (*B'grove*)
 Mills, Iain (*Meriden*)
 Mills, Sir Peter (*West Devon*)
 Miscampbell, Norman
 Mitchell, David (*Hants NW*)
 Moate, Roger
 Monroe, Sir Hector
 Montgomery, Sir Fergus
 Moore, Rt Hon John
 Morris, M. (*N'hampton S*)
 Morrison, Hon C. (*Devizes*)
 Morrison, Hon P. (*Chester*)
 Moynihan, Hon C.
 Mudd, David
 Neale, Gerrard
 Nelson, Anthony
 Neubert, Michael
 Newton, Tony
 Nicholls, Patrick
 Norris, Steven
 Onslow, Cranley
 Oppenheim, Phillip
 Ottaway, Richard
 Page, Sir John (*Harrow W*)
 Page, Richard (*Herts SW*)
 Parkinson, Rt Hon Cecil
 Patten, J. (*Oxf W & Abgdn*)
 Pattie, Rt Hon Geoffrey
 Pawsey, James
 Peacock, Mrs Elizabeth
 Pollock, Alexander
 Porter, Barry
 Portillo, Michael
 Powell, William (*Corby*)
 Powley, John
 Prentice, Rt Hon Reg
 Price, Sir David
 Prior, Rt Hon James
 Proctor, K. Harvey
 Pym, Rt Hon Francis
 Raffan, Keith
 Reason, Rt Hon Timothy
 Rathbone, Tim
 Rees, Rt Hon Peter (*Dover*)
 Renton, Tim
 Rhodes James, Robert
 Rhys Williams, Sir Brandon
 Ridley, Rt Hon Nicholas
 Ridsdale, Sir Julian
 Rifkind, Rt Hon Malcolm
 Rippon, Rt Hon Geoffrey

Roberts, Wyn (*Conwy*)
 Robinson, Mark (*N'port W*)
 Roe, Mrs Marion
 Rossi, Sir Hugh
 Rost, Peter
 Rowe, Andrew
 Ryder, Richard
 Sackville, Hon Thomas
 Sainsbury, Hon Timothy
 St. John-Stevas, Rt Hon N.
 Sayeed, Jonathan
 Shaw, Giles (*Pudsey*)
 Shaw, Sir Michael (*Scarb'*)
 Shelton, William (*Streatham*)
 Shepherd, Richard (*Aldridge*)
 Shersby, Michael
 Silvester, Fred
 Sims, Roger
 Skeet, Sir Trevor
 Smith, Sir Dudley (*Warwick*)
 Smith, Tim (*Beaconsfield*)
 Soames, Hon Nicholas
 Speed, Keith
 Speller, Tony
 Spencer, Derek
 Spicer, Jim (*Dorset W*)
 Spicer, Michael (*S Worcs*)
 Squire, Robin
 Stanbrook, Ivor
 Stanley, Rt Hon John
 Steen, Anthony
 Stern, Michael
 Stevens, Lewis (*Nuneaton*)
 Stewart, Allan (*Eastwood*)

Stewart, Andrew (*Sherwood*)
 Stewart, Ian (*Hertf'dshire N*)
 Stokes, John
 Stradling Thomas, Sir John
 Sumberg, David
 Tapsell, Sir Peter
 Taylor, John (*Solihull*)
 Tebbit, Rt Hon Norman
 Temple-Morris, Peter
 Terlezki, Stefan
 Thatcher, Rt Hon Mrs M.
 Thomas, Rt Hon Peter
 Thompson, Donald (*Calder V*)
 Thompson, Patrick (*N'ich N*)
 Thorne, Ncil (*Ilford S*)
 Thornton, Malcolm
 Thurnham, Peter
 Townend, John (*Bridlington*)
 Townsend, Cyril D. (*B'heath*)
 Tracey, Richard
 Trippier, David
 Trotter, Neville
 Twinn, Dr Ian
 van Straubenzee, Sir W.
 Vaughan, Sir Gerard
 Viggers, Peter
 Waddington, Rt Hon David
 Wakeham, Rt Hon John
 Waldegrave, Hon William
 Walker, Bill (*T'side N*)
 Walker, Rt Hon P. (*W'cester*)
 Waller, Gary
 Walters, Dennis
 Ward, John

Wardle, C. (*Bexhill*)
 Warren, Kenneth
 Watson, John
 Watts, John
 Wells, Bowen (*Hertford*)
 Wells, Sir John (*Maidstone*)
 Wheeler, John
 Whitfield, John
 Whitney, Raymond
 Wiggin, Jerry
 Wilkinson, John

Wolfson, Mark
 Wood, Timothy
 Woodcock, Michael
 Yeo, Tim
 Young, Sir George (*Acton*)
 Younger, Rt Hon George

Tellers for the Noes:
 Mr. Robert Boscawen and
 Mr. Tristan Garel-Jones.

Question accordingly negated.

Question, That the proposed words be there added, put forthwith pursuant to Standing Order No. 30 (Questions on amendments), and agreed to.

MR. SPEAKER forthwith declared the main Question, as amended, to be agreed to.

Resolved,

'That this House congratulates Her Majesty's Government on the success of its economic policies which have led to six years of healthy, balanced economic growth, have brought inflation down to its lowest levels for nearly two decades, have enabled industry to become more profitable than at any time since 1964, have brought the fastest productivity growth among major European countries since 1979 and have fostered the conditions in which a million new jobs have been created throughout the country since 1983.'

[Continued in column 841]

...ed as looking like telephone numbers. To justify tax cuts as a way of making the rich pay more is greed dressed up to look like benevolence.

If the Chancellor disputes that judgment—I have no doubt that he will—

The Chancellor of the Exchequer (Mr. Nigel Lawson): I shall certainly dispute it.

Mr. Hattersley: The right hon. Gentleman has said that he will certainly dispute it, so I offer him the chance to prove me wrong. He has in his possession the Brown report on tax rates and their incentive effect. He has suppressed that report because it is not convenient to his case and it proves him wrong.

Mr. Lawson: I advise the right hon. Gentleman that that document, which originates from a commission during the period of office of the Labour Government and which he alleges that I have suppressed, has been in the Library of the House of Commons for over a month.

Mr. Hattersley: The right hon. Gentleman knows that it is not in its full and complete form and that in its full and complete form it will prove me right and him wrong.

Mr. Lawson: What is wrong with that?

Mr. Hattersley: What is wrong with it not being in its full and complete form is that, in its full form, it proves me right and him wrong. [HON. MEMBERS: "Withdraw."]

The Government do not have to act on unemployment because it is now beginning a genuine decline. The excuse given is that the Government have created jobs at such a rate that no change of policy is necessary. However, the truth is that we have lost a million jobs in this country since the Tory Government were elected. Recent claims about reductions in the number of people unemployed are largely the result of increases in the so-called schemes and measures.

There are 46,000 young people on youth training schemes and 55,000 people on unemployed schemes. None of those people is doing the real job that the Prime Minister promised in 1979. Few of them are doing real training to improve the skills of our work force which are desperately needed. Some of them, as illustrated last Thursday on the "This Week" programme on television that examined youth training schemes that were nominated for such examination by the Government, are carrying out tasks that are so inappropriate to modern industrial needs that they humiliate the participants and shame the Government who descend to such deceit to reduce the unemployment position.

Mr. James Couchman (Gillingham): *rose*—

Mr. Hattersley: We no longer have a thread of coherent and consistent policy from the Government. Instead we have cosmetics. We do not have a constant thread of industrial or fiscal policy from the Government. We have cosmetics. That is why, after seven years of boasting about public expenditure cuts — admittedly calculating the numbers in different ways according to the Chancellor's convenience—we now have a year of public expenditure increases.

I should like to ask the Chancellor another question, still vainly believing that he might attempt some sensible answers. If the public expenditure increases are right this year, why were they wrong last year and why will they be wrong again next year? What is so special about this year

apart from the fact that there will be a general election? That is why we shall have tax cuts, which are socially and economically wrong and unsustainable.

I must advise the Chancellor of something that he already knows: whichever party wins the general election, the tax cuts that he makes in this Budget will be reversed. I make it absolutely clear that we shall vote against tax cuts and that when we are elected, we shall restore the level of taxation to approximately what it is now.

Mr. Forman (Carshalton and Wallington) *rose*—

Mr. Hattersley: That is the truth about both parties.

However, as well as restoring tax cuts, the Tory party will make deep cuts in public expenditure. It is planning them now. The White Paper that was published two weeks ago reveals that the Government plan to cut public expenditure on the capital account. The difference between the parties on tax cuts and what follows is the Labour party's willingness to face the facts and the Conservative party's refusal to tell the truth.

Mr. Forman *rose*—

Mr. Hattersley: The real Tory slogan for the next election is, "Vote now, pay later". We know how the Chancellor will react to this sudden exposure to the truth. In a moment there will be long passages of bogus statistics, rather like those that I quoted at the beginning of my speech. [Laughter.] There will be passages of ritual abuse and the insistence that everything is for the best in the best of all free enterprise worlds. The Chancellor will ask the people to believe him when he says that if he cuts taxes, he will not increase them again. Every Conservative Government in the recent past have been prepared to deceive the people over taxation.

The Government came to power in 1979 committed to cutting overall taxes and they repeated that promise four years later. Our total annual tax bill is now £29 billion higher than it was on the day when the Labour party left office. In 1955, a Conservative Government, who were in much the same position as the present Government, cut taxes within a few weeks of a general election and reimposed them a few weeks after the election.

If the House wants a more up-to-date example I shall gladly give it one. During the general election campaign in 1979 Labour Members warned that, once elected, the Conservative Government would double VAT. "Double VAT" was exactly the phrase that I used at a press conference at Transport house. The present Foreign Secretary could not have been more explicit in his denial. At Conservative Central Office on 21 April 1979 he said:

"We have absolutely no intention of doubling VAT."

The *Daily Mail*, which tomorrow will undoubtedly dismiss any chants of crisis, listed the allegation that the Tory party would double VAT as a Labour lie. Within three weeks of the election, VAT was increased from 8 per cent. to 15 per cent. [Interruption.]

The truth is that the Tory party has never been trusted over its taxation proposals when a general election has been in the air. Conservatives cheated the country in 1979 and I have no doubt that given the chance they will do so again. Fortunately, that chance will be denied them.

5.42 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): I beg to move, to leave out from "House" to the end of the Question and to add instead thereof:

[Mr. Nigel Lawson]

"congratulates Her Majesty's Government on the success of its economic policies which have led to six years of healthy, balanced economic growth, have brought inflation down to its lowest levels for nearly two decades, have enabled industry to become more profitable than at any time since 1964, have brought the fastest productivity growth among major European countries since 1979 and have fostered the conditions in which a million new jobs have been created throughout the country since 1983."

This is not only the first economic debate of 1987; it is also the first since the tragically premature death of the Liberal party's economic spokesman, David Penhaligon. His breezy good humoured, but always thoughtful contributions to our debates will be greatly missed. [HON. MEMBERS: "Hear, hear."] No hon. Member was more widely liked.

I turn now to the speech of the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley). The fact that he has to resort to predictions of bad times just around the corner—I shall examine that proposition in a moment—is eloquent testimony that even the right hon. Gentleman in his heart of hearts at last recognises how well the economy is doing now.

We are now in our sixth successive year of steady growth, and still going strong. Year in, year out, we have been averaging getting on for 3 per cent. growth a year. Indeed, since the last election, ours has been the fastest growing major economy in the European Community; in sharp contrast to the 1960s and 1970s, when we were falling ever further behind.

We have achieved this while getting inflation down and keeping it down—a combination unknown for a generation. Inflation last year, at 3½ per cent. was the lowest for almost 20 years, and although this year it will be slightly higher than that, it will still be far lower than anything the last Labour Government even so much as aspired to, let alone attained.

Moreover, the growth that we have seen and that we shall continue to see has been balanced between consumption and investment. Indeed, for the whole of the period since the upswing began—[*Interruption.*] Opposition Members should listen to the truth. During the whole of the period since the upswing began, while consumer spending has risen at an average of 3 per cent. per year, investment has risen at 4 per cent. a year—twice as fast as the European Community average. By contrast, under the Labour Government's brief upswing from 1975 to 1979, consumer spending grew twice as fast as investment. So much for the right hon. Gentleman's strictures about the balance between consumption and investment under this Government.

When we first took office in 1979, inflation was in double figures and accelerating fast. Not only have we brought it down dramatically, but our relative performance, although still not good enough, has markedly improved. Under Labour, the United Kingdom's inflation averaged seven percentage points more than in the world's seven major industrialised nations as a whole. During the whole of our term of office so far, the inflation gap has been reduced to two percentage points.

Mr. Hattersley: Could we now have the proper comparison—the percentage difference between Labour and Europe and the percentage difference between this Government's inflation record and the European record?

Mr. Lawson: The comparison that I gave is the correct comparison, accepted by all the international economic bodies.

Or look at that other perennial British weakness of the past—our persistently low growth of productivity, which compared so badly with that of our major competitors. Here, too, the picture has been transformed, with productivity since 1979 growing faster in Britain than in any of our major competitors with the solitary exception of Japan.

Inevitably, in the short term, this sharp improvement in productivity, although badly needed—this was recognised on all sides of the political divide at the time—meant fewer jobs. But that phase is now behind us. During the present Parliament, the number of jobs has risen steadily, quarter by quarter, without a break—the best performance for almost 30 years. Altogether the number of jobs has grown since 1983 by more than a million—a bigger increase than in the whole of the rest of the European Community put together. [HON. MEMBERS: "Where?"] It is now clear from the latest figures that unemployment—I hope that Opposition Members will listen to this because they profess to care about unemployment—is now on a steady downward trend—[HON. MEMBERS: "Where?"]—something which the whole House will welcome.

What of exports and the external position of the British economy? Since the upswing began, while most of Europe has seen its share of the world markets decline, ours has held steady and exports continue to rise fast. As for the external position as a whole, this is now the strongest that we have known at any time since the war. Our net overseas assets are second only to those of Japan—a far cry from the relative pittance the present Government inherited in 1979.

It is against that background that we have to assess the fact, which assumed such momentous proportions in the speech that we have just heard from the right hon. Member for Sparkbrook, that our balance of payments is now in deficit on current account. Once again, the contrast with the Labour years is instructive. During the whole of Labour's period of office there was a cumulative deficit on current account which is now put at some £5 billion. During the first seven years of the present Conservative Government, we were continuously in surplus, to a cumulative total of £21 billion. [*Interruption.*] Those are the facts.

Since then, the collapse of the oil price has for the time being pushed us into deficit, but that was only to be expected. It is clearly arithmetically impossible for every economy in the world to be in surplus every year, even though it is not necessary to be in deficit four years out of five, as the Labour party was when it was in office.

What matters is that we should keep control of our domestic costs, so that the exchange rate adjustment that has followed the oil price collapse and which is now completed, will lead in time to a compensating improvement on our non-oil account, both visible and invisible. In this context, the most recent figures for the growth in the United Kingdom's unit labour costs are most encouraging.

Of course, good news for the British economy is clearly bad news for Labour. The right hon. Member for Sparkbrook is determined that there is a disaster in the offing. The trouble is that we have heard his predictions before.

In May 1983, he confidently predicted that inflation would rocket after the election and within a year would be in double figures. That is what he said. The outcome was that a year later inflation was 5 per cent. Of course, it has since fallen further still. That was Old Roy's prediction for 1983.

He was at it again at the end of 1984, warning that over the next 12 months we faced what he described as a "slump" — I quote his very word, that is what he forecast. The outcome was that in 1985 we grew faster than any other country in Europe.

He was at it again in 1985, confidently predicting lower living standards. That is what he was predicting then. The outcome was that living standards rose to record levels and they are still rising. Indeed, the right hon. Gentleman is complaining that they are rising too fast.

Now, of course, the right hon. Gentleman is predicting an economic crisis. No wonder share prices have risen sharply since the latest gipsy's warning first hit the Reuter screens. The markets have learned from long experience the precise value of the right hon. Gentleman's predictions of gloom and doom.

Ms. Clare Short (Birmingham, Ladywood): Will the Chancellor give way?

Mr. Lawson: The plain fact is that, leaving aside the risk of a world economic crisis, which did not appear to be what the right hon. Gentleman had in mind, the only thing that could precipitate an economic crisis in Britain would be the election of the right hon. Gentleman and his colleagues to office.

Ms. Clare Short: I am grateful to the Chancellor for giving way. He has put his finger on the spot and he has shown the division between the view on Conservative Benches and that on Opposition Benches about what is a healthy economy. The Chancellor's view of a healthy economy is governed by share prices, ours by jobs for people and long-term wealth for the economy.

Mr. Lawson: I have already mentioned jobs. That is something which this side of the House attaches great importance to. I am sure that the hon. Lady will welcome the fact that there are now over 1 million more people in work in this country than there were at the time of the last general election.

Of course, economic crisis is what we always associate with the Labour party. That is what occurred when the Labour party was last in office. It is instructive, as we have just published our public expenditure White Paper which my right hon. Friend the Chief Secretary to the Treasury will be opening a debate about in due course in the House, to look back at Labour's public expenditure White Paper of 1977, published exactly 10 years ago this month.

The conduct of economic policy, as the House will recall, had by then been handed over to the International Monetary Fund to which the Labour Government had had to go, cap in hand, the previous September, as they became engulfed in the worst economic crisis since the war. The balance of payments 10 years ago this month was in deficit. Inflation stood at 16½ per cent. Productivity growth, according to the White Paper, was barely two thirds of the average for the major OECD countries. Strikes were rife. The public sector borrowing requirement had been allowed to rise to the equivalent, in today's terms, of £35 billion. To recover from this, the White

Paper announced plans to cut public expenditure by the equivalent, in today's terms, of £4 billion. Not only were the cuts savage, but they were concentrated heavily, if not exclusively, on capital spending.

From its inception in 1974 to the IMF crisis of 1976, the Labour Government had boosted current public expenditure by a staggering 17 per cent. in real terms. When they were forced to cut, the Labour Government found themselves unable to undo the current spending spree they had unleashed, and savaged capital spending instead.

As a result, during the whole of their time in Office, public sector capital spending fell by 25 per cent., with capital spending on the Health Service slashed by more than 30 per cent. and on major roads by almost 35 per cent. That was the inheritance of devastation that we had to make good — as we have been, with spending on major roads up 30 per cent. and on hospitals up by 31 per cent. in real terms since 1979.

Mr. Neil Kinnock (Islwyn): What about housing?

Mr. Lawson: Since the Leader of the Opposition mentions housing, I will add that spending on housing renovation is up by over 50 per cent.

So much for the right hon. Member for Sparbrook's cant about the public sector capital stock which his Government ran down and which we have been seeking to rebuild.

However, I have to concede that the right hon. Member for Sparbrook was on stronger ground when he spoke about the differences in prosperity in different parts of the country. For there are undoubtedly regional and local variations, just as there always have been and just as there are in other industrial countries. On clear reason for this is the pattern of industry that history has left us. It is not a simple matter of north versus south. There are prosperous parts of the north just as there are areas of dereliction in the south — and I speak as a midlands Member which, according to the Labour party definition, places me in the north.

Mr. D. N. Campbell-Savours (Workington): Will the Chancellor give way?

Mr. Lawson: But in general, jobs have been hardest hit wherever the local or regional economy was most heavily dependent on traditional manufacturing industry — not because all such industry is in decline, although some is.

Mr. Campbell Savours: Will the Chancellor give way now?

Mr. Lawson: In a moment. But even those manufacturing industries not in decline have expanded their output while reducing the number of workers employed. In general, traditional manufacturing industry tended to locate itself in the midlands and the north. If the problem has been more acute in Britain than in most other countries, that is only because, thanks to Labour policies, our manufacturing industry was the most heavily overmanned to start with.

Mr. Kinnock: Does the shift in the industrial pattern of development which the Chancellor has described with some accuracy explain the fact that since 1979 our trade in high-tech products has moved from a surplus of £1 billion to a deficit of £2 billion under this Government?

Mr. Lawson: The matter that I am talking about has nothing to do with our trade in high tech. Our exports of high tech, have been increasing very substantially.

Mr. Campbell-Savours: Give way.

Mr. Lawson: I have given way once. I will give way again but not now.

The difference to which I have alluded is also an inner-city problem and once again most of the big industrial cities are in the north. This Government have taken a whole battery of measures to help those parts of the country that have suffered from the highest levels of unemployment.

Mr. Campbell-Savours: Give way now.

Mr. Lawson: I will finish this passage first.

Regional assistance, although reduced in overall size, has been much more closely targeted on jobs. We have multiplied spending on top of that on specific employment and training measures tenfold and this massive expenditure has in practice been heavily skewed towards the north. We have also greatly expanded urban development grant spending, where each £1 of public money has levered in £4 of private sector financing. My right hon. and learned Friend the Paymaster General, when he winds up, will mention some of the other initiatives that we have taken.

Mr. Campbell-Savours: Is the Chancellor aware that, in the words of the Confederation of British Industry, one of the biggest impediments to regional growth is the two-month moratorium that has been introduced on the payment of regional development grants? Is he further aware that people in industry all over the country are complaining, and that that moratorium is having a devastating effect on regions such as mine in Cumbria? Will he get together with the Secretary of State for Trade and Industry and reconsider the matter, rescind it and ensure that development takes place and that the grants are paid when they should be paid?

Mr. Lawson: If the hon. Gentleman had looked at the White Paper published earlier this month, he would have seen that provision for regional expenditure had been increased. There is an obstacle that we have come up against time after time. That has been the behaviour of hard Left Labour local authorities.

Mr. Robert C. Brown (Newcastle upon Tyne, North)
rose—

Mr. Lawson: I have just given way.

As Robert Kilroy-Silk — a name known to Opposition Members—said in his latest book:

"The Militants and their ilk in Liverpool are the biggest deterrents to job creation on Merseyside that there have ever been."

The same goes for other anti-business Socialist local authorities up and down the country. Time after time that is the problem.

Mr. Robert N. Wareing (Liverpool, West Derby)
rose—

Mr. Lawson: Although manufacturing output overall is rising strongly, the decline in employment in the traditional manufacturing industries is unlikely to reverse itself fully, and to the extent that it does, there is likely to be a constant drift from the cities to the outlying areas. How, then, to attract new firms and industries —

manufacturing as well as service industries—to fill the gap? Certainly not with councils such as that of Liverpool. Nor is that the only one.

Mr. Hattersley: The right hon. Gentleman must have misheard my hon. Friend the Member for Workington (Mr. Campbell-Savours). He asked the specific question, why a moratorium and how can he justify it? Will he answer that now?

Mr. Lawson: It is not a moratorium. It is a delay in payment that allows a significant increase in regional assistance over what was previously planned. That is clearly stated in the White Paper.

I say this in all sincerity to the right hon. Member for Sparkbrook and Opposition Members: it does not help to imply, as the Opposition all too often do, that the whole of the north is a disaster area, a picture of industrial devastation. That is just the sort of image that does the most damage to the north and, of course, it is not true either. The revival of the hard-hit regions of our country will come about only on the basis of enterprise, whether local or coming in from outside. The Government's task is to create, so far as local government allows us to, the climate for enterprise of that kind.

Mr. Wareing: Is the right hon. Gentleman aware of a survey that was recently carried out for the Institute of Directors? The members of the institute were asked which of, 11 different factors they thought were the cause of lack of investment and whether they were relevant to business locational decisions. Local authority rates appeared to be the eight factor among the 11. Most of the problems were related to locational factors, having no bearing whatsoever on the activities of local authorities. That includes Liverpool, where some people, including the Government, think the rates have been kept too low. That is why councils are currently facing the law.

Mr. Lawson: I regret having given way, because that was more of a speech than an intervention. If the hon. Gentleman thinks that business men, particularly small business men, are indifferent to the level of local authority rates, he is not living in the real world. He is even more living in cloud cuckoo land if he thinks that the only anti-business practice of some Labour local authorities—not all—is high rates. There are many other impediments that they put in the way of business, including the refusal of planning permission and so on.

Mr. Campbell-Savours: On a point of order, Mr. Deputy Speaker. You will have heard the Chancellor make a statement about the controls on regional development grant not being a moratorium. May I refer you to page 93 of the White Paper, which the Chancellor said that I had not seen? That page refers specifically to moratoria—
[*Interruption.*]

Mr. Deputy Speaker: Order. The hon. Gentleman knows perfectly well that that is a matter for debate, not a point of order.

Mr. Lawson: I am well aware of what is in volume II of the White Paper and I stand entirely by what I said.

Fortunately, all the signs are that employment prospects have improved considerably in the north as well as in the south, as the economy surges forward.

Mr. Tony Marlow (Northampton, North): My right hon. Friend said that there were other habits and actions

of Socialists that caused problems with employment. Has my right hon. Friend seen the document from the Library that sets out the level of unemployment by constituency? Is he aware that there is a close correlation between high levels of unemployment and Socialism? For example, in London the 11 constituencies with the highest levels of unemployment all have Labour Members of Parliament and they all have Socialist local authorities. Is it not the case that the main creative force behind unemployment is Socialism?

Mr. Lawson: As usual, my hon. Friend makes a telling point.

My own local paper, the *Leicester Mercury*, which I was looking at on Thursday, carried 17 pages of job advertisements. That is substantially up on a year ago. I had some inquiries made—

Mr. Campbell-Savours: Get back to the moratorium.

Mr. Lawson: I am talking about jobs, which the hon. Gentleman professes to be concerned about — [Interruption.] The hon. Gentleman clearly does not care about jobs.

I had inquiries made of some other leading provincial newspapers. Job advertising in the *Manchester Evening News* last week was 11 per cent. up on a year ago. For the *Newcastle Evening Chronicle* the increase was around 30 per cent. For the *Birmingham Evening Mail*, there was a rise of 40 per cent. in jobs advertised, and from the *Sheffield Star*, an estimated 50 per cent. increase in the number of jobs advertised compared with a year ago.

Lastly, in this context, given the terms of the Opposition's motion, let me add that there is no evidence whatever that industrial mergers have any responsibility for regional and local differences in employment. The right hon. Member for Sparkbrook referred briefly to the BTR bid for Pilkington. I understand that it must be galling for him to find that his fox has been shot. The plain fact is that my right hon. Friend the Secretary of State for Trade and Industry correctly accepted the clear advice of the Director General of Fair Trading that the proposed merger did not raise significant competition issues. BTR's withdrawal from the bid this afternoon in the light of Pilkington's dramatically improved profit forecast, is equally clear vindication of the Government's view that other issues are generally best left to the verdict of the market.

As for "merger mania"—I quote from the motion tabled by the Opposition—I pause merely to observe that in the 1960s that was precisely the declared industrial policy of the Labour Government through the agency of the so-called Industrial Reorganisation Corporation.

Mr. Robert C. Brown rose—

Mr. Lawson: I must get on with my speech.

I turn now to the City, because the right hon. Member for Sparkbrook referred to the City at some length in his speech. While employment in manufacturing has been declining, in the service industries it has been steadily growing, and nowhere more so than in the financial services industry. Over the past five years, the numbers employed in the financial services industry have been growing at the rate of 5 per cent. a year, to reach 2¼ million at the latest count. The contribution of the financial sector to Britain's invisible trade surplus is now running at some £7½ billion a year.

By no means all of that is concentrated in London. Edinburgh, for example, is a major financial centre in its

own right, and Scotland now employs more people in the financial services industry than in steel, coal mining and shipbuilding put together. But there is no doubt that it is London that is the pre-eminent financial centre, not merely of the United Kingdom but of Europe and, arguably, of the world.

To maintain that position, it is essential that London zealously preserves its worldwide reputation for integrity and probity, and we have taken effective steps to that end. Soon after taking office, we legislated to make insider trading illegal, which it never was under Labour and we are now giving urgent consideration to making it an arrestable offence.

Mr. John Smith (Monklands, East): Will the right hon. Gentleman give way?

Mr. Lawson: I shall give way in a moment.

Following the report of the Roskill committee, we are strengthening our armoury against financial fraud, with the setting up of a new serious fraud office, changes in court procedures to make it easier to bring charges and to present evidence, and increases in the penalties for fraud and corruption, all with precious little help, I have to say, from the Opposition.

Mr. John Smith: Before the Chancellor's imperfect recollection leads him into greater error, let me remind him that in 1978, as Secretary of State for Trade, I introduced a Companies Bill that made insider trading a criminal offence. If we had had co-operation from the Conservative Opposition at the time, the Bill would have been on the statute book before the 1979 general election. The Companies Act 1980 followed the provisions that the Labour Bill introduced to the House of Commons. Will the Chancellor now withdraw what he said?

Mr. Lawson: I shall withdraw nothing. As the right hon. and learned Member has owned up, the last Labour Government had a deathbed repentance. Right at the end of their term of office, they suddenly got around to the question of insider trading. They were never able to get it on the statute book during their period in office — [Interruption.]

Of course, we have also put on the statute book the new Financial Services Act to ensure the effective regulation of the securities industry. How this will work out in practice it is still too soon to give a final verdict. Many aspects of the Act are not yet in operation. However, let no one be under any illusion that there is anything soft about the regime that it introduces. Although built on the foundation of the City's traditional pattern of self-regulation, it is a fully statutory system, and one which, incidentally, gives inspectors appointed by the Department of Trade and Industry far more power than is possessed by the SEC in America. That is a fact.

Mr. Allan Rogers (Rhondda): Will the Chancellor give way?

Mr. Lawson: If the hon. Gentleman is an expert on this subject, certainly.

Mr. Rogers: Before the Chancellor concludes his remarks, will he give the House details of the number of inspectors who look for or follow up allegations of fraud in the City of London, compared with the number of inspectors who look for social security fraud?

Mr. Lawson: If the hon. Gentleman has any evidence or suspicion of fraud, will he please give it either to me or

[Mr. Lawson]

to my right hon. Friend the Secretary of State for Trade and Industry, and appropriate action will be taken. If the hon. Gentleman has no such evidence, he should not pretend that there is anything going on there.

Mr. Bill Walker *rose*—

Mr. Lawson: I shall not give way.

I give the House this assurance: the Government are determined to act promptly and effectively whenever such action is warranted, and this has been amply demonstrated by the decision to put DTI inspectors into Guinness, and by the developments that have already occurred as a result. I give the House a further assurance: should the Guinness inspectors at any time uncover any evidence that would warrant a criminal prosecution, that evidence will be passed on to the appropriate authorities, irrespective of whether the inspectors have completed their own inquiries.

Attention has also, inevitably, been directed to Morgan Grenfell, Guinness's financial advisers. As a bank, Morgan Grenfell is subject to the supervisory authority of the Bank of England and to the terms of the Banking Act.

The Bank of England was closely involved in setting up and determining the terms of reference of the high-level internal inquiry into the management of Morgan Grenfell, which was announced last week and, at the governor's suggestion, the inquiry team is now to be strengthened by the addition of a senior independent auditor. The group chief executive of Morgan Grenfell and the director at the head of its corporate finance division have today announced their resignations, and an executive committee of the board will manage the group pending the appointment of replacements. Meanwhile, the governor of the Bank of England has asked for an interim report by the end of this month, in the light of which the Bank of England will decide whether further action is required.

Any information suggesting criminal activity will, of course, be passed promptly to the appropriate authorities. In particular, the Bank of England is keeping both me and the Department of Trade and Industry fully informed.

Ours is the party of law and order, and this Government are determined to do all in their power to prevent, to detect and to punish wrongdoing, wherever it may occur.

Mr. David Clelland (Tyne Bridge): Will the Chancellor care to tell the House when was the last time, before the Government came to office riots occurred in the inner-city streets?

Mr. Lawson: I regret that there are many occasions of riots in our long history, but I am glad to say that none is taking place at present.

But it is important that, serious though the matter of City wrongdoing is, we keep it in perspective. As the hon. Member for Dagenham (Mr. Gould) at least has conceded, the guilty are a tiny minority. The overwhelming majority of those who work in the City are honest and are as eager to root out the wrongdoers and their practices as anyone in this House.

The attempt by the right hon. Member for Sparkbrook to smear the entire City with guilt by association, describing it as "sleazy", "seedy", "an alien force" and "the least reputable sector of the economy" is wholly false and insofar as anyone believes him—which may not be many—highly damaging to this

country, for which the City's reputation is a priceless national asset. Indeed, if the truth be told, it is the very success of the City in the world market that the Labour party cannot abide. For Labour is comfortable only with failure. Indeed, Labour Members understand nothing else. They knew nothing else but failure when they were last in office, and would condemn our country to even greater failure were they ever to return to office.

Mr. Robert Sheldon (Ashton-under-Lyne): Of course we are pleased with the successes in the City of London. Is the right hon. Gentleman aware that, without the Ivan Boesky affair, and without the SEC in the United States, it is doubtful whether any of these allegations would have been made, let alone the facts discovered?

Mr. Lawson: The right hon. Gentleman should have the courage to concede—he knows more than his colleagues on the Labour Front Bench—that we have acted promptly and effectively in each of these cases and in every case that has come to light.

What is the Opposition's economic prescription? The right hon. Member for Sparkbrook has, I concede, by his standards been relatively honest and open about it. It is higher Government spending, higher borrowing and higher taxes. He has made that plain.

Let me take each of them in turn—first, spending. How much higher spending, and how is it to be financed? As my right hon. Friend the Chief Secretary has once again today pointed out, Labour's spending pledges add up to at least an extra £28 billion a year. How on earth do they imagine that they are going to finance that? I know that the right hon. Member for Sparkbrook tries to slide away from the £28 billion, by talking as he did today—or he has on previous occasions at any rate—of Labour's £3½ billion poverty package and £6 billion jobs package. Does that then mean that he is resiling from Labour's repeated promises to spend more on education, more on the Health Service, and more on overseas aid, to name but three? Will he answer? I will gladly give way to the right hon. Gentleman.

The right hon. Gentleman is struck dumb. He is not able to answer. Hon. Members will draw their own conclusion that the £28 billion still stands.

Let us give the right hon. Gentleman the benefit of the doubt. Let us suppose that he is resiling from all these pledges on health, education, overseas aid and the rest because they do not come in either the jobs package or the poverty package. Let us suppose that he is resiling from them and many others. I remind the House that to pay for the £28 billion of additional public spending—

Mr. Hattersley *rose*—

Mr. Lawson: I am not surprised that the right hon. Gentleman does not like this. It would mean a basic rate of income tax of 53p in the pound.

Let us suppose that the right hon. Gentleman has won his desperate battles with his pledge-happy colleagues. How is the £9½ billion to be financed?

Mr. Hattersley *rose*—

Mr. Lawson: In a moment. Some £3½ billion of it, we are told, will be financed by reversing the reductions that the Government have allegedly made in the taxation of the higher paid and the rest by an extra £6 billion of Government borrowing. It beggars belief. The right hon. Member for Sparkbrook claims that the economy is

priceless the very Labour only with thing else. are last in a greater

782 783

one. Heating, that interest rates are too high and that there is a crisis round the corner, and he blithely proposes to borrow an extra £6 billion.

Mr. Hattersley: On this exact question, I spent, I think, the first quarter of an hour of my speech telling the Chancellor that we believed that if he had £3 billion to spend it would be better spent on education, health, pensions and housing than on tax cuts. I ask him to tell the House why he thought that tax cuts were a better choice than health, education, pensions and housing. That is the issue. Will the right hon. Gentleman explain the answer now?

Mr. Lawson: The point is the one I put to the right hon. Gentleman.

It is not even as if the so-called poverty and jobs packages consisted exclusively of capital spending. At least three quarters of the proposed total would be on current spending. So why does not the right hon. Gentleman take the honest course and admit that every penny of it would have to be raised by higher taxation on ordinary working people? Why does he not admit that? Is not the whole of the Opposition's case, which we heard again today, that public expenditure is in every way preferable to private expenditure and that the burden of taxation is of no consequence? Is that not their proposition? Why not at least have the virtue of consistency and promise to restore the basic rate of income tax from the present level of 29p to the 33p which we inherited from Labour? I wonder why the right hon. Gentleman does not promise that.

Apparently, as far as the right hon. Gentleman is prepared to go, at least until now, to promise, in the spirit, he says, of Mr. Walter Mondale, to undo any tax reduction that there may be in this year's Budget. I do not know whether there will be any tax reductions in this year's Budget. All I shall say is that the Budget this year will be on St. Patrick's day. [Interruption.] That is informing the House of the date of the Budget.

But the whole country must now be clear about the difference both in policy and in philosophy between the Government and the Opposition. The Government believe in reducing the burden of income tax on ordinary working people and the Opposition believe in increasing it.

As for Mr. Mondale, I can do no better than quote from the leading article in *The Guardian*—not a newspaper that supports the Conservative party. The article states:

"Mr. Walter Mondale, with energy and some honesty, based his entire 1984 American Presidential strategy on playing the spectre at the economic feast. He won only Minnesota. His candidature was a fiasco. The voters did not want to hear about the bad times that might follow the good times. They did not want to vote themselves immediate tax increases. Nor, if times were indeed going to turn sour, did they think that big spending Democrats were the natural first port of call. Mr. Mondale may have made a sincere pitch. But it was not, when the campaign actually got going, an effective or resonant pitch. It was a disaster."

The Labour party is, indeed, a disaster. The only bigger disaster would be a Labour Government.

I welcome this debate. It has been rather a long time coming. The Opposition emerged from their Bishop's Stortford conclave claiming, to quote the right hon. Member for Islwyn (Mr. Kinnock):

"The Election will be about the economy. Our campaign from now until election day will therefore be about this central issue."

Excellent—but what happened? They fell at the first fence last Wednesday, not because of cold weather but

because of cold feet. Since then, all we have had are further figures showing that the economy is in excellent shape. The prospects for 1987 are very good and I invite the House to reject the Opposition's absurd motion with the contempt that it deserves.

6.25 pm

Mr. Ian Wrigglesworth (Stockton, South): The Conservative party has been in office since 1979. We are entitled to judge its record on the basis of what has happened not since 1981 or 1983 but since 1979. Just as the Chancellor is happy to fight the general election on the Government's economic record, so, too, is the alliance. The central feature of economic policy and the central failure of the Government's policies is unemployment.

Since 1979, the number of long-term unemployed has increased fourfold from 300,000 to 1.36 million. I hope that during this debate we will not become too embroiled in percentages and big figures but will consider the implications of those figures. That is why I chose to start with the figure for long-term unemployment of about 1.3 million. In my constituency and in the rest of the north that means a very large number of families who have been suffering considerable deprivation, hardship and misery for a very long time. If the Chancellor is proud of his economic record and of recent economic events, he should spend a little more time not only in the northern region but in other parts of the country that have been hit by the scourge of unemployment in an unprecedented way since the Conservative party came to office.

On the basis of the way in which unemployment was calculated previously, there are at present some 3.7 million people unemployed. The Chancellor should remember that any comparisons that he wishes to draw to the attention of the House should be on that basis, unless he is prepared to reduce the old figures to compensate for the changes made by his Administration.

The long-term unemployed figures are higher than during the 1930s depression. There were some 483,000 long-term unemployed in 1933. By 1939 the number had been halved. It is an appalling fact that the Government have not merely matched the levels of unemployment in the 1930s but have beaten those levels time and time again.

We have heard much from Conservative Members about the number of new jobs created. The Chancellor, along with many of his supporters, has been preaching about the million new jobs which are supposed to have been created in recent years, but let us consider the actual record. There are now 1.6 million fewer jobs than in 1979 when the Conservative party came to office. Let us consider a different figure from the Government propaganda claim that about a million new jobs have been created in the past three years. According to the Bank of England, the number of full-time equivalent new jobs created in the past three years is only about 239,000. That contrasts vividly with the constant stream of propaganda—that is what it is—that we get from the Chancellor, the Prime Minister and other Ministers. For the benefit of the Chancellor, I repeat the Bank of England figure—239,000 full-time equivalent new jobs in the past three years. That is merely scratching the surface of the problem.—[Interruption.] I do not care if that figure has been revised by a minor amount, the fact remains that the figure given by the Chancellor and his colleagues is deliberately

*Del the
Pace has into
Cary's
Alex*

20

FROM: MISS C EVANS
DATE: 5 MARCH 1987

ms 573

- 1. MR SCHOLAR
- 2. MR ALLAN

Doc 4360

- cc Sir Peter Middleton
- Sir Terence Burns
- Mr Cassell
- Mr Odling-Smee
- Mr Sedgwick
- Miss Sinclair
- Mr Culpin

TCSC: CHANCELLOR'S EVIDENCE ON THE BUDGET

The Clerk has telephoned to say that April 6 - the date originally proposed for the Chancellor's evidence - may leave too little time for the Committee to produce its report in time for the Finance Bill Second Reading (likely to be between 23 April - 28 April). He has asked whether the Chancellor would be willing to appear on Monday 30 March instead. I understand that the Diary is free. I should be grateful to know if the Chancellor would be happy with this earlier date - which is more in line with last year's timetable (Chancellor's evidence 26 March 1986).

Per Sheffield

*OK, in your
sm. if you
can't (it will
be same day, &
probably not
from 26 March
Cary's to
day).*

MISS C EVANS

Ch

*OK? Diary free
(I have told Carys you must be
last, after Bond & Toy officials
have given evidence, and not on
same day).*

*[Per not around]
TB*

AA

Alex

6/4

1. Debra Thanks 2 prep.

Mr Judge
Mrs Sinclair

To note y

CG

6 April itself is okay but
CA has to be in Washington
by the afternoon of Wed
8 April so later that
week is out.



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 3285 (Direct Line)
01-219 3000 (Switchboard)

D
20/2

TREASURY AND CIVIL SERVICE COMMITTEE

cc
17 February 1987

Carys Evans
HM Treasury
Parliament Street
SW1P 3AG

- Mr P Middleton
- Mr T Burns
- Mr Butler
- Mr Squires
- Mr Sedgwick
- Mr Odling-Smee
- Mr Peretz
- Mr Turnbull
- Mr Allan 12/2
- Miss O'Mara
- Mr Culpin

I should be grateful to
know if you see any problems
with this timetable.

Carys Evans
X 5179 93/1

Dear Carys

At a recent meeting, the Committee took a number of decisions of which you may wish to be aware.

No evidence is to be taken on any of the Spring Supplementary Estimates.

yu

The Committee have made a short Report to the House on the VAT Zero-rating evidence which was taken last year. We anticipate that copies will be available on Friday 27 February. There will be no press conference.

May I raise informally at this stage the likely programme on the 1987 Budget? I am assuming that the Committee will take evidence on only three occasions - from the Chancellor, from Treasury officials, and from the Bank (not, of course, necessarily in that order). We may also assume that on Monday 23 March, the Committee will not meet because the Budget will still be under consideration, but is likely to meet later that week. Subsequent evidence might be given in the weeks beginning 30 March and 6 April. A draft report would then be before the Committee on Monday 27 April (allowing for the Adjournment) and would be published on or about Friday 1 May. I should emphasise that this sketch is subject not only to the Committee's agreement, which I will seek next week, but also may vary if it proves to be inconsistent with the likely timetable for the second reading of the Finance Bill. Nevertheless, if we regard the dates I have mentioned as a starting point only, the Committee might like to invite Treasury officials on Wednesday 25 March; Bank officials on 30 March; and the Chairman might invite the Chancellor on 6 April. Before I make a proposal to the Committee along these or any other lines, I would be grateful for any comments which you might have.

certainly
my
official
papers
Ch. H.

X ||

W R MCKAY
Clerk to the Committee

Debra
How does 6 April look?

Alex

W R MCKAY
Clerk to the Committee

Alex - do you
know what
this is?

W/P 18/3

Thatcher Government Announces Tax Cut

Move Expected to Lead to Summer Election

By Karen DeYoung
Washington Post Foreign Service

LONDON, March 17—Prime Minister Margaret Thatcher's government today announced a cut in the base income tax rate from 29 percent to 27 percent in a move that was seen as increasing the likelihood she will call a general election this summer.

In his annual budget statement to the House of Commons, Chancellor of the Exchequer Nigel Lawson said that the cuts were the "fruits of the government's determination . . . to hold firmly to our policies of sound money and free markets" despite widespread demands that more public money be spent directly on job creation and social services.

Opposition spokesmen condemned the budget as a political giveaway designed to win votes for Thatcher's Conservative Party. Labor Party leader Neil Kinnock denounced it as a "bribes budget" that he said had "little to do with the general good, and everything to do with the general election."

In his review of last year's economic performance, Lawson said the government had borrowed only slightly more than half of the \$10 billion it had planned to borrow for the current budget. He lowered the fiscal 1987-88 borrowing estimate to \$6.2 billion.

The borrowing was expected to lead within a day or two to a 1 percentage point drop in interest rates, to 9.5 percent. Within minutes of the budget speech, the London stock market rose and the value of the pound increased on international currency exchanges.

Lawson said that Britain's overall economic position was "more favorable than it

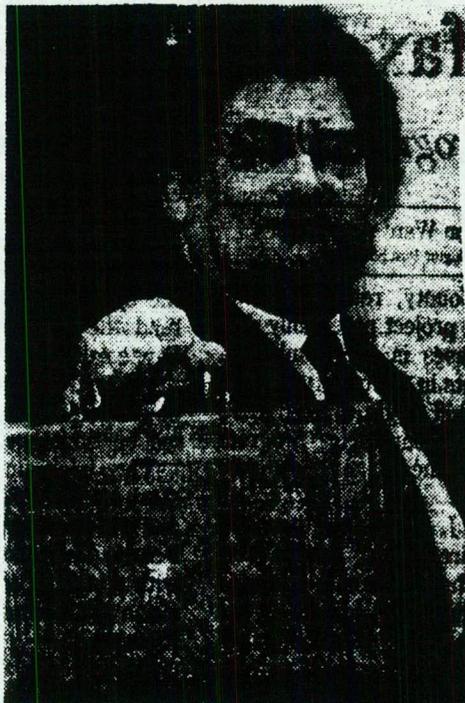
has been in many years." The country currently is enjoying its longest period of steady growth since World War II, with manufacturing productivity increasing at the highest rate of the seven leading industrial countries. Net overseas assets, he said, now totaled more than \$155 billion.

Lawson tended to play down more negative indicators that are the subject of widespread debate over Britain's long-term economic health. While annual inflation, at 3.5 percent last year, is far below the 20-plus percent when Thatcher took office, it still is above that of most Western European economies.

Although overseas sales of British products and services have increased slightly, last year's balance of payments deficit of \$1.55 billion is expected to more than double next year. Trade union leaders expressed fear that the balance of payments deficit will exacerbate unemployment.

Unlike in the United States, where a draft budget is submitted to Congress, openly debated for many months and usually changed substantially before it is approved, the British chancellor of the exchequer keeps his plans secret until budget day. A parliamentary debate during the next several days will be a largely rhetorical exercise, and passage of the new finance bill is ensured by the massive Conservative majority. Because most of its provisions go into effect virtually on announcement, the effect of the budget speech on public opinion is direct and immediate.

According to opinion polls, the vast majority of Britons favor spending more money to alleviate unemployment and deficiencies in the National Health Service, rather than receiving tax cuts. But the government clearly



Lawson carries traditional box with budget

believes that these concerns will be overridden in the polling booth, where they expect most people to vote their pocketbooks.

Thatcher must call the next election by June 1988, although it is generally believed the date will be set long before that, at a moment when the Conservatives judge their chances to be best, and perhaps as early as three months from now.

Even before today's budget presentation, other indicators have been seen as favoring an early election date. From a low point early last year, the Conservatives have surpassed their rivals in public opinion polls, and now stand as much as eight points ahead of second-place Labor. Thatcher's March 28 visit to Moscow also is seen as enhancing her image as a world leader in domestic eyes.

This year's budget was eagerly anticipated because its pre-election timing coincided with the belief that the government had anywhere from \$4 billion to \$10 billion to "give away." In addition to lower-than-anticipated borrowing during the current fiscal year, revenues have been particularly buoyant because of value-added tax receipts on unexpectedly high consumer spending and company profits. The government also made more than \$6 billion on the sale to private shareholders of state-owned enterprises such as the national gas and telephone systems and British Airways.

The new budget took virtually no money away from the wealthier sectors of society, who have benefited from previous Thatcher budgets. The top income tax rate remained at 60 percent (down from 83 percent in 1979) for those earning more than \$62,000 a year.

Thatcher has consistently argued that long-term economic improvement and job creation will come only when government expenditure goes down and personal and business income increase. When she took office, the lowest tax rate stood at 33 percent, and she pledged ultimately to bring it down to 25 percent. Today's budget follows a similar decrease last year.

WP 18/3

NYT 18/3

Britain Cuts Income Tax, Lifting Thatcher's Hopes

By HOWELL RAINES

Special to The New York Times

LONDON, March 17 — In a move that both supporters and opponents see as one designed to strengthen Prime Minister Margaret Thatcher's hand in a re-election campaign, the Government announced a 2 percent cut today in the income tax rate.

In announcing the budget, the Chancellor of the Exchequer also said the Government would cut the rate it charged banks to borrow to encourage them to lower interest rates on loans and home mortgages.

The Chancellor, Nigel Lawson, told the House of Commons that low-in-

come families and the elderly would receive higher exemptions. He said the Government would not impose an expected increase in taxes on alcoholic beverages, cigarettes and gasoline.

Neil Kinnock, the Labor leader, immediately denounced the plan as "a bribes budget." Dr. David Owen, a leader of the Alliance parties, said the Conservatives had "given away" billions that should have been invested in spending to create jobs for the more than 3 million unemployed.

The sparring pointed up the special importance this year of "budget day." Always a time of rich political theater in Britain, it was being watched today

for signals that Mrs. Thatcher might respond to rising pressure within her own party to call an election in May or June, while the economy is improving and her poll ratings are high. By law, she can wait until July 1988 before calling for an election.

The consensus by all parties was that Mr. Lawson had delivered an "election budget" that gives Mrs. Thatcher the option of an early election.

With great fanfare and an air of mystery, Mr. Lawson carried his budget message into the House of Commons in a battered leather box once used by William E. Gladstone, three times Prime Minister between 1868 and 1895.

Laughter and applause swept the Commons when Mr. Lawson said his cut in the basic income tax would take effect May 17, about the time that Mrs. Thatcher would need to make her decision to hold an election on June 11, the date favored by many Conservatives.

Meets Conservative Goals

Mrs. Thatcher herself fed the momentum among Conservatives for an early election by saying Thursday, in an interview with *The Evening Standard*, that a June date was "fair game." Heretofore, her advisers have described her as favoring October.

With his mixture of tax cuts and curbs on borrowing, Mr. Lawson met the two goals set for him by Conservative strategists — pleasing the voters and reassuring the financial markets.

He did this by using the Government's unexpected revenue windfall, generated over the last few months by taxes on soaring corporation profits and by a rush of value added taxes from a boom in the consumer economy.

Mr. Lawson assigned \$3 billion from this windfall to finance a decrease in the basic tax rate from 29 to 27 percent. Most of the remaining new revenue will be used to allow a decrease in Government borrowing from about \$10 billion last year to \$6 billion this year.

Analysts immediately predicted that the lending institutions would respond with a 1 percent or more decline in interest rates, now about 10.5 percent. They said this would be followed later by a 1 percent cut in mortgage rates, reducing them to the range of 10 to 11 percent.

In summation, Mr. Lawson made it

clear that the budget was designed to undermine Labor, the main opposition party. "I have once again cut the basic rate of income tax," he said, "a cut which the party opposite are pledged to reverse, if they are given the chance, which they will not be. And I have done this while sharply reducing public borrowing, a combination that has eluded successive governments for decades."

Mr. Lawson said the basic tax rate was 33 percent when Mrs. Thatcher took office in 1979, and her goal is to reduce it to 25 percent.

Mr. Kinnock, whose party is reeling from prolonged internal quarrels, told Commons that everyone "anticipated this would be a bribes budget and indeed that's what it is." He added, "It is a budget that has little to do with the general good and has everything to do with the general election."

WSJ 18/3

The chancellor said exports are increasing because of last year's sharp fall in the pound. But he forecast a widening of the deficit on the current account—which tallies Britain's trade in goods, services and certain unilateral transfers—to about £4 billion this year from \$1.6 billion in 1980. The Treasury believes that the current account deficit will narrow to an annual rate of \$3.2 billion in the first half of 1981.

"The significance of this should not be exaggerated," Mr. Lawson said. He said the projected current-account deficit will amount to only 0.5% of GDP, while Britain's net overseas assets stand at more than \$160.2 billion—their highest level since World War II.

The chancellor conceded that the annual inflation rate, which stood at 3.5% at the end of last year, will likely advance in the coming months and perhaps exceed 4.5% in the summer. But he predicted that inflation should fall to 4% by year's end.

Concern about inflation may explain why Mr. Lawson decided against a pre-election giveaway budget. "He's obviously worried about overheating in the economy and has been excessively cautious in view of the current account and inflation trends," Kleinwort Grieveson's Mr. Osborne said. "In fact this is a Lawson budget, not a Thatcher budget," he concluded.

Reserves Decline in Australia

SYDNEY, Australia — Australia's official reserves, mainly gold and convertible foreign currencies, declined to the equivalent of \$4.57 billion in February from \$4.79 billion a year earlier and \$4.67 billion in January, the Reserve Bank said. All figures are converted at the Australian dollar's current rate.

WST 18/3

INTERNA

Lawson Unveils Cautious British Budget Amid Election-Year Pressure for Largess

By PETER NORMAN

Staff Reporter of THE WALL STREET JOURNAL

LONDON—Chancellor of the Exchequer Nigel Lawson resisted election-year pressure for a spendthrift budget and unveiled a cautious plan that paves the way for an immediate reduction in British interest rates.

Although Mr. Lawson announced a widely expected cut in the standard rate of income tax, to 27% from 29%, the rest of his budget for the fiscal year beginning April 1 was short on pre-election giveaways.

Neil Kinnock, leader of the opposition Labor Party, scorned the budget for having "little to do with the general good and everything to do with the general election" expected later this year.

But analysts in the City, London's financial district, disagreed. They said Mr. Lawson's cautious approach put no economic pressure on Prime Minister Margaret Thatcher to call an early general election.

Instead, she will be able to judge how voters react to the budget and the generally expected interest-rate cuts and should be free to set the election date in light of opinion polls and other political developments.

London share prices and the British pound responded favorably to the introduction of the budget yesterday, with sterling surging more than 1% against major currencies (see stories on page 41).

Buoyant Tax Revenue

Buoyant tax revenue gave Mr. Lawson perhaps more leeway to cut taxes, reduce the government's deficit or increase public spending than any British chancellor since World War II. But he resisted the temptation to fulfill his long-held ambition of cutting the basic income-tax rate to 25%.

Although Mr. Lawson considers himself a tax reformer, he passed up the opportunity to simplify the tax code. He also disappointed those who urged him to take specific measures to reduce unemployment and increase pensions. Instead, the chancellor chose to slash the government's borrowing requirement next year.

A 25% basic tax rate remains his "firm objective," Mr. Lawson said. "But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future."



Nigel Lawson

Deficit Target Cut

He accordingly surprised the City by targeting a deficit for the next fiscal year that is currently equivalent to \$6.4 billion, or about 1% of gross domestic product, down from the \$11.2 billion previously envisaged.

The \$4.8 billion planned cut in the deficit compared with tax-cutting measures of about \$4 billion. The deficit "is lower than anybody dared hope for," said Ian Harwood, an economist at the stockbrokerage Warburg Securities.

Mr. Harwood forecast that the budget will be followed by a reduction in British banks' base rates today from the 10.5% that was set last week. But City economists couldn't agree on the likely scale of the inrate cut.

Rate Predictions

Mr. Harwood said base rates could be cut one percentage point. Peter Fellner, the government bond and monetary economist at another brokerage, James Capei & Co., predicted only a half-point cut today, with a further half-point reduction depending on how sterling reacts to the budget. At Kleinwort Greaveson Securities Ltd., chief economist Mike Osborne said he expects "an immediate one percentage point off interest rates, and base rates of 8.5% by May."

Lower interest rates could help the average voter—and, by extension, the Conservative government's reelection chances—as much as tax cuts. Some 63% of British households own their own homes, most financed with flexible-rate mortgages. Although base rates fell by half a percentage point last week, Britain's building societies held back from cutting their mortgage rates from the present level of around 12.25%.

But further base-rate cuts should now trigger a drop in home-loan rates, said Brian Whitfield, a general manager at Nationwide Building Society, Britain's third-largest savings and loan association.

Lower interest rates play an important part in the government's counterinflationary strategy because mortgage rates are part of Britain's retail-price index. In a potentially popular move that is also likely to knock an estimated 0.3% off the annual inflation rate, the chancellor said he won't increase excise duties on beer, wine, spirits and tobacco. Usually, duties on these products increase each year in line with the retail-price index.

But there were few populist measures elsewhere in the budget. Mr. Lawson did nothing to take low-paid workers off the tax rolls. Instead, he increased the tax-free allowances by no more than last year's 3.7% inflation rate.

Mr. Lawson made no major changes to company taxes—leaving the corporation tax unchanged at 35% in fiscal 1988. He also left the basic rate of value-added tax unchanged at 15%.

But he did introduce a number of detailed measures to ease the burden of value-added tax on small businesses. He also reduced the rate of corporation tax levied on small businesses to 27% from 29% in line with the new standard income tax level.

Mr. Lawson said Britain is entering its "seventh successive year of steady growth, and the fifth in which this has been combined with low inflation."

He forecast that gross domestic product will rise an inflation-adjusted 3% during the 1987 calendar year after a 2.5% gain in 1986, adding that there is "every prospect" of unemployment's falling throughout the year from its current seasonally adjusted level of 3.1 million.

London Shares Close at Record on Heels Of British Budget; Tokyo Issues Advance

A WALL STREET JOURNAL News Roundup

London share prices registered a record close in a bullish illustration of support for the British fiscal 1988 budget unveiled yesterday. Meanwhile, Tokyo stocks returned to their record-setting ways after a one-day respite.

London's 100-share index closed 14.5 points higher at 2006.3, surpassing the March 5 mark of 2002.8. The index was up as much as 29.2 yesterday just after the budget was presented but declined on profit-taking.

The Financial Times industrial-share index was up 10.3 at 1586.9.

The budget's main features, a two percentage-point cut in the basic tax rate to 27% and tightening of the government's deficit target to the equivalent of \$6.4 billion from \$11.4 billion, generally were in line with expectations and won quick approval from the market.

"That's not really a bad background for equities," said Jeremy Hale, chief Britain economist at Goldman Sachs International Corp. The budget should help the British economy grow 3% this year, allow banks' basic lending rates to fall one percentage point from the current 10 1/4% level within a few weeks and boost the pound, Mr. Hale said.

"The overseas investor is going to feel no lack of confidence because of this," said Charles Hue Williams, head of equity market-making at Kleinwort Grievson Securities.

Although the initial surge after the budget prompted some profit-taking, the outlook for the near future remains positive, Mr. Williams said.

The stock market's advance paralleled a surge in British government bonds, which gained as much as 1% points on the day. The pound was also firmer against the dollar and mark.

Trading remained moderate prior to the budget's announcement, but the market advanced throughout the day. Market makers bid up prices in expectation of a favorable reaction to the budget, traders said. There was also "some buying" both from domestic and overseas institutions, a dealer at a British market-making firm said.

Brewer, distiller and tobacco issues rose yesterday as the budget left excise taxes unchanged.

Oil-sensitive issues rose strongly although the budget contained no major concessions for the industry. A 30-cent rise in North Sea Brent crude to \$18.30 a barrel helped.

Gains by pharmaceutical issues were paced by Glaxo Holdings PLC, which said it plans to list its shares on the Tokyo and New York stock exchanges in the next three months.

The gold mines index, which eased 1.8 points Monday, rose 3.1 to 341.4.

Tokyo stocks edged higher in heavy trading as the Nikkei stock average posted a record close. The average, which Monday fell 82.58 points after a string of four highs, rose 99.36 to 21,514.73. The close surpassed Friday's mark of 21,497.95.

The stock exchange index rose 17.29 to 1,875.75. Volume was 1.8 billion shares, up from 1.1 billion shares Monday.

Investor sentiment is "cautiously bullish," traders said, although some predicted more touch-and-go movement by the market barometers as investors react to performances by overseas exchanges, foreign currency developments and other factors.

Buying gradually increased throughout the day as investors focused on steel, heavy industrial, railway, construction and securities issues, traders said. The bullish-

which are preparing for valuations March 20. Tokkin funds are similar to U.S. mutual funds.

Activity of advancing steel issues such as Nippon Steel and Kawasaki Steel accounted for a large share of the high turnover. Securities firms are hawkling steel-makers as good long-term investments because of industrywide restructuring plans.

Some construction issues rose on renewed optimism about Japanese government plans to stimulate the economy.

Brokerage houses such as Nomura gained on improved business prospects in the wake of continuing high volume on the Tokyo stock exchange. Banking stocks rose modestly on bargain-hunting.

Export-led electrical and computer shares languished, after early profit-taking, because of the dollar's relative weakness on foreign exchange markets yesterday.

Here are price trends on the world's major stock markets, as calculated by Morgan Stanley Capital International Perspective, Geneva. To make them directly comparable, each index is based on the close of 1969 equating 100. The percentage change is since year-end.

	Mar '86	Mar '83	% This Year
U.S.	270.4	271.3	+ 18.4
Britain	592.1	593.3	+ 19.0
Canada	405.5	406.7	+ 21.7
Japan	1105.7	1110.3	+ 17.0
France	446.9	448.4	+ 9.5
Germany	212.7	213.5	- 18.2
Hong Kong	1886.2	1927.4	+ 4.6
Switzerland	187.8	187.4	- 4.5
Australia	295.6	296.6	+ 12.0
World Index	420.8	421.0	+ 17.9

Consumer Prices in Thailand

BANGKOK, Thailand—Consumer prices in Thailand rose 1.9% in February from a year earlier but eased 0.06% from January, the Department of Business Economics said.

Wholesale prices, meanwhile, fell 0.3% from a year earlier and 0.2% from January.

The department also said that Thai industrial production fell 1.8% in February from the year before but increased 0.5% in January.

WST 18/7

Britain bullish as economy booms ahead

But eight years of Thatcherism aren't boon for all

By David Winder
Staff writer of The Christian Science Monitor

London

Which major country's economy grew faster than the United States' last year, and has been consistently ahead of its European partners?

Great Britain's.

Which country's productivity has been second only to Japan's?

Great Britain's.

Patrick Padget, a chunky designer in blue jeans, white sports shirt buttoned to the top, and light green sports jacket, is a symbol of the "new" Britain.

In less than five years, he has started from scratch - with no money and no help from a bank - to run a flourishing design business in the fashionable Chelsea area of London. He now employs 12 full-time people - "all totally young" - and expects that his turnover next year will easily be more than \$1.6 million.

In an interview at his agency, First Impression Design, Mr. Padget attributed his success to "sweat, elbow grease, and working all day, seven days a week."

It is the kind of free-enterprise talk that makes Prime Minister Margaret Thatcher purr. According to Padget, who also lectures at the

London Enterprise Agency Mrs. Thatcher told him he was doing exactly what she had set out to achieve.

What Thatcher has set out to achieve these past eight years in Britain is to establish what she calls an "enterprise culture" to consolidate Britain's recovery and to wipe out its image as the "sick man of Europe."

Decoded, "enterprise culture" means getting government out of business by denationalizing, or "privatizing," state-subsidized industries; increasing incentives through the kind of major tax cuts announced in yesterday's budget; and establishing hundreds of small enterprises such as the one run by Padget. (Budget highlights, back page.)

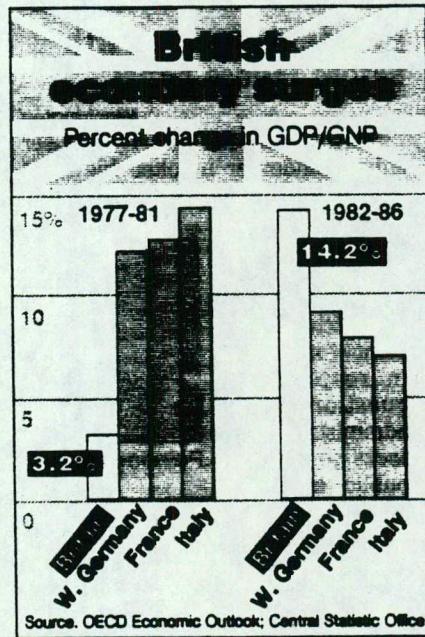
The British government, now awash in revenues that permitted this week's tax cuts, believes its policies are working.

Conservatives cite low inflation, the fastest economic growth in Europe, record investments, a strong pound, the lowest number of strikes since

1963, and even a fall in unemployment, which had remained stubbornly high.

Although the more affluent south has been the principal beneficiary of a booming economy, there are now signs of momentum in the

Please see BRITAIN back page



HEIDI WACK - STAFF

hitherto stagnant industrial north.

Andrew Bain, group economic adviser at Midland Bank, one of Britain's largest banks, said he recently met with about a dozen businessmen from small and medium businesses in Manchester.

The message the businessmen told him was: "Don't be pessimistic about the economy. It's not nearly as bad as it seems." According to Mr. Bain, the businessmen were "optimistic to a man."

Such confidence is reflected by a recent survey by the Confederation of British Industry which shows that manufacturing orders are up sharply in many parts of the north, including Manchester.

Prof. Alan Budd, director of the center for economic forecasting at the London Business School, offers three possible explanations for Britain's turnaround:

"One, just the natural climbing out of a hole. Possibility No. 2, the government has been severely expanding the economy, which it has concealed by various devices. And possibility No. 3: that there's a miracle which permanently puts Britain on a higher growth path ... in which businessmen respond to greater incentives, greater stability, and to a much better environment," Professor Budd said.

Bullish economy has social costs

Yet the Thatcher policies that produced a bullish business climate have not been without severe social costs.

Over the eight years of Thatcher government, unemployment trebled from 1 million to more than 3 million. While unemployment fell for five successive months at the end of 1986, critics charge that the fall is almost entirely a result of expanding training programs. This, they say, has the effect of distorting trends, because it takes people temporarily out of the job market.

Severe unemployment has brought with it corresponding increases in the poverty level and has laid the government open to charges of polarizing the country, being uncaring, and neglecting vital areas of social concern like public housing construction.

Between 1979 and '81, when Britain

'87 budget boosts Thatcher's stock

London

Britain's chancellor of the exchequer, Nigel Lawson, yesterday unveiled a prudent budget in which there were few surprises.

But it did little to remove the suspicion that the government of Prime Minister Margaret Thatcher had put forward a budget which, by cutting income tax and adding no indirect taxes, would strengthen the government's hand in the event an election is called this year. (British elections are scheduled for the summer of 1988, but Mrs. Thatcher and her Conservative Party are riding high in the polls, and she is thought likely to call elections in June.)

Highlights include:

Review of the state of the economy:

- Seventh year of successive growth.
- Fifth year of low inflation.
- Exports up 6 percent the first quarter over last year, out-performing all other major economies.

Balance-of-payments deficit: £2.5 billion (\$4 billion).

Estimates:

- Inflation forecast up 0.5 percent to 4 percent in 1987-88.
- Government borrowing target cut by £3 billion (\$4.8 billion) from \$11.2 to \$6.4 billion - 1 percent of gross domestic product. The effect will be to encourage a 1 percent fall in interest rates. Mortgage-rate cut likely to follow.

Tax benefits:

- Basic income tax cut from 29 pence to 27 pence in the pound.
- All other tax thresholds and allowances raised in line with inflation.
- Indirect taxes: No increases in gasoline, beer, wine, spirits, or cigarettes.

- D. W.

underwent a severe recession compounded by a world recession, the country lost 25 percent of its manufacturing base. The massive attrition resulting from the decline of Britain's traditional industries - seen more as an ice bath than merely a cold bath - is nevertheless viewed by the government and many economists as essential to a leaner, more efficient Britain.

The gains are beginning to show. Manufacturing output has been growing at a rate of 5 percent a year, which puts it roughly back to the 1979 level.

Output per capita in the manufacturing industry has risen by more than 3.5 percent since 1979, which puts Britain second only to Japan among the major

industrialized countries.

The 1979-81 recession also provided a climate, and to some extent cover, for the British government to address itself to the serious overmanning and inefficient labor practices that were undercutting Britain's competitive position in the world.

The stranglehold in which the unions had the government both economically and politically began to show in the 1970s. Powerful trade unions were able to bring down the Heath Conservative government in 1973-74 and

former Prime Minister James Callaghan's Labour government in 1979. In that 1979 "winter of discontent," even the gravediggers went on strike.



HEIDI MACK - STAFF

Under Mrs. Thatcher, the government's strike record has dramatically improved. Last year saw the least number of working days lost since 1963.

This is partly explained by high unemployment, which makes trade unions reluctant to push their aims. But the Thatcher government's determination to curb union power has also played a role.

"Labor conditions have improved quite dramatically over eight years," says Midland Bank's Mr. Bain. He sees a "tremendous change" on the part of industrial workers in their willingness to accept technological change as long as they reap the benefits.

In some factories, single-union, no-strike contracts prevail where dozens of unions were involved before.

The dramatic change in labor relations is highlighted in the hitherto ailing automobile industry, which used to be beset by strikes. Last year, the state-subsidized Austin car group had a 99 percent strike-free record. Its economic position has also dramatically improved.

Corporate profits noticeably up

Across the board, corporate profits have risen noticeably. These unexpectedly buoyant revenues have offset the drop in North Sea oil revenues that resulted from the fall in oil prices. Higher consumer spending has also helped boost government coffers because of the higher VAT collections. The value-added tax, which amounts to 15 percent, is collected on most goods and services.

Although the chancellor unveiled a bullish budget, economists still see dangers ahead.

Unemployment is not expected to go much below 3 million people, leaving many people without work over a long period of time.

Further increases in productivity are pegged to much higher skills and education. Here, Britain lags well behind the US, Japan, and West Germany.

While British exports have performed well in chemicals, engineering, and pharmaceuticals, Britain has not done nearly as well as the important high-technology areas, nor does its record stand up well in terms of the money and time invested in research and development, market research, and quality control.

WSJ 18/3

Pound Surges In Endorsement Of U.K. Budget

Advance Exceeds 1% Despite Decline in Interest Rates: Dollar Is Narrowly Mixed

CURRENCY MARKETS

By CHARLES W. STEVENS

Staff Reporter of THE WALL STREET JOURNAL

The British pound surged more than 1% against major currencies in response to the British government's new budget.

Sterling's advance was especially significant, traders said, because it coincided with a drop in British interest rates following yesterday's formal proposal of the fiscal 1988 budget. Lower interest rates tend to reduce demand for the currency.

"You'd expect sterling to come down but it hasn't," said Giles Tayelor, a trader

Partly in anticipation of Britain's annual budget proposal, the pound generally strengthened in recent weeks. Traders were optimistic that the budget would call for tax cuts and reduced government borrowing, as it did.

But Chancellor of the Exchequer Nigel Lawson's budget deficit projection yesterday of the equivalent of \$6.4 billion was sharply narrower than market estimates and the government's earlier target.

Mr. Lawson also predicted economic growth of 3% this year, up from 2.5% in 1986.

"The market views the budget as being fairly prudent, very positive," said Valerie J. Walker, head of the New York foreign-exchange advisory office of Harris Trust & Savings Bank. "The prognosis for sterling as an investment currency looks fairly good," she said.

Although traders are optimistic about the pound, some caution that a rally might falter on a further drop in British banks' basic lending rate, which recently fell half a percentage point to 10½%, selling tied to profit-taking or possible intervention by the Bank of England. The pound is "not going to go roaring away. It's just going to stay well bid," said Geoffrey Dennis, international economist at James Capel & Co., a London broker.

And Mr. Tayelor of Barclays advised: "Expect sterling to stay at these levels or slightly better for some time."

In other foreign-exchange activity, the dollar eased to 1.8339 marks, from 1.8340, and firmed to 151.78 Japanese yen, from 151.55.

The dollar was lifted in midday trading by bullish interpretation of remarks by Treasury Secretary James Baker. Speaking before a House panel, Mr. Baker said last month's agreement in Paris among the U.S. and its top five economic allies "should foster more stability in exchange rates around their current values." He didn't elaborate.

Traders said the comment indicates that Mr. Baker still endorses the three-week-old accord by the so-called group of six. The pact is widely believed to call for coordinated central-bank intervention to keep the dollar confined to a narrow range. Traders believe it is near the low end of the acceptable range.

On the Commodity Exchange in New York, gold for March delivery rose 20 cents an ounce to \$405.70 in moderate trading. The estimated volume was three million ounces.

Gold was quoted at \$405.90 an ounce in early trading Wednesday in Hong Kong.

LATE NEW YORK TRADING			
Tuesday, March 17, 1987			
Based on average of late afternoon buying and selling rates.			
	New York Tues.	Home Mkt. Tues.	New York Mon.
(In U.S. dollars)			
British pound	1.6043	1.5973	1.5870
Canadian dollar	0.7624	0.7625	0.7605
(In foreign units to U.S. dollar)			
French franc	6.1138	6.0928	6.1045
Japanese yen	151.78	151.50	151.55
Swiss franc	1.5325	1.5333	1.5333
West German mark	1.8339	1.8327	1.8340
Home markets: London, Toronto, Paris, Tokyo, Zurich and Frankfurt.			
GOLD PRICES			
(In U.S. dollars per troy ounce)			
Comex	London PM	London AM	Comex
Tues.	Tues.	Tues.	Mon.
405.70	406.35	406.00	405.50
Comex based on settlement price for gold for delivery in the nearest month on Commodity Exchange in New York.			
London based on morning and afternoon price fixings of five major dealers.			

at Barclays Bank International Ltd. in New York. "That means sterling is fairly strong, and is likely to stay that way for a while."

The dollar was narrowly mixed in foreign exchange trading, as the din of sterling activity drowned out most other dealings.

In late New York trading, the pound stood at \$1.6043, just shy of its intraday high and 1.1% above its Monday price of \$1.5870. Sterling advanced similarly against the West German mark, the bellwether European currency, climbing to 2.9421 marks from 2.9106.

In early trading in Tokyo Wednesday, the dollar inched up against the Japanese currency to 151.80 yen from 151.78 in New York Tuesday.

WT 18/3

Thatcher budget gives strong hint of June election

By Peter Almond
THE WASHINGTON TIMES

LONDON — Britain's Conservative government yesterday indicated it may go for a June general election when it presented a budget that cut basic income tax rates by 2 percent and did not increase the cost of living.

But it was a "prudent, cautious" budget, according to Chancellor of the Exchequer Nigel Lawson, that did not cut taxes as much as many had expected and most suppliers had hoped.

The budget was not an outright "giveaway" pre-election package, leaving open the possibility that Prime Minister Margaret Thatcher could hold off from June and call an October election if the political signs are not favorable enough in the spring.

But most politicians and analysts agreed yesterday that the budget and other signs do look right for a June election. Mr. Lawson, previously reported to favor an October poll, told reporters last night his budget was designed to give Mrs. Thatcher an option and said a June election would at least "get rid of all this ridiculous pre-election fever."

Labor leader Neil Kinnock said in Parliament it was "a budget that has little to do with the general good and everything to do with the general election."

An opinion poll Sunday put the Tories 9 percentage points ahead of Labor, which is under assault in by-elections from the Social Democrat-Liberal Alliance. The party also is suffering from infighting over extreme leftists in it, and top-level disagreements over nuclear defense.

Mrs. Thatcher, on the other hand, hopes to demonstrate her world statesmanship when she visits Moscow next week. And yesterday's budget will start to put extra money into every pay packet in late May.

An additional pointer to a June election, according to analysts, is

that Mr. Lawson took the popular measure of not announcing the usual increases in taxes on tobacco, alcohol and gasoline.

The government's aim is to reduce the basic tax rate from 29 percent to 25 percent. Soaring tax revenues over the past year gave Mr. Lawson the means to do so, but he was cautioned strongly by financial experts that this would produce an imperturbed consumer boom that would greatly worsen Britain's balance-of-payments deficit.

The chancellor therefore chose instead to reduce basic taxes by only 2 percent — leaving the top marginal rate untouched at 60 percent at only \$58,000 a year — and to focus on

Most politicians and analysts agreed yesterday that the budget and other signs do look right for a June election.

holding public borrowing at \$6.4 billion, much less than was expected a year ago.

The aim was to reduce Britain's high interest rates, Mr. Lawson said. The major banks are expected to cut interest rates today by 1 percent. Mortgage rates are expected to follow within a month — a further boost to a June election.

The budget, his fourth, was designed to encourage small businesses, private shareholders and private pension plans, which would make labor more mobile, he said.

But critics said the budget did nothing directly for Britain's 3.25 million unemployed, did not improve the lot of pensioners and did nothing for Britain's schools — three of the main areas of attack for Labor and the Alliance.

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THE JOURNAL OF COMMERCE, Wednesday, March 18, 1987

New UK Budget Full of Measures To Win Votes

By EDWIN UNSWORTH

Journal of Commerce Staff

LONDON — In the face of the upcoming general election, Chancellor of the Exchequer Nigel Lawson presented a national budget full of widely-expected vote-getting measures.

The main attractions of the budget for the coming fiscal year, which begins April 6, are a reduction in the basic rate of income tax to 27% from 29% and a rise in tax thresholds, and none of the usual increases in indirect taxes on vehicles, gasoline, alcohol or tobacco products.

From the timing of the tax cuts, to be effective May 17, it is believed that Prime Minister Margaret Thatcher is looking for a general election in late spring or summer. She must call a general election by June 1988.

Mrs. Thatcher probably will want to call the election early before the budget's possible negative side effects — higher inflation and an increase in imports — could be felt.

Mr. Lawson began his budget presentation Tuesday in the House of Commons by detailing improvements in the economy, which he said will enable him to keep the public sector borrowing requirement (fiscal deficit) for 1987/88 un-

changed at £4 billion (\$6.4 billion), equivalent to 1% of gross domestic product.

He pointed out that the "remarkable buoyancy" of non-oil tax revenue had already enabled the government to hold the public sector borrowing requirement down to £4 billion in 1986/87 — well below its target of £7 billion. Corporate tax on the country's "increasingly profitable business sector" remains unchanged at 35% — the lowest rate of any industrialized country.

However, the anomaly whereby some companies established before 1965 had almost a two-year grace period before paying tax is being abolished. In future all companies will pay corporation tax within nine months after the close of the accounting period.

North Sea oil producers, feeling the effects of weaker oil prices, will benefit from two immediate changes in petroleum revenue tax.

They can offset 10% of the costs of developing new oil fields against the petroleum revenue tax and obtain tax relief for money spent on research into new U.K. oil extraction.

The total cost of the budget measures, said Mr. Lawson, will be "a little over £2.5 billion" beyond inflation in 1987/88.

British budget offers lower taxes, interest rates

By Gilbert A. Lewthwaite
London Bureau of The Sun

LONDON — Prime Minister Margaret Thatcher's government yesterday unveiled a budget geared to the next general election, which could be held as early as June.

Chancellor of the Exchequer Nigel Lawson told the House of Commons that the British economy was "more favorable than for many years."

"We are now entering our seventh successive year of steady growth and the fifth in which this has been combined with low inflation," he said.

Using this as a background, he offered voters a "prudent" and "essentially popular package of lower income taxes and interest rates, reduced deficits, incentives to small business and sustained economic growth."

"This is a budget built on success and a budget for success," said Mr. Lawson, whose critics said he was ignoring the country's worsening balance of payments, high unemployment and low manufacturing output in presenting such a positive picture of the economy.

Mrs. Thatcher has until June

The Conservative government's budget was geared to the next general election, which could be held as early as this June.

1988 to call an election, but with the economy under control, her standing in the polls improving and the opposition Labor Party in disarray, she is widely expected to decide to seek a third five-year term June 11.

British elections are traditionally held on a Thursday, and June 11 would enable voters to cast their ballots before they go on summer vacation but after the beneficial effects of yesterday's budget have been enjoyed.

Labour leader Neil Kinnock, termed it a "bribe budget" and said: "It is a budget that has little to do with the general good and everything to do with the general election."

David Owen, leader of the Social Democrats, joined in the criticism: "There is practically nothing for jobs in the package. . . . There is also very little to do with growing inequalities in our society. It does not

tackle poverty at any level, and I think that is an absolute scandal.

"It is geared to an election in the sense that a lot of the relaxation is going to be felt in personal finance, broadly speaking for people who are in jobs, reasonably well-off and who Mrs. Thatcher will think are natural Conservative voters."

Roy Hattersley, Labor's economic spokesman, said: "I think the chancellor has a target audience, a target number of voters. They are not the unemployed. They are not the poor. They are not the old."

In his budget speech, Mr. Lawson projected an economic growth rate for 1987 of 3 percent and inflation of 4 percent.

Particularly welcomed in The City, London's global financial center, was Mr. Lawson's announcement that he was reducing the deficit from an anticipated \$11 billion to \$6.5 billion. This is expected to bring

interest rates down immediately by 1 percentage point. This, in turn, is likely to bring mortgage interest rates down.

In what is certain to be the most popular of his initiatives, he reduced the basic income tax rate from 29 percent to 27 percent. This would increase the weekly income of a family of four earning \$30,100 a year by \$9.

But social activists criticized another of his tax decisions — to increase the threshold on estate taxes. They said it would benefit the rich, while he was failing to do anything for the poor and unemployed.

"Never have so few done so little with so much for so many," said Norman Willis, head of the Trades Union Congress.

Another union leader, Gavin Laird, dismissed the budget as "very disappointing."

Mr. Lawson avoided increasing excise taxes on such popular consumer items as cigarettes and beer, and actually abolished the tax on gambling winnings from on-track betting.

In a move with environmental overtones, he reduced the tax on unleaded gasoline, which has just been introduced here but is selling poorly.

B. Sun 18/3

Spring Bonus For Thatcher

Leader Holding Edge In Race for a 3d Term

By HOWELL RAINES
Special to The New York Times

LONDON, March 18 — With the release of a budget tailored for maximum political appeal, Prime Minister Margaret Thatcher now holds the high ground on the major economic and foreign policy issues upon which her advisers say she will base her campaign for a third term.

News Analysis

On the domestic side, revenues from a growing economy enabled Mrs. Thatcher to produce what one adviser called a "something for everyone" budget. It offered to the public a 2 percent cut in income tax rates and it reassured a devoted financial community of decreased Government borrowing.

In international affairs, Conservative Party leaders expect Mrs. Thatcher to reap a bonanza of publicity that will reaffirm her role as a senior leader able to deal as a near equal with the Soviet Union and the United States. Her hand was further strengthened today when Labor's leader, Neil Kinnock, modified his demand for removal of American cruise missiles from Britain, saying he would put it on hold while arms control talks are under way.

In the face of so much good political news for Mrs. Thatcher, her detractors still maintain that Britain has a declining economy riding a false boom fired by consumer spending, and they deride Mrs. Thatcher's pretensions to international statesmanship as based on little more than nostalgia for past glory.

Touches of Election Fever

But spring, which has painted the London parks with crocuses and daffodils, has also brought in the first touches of election fever. So around Parliament and 10 Downing Street, strategists and office holders are defining the overall strategy they expect Mrs. Thatcher to follow.

In addition, Mrs. Thatcher and her advisers seem to hold a firm, if less clear-cut, position of advantage with regard to another major determinant of British elections — the balance of strength among the opposition parties.

On the left, Labor has fallen into disarray, with Mr. Kinnock's retreat only the latest disaster. Meanwhile, the parties of the Alliance, which represent a potential threat to Mrs. Thatcher's hold on the swing vote among middle-class professionals, are projecting a sense of uncertainty about how to attack Tory vulnerabilities.

That is why some key advisers are now telling Mrs. Thatcher that she should set a June election. Then, they say, Labor will still be reeling, and she can hope to nip in the bud the blossoming of the Alliance, a union of the Social Democratic and Liberal Parties.

Polarized Choices

Conservative planners want to use economic and diplomatic successes to cast this as an election of polarized choices, a referendum on core values. They will present it as an up or down vote on socialism vs. capitalism, and on a strong defense based on using Britain's independent nuclear deterrent as against Labor's original call for unilateral removal of nuclear weapons.

A senior Thatcher adviser said that on the domestic side the message would be: "The choice is clear cut. Do you want a nationalization government or a free enterprise government? Do you want a government that is prepared to encourage ownership of shares of stock and property or do you want a government that is statist and socialist?"

In presenting the budget Tuesday, the Chancellor of the Exchequer, Nigel Lawson, extended this theme, saying that his \$4.5 billion cut in Government borrowing would play through the markets, bringing a 1 point reduction in mortgage rates, now ranging from 11.5 percent to 12.25 percent.

The leaders of the Alliance, Dr. David Owen of the Social Democrats and David Steel of the Liberal Party, are already making overtures to moderate Laborites. The Alliance pitch is if Labor loses badly, its moderates should turn the party over to the "hard left" and join the Alliance to create a tripartite force.

As Mr. Steel defines it, the Alliance's opportunity is to "come up the middle" between the two, endorsing the Conservative's free-market approach, but taking a kindlier approach than Mrs. Thatcher to social issues.

Although the Alliance holds only 27 of 650 seats in Parliament, key Conservatives, including the party chairman, Norman Tebbit, take this threat seri-

NYT 19/3

WST 4/13

COMMODITIES

British Pound Prices Climb as Traders React Favorably to Forecast on Deficit

FUTURES MARKETS

By MICHAEL J. MCCARTHY
Staff Reporter of THE WALL STREET JOURNAL

British pound futures prices rose as traders digested the British budget for fiscal 1988 and feasted on the pound. Traders were most impressed with the British government's forecast that its budget deficit, or public sector borrowing requirement, would be only four billion pounds. The market had been looking for a deficit of five billion to six billion pounds, analysts said.

"That's startling news," said Dennis Gartman, president of Gartman Financial Services Inc. in Portsmouth, Va. "It's long-term, incredibly bullish for the pound." Mr. Gartman and other analysts said it represents an impressive fiscal performance by the British. Added Craig Sloane, an analyst with Smith Barney, Harris Upham & Co., "It's being well regarded. The market wants to see the U.K. get its fiscal house in order and not go on a big spending spree."

In modest trading, June British pound futures closed at 1.5950, up .0070.

"The sterling was consistently strong," said Mr. Gartman. He said he was especially impressed in light of remarks by U.K. Chancellor of the Exchequer Nigel Lawson that he was "perfectly content" with the pound's exchange rate. Mr. Gartman said it seemed that Mr. Lawson would prefer a weaker pound to help the U.K.'s export business. But Mr. Lawson's remarks didn't dampen enthusiasm for the pound.

And neither did the news that British banks cut the base lending rate 1/4 point to 10%, which would normally draw a bearish reaction. The pound opened firmer and remained strong all day, the analysts said. And since it was a second-day reaction to news of the British budget, some analysts think the market may be poised for a long-term bullish sentiment toward the pound.

"The U.K. suddenly looks more attractive," said Mr. Sloane.

In other commodity markets yesterday:

ENERGY: Futures prices turned lower, in what one analyst termed a "pause" af-

ter prices had risen in several consecutive sessions to the highest levels in eight weeks. Fundamentals remain strong for the long-term, he said, with the Organization of Petroleum Exporting Countries apparently holding to its production agreement. But a perception that the market has been "drastically" overbought for the short-term caused prices to decline. Product prices were weak, most notably heating oil, and this tended to drag down the whole complex, he said. Crude prices were down slightly and resisted the decline. At one point the April crude price topped \$19 a barrel, but couldn't sustain the advance. The market appeared to be consolidating prior to making another run at \$19, the analyst said. The American Petroleum Institute figures released late Tuesday showed a decline in petroleum product inventories, but refinery runs were a bit higher and the net effect was neutral, one analyst said.

SUGAR: Futures prices eased after two days of gains. After a steady start, prices declined following news that the European Economic Community had offered 60,500 metric tons of processed beet sugar for sale. The quantity was about as expected, but the subsidy of 44.819 European Currency Units per ton, to be paid to trade houses on whose behalf the EEC was selling the sugar, was higher than expected, analysts said. They said the higher subsidy appeared to be intended to keep trade interests from offering very large quantities of sugar into the Community's intervention fund, as had been threatened. One analyst said that long-recurring reports of Cuba's crop difficulties may have been somewhat exaggerated. "There's a growing consensus that the crop may not be as bad as some thought," said William O'Neill, research director for Elders Futures Inc., New York. Estimates of Cuban production recently ranged as low as six million metric tons, compared with 7,350,000 tons last year, Mr. O'Neill said. "Now the talk is more like seven million tons or slightly more, which could change the picture entirely," he said. Mr. O'Neill said that one indication that Cuba may not be having as much trouble as had been thought was that, contrary to expectations, the nation hadn't become an aggressive buyer on the world market to meet its shipment commitments. One trade source said Cuba's crop, which was hurt by Hurricane Kate

two years ago, began recovering at the beginning of this season and may have contributed to a better than expected harvest.

LIVESTOCK AND MEATS: Fears of a summer shortage sent pork belly futures prices soaring by the maximum daily limit of \$2. Movement of bellies, uncured slabs of bacon, into storage continues to be slight, compared with the year-earlier period. Last week 315,000 pounds of bellies were moved into out-of-town storage, compared with 2.3 million pounds the year before. A cold storage report due from the Agriculture Department tomorrow should show a 34% decline in stocks compared with the year-ago period, said Charles Levitt, an analyst with Shearson Lehman Brothers Inc. in Chicago. Cattle and hog prices were also higher.

COMMODITY INDEXES

	Close	Net Chg.	Yr. Ago
Dow Jones Futures	113.39		133.56
Dow Jones Spot	113.74	+ .18	131.57
Reuter United Kingdom	1522.9	- 4.5	1801.5
C R B Futures*	207.86	+ .33	216.5

*Division of Knight-Ridder.

OIL PRICES

Wednesday March 18, 1987.

CRUDE GRADES OFFSHORE-1	Wed	Tues	Yr. Ago
European "spot" or free market prices			
Arab lt. Mr.	n17.20	17.20	n.a.
Arab hvy. Mr	n16.00	15.00	n.a.
Iran. lt. (Mr)	n17.10	17.10	n.a.
Brent (Mr)	18.30	18.30	14.40
Brent (Mr)	n18.35	18.15	14.45
Bonny lt. (Mr)	n18.40	18.35	n.a.
Urals (Mr)	n17.20	17.20	n.a.

DOMESTIC-1	Wed	Tues	Yr. Ago
Spot market			
W.T. Int. Cush (17.00-8.11)	18.70	18.90	13.30
W.T. sour, Midl (16.50-7.50)	n18.15	18.30-35	13.20
La. sw. St. Ja (17.35-8.00)	n19.15	19.45	13.90
No. Slope del USGUL	n17.90-95	18.25	13.30

REFINED PRODUCTS	Wed	Tues	Yr. Ago
Fuel Oil, No. 2 NY gal	.5050	.5170	.6075
Gasoline, lded, reg.	.5235	.5225	.4435
NY gal.			
Gasoline, unided, reg.	.5135	.5225	.4380
Propane, Mont Belvieu.			
Texas, gal.	.2325	.2325	.2650

a-Asked. b-Bid. c-Corrected. d-as of 11 a.m. EST in Northwest Europe. f-As of 4 p.m. EST. Refiners' posted buying prices are in parentheses. g-Provided by Oil Buyers Guide. n.a.-Not available. z-Not quoted. n-Nominal. r-Revised.

London Metal Exchange Prices

Quotations in pounds sterling per metric ton at the close of second ring trading in the afternoon.

Wednesday March 18, 1987

	Bid	Chg.	Asked	Chg.
Aluminum - Spot	824.00	+ 1.00	826.00	- 1.00
3 months	789.00	- 2.50	790.00	- 2.00
Copper - Cathodes - Spot	849.00		851.00	- 1.00
3 months	864.00		866.00	
Lead - Spot	305.00	- 3.00	306.00	- 1.00
3 months	298.75	- 1.75	299.00	- 2.00
Nickel - Spot	2315.00	- 34.00	2325.00	- 25.00
3 months	2345.00	- 17.00	2355.00	- 8.00
Zinc - Spot	451.00	- 5.00	452.00	- 5.00
3 months	448.00	- 4.50	449.00	- 4.50

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CS

UK 1987 BUDGET: TAX SPARING

1. WE UNDERSTAND FROM VISITING BANKERS THAT THE BUDGET PROVIDES THAT TAX SPARING CAN ONLY BE SET AGAINST PROFITS ON A FOREIGN LOAN, AND THAT FROM APRIL 1988 THESE MEASURES WILL APPLY RETROSPECTIVELY. THEY SAY THAT THIS WILL OBLIGE THE GOV. TO REFINANCE THE BULK OF THEIR EXISTING TAX SPARED LOANS FROM UK BANKS, AND THAT APART FROM TAKING A GREAT DEAL OF LOAN BUSINESS AWAY FROM THE UK THIS MEASURE - AND IN PARTICULAR ITS RETROSPECTIVE EFFECT WILL CAUSE A GREAT DEAL OF RESENTMENT IN THE INDIAN GOVERNMENT.

2. GRATEFUL FOR:

(A) CONFIRMATION OF WHAT HE IN THE BUDGET ON TAX SPARING:

(B) SUFFICIENT BACKGROUND ON HOW TAX SPARING HAS HITHERTO OPERATED TO MAKE THE ANSWER TO (A) COMPREHENSIBLE: AND

(C) GUIDANCE FOR USE IF THE INDIANS RAISE THE SUBJECT WITH US.

3. IF OUR CONTACTS HAVE CORRECTLY DESCRIBED THE SITUATION TO US, THERE ARE PRESUMABLY OTHER POSTS WHICH MAY NEED GUIDANCE ON THIS ISSUE.

WADE-GERY

YYYY

NDHPAN 8659

LIMITED

SAS

FINANCE.

MR GILLMORE

MR MAGNUS

COPIES TO
TREASURY
BANK OF ENGLAND

cc Mr J B Shepherd (R)

Restricted

FROM: D N WALTERS
DATE: 18 MARCH 1987

MR SCHOLAR

cc Miss Evans

THE BUDGET IN BRIEF

I spoke this morning to Mr Wilmott, Manager of W H Smith on Waterloo Station about the sales figures for the Budget in Brief Booklet.

2. He advised that, of the 570 which we supplied him with, he had 170 left. However, they were still selling and he had placed the Booklet in the business section. I undertook to speak to him again tomorrow to find out the latest position.

D N WALTERS

Chancellor

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr FER Butler
Mr Culpin
Advisers

You may be interested to see that this has gone quite well.

I think it will go even better next year if we put the Budget measures on the front page, in even plainer language (the evening papers were not yet carrying the Budget when we delivered to Smiths).

UNCLASSIFIED



FROM: CATHY RYDING
DATE: 19 March 1987

MR SCHOLAR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Culpin
Mr Walters
Miss C Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie

BUDGET IN BRIEF

The Chancellor was grateful for your manuscript note of 18 March on the end of Mr Walters' minute of the same date. The Chancellor agrees with you that this should go even better next year if we put the Budget measures on the front page, in even plainer language.

A handwritten signature in cursive script, appearing to be "CR".

CATHY RYDING



FROM: CATHY RYDING
DATE: 19 March 1987

RP

PS/MINISTER OF STATE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Culpin
Mr P R C Gray
Mr Cropper
Mr Ross Goobey
Mr Tyrie
PS/C&E
PS/IR

**MINISTER OF STATE'S SPEECH IN THE BUDGET DEBATE:
THURSDAY, 19 MARCH**

The Chancellor has seen your minute of 18 March.

2. The Chancellor very much agrees with the Minister of State's choice of subjects definitely to be used in his speech, and he hopes that the Minister will be able to give PRP, in particular, a good push.

CR

CATHY RYDING

12/2



FROM: S P Judge

DATE: 18 March 1987

MISS O'MARA

cc PPS

- PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr F E R Butler
- Mr Cassell
- Mr Monck
- Mr Scholar
- Mr Culpin
- Miss Sinclair
- Mr P R C Gray
- Miss Evans
- Mr Hudson
- Mr Pickering
- Mr Cropper
- Mr Ross Goobey
- Mr Tyrie
- PS/Customs & Excise
- PS/Inland Revenue

Another section of the MST's speech you might like to look at

Handwritten notes in red ink:
 V. must
 give with in CR 18/3
 MST's chosen
 of subjects
 X. ...
 P.P. ...
 a ...

MINISTER OF STATE'S SPEECH IN THE BUDGET DEBATE: THURSDAY, 19 MARCH

I attach the latest draft of the contents list for the Minister's brief.

Items 1A-1D are closely based on material that has already been submitted; the Minister intends to use all of this. He will expand the Revenue section on small businesses to mention any points on the small business review that have not been mentioned elsewhere. This looks like meaning annual accounting and de-registration.

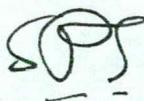
The Minister expects Mr Prescott to concentrate on unemployment, and claim that the Budget does nothing to help. I would be grateful for your comments on the attached section 2C, which is intended to be a general purpose rebutting speaking note. I would be most grateful if you could look out the reference to the MIT Report, which the Minister thinks was commissioned by Shell in the late 1970s, and add any other supporting references

to this line. More importantly, he would be grateful for comments from **Ministers and officials** on the line he proposes to take.

I would also be grateful if Mr Tyrie could fill in the ^{later} square bracketed sections.

I would be grateful for your urgent comments, by close today if possible and by 10 o'clock tomorrow, Thursday at the latest.

Mr Clark's ^{office} have promised to send over a draft of their Minister's speech this afternoon, but warn that it is likely to change significantly tomorrow following the publication of Labour's detailed jobs package.



S P JUDGE
Private Secretary

Speaking notes definitely to be used

X	Profit Related Pay	1A
	Inland Revenue and VAT small business packages	1B
	Disclosure of Importers' details	1C
	Payroll giving in the public sector	1D

Defensive notes

VAT: Partial Exemption	2A
Customs & VAT manpower levels	2B
Unemployment and Labour's job package	2C
	2D
Budget give-away: Mr Blair	2E
Excise duties	2F
Vat and Keith	2G
Colonial Service pensions (Ivor Stanbrook)	2H

Background notes (not expected to be used)

EC Annual economic report	3A
ESPOs (Nigel Forman)	3B
Alliance Budget	3C
Pensioners (Mr Ross Goobey)	3D
Conservative Backbench Brief	3E
Phillips & Owen PSBR note	3F

UNEMPLOYMENT: LABOUR'S STRATEGY
(See also J1, BB8)

The Hon Member for [] says we should have used fiscal adjustment on public spending to reduce unemployment. But this would simply raise inflation and interest rates and so destroy jobs. Output started to rise in 1981, at very time when PSBR reduced. By end 1987, forecast to have had longest period of steady growth, at annual rate approaching 3 per cent, since War.

Solution to unemployment is open and competitive markets, moderation in pay settlements, and flexibility in labour market. Pleased to note EC Annual Economic Report, tabled for this debate, agrees with Government on first two. Our proposals for profit-related pay, [which I have already mentioned], will encourage the third.

Labour force up by one million since June 1983; unemployment down by 100,000 over the last six months, in steady trend. Long-term unemployment now lower than year ago. Training and counselling measures helping. Self-employment risen every year since 1979 - total increase of 750,000. VAT and income tax reforms help them and other small businesses..

Well known for past 10 years - [ever since report produced by MIT in []] - that small businesses are the engines of employment. Responsible for [] per cent of new jobs created since []. To be able to take on staff, small businesses rely on local people having more money in their pockets. This cannot happen unless the Government reduces the burden of [direct] taxation. We have done that in the past, we have done it this year and we will do so again in the future [when it is prudent to do so].

Planned expenditure on employment, training and related measures £3.1 billion next year; double in real terms level inherited

in 1979. Three million people helped by these schemes since then. One million people helped in 1986-87^{alone}. Scale of employment and training programmes unmatched elsewhere in developed world.

Level of industrial production has now exceeded its previous peak [in 1979]. Industrial production is at the highest level ever.

Clear Hon Member for Dagenham does not know what he is doing. His famous programme "New Jobs for Britain", published last week, is already out-of-date. His costing of the programme to [do what] is £[] billion too low - a further [] per cent on VAT. As he said on Radio 4 "This document is not meant to be a total and comprehensive statement of our economic policy". I am not surprised by that: the Honourable Gentlemen opposite have no economic policy. He also claimed that his programme will provide enormous benefits at a price in terms of inflation and the balance of payments which is "negligible". The Honourable Member for Dagenham defines "negligible" as "a matter of one or two per cent". That would mean [] on a [pint of beer], [£] on a typical mortgage of [£25,000]. I would not call that negligible. [The last time the Party opposite were in charge, they let inflation go through the roof. Hard-earned savings were frittered away overnight.]

11/08

Tony
J

FROM: T R H LUCE
18 March
Room 55/G
Ext 4544

MR S JUDGE

cc PPS/Chancellor —
CST
EST
FST
Sir P Middleton
Mr Cassell
Mr Kemp
Mr C D Butler
Mr Culpin
Miss Sinclair
Mr Towers
Mr Painting
Mr Reed

**PAYROLL GIVING IN THE CIVIL SERVICE:
NOTES FOR BUDGET DEBATE REFERENCE**

I attach as requested a speaking note and some supplementaries.

I will let you have tomorrow a draft press statement for issue on Friday, and a revision of the letter to other public service Ministers.

T.R.H.

T R H LUCE

PAYROLL GIVING IN THE CIVIL SERVICE

My right honourable friend the Chancellor announced in his 1986 Budget a new scheme for tax relief on payroll giving to charities. It enables employers to contract with a registered payroll giving agency which will distribute employees' donations to the charities of their choice; and the employees to receive tax relief on donations up to a total of £120 a year.

Civil servants, like many others, are keen to participate in this scheme, which benefits charities and people who give to them. My right honourable friend announced in December that the Government as employer would participate and we are moving quickly to set up a scheme for the 216,000 people paid through the largest Civil Service payroll system centered in Chessington.

On 11 March, the Inland Revenue published the names of the payroll agencies already registered. Within a few days [on 16 March] the Treasury had written to all the organisations in England and Wales registered as payroll agencies, and to one other that has announced an intention to seek registration, asking whether they would be interested in tendering for the scheme we plan to set up in the summer of this year.

SUPPLEMENTARY NOTES

Which Departments use the Chessington payroll system?

Treasury, Customs and Excise, DTI, DE, Home Office, Welsh Office and a number of smaller departments. Some 216,000 civil servants all told.

What arrangements are other Departments making?

Likely to aim for similar arrangements, in a broadly similar timescale.

What organisations has Treasury approached?

The organisations in England and Wales announced on 11 March as registered payroll agencies and one other [Littlewoods] which has made public its intention to seek registration.

Other Public Services

A matter for their managements, but I am sure they will take the scheme seriously.



INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

RF

FROM: R R MARTIN
DATE: 16 March 1987

PS/ MINISTER OF STATE

SMALL BUSINESS HELP PACKAGE

1. I understand that the Minister of State will now be covering the Inland Revenue "Small Business Help Package" in his winding up speech in Thursday's debate.
2. You asked for a couple of short paragraphs of draft speaking notes, which I attach.
3. I also attach a draft of the Press Notice which we propose to put out; we would be grateful to know whether the Minister of State is content. If he is, I understand it has been agreed that we shall put the Press Notice out on Thursday, embargoed until 10.00pm.
4. The only remaining point is whether Treasury Ministers would like to give Lord Young, as a matter of courtesy, a day or so's advance notice about the package. If they would like to do so, I attach a draft of a short letter which either the Financial Secretary or the Minister of State could send him.

hm

R R MARTIN

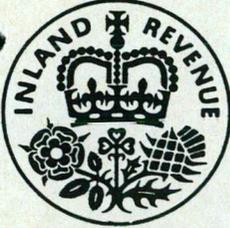
cc PS/Chancellor of the Exchequer
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Miss Sinclair
Mr Guy
Mr Cropper
Mr Culpin

Mr Beighton
Mr Johns
Mr McManus
Mr Walker
Miss McFarlane
Mr W Carr
Mr Martin
PS/IR

DRAFT SPEAKING NOTES FOR MINISTER OF STATE'S
WINDING UP SPEECH

Pleased to announce to House package of measures, on Inland Revenue matters, to help small firms and the self employed. Aim is to offer fuller advice and guidance on topics where small firms say they most need it. Three main areas: first, help with decisions on employment status (is a person employed or self employed for tax and NIC?). Second, help for employers over operating PAYE and NIC. Third, help and guidance about Inland Revenue's investigations of small traders' business accounts.

Further details in Inland Revenue Press Notice being issued today. Measures of this sort must be welcome to both sides of House. Any steps that we can take to ease administrative burdens on business are important and worthwhile. This practical package of help and advice deserves a warm welcome from small firms and the self employed.



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3X]

19 March 1987

TAX HELP FOR SMALL FIRMS AND THE SELF EMPLOYED

The Inland Revenue are taking a series of new initiatives to help small firms and the self employed with tax matters.

The Minister of State, Treasury, the Hon Peter Brooke MP, has welcomed the new measures. He said today:

"Any steps that we can take to ease administrative burdens on business are important and worthwhile. This practical package of help and advice deserves a warm welcome from small firms and the self employed."

The main items in the Inland Revenue package are:-

- help with decisions on employment status: Inland Revenue and DHSS local offices are introducing new procedures to help people reach correct decisions on employment status - ie whether a person is employed or self employed for tax and National Insurance purposes;
- help with operating PAYE: a major revision and streamlining of the PAYE Employer's Guide, and the main end-of-year PAYE reporting form; and a new leaflet for the employer considering whether to computerise his payroll;
- help with investigations: three new leaflets answering questions about Inland Revenue investigations; and an instructional video setting out the background to the investigation of small traders' accounts.

The individual measures in more detail are as follows.

Self employment. When people start a job, they (or the people for whom they work) sometimes need guidance in deciding whether they are employees or self employed for tax and National Insurance purposes.
From 6 April 1987:

- each Inland Revenue and DHSS local office will have one nominated officer who will be responsible for all enquiries and decisions about employment status;

/- Revenue and DHSS

- Revenue and DHSS offices will confirm these decisions in writing, if requested; and
- a written decision made after investigation by one Department will be accepted by the other, provided all the relevant facts were accurately and clearly given at the time and the circumstances remain the same.

These new procedures are intended to give help and confidence to both employers and the self employed.

The PAYE Employer's Guide, the main PAYE reference booklet, has been revised and modernised in an attractive and readable A4 format. The main end-of-year PAYE reporting form (P35) has been rewritten and redesigned in a new three-colour layout.

Computerised Payroll - a new leaflet (IR 70) with advice and guidance for employers considering modernising their payrolls to increase business efficiency. Available now from Inland Revenue tax offices and DHSS local offices.

"Linda Shepherd Investigates" - a video showing the techniques of the Inland Revenue's accounts investigation work, in relation to the accounts of a small businessman. Available now (price £50 + VAT) from: Inland Revenue, Room M22, West Wing, Somerset House, London WC2R 1LB.

Explanatory leaflets on investigations - three new leaflets, in question and answer form, to explain for the small firm proprietor:

- why and how the Inland Revenue visit employers to check their PAYE records (IR 71: "PAYE: Inspection of Employers' and Contractors' Records");
- why and how the Revenue investigate a trader's accounts (IR 72: "Inland Revenue investigations: the examination of business accounts");
- how a trader can reach a settlement with the Revenue, at the end of an investigation (IR 73: "Inland Revenue investigations: how settlements are negotiated").

These three leaflets will be available in tax offices from mid-May.

Business Economic Notes - starting in June 1987, the Revenue will be publishing their series of "Business Economic Notes". These are notes which provide general guidance for Inspectors of Taxes on the financial and business background to particular trades; they are used by Inspectors as background guidance when they examine traders' business accounts.

The Taxpayer's Charter, first published last July, will be sent out with all income tax returns next month. The Charter sets out the taxpayer's rights and entitlements, and explains clearly the procedures for independent appeal and review.

/- Disincorporation - consultative document

Disincorporation - consultative document. In some circumstances, people running their businesses as companies may prefer to switch to doing so as sole traders or partnerships. The Inland Revenue and the Department of Trade and Industry will shortly be issuing a consultative document, discussing possible changes to tax and company law that would make it easier to "disincorporate".

NOTES FOR EDITORS

These measures are part of a continuing programme in the Inland Revenue - under the Government's wider deregulation initiative - to help small firms by changing forms and procedures, and by giving more and clearer advice. Examples of other measures previously announced are:

- close co-ordination with DHSS over the planning of visits to employers' premises, to relieve businessmen of separate visits from the two Departments;
 - publication, and distribution to all companies, of the new Corporation Tax Working Sheet, to help small companies with CT calculations and returns;
 - a new leaflet (IR 69) about "dispensations" from the P11D procedures - to explain to employers how to save work on their returns of expenses payments made to their employees.
-

Rt Hon Lord Young of Graffham
Secretary of State for Employment

We are announcing on Thursday a package of Inland Revenue measures to help small firms and the self employed with fuller advice and guidance on tax topics. I thought you might like to have some advance notice of this and I enclose a copy of the Press Notice the Revenue will be putting out with my approval. Some of the points were trailed in last year's deregulation White Paper.

I think this is a useful package - not least of course the new procedures to help people with decisions on employment status - and I hope it will be well received.

[PETER BROOKE]

[NORMAN LAMONT]

CONFIDENTIAL

From: P WYNN OWEN
Date: 13 March 1987

- 1 MR MONCK
2 MINISTER OF STATE

- cc **APS/Chancellor**
 PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic Secretary
 Sir P Middleton
 Sir G Littler
 Mr F E R Butler
 Mr Burgner
 Mr Mountfield
 Mr Scholar
 Mr Crabbie
 Mr Culpin
 Mr Gray
 Mr Romanski
 Mr Ross-Goobey
 Mr Hyett - TSol
 PS/C&E
 Mr Finlinson - C&E
 Mr Butt C&E Scl

AM 13/3
 C/ The plan is for this to be announced during the Budget Debate - see X
 Attached is a draft contribution to the MST's speech.

CE 1613

DISCLOSURE OF IMPORTERS' DETAILS

The Minister for Trade replied to your letter of 9 March on 11 March welcoming this fresh look at the case for disclosure of importers details. But Mr Jopling wrote on 12 March saying he would expect a good deal of unease to be voiced by food traders during the consultation process, and wondering whether the benefits will outweigh the friction that could be generated.

2. We met with DTI and Customs officials yesterday and agreed draft texts for an announcement in the Budget debate and a consultative letter (copies attached). Since DTI will lead the consultation process, we discussed whether it would be more appropriate for you or Mr Channon to announce this in the Budget debate. On balance, it was felt that it would be better for you to do so on the evening of Thursday 19 March, rather than Mr Channon in his opening on Monday 23 March. For if the consultation results in action it will require measures in a Finance Act. Moreover, as my minute of 6 March suggested, legal considerations point to a relatively low-key announcement. Announcement in a wind-up speech should also minimise the opportunity for immediate questions. But it is possible Mr Channon might ask to make the announcement himself. We are in the process of clearing a draft Q&A defensive brief with DTI officials. This will be submitted next week in time for your use in the debate and for press offices as appropriate.

3. Before issuing consultation letters, DTI and Customs will give further careful consideration to which particular Trade Associations, and possibly companies, they should write. We have asked them to include our posts overseas in consultation, so we can learn more of what other countries do, if anything. (We shall also consult DE about the small firms sector). We would not therefore expect consultation letters to emerge until a week or so after your announcement. We agreed with DTI officials that the best time to have a press notice would be from them at the time their letters went out. This could reflect your announcement in the Budget debate.

4. DTI also plan to accompany their consultation letters with a short article in "British Business". We will consider further whether short boxes might also be included in the "Employment Gazette" or a post-Budget version of the EPR.

5. Mr Jopling's letter rehearses possible difficulties, covered in my minute of 20 Febraury and acknowledged in your letter of 9 March to the Minister for Trade. He does not object to our going ahead with consultation, but simply wonders whether the benefits will outweigh the friction that could be generated. We will need to ask MAFF's advice on which food traders to consult, so as to ensure all interested parties have their say.

6. I attach:

- (i) a draft letter to Mr Clark. It asks for his approval by close next Wednesday for the draft passage for the Budget speech and the draft consultative letter, while acknowledging Mr Jopling's letter and seeking MAFF's coperation in consultation with interested parties in their sector.
- (ii) the draft passage for use in the Budget debate.
- (iii) a draft consultative letter with key questions attached.

Philip Wynne Owen

CONFIDENTIAL

DRAFT LETTER FROM THE MINISTER OF STATE TO:

The Hon Alan Clark MP
Minister for Trade
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

DISCLOSURE OF IMPORTERS DETAILS

Many thanks for your letter of 11 March welcoming a fresh look at the case for disclosure of importers details. Michael Jopling also offered comments on 12 March.

2. Our officials have now met and I attach a draft passage for an announcement in the Budget debate, together with a draft consultative letter, reflecting discussions between our officials. If you agree I would propose to make the announcement in my wind-up speech on Thursday 19 March. I had wondered whether it might not be better made by Paul Channon in opening the debate on Monday 23 March, but on balance feel the need for a more low-key announcement points to a wind-up speech rather than an opening. This would minimise the opportunity for immediate questions.

3. I gather your officials will be liaising with Customs, Treasury and Employment officials, to ensure that specific consultation covers as wide a range of interested parties as possible. Given Michael Jopling's comments, it would also be helpful if MAFF officials could advise on which parties in their

sector should be consulted. I should be grateful for confirmation that your department will be in a position to lead off the consultation process in the week beginning Monday 23 March, so that the announcement is followed up quickly. I also gather your officials have it in mind to issue a press notice at the time they start consultation, together with an article in "British Business".

4. I should be grateful for confirmation by close on Wednesday 18 March that you are content with the drafts attached and with this general approach.

5. I am copying this letter to the recipients of my letter of 9 March.

[PB]

DRAFT PASSAGE FOR HMT MINISTER IN BUDGET DEBATE:

"British industry is now well placed to compete effectively in both home and export markets. But one factor which will influence their success is the information available about their competitors in the market place. One particular suggestion, put forward most recently by the Economic Development Committee for the Knitting Industry, has been that information should be made available from the records of Customs and Excise about the names and addresses of importers of individual products into the UK. Such a move would be consistent with the aim of facilitating the free flow of goods and information within the European internal market. The idea merits thorough examination, and officials will be consulting industry and commerce about such a move over coming months. Should the consultation suggest that the balance of advantage lies in favour of the extension of information currently made available, the necessary change in the Customs and Excise Management Act 1979 could be introduced in a future Finance Bill. If it is subsequently decided to go ahead, the aim would be to legislate in the 1988 Finance Act for implementation at the start of 1989.

"We enter this consultation process with no preconceived ideas. We simply want to canvas opinions among companies at large. The information would, of course, be available for purchase by British and foreign companies alike."

IC

DRAFT CONSULTATIVE LETTER ON DISCLOSURE OF IMPORTERS DETAILS

DISCLOSURE OF IMPORTERS DETAILS

Representations have been made to Ministers, most recently by the Economic Development Committee for the knitting industry, urging fuller disclosure of information about imports from Customs and Excise records. Ministers have decided to consult interested parties about these ideas, as announced by [a Treasury Minister] in the Budget debate (copy attached). I am therefore writing to you to seek the views of your organization on the suggestions below.

2. At present in addition to published data in the monthly Overseas Trade Statistics, data on the import or export of goods is made available from Customs and Excise normally aggregated at the level of classification corresponding to the eight digit Tariff Trade Code Number (TTCN). Within each TTCN the import or export of goods is further analysed by Country of Origin, Country Whence Consigned or Country of Destination as appropriate, and by port of landing or shipment, and by nationality and type of transport. No direct identification of importers or exporters is provided and in the majority of cases the minimum level of aggregation does now allow the importer or exporter to be identified. However if a trader satisfies Customs and Excise that the provision of the aggregate data could disclose commercially sensitive information about his business, either directly or by deduction, Customs and Excise apply an appropriate "suppression" to prevent such disclosure. Typically this might be achieved by withholding port or country data within a TTCN, by making available only quantity or value data (but not both) within a TTCN, or by merging of data for two or more TTCNs.

3. The basic proposal is that, in addition to (but separate from) the information currently made available, names and addresses of importers - listed under each TTCN - should also be available for sale. This raises a number of questions, such as whether or not disclosure should be compulsory and the effect on the arrangements for import "suppressions".

4. A detailed checklist of questions on which your views would be welcomed is attached to this letter. It would be helpful if you could give details, including figures where appropriate.

5. Similar letters are being sent to a number of other organisations with an interest in these proposals. If it is subsequently decided to go ahead, the aim would be to include legislation in the 1988 Finance Bill, with implementation from the start of 1989.

6. I should be grateful for any written comments by the end of July 1987.

[A Senior Official]

CONFIDENTIAL

DISCLOSURE OF IMPORTERS DETAILS - CHECKLIST OF KEY QUESTIONS IN CONSULTATION

It would be helpful if responses could assess the advantages and disadvantages of each of the following proposals to the companies/associations/members concerned, with an indication of where they think the balance of advantage lies on each question:

- (i) Should the names and addresses of importers, listed under each TTCN, be made available for sale from Customs records?
- (ii) Could you specify the advantages and disadvantages which your organization would see in this proposal, giving details, including figures, where appropriate?
- (iii) Should the information be made available only at TTCN level, or should finer detail (ie country of origin/consignment/port of importation) be made available?
- (iv) Would your company/association/members in principle be interested in purchasing the information in (i) and (iii) above on sectors of interest to them?
- (v) If this new facility was introduced, should importers be able to object to disclosure of their name or not, and, if so, what criteria should be used to assess those objections?
- (vi) Should the practice of import "suppressions" on data currently made available (see paragraph 2 of letter above) be ended, so that full disclosure of the relevant information is made available?



cc Mr Hudson (cr)

Mr Scholar

Miss O'Mara

Mr P R C Goy

Mr Beech

Mr Brooker

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Jyrie

Mr Jefferson Smith -
C&E

Chris Capella Esq
Private Secretary to the
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

13 March 1987

Dear Chris

BUDGET DEBATE: THURSDAY, 19 MARCH

We spoke yesterday about this debate, in which your Minister is opening (probably to be followed by Mr Prescott) and mine is winding up (after Mr Blair).

You kindly agreed to let me see successive drafts of your Minister's speech. I fully understand the difficulties you are in before the Budget, especially as your Minister is out of the country on Monday and Tuesday.

You have already made arrangements to get a copy of the Budget Brief immediately after the Speech; if there is any further briefing you would like, please get in touch. You thought it was likely that your Minister would concentrate on Labour's new jobs package.

Yours

Simon

S P JUDGE
Private Secretary



FROM: S P Judge

DATE: 12 March 1987

MR P R C GRAY
MR JEFFERSON SMITH - C&E

cc PPS
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Scholar
Mr Culpin
Miss Sinclair
Miss O'Mara
Miss Evans
Mr Hudson
Mr Cropper
Mr Ross Goobey
Mr Tyrie
PS/Customs & Excise
Mr Howard - C&E
PS/Inland Revenue
Mr Lewis - IR
Mr Farmer - IR

MINISTER OF STATE'S SPEECH IN THE BUDGET DEBATE

I have discussed with the Minister of State the half hour winding-up speech he is (probably) to make next Thursday.

The Minister would like to cover the following points. I would be grateful if the underlined official could co-ordinate advice in each case:

- i. Profit Related Pay (Mr P R C Gray). The Chief Secretary is planning to give a brief trailer in his speech, to encourage people to come and hear the Minister of State. The Minister would be grateful for advice as to what points it would be useful to get on the record at this stage, and appropriate speaking notes. They need not be in final prose form, unless the precise form of words is important. One issue that springs to mind is the exclusion of the public sector: as far as I can see this is not mentioned in either

the Budget Speech or the FSBR. The Minister would be grateful if this **core** speech could be kept as short as is reasonably possible. He does not want to have to plough through a long speech, in order to get a few PRP points on the record, if that is not consonant with the mood of the House. I would also be grateful for a brief indication of how this **core** speech could be expanded, if that was appropriate.

ii. **VAT Partial Exemption Package** (Mr Jefferson Smith).

The Minister would be grateful for defensive speaking notes, explaining what the problem is, why the changes are necessary, why they cannot be delayed, why the arrangements agreed are perfectly fair to the brewers etc, and the help being given to small businesses.

iii. The Minister will clearly want to pick up on points raised in the debate; I will obtain successive drafts of Mr Clarke's speech and arrange for them to be circulated as necessary.

iv. If the Chief Secretary does not use all the material commissioned in his Private Secretary's note of 6 March, then clearly the Minister of State might wish to ~~use~~ ^{use it.} For this reason, I would be grateful to receive copies of all the material ~~copied~~ ^{commissioned} in that note. In particular, the Minister of State thinks that he may need to say something about unemployment.

I will be grateful if the contributions at i. and ii. above could reach me by close tomorrow, Friday, if at all possible. I will be in touch later about support in the official box, and when I know who is to open and wind up for the Opposition.



S P JUDGE
Private Secretary



FROM: CATHY RYDING
DATE: 16 March 1987

PS/MINISTER OF STATE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Scholar
Mr Culpin
Mr P Gray
Miss O'Mara
Mr Hudson
Mr Guy
PS/IR
Mr Lewis - IR
Mr Farmer - IR

BUDGET DEBATE: PRP

The Chancellor has seen Mr Gray's minute to the Minister of State of 13 March.

2. The Chancellor has noted the comment in paragraph 2 that the point about public sector exclusion is an essentially defensive aspect, which the Minister of State should only get into if this point is raised. The Chancellor agrees with this: we have excluded the public sector all along, and our presentation of PRP needs to be as positive as possible.

CR

CATHY RYDING

From: P R C GRAY
Date: 13 March 1987

MINISTER OF STATE

cc PPS
PS/CST
PS/FST
PS/EST
Sir P Middleton
Mr Monck
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Hudson —
Mr Guy
PS/IR
Mr Lewis - IR
Mr Farmer - IR

BUDGET DEBATE: PRP

As requested in Mr Judge's minute of 12 March I attach a first shot at some outline speaking notes on PRP. If you wanted to expand this core material it would certainly be possible to go into more detail about the key details of the proposal and the options businesses face.

2. You could also cover the point about public sector exclusion. But this is an essentially defensive aspect, and I suggest you should only get into this if the point is raised. For ease of reference I attach the material we prepared last month which you could use for this purpose.

PRC

P R C GRAY

BUDGET CONFIDENTIAL

PRP: SPEAKING NOTES FOR BUDGET DEBATE

THE PROBLEM

Key to continued strengthening of economic performance is increased adaptability and flexibility. Performance damaged for too long by trend to increased rigidities throughout system. Business cannot survive in that atmosphere. Like it or not world is rapidly changing; if UK businesses to prosper must be able to respond quickly.

2. Major steps already taken. Deregulation etc. But major rigidities in labour market, and in particular in pay determination. Pay of most employees still little influenced by how well businesses are performing. Often means only way firms can adjust to difficult trading conditions is redundancies. And workforce has no direct personal incentive to help generate, and then share in results of, improved performance.

THE SOLUTION

3. Many of our more successful businesses have already realised need to break out of that trap. Right way forward unlikely to be identical for all. Existing and continuing role eg for employee share schemes. But PRP has major part to play. Because it means workforce automatically has direct interest in helping businesses succeed. Measure of flexibility in total wages means employees share in rewards of successful performance; and receive some protection from threat to continued employment when conditions are difficult. Will improve motivation, incentives and long term rewards for all.

ESSENCE OF PROPOSAL

4. Proposal follows on from Green Paper. Great majority of responses favoured such a move. All private sector employees (other than controlling directors) eligible for new relief once included in a registered PRP scheme.

5. Essential requirements of schemes to qualify for tax relief boil down to three points. First, must be clear relationship between PRP and audited profits. Second, schemes must last for at least a year. Third, PRP must be minimum proportion of total pay - at least 5 per cent if prospect is that profits are unchanged.

FLEXIBILITY

6. Like any new proposal bound to look complicated at first sight. But designed to operate as simply as possible. In some respects details simplified since Green Paper - eg audit requirements.

7. As long as basic requirements met, great flexibility in designing schemes to meet needs of individual businesses. Can operate at company or subunit level. Can relate PRP to share of profits or year on year changes. Flexibility on frequency of PRP payments. Freedom over treatment of joiners and leavers.

WHAT SHOULD BUSINESSES DO NEXT?

8. Before PRP can be paid, schemes have to be registered so urge early planning of schemes. Press release on key features available now. In a few weeks employers will be invited to get on the Revenue mailing list for detailed guidance notes following Royal Assent. Act now to get benefits as early as possible.

WHAT IS IT WORTH?

9. PRP schemes offer major advantages to employers, employees and economy at large even without tax relief. But proposal to introduce relief - for which there is no time limit - reflects Government's wish to promote this urgently needed flexibility. Underlined by fact that relief now proposed - half of PRP within specified limits - is double rate envisaged in Green Paper.

10. For married man on average earnings, even if PRP is only 5 per cent of pay, relief equivalent to 1p of basic rate. And if PRP is at 20 per cent - maximum eligible for relief - equivalent to 4p off basic rate. Urge employers and employees to seize this opportunity to make major contribution to long term strength and adaptability both of their businesses and economy at large.

RATIONALE FOR EXCLUDING PUBLIC SECTOR

In the Green Paper we proposed that public sector employees would be excluded from tax relief. A number of responses to the document have urged us to reconsider this, and to admit part at least of the public sector into the scheme.

2. We have therefore carefully looked again at this aspect. Our conclusion is, however, that in general the potential benefits of profit sharing schemes in the public sector are likely to be far less than in the private sector.

3. By far the greater part of public sector employees are not engaged in trading with the aim of making a profit. Their employment prospects are not governed by profitability or proxies for it. So there could be no question of their being included in the scheme.

4. In the areas that do trade, I do not claim there is a black and white distinction between the conditions faced by all private businesses and by all public sector trading bodies. But there are major differences. Some public sector businesses are in a position to achieve profit targets by raising prices, because they are less vulnerable to losing business when there are no other suppliers [for example the water industry]. Other parts of the public sector that are beginning to operate in competitive conditions only do so for part of their workload [for example DLOs].

5. And even where public sector trading conditions are at their closest to the private sector there is still an undoubted difference of culture. The full benefits of flexibility can only come when businesses, rather than being subject to the inevitable restrictions

and constraints of the public sector, are operating fully in the disciplines of the market economy - as the results of our highly successful privatisation policy clearly demonstrate. By far the greatest benefits from profit sharing will come in the environment private businesses typically face.

6. That is not to deny the role that more incentives and links to performance can and should play in public sector bodies. But in making this major innovation to our systems both for pay and taxation, which has not been introduced in any of the advanced industrial countries, it is right to move with a degree of caution and to focus the scheme now on areas where it will have the greatest impact. We have not closed our minds to the possibility of reconsidering the position of the public sector, when we have had some years' experience of how the scheme is evolving and developing in the private sector. By then of course the privatisation policy will have been further developed. But certainly for the present it is right to target this exciting new scheme on the private business sector.



FROM: A C S ALLAN
DATE: 19 March 1987

MR MONCK
MR SCHOLAR
MR TURNBULL
MR D J L MOORE
MR PERETZ

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr P R C Gray
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Tyrie
Mr Ross Goobey
PS/IR
PS/C&E

CHANCELLOR'S WIND-UP SPEECH IN BUDGET DEBATES

For his wind-up speech on Monday, the Chancellor has asked for passages on a number of subjects. He will decide which to use, and how to assemble them, once he has a clearer idea of how the debate is going.

2. Please could those identified let me have a page or so on the following subjects, by lunchtime tomorrow (Friday 20th).

- (a) Mr Gould and the Opposition's reactions (APH, Mr Ross Goobey, Mr Tyrie).
- (b) Budget achievements, "Hat Trick" (Mr Scholar).
- (c) Public spending increases (Mr Turnbull).
- (d) Yields of taxes - the paragraph dropped from the Budget Speech, expanded to include higher rates of income tax (Mr Scholar).
- (e) Growth and inflation in different Parliaments (APH).
- (f) Balanced nature of growth (APH).
- (g) Profit-related pay (Mr Monck).



- (h) The Verdict - expanded version of passage in Budget Speech (already drafted by Sir T Burns).
- (i) Privatisation and the BP sale (Mr Moore).
- (j) Interest rates - to be finalised on Monday (Mr Peretz).
- (k) Monetary policy - to cover possible lines of attack from Mr Gould (Mr Peretz).

3. He would be grateful if Mr Culpin could give some thought to what the Sunday newspapers are likely to concentrate on, and suggest any material that might be appropriate.

4. He would also be grateful if those attending the Budget Debates could look out for themes which he ought to comment on or reflect in his wind-up.

A handwritten signature in black ink, appearing to be 'A P HUDSON'.

A P HUDSON



100

FROM: J J HEYWOOD
DATE: 19 March 1987

MR HOUGHTON IR) Copy
MR PITTS IR) to each
MR MUNRO IR)

cc PS/Chancellor
PS/IR

BUDGET DEBATE: WINDING-UP SPEECH

1. The Financial Secretary has asked me to pass on his thanks to you for the speaking notes that you supplied for his use in the debate.
2. Although he did not have the opportunity to make full use of these notes, he thought that they contained some very good material, which could well be suitable for use on another occasion.

JEREMY HEYWOOD
Private Secretary



FROM: A P HUDSON
DATE: 20 March 1987

PH

MR D J L MOORE

cc PS/Financial Secretary
Sir P Middleton
Mr Monck
Mr Cassell
Mr Scholar
Mr Culpin
Mr M L Williams
Ms Leahy
Mr Ross Goobey

CHANCELLOR'S WIND-UP SPEECH, 23 MARCH: BP SALE

The Chancellor has confirmed that he will need to deal with the BP sale in his wind-up speech. You are already preparing some material.

2. The Chancellor has asked for some background documents: Mr Peter Rees' 1984 (?) statement; and all past press cuttings showing the widespread expectation of a BP sale. Please could you let me have these by close tonight.

PH

A P HUDSON

UNCLASSIFIED

RS



FROM: N G FRAY

DATE: 20 March 1987

MR CROPPER

BUDGET REACTIONS

The Chancellor has seen and was grateful for your minute of 19 March.

Nigel Fray
N G FRAY

CONFIDENTIAL

FROM: P J CROPPER
 DATE: 19 March 1987

CHANCELLOR

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

BUDGET REACTIONS

1. Littlewoods very grateful that the VAT/Credit traders thing has been dropped. I told them the sterling commercial paper/private company problem was still being considered.
2. Appreciative letter from Gallahers, who realise that the non-indexation of tobacco was entirely a consequence of the smoked salmon they gave to the Minister of State and me in January.
3. John Avery Jones very happy with the budget - particularly interests in possession. Suspects the property companies may not yet have woken up to the impact of CGT at 35%.
4. James Rowlatt, at Fleet Friendly Society, was thankful for small mercies.
5. John Chown pleased with the ACT set off for companies. The banks had it coming to them on the VAT partial exemption anomaly. Pleased with "interests in possession", and with evidence of progress on exchange gains and losses.
6. Bruce Sutherland thought it was a brilliant budget: Stratford on Avon will start posting its election appeal letters forthwith. Only one reservation: taxing companies' gains as if they were income sets a very very dangerous, a terribly dangerous precedent(!)
7. Keith Carmichael is in America.

P J CROPPER





purp.

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 5766 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

PRESS NOTICE

The Budget

The Treasury and Civil Service Committee have arranged the following programme of evidence sessions in order to make a report on the Budget in good time for the second reading of the Finance Bill:

- | | |
|---|---------------------------------|
| Wednesday 25 March
4.45 pm in room 5 | HM Treasury officials |
| Thursday 26 March
4.45 pm in room 8 | Governor of the Bank of England |
| Monday 30 March
2.15 pm in room 8 | Chancellor of the Exchequer |

- cc Mr ~~Allen~~ - 12/2
 Sir P Middleton
 Sir T Bunn
 Mr FER Butler
 Mr Cassell
 Mr Monck
 Mr Scholar
 Mr Odling-Smee
 Mr Turnbull
 Mr Sedgwick
 Mr Aretz
 Mrs Lanax
 Miss O'Mara
 Mr Culpin
 Mr Riley
 Mr S Davies
 Mr Nowl

D F HARRISON
Clerk

20 March 1987

from Rt Hon Terence L Higgins MP



ALG

HOUSE OF COMMONS
LONDON, SW1

18 March 1987

Dear Mr Chancellor.

May I extend to you once more, on behalf of the Committee, an invitation to give evidence in connection with the Committee's Budget inquiry?

As you may know, this year we have been in some difficulty in putting together a programme which will allow us to report in time for the Second Reading of the Finance Bill. The date we have to propose is Monday 30 March at 2.15 pm, which I understand may be convenient to you.

We look forward very much to your evidence.

*As ever
Terence*

RT HON TERENCE L HIGGINS
Chairman
Treasury and Civil Service Committee

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
SW1P 3AG

Ch
PS reply OIC?
- this timing is much better,
& gives Thursdays → Monday gap
between Bank & yr.
AAA
No: will do
good

FROM: MISS C EVANS
DATE: 19 MARCH 1987

MR ALLAN —

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Sir G Littler
Mr F E R Butler *Mr Anson*
Mr Cassell *Mr Mouch*
Mrs Lomax *Mr Kemp*
Mr Odling-Smee
Mr Peretz
Mr Scholar *Mr Sedgwick*
Mr Turnbull *Mr Mowl*
Mr Riley *Mr Sinclair*
Mr Culpin *Mr S Davies*
Miss O'Mara
Mr Pirie
Mrs Lester

TCSC: BUDGET ENQUIRY

This is to confirm that the Chairman is writing to invite the Chancellor ~~to~~ to appear on Monday 30 March at 2.15pm. I should be grateful if you could let me know when I can confirm this with the Clerk.

2. The officials' hearing will be on Wednesday 25 March at 4.45pm and the Governor of the Bank on Thursday 26 March at 4.45pm.

3. As usual I have asked the Clerk to let me have notice of the Committee's questions as early as possible. He told me that the questions for officials are unlikely to be ready before Monday morning. I will check on progress ^{tomorrow} on ~~Friday~~. Copy recipients will recall that the Committee may wish to return to the points on local authority capital receipts and overfunding which were omitted from their final report on the PEWP.

Carys Ev

MISS C EVANS
ext 5170 93/1



ps1

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

20 March 1987

The Rt Hon Terence L Higgins MP
Chairman
Treasury and Civil Service Committee
House of Commons
LONDON SW1

[Handwritten signature]

Thank you for your letter of 18 March. I can confirm that I will be happy to give evidence to the Committee at 2.15 pm on Monday, 30 March.

[Handwritten signature]
NIGEL LAWSON

(Bgt wind-up
speech)

PJP

FROM: P J CROPPER
DATE: 20 March 1987

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Culpin
Mr Hudson
Mr Ross Goobey
Mr TyrieWINDING UP SPEECHCREDIT BOOM

Labour are in a muddle over tax cuts and the credit boom.

2. Roy Hattersley says, in the attached Independent article:

"The (tax) reductions were economically, as well as socially, the wrong prescription for Britain. They will fuel the spending boom and the credit boom which goes with it. As a result, the balance of payments, already in accelerating decline, will deteriorate further."

*not in
agenda
Hudson*

3. Tony Blair took up the same theme:

(Private borrowing is responsible for holding up interest rates in the UK)"The significance of that fact is that we are living through a boom in consumer expenditure which is dangerously out of control."
(Hansard 19 March 1987, Col. 1126)

4. Jim Craigen used it in a similar way:

"it is the consumer boom that has financed a substantial part of today's handout. That spending boom has given the Treasury revenues that were not expected at the time of last year's Budget. These unexpected revenues come from extra VAT and corporation tax receipts..... Consumer expenditure has risen because more people are getting into debt...." (Hansard 17 March 1987, Col. 854.)

5. It is a strange argument that says that letting people keep more of their own money is wicked because it encourages them to get deeper into debt.

6. It is clear that the Socialists hate the consumer boom because it represents the good life under the Tories - as opposed to the bad life of the sort you get in Gdansk or Leipzig.

7. Prosperity is bad enough. If it came to be seen that involuntary unemployment was fast on the way down, what would be left of the present Hattersley/Kinnock line? Not very much.

INDUSTRIAL RECOVERY

8. John Stokes did his Midland industrial prosperity stuff again. (Hansard 17 March 1987 Col. 874-77).

PRIVATISATION

9. Tony Blair (19 March Col.1123) said the average premium on first day trading in privatisation stocks was 77 per cent, but on private sector issues 7 per cent. I think officials will be telling you that Blair used partly paid prices.


P J CROPPER

(and 72
with suspension
low)

Why tax cuts are the wrong prescription for Britain's ills

Roy Hattersley argues that there is a better way to create jobs

There is nothing *intrinsically* wrong in tax cuts. There may somewhere be a remote community or obscure sect which has a philosophical objection to lower taxes in themselves. But that conviction is unrelated to Socialism. The Labour Party's opposition to tax cuts is essentially pragmatic. It is a recognition of the obvious truth that a government which does not have infinite resources at its disposal has to make choices about the priorities for action. A reduction of 2p in the basic rate means that the Government has less to spend on pensions, hospitals, housing and, crucially important in the context of the time, job creation.

The reductions were economically, as well as socially, the wrong prescription for Britain. They will fuel the spending boom and the credit boom which goes with it. As a result, the balance of payments, already into accelerating decline, will deteriorate still further.

There was a moment on Tuesday night's television when John McGregor, the Chief Secretary to the Treasury, began to philosophise about the 2p off the basic rate. It provided, he said, more choice for those whose purchasing power was increased and was therefore a contribution to freedom. If basic rate taxpayers can be made "more free" by putting more

money in their pockets so can pensioners. However the Chancellor looks at the money at his disposal the same question has to be answered. Since there is not enough for everyone what is the most important? The essential has to take precedence over the desirable.

The philosophical case for lower taxes seems unlikely to dominate the forthcoming election campaign. I cannot see the Tory posters proclaiming Mrs Thatcher's undying opposition to "infractions of natural rights". The official line — carefully orchestrated from Central Office — is that tax cuts are good for us all. Tax cuts help the poor who pay no taxes. They build houses. They push up the pension. They shorten hospital queues. It is a bizarre argument but the Chancellor shows every sign of really believing it.

The evidence does not confirm his view. Professor E V Brown, who was commissioned by the Government to examine the relationship between tax cuts and the incentive to extra and harder work, was not able to detect any connection. Much excitement has been caused on the Tory back benches by the discovery that the highest earners are now paying more in tax since the top tax rates were cut.

The error inherent in their enthusiastic claims that lower tax rates generate higher tax revenue is explained in all the textbooks on elementary logic. What happens *after* an event is not necessarily the result of that event. The rich are paying more tax because their primary incomes have risen 10 times faster than the primary incomes of the poor. The "big bang" city salaries are not the result of a couple of pence off basic rate. The Government is now hopelessly confused about demand and the effect of extra spending power within the economy. There has, of course, been a very considerable reflation. But it has been fuelled not by a major change in the fiscal stance. It has been financed by the personal credit explosion which has put the average British family in debt for 70 per cent of its post-tax income.

That reflation has largely sucked in imports. The extra purchasing power that comes from a cut in basic rate will accelerate that process. There will be more money to spend, more money to underwrite extra borrowing, and lower interest rates to put the extra borrowing within the reach of more and more fam-

ilies. A few jobs will be created as a by-product of the extra spending. But if it were jobs that the Government was after, across the board tax cuts are the most expensive and the most economically dangerous way of doing it. The Treasury's own economic model demonstrates that money spent on investment in public sector capital — houses, hospitals, roads and schools — is a far more effective way of reducing unemployment. Money spent on direct employment — teachers, home helps and nurses — is an even more certain way of getting the maximum amount of impact for the minimum number of pounds.

The other tax changes in the Budget were footling — at least in terms of revenue raised or lost. The concessions to charities should be welcomed. The changes in VAT for small businesses were proposed last year by the Opposition, rejected by the Government, and must now be accepted as the act of a minor sinner come to slightly belated repentance. I am glad to see no increase in excise duties on alcohol but sorry that tobacco and cigarettes have escaped. That is, in part, a private prejudice. I enjoy one and loathe the other. I also think

that young people ought, increasingly, to be discouraged from smoking themselves to death. The most interesting tax proposals from last Tuesday's budget were the ones that did not happen.

No reduced rate band to help middle-income families. No increase in the thresholds above the statutory change needed to compensate for inflation. No changes in mortgage relief.

There was a brief and exciting moment when all the rumours suggested that mortgage relief was to be increased to £35,000, but limited to the basic rate. Suddenly it seemed that the Labour Party, the Archbishop of Canterbury, the Duke of Edinburgh and the Chancellor of the Exchequer would all be on the same side. Unfortunately, Nigel Lawson broke ranks.

He chose to concentrate his energies, his resources and his political hopes on 2p off the basic rate. It raises questions about his judgement and about the character of the British people. Thanks to the Chancellor's choice, a lot of tax payers will be better off. But it was clearly the wrong decision. I, at least, go into the election believing that the voters will understand and act accordingly.

□ Roy Hattersley is Deputy Leader of the Labour Party

Cello Suite No 1 in G, followed by a synthesized treatment of Offenbach's Suite for Two Cellos Opus 54), or the seemingly endless *déjà vu* of the final section.

Where Gordon sets his dancers in constant wheeling motion, Farber has them stopping and starting in odd isolated phrases, with short moments of unison that disintegrate into a series of disconnected solos. In *Winter Rumours* these discontinuities create an edginess that is intensified by the fragments of Russian song to which it is set — harsh lilting sounds which carry a painful sense of nostalgia.

At first, the dancers move fitfully: freezing in archetypal ges-

water quadrille in which the dancers wear blue jackets cut into seaweedy fronds and dance to excerpts from Bizet, Verdi and Rossini. They trace simple floor patterns using elementary ballet steps, but at the same time their arms are diving and wriggling, their hands flapping, and their bodies undulating with an occasional fishy flourish. Like the Walrus song in *Alice*, the piece has a grave formality that is sometimes rather beautiful and sometimes terribly funny.

□ *Extemporary Dance Theatre* are at *The Place* until 21 March; *The Cholmoadeys* will appear at *The Old Bull Arts Centre, Barnet, 11 April*.



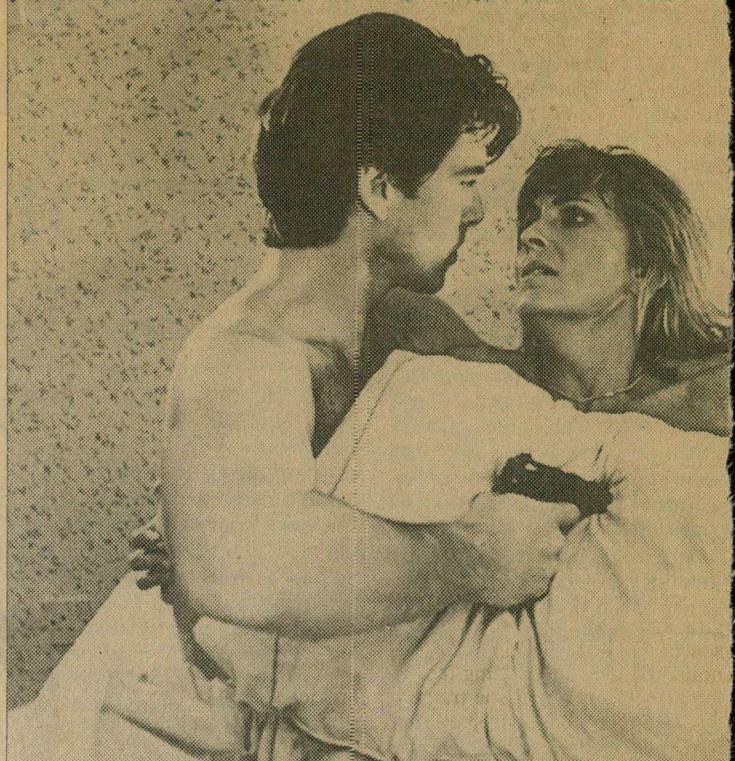
with a plot, and you cannot give a thriller weight with details from the newspapers.

War Zone, the first feature by Nathaniel Gutman, an experienced documentarist and television film-maker, is a workmanlike attempt, but that does not mean that it is either exciting or convincing for more than a few minutes at a time.

Christopher Walken plays a television journalist substituting for a regular Beirut correspondent. At first he lies low in his hotel, expecting his cameraman to take all the risks, and even borrowing old footage from a colleague when the cameraman resigns. Then he is lured into the confusing and dangerous life of the city by the promise of a scoop.

The scoop, an interview with a high-ranking PLO official who has believed for years that terrorism should be abandoned and Israel recognised, turns out to be a fake, but a fake designed to put pressure on the real PLO official, who holds just such views in private. When the real PLO official turns out not only to disown the troublesome credos of his faction but to be handsome, light-skinned and fond of his little son, the film seems to be creating a hero for cinematic consumption out of thin air.

The hero does not last long, however, and the journalist is



Pillow stalk: Pierce Brosnan threatens Joanna Cassidy in

poorly treated, threatened or ignored by all sides in the conflict. Walken does intermittently good things with his character, cynical but neurotic, beaten to the nihilist epigrams but not to the scoops by his colleague Hywel Bennett

(“Here you don’t kill who you want, you kill who you can.”). The most disturbing sequence has him being kidnapped by the Phalange for interrogation at a large and imposing residence, in whose extensive grounds teen-

TELEVISION / Stephen Games on C 4's
The Media Show and *Diverse Reports*

Very glad you
asked me that

“GREAT. Thanks a lot Nick. Oh and incidentally, talking about TV, are you a yuppy, do you watch *L.A. Law*?”

toon to be “a work of art, a super super movie.” We never found out why. Misrepresentation?

The Media Show's apparent dif-



THE
PHO

Since its launch
new standard
association with

WIND-UP SPEECH: GOOD NEWS SINCE BUDGET

I presented my Budget on Tuesday. It contained a ^{large} ~~fair~~ amount of good news - at least to those of us on this side of the House. And since then, further good news has followed daily.

On Wednesday, bank base rates fell by ^{a further 1/2} ~~1/2~~ of ~~1~~ per cent. They are now as low as they have been for two years.

On Thursday, we had the very welcome news that in February, ^{||}seasonally adjusted unemployment fell by the largest margin on record. Unemployment is now lower than it was two years ago. This is the best possible answer to the charge that the Budget does nothing for unemployment. Because the fall in unemployment - which has been going on for seven months in succession - is first and foremost the result of the flourishing economy. And that in turn is the result of the policies we have consistently pursued, and have reaffirmed in this Budget.

On Friday ^{No banks} ~~the~~ building societies cut their mortgage rates, which will be welcome to the [8 million] families with mortgages.

On Friday, it was also announced that inflation had remained at 3.9 per cent in February. ~~That is high, by our recent standards, but still rather less than a quarter of the rate Labour had achieved 10 years ago.~~

*exactly half the lower rate
prev. achieved by Labour in March
last year*

From Michael
Scholar

354

Achievements - the hat trick

1. Last week's Budget unfolded a remarkable catalogue of success -successes achieved and successes still to come. Six years of steady growth already behind us, a seventh about to begin. Four years in which that steady growth has gone together with low inflation, and another year of low inflation ahead. Output, manufacturing productivity, and exports, all performing well, or very well; every prospect that the sustained improvement in our economic performance is continuing and will continue; and extraordinarily strong public finances.

2. There is, Mr Speaker, nothing new and nothing fortuitous about this strength. It is the strength which has enabled us to reduce public sector borrowing progressively, to maintain public spending, and at the same time to cut taxes in each of the past six Budgets. It is the strength which has grown out of a strong economy, prudently and steadily managed. It is a strength sustained now over many years, durable enough to withstand two shocks - the collapse of the oil revenues and a long and costly coal strike. It is a strength upon which we may rely.

~~[Could remind the House about public expenditure, see
draft below, here.]~~

3. How has all this been done? What has brought about this hat trick - at one and the same time to keep borrowing, and inflation, low; to allow a ^{judicious} ~~modest~~ increase in overall public spending, sufficient to make room for our ~~high~~ ^{high} priorities - ~~health, education, and the rest;~~ ^{health, education,} and to cut another tuppence off income tax?

4. The answer to these questions is clear, and should, by now, be uncontroversial. From the outset, in 1979, the Government set out a clear, medium-term, prospectus for sound, steady finances, together with a whole raft of measures to improve the performance of the economy and to release its energies and its enterprise. Year after year we have pursued these policies, steadily and without deviation. Luck, or good fortune, have had nothing to do with any of this. The Budget is the latest instalment, both of prudent financial policies and in our programme of action to galvanise the economy.

~~5. I turn first to ...~~

Could go straight from here to Yields of Taxes,
with short link passage.

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YIELDS OF TAXES

This came from Michael Scholar; the amendments are from Julian Calder.

1. Since 1979 it has been a cardinal element in the government's policy that tax reduction is the single most effective measure available to it to stimulate enterprise and release wealth-creating energies throughout the economy. That is why we cut the basic rate of income tax in 1979, last year and this year from 33 to 27 pence in the pound, and reduced higher rates; why we abolished the National Insurance Surcharge, Capital Transfer Tax, ^{on lifetime gifts} the Investment Income Surcharge, and Development Land Tax; and reduced the ^{rates} [burden] of most of the remaining direct taxes.

2. Hon Members opposite, of course, found much to criticise in all this, and have ceaselessly advocated higher public expenditure rather than cuts in taxation. I believe that it is now clear that they have been posing a false dilemma.

3. In spite of all the substantial reliefs we have introduced, tax yields have risen during our period of office, in some cases by very large amounts. Stamp duty, whose burden was eased in successive Budgets, now brings in ^{over twice} ~~half~~ as much again in real terms as in 1978-79; the Capital Gains tax yield is up by 80 per cent; ^{in real terms} inheritance tax, as I told the House last week, ~~next year~~ is expected to have a

yield ^{next year} ~~nearly~~ three times that of Capital Transfer tax in 1978-79: Corporation Tax, too, next year should bring in more than three times the 1978-79 level, in spite of a drop in the rate from ~~52~~ per cent to 35 per cent; and the top 5 per cent of income taxpayers, relieved of Labour's confiscatory regime, ^{are expected to} ~~now~~ contribute 28 per cent of the income tax yield ^{next year,} compared with 24 per cent in 1978-79.

4. This all adds up, Mr Speaker, to the strongest possible vindication of our policies - lower tax rates and higher revenue yields, coming from an increasingly vigorous and prosperous economy.

Then on to 2nd para of public expenditure draft below.

PUBLIC EXPENDITURE

PASSAGE FOR CHANCELLOR'S WIND-UP SPEECH

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From:
A. Turnbull

Like all major achievements in life, this Budget has been planned for, and worked for, for some time. Its origins go back a long way:

- to 1979 when we set out our objective of bringing to an end the steady encroachment of the public sector;
- to 1981 when we first set out the MTFs which has provided a firm and consistent framework within which we have achieved steady growth and low inflation;
- to 1982-83 when public spending as a proportion of national income began the fall which has gone on how for the past 4 years;
- and to last year's Autumn Statement when we set out our plans to continue this trend for the next 3 years.

2. The growing strength of our economy has allowed us, prudently and responsibly, to add to our expenditure plans, so that instead of being held broadly constant in real terms we were able to plan for ^{real growth of about} a modest 1 per cent a year, ^{while remaining} growth. But this is still well within the projected growth of the economy.

3. Within the extra £4¼ billion for public spending in the coming year, we have been able to strengthen further our priority services

- an extra £2¼ billion for education, on top of spending per pupil that was already 17 per cent higher in real terms than in 1978-79;
- an extra £670 million for health, on top of the 26 per cent increase in real terms since 1978-79;
- ^{and} an extra £600 million on law and order.

We have ^{also} been able to add an extra £1 billion to our plans for capital spending, including £450 million for housing renovation and improvement ~~and £75 million for roads.~~

4. But in making these increases, we have not lost sight of two important principles:

- first, that expenditure should be decided in relation to what the nation can afford. We have budgeted prudently, allowing increases only when it was clear that the additional resources were available - in contrast to the party opposite who scatter uncosted pledges and hope, Micawber-like, that something, probably inflation, will turn up to pay for them;
- secondly, that what matters is not the resources that are put in but the services that are delivered. Across the whole spectrum of public spending we are continuing the search for better value for money.

Short link to pick out one measure - PRP.

CHANCELLOR'S WIND UP SPEECH: PRP

457

I announced last week a new tax relief for schemes which relate pay to profits. This ^{is} of major long term importance. It complements the wide range of measures the government has already introduced to make the economy work better - to encourage enterprise, flexibility and, in turn, long term strength. By introducing this facility ahead of other countries, ^{we have given} UK businesses ~~have been given~~ a major opportunity to strengthen their competitive position and future prospects.

2. I have deliberately set the relief at a generous level. ^{my HF!} As the Minister of State has already indicated in the debate, it could be worth the equivalent of a further 4p off the basic rate of income tax to someone on average earnings. The relief is double the level envisaged in last year's Green Paper. [This degree of incentive is fully justified given the importance to the future strength of UK businesses of increased pay flexibility.] And it provides a big incentive to overcome the inevitable hesitation of some businesses to take a radical step forward.¹⁶

3. We have given great attention to making the scheme as simple as possible for businesses to operate. No one precise model is likely to meet the needs of all businesses. So [within limits], firms have a range of choices about how to bring in a qualifying PRP scheme - for example deciding whether to relate PRP to a share of profits or to year on year changes in profits; ^{and} freedom to decide whether a single scheme should operate for a whole company or ~~the focus should be~~ ^{on smaller units} ~~at sub-unit level.~~

4. The basic requirements lay down a number of minimum tests. It will be up to employers whether to rest on ~~those minima~~ ^{these} or to be more ambitious. The best results for all - businesses, employees and the economy at large - will come if they take bold steps forward and go beyond the minima; for example by covering more than 5 per cent of pay and by making PRP payments more frequently than once a year.

5. What is essential is that PRP should not be treated just as an extra over and above normal pay levels or increases. That

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would do nothing to improve the strength of businesses; indeed it would weaken them. But I am sure employers will not allow this to happen. PRP needs to be integrated into our pay systems - perhaps in place of a conventional pay increase and possibly spread over more than one year - not grafted on top of them.

6. I said in my Budget Speech that PRP was a tool. Like all implements, its effectiveness will depend on how well it is used. I am confident that our businesses will rise to the challenge.

7. To do so, it is important that they start planning early. Schemes will need to be registered in advance of the year to which they relate, so it is not too early now to start designing schemes and their timing. [Businesses should act now to get on the Inland Revenue mailing list for detailed guidance notes.] I am greatly encouraged that in the few days since my speech the Revenue has already received more than [1,000] enquiries. I am confident the challenge will continue to be taken up.

Then BP - a bit of a jerk, but can't be helped.

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UNCLASSIFIED

FROM: D J L MOORE
DATE: 20 MARCH 1987

MR A P HUDSON

cc: PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Scholar
Mr Peretz
Mr Culpin
Miss O'Mara
Mrs M E Brown
Ms Leahy
Mr McIntyre
Mr Cropper
Mr Ross Goobey

CHANCELLOR'S WIND-UP SPEECH,
23 MARCH:
PRIVATISATION AND BP

I attach some material as requested in your note of 19 March.

2. The reference to the relatively favourable market response must be checked against the price at close on Monday.*

BELOW

3. Ms Leahy will be letting you have the background statements and press cuttings which the Chancellor wants.

D J L MOORE

Enc:

*at 12.30 today it was up to 825p compared with 828p just before the announcement.

Privatisation and BP

success of the
 [The privatisation programme continues [at full steam ahead].
 In 1986-87 we transferred British Gas and British Airways
 to the private sector. With the stimulus of new ownership
 and of market disciplines, I am in no doubt that they will
 thrive to the benefit of their shareholders and to the benefit
 of the economy as a whole.]

C.
 1. don't think those
 2. paras make the
 key point very
 clearly. I've tried
 a redraft, attached.
 As the House knows, from my Autumn Statement in November
 and from the January Public Expenditure White Paper, my
 plans assume total privatisation proceeds of £5 billion
 in 1987-88, and in each of the two following years. [The
 proceeds from Rolls-Royce which we are selling in the Spring
 and from the former British Airports Authority will contribute
 towards those totals. And we will then have returned about
 40% of the 1979 State industrial sector to the private sector.]

*Funny way of
 putting it.*
 The proceeds from the sale of our remaining BP shares
 during 1987-88 will also contribute. And let me, [once again,
 deal with some of the misconceptions wilfully put about
 on the BP sale. Although the shares will be sold in 1987-
 88, the proceeds will be paid in instalments, as with all
 our major sales. Only one instalment will be paid in 1987-
 88 and my Budget arithmetic took full account of that. The
 sale makes no difference to the PSBR which I have announced
 and has nothing to do with the scope for future tax cuts.]

I am delighted to say that the announcement has been
 well received by informed opinion. The Company has welcomed
 it as removing an uncertainty which has hung over its future.
 The market has welcomed it. [Quite apart from normal day-
 to-day fluctuations, some fall was to be expected as the
 market digested the news. But the fact is that the BP price
 has stood up well].

But the Leader of the Opposition has not welcomed it. In the wholly unlikely situation of ^{his} having any say in the matter, he would hold on to the shares. Why? His predecessors raised over £½ billion from selling BP shares in 1977. Is it that he wants to intervene in the running of this Company? Does he want to break up the commercial disciplines under which it operates so successfully?

But let me not waste the House's time on hypothesis. The shares will be sold in 1987-88. BP already has over ¼ million shareholders. The sale will offer them, and the ^{wider body} new breed of shareholders [- those who bought shares in Telecom, in TSB, in Gas, in Airways and so on -] the opportunity to invest in an [exciting and] thriving British oil company which is in the top rank internationally.

[What other plans do we have for privatisations and for meeting my targets for proceeds in the next 3 years?

In line with our policy of selling minority holdings, we can sell our 49% remaining stake in British Telecom after April 1988, though we have not yet taken any decision as to when. In the next Parliament we also plan to privatise the Water Authorities and British Steel and most of the remaining State industrial sector. We are not short of either ideas or of opportunities.]

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WIND-UP: BP SALE

My RHF the Financial Secretary told the House last Wednesday that, as part of this policy, the Government will sell its remaining shares in BP, subject to market conditions, in 1987-88.

I must say that this simple announcement has generated an extraordinary amount of misunderstanding, some of it deliberate, and some of it wilfully put about by Hon Members opposite.

As we have made absolutely clear, in the Autumn Statement, the Public Expenditure White Paper, and the Red Book, ^{that} our plans assume total privatisation proceeds of £5 billion in 1987-88, and in each of the two following years. The proceeds from the BP sale will contribute to that total; they will not add to it. So it is completely misconceived to speculate about the implications for future tax cuts. I should add that ^{we plan} ~~our intention~~ has always been to go for payment by instalments, as with all major sales, and that only one instalment will be paid in 1987-88.

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UNCLASSIFIED

FROM: Ms P M LEAHY
DATE: 20 MARCH 1987

cc: Mr D J L Moore

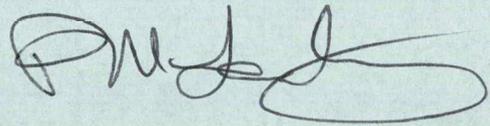
MR A P HUDSON

CHANCELLOR'S WIND-UP SPEECH: BP

I attach the relevant extract from Peter Rees's 1984 statement and press cuttings showing the widespread expectation of a BP sale, as requested in your minute of today.

2. I am afraid I cannot guarantee that we have tracked down all the relevant press cuttings - but they are all we can find.

3. Our extensive contacts with merchant banks and brokers have suggested that the City was expecting a sale in the next financial year - probably from September onwards. (They worked out that there probably was not room until then).



P M LEAHY

Enc:

weekly average rose to 270. Between 1979 and 1983, investment in manufacturing industry fell by 30 per cent. while the volume of manufactured imports rose by 20 per cent.

All those things happened at a time when the Government were in receipt of the uncovenanted windfall of North sea oil—a bonus that no other Government have ever enjoyed. Without that £9 billion annual contribution to national revenues that the Government uniquely enjoy, the country would be literally bankrupt. Yet the Chancellor has the effrontery to describe the Government's record as one of success. God grant that we may be spared such success in the years to come.

5.3 pm

The Chief Secretary to the Treasury (Mr. Peter Rees): We have been treated to a vintage performance by the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley). I suspect, however, that it is not a vintage of which he will be proud in years to come. It shows, perhaps, that within the calculating figure now seated on the Opposition Front Bench there lurks a demagogue struggling to be free and to join the right hon. Member for Islwyn (Mr. Kinnock) in his soft-shoe shuffle on television—perhaps the only vaudeville act of which the two of them are capable. I shall come in due course to the serious parts of the right hon. Gentleman's speech, such as they were, and to such of his party's economic policies as we have been able to glean from his speeches in the past few weeks. I am sorry that he did not draw attention to the latest striking evidence of satisfaction with the Budget—the cuts in base rate announced today by at least three of the clearing banks.

In a more prosaic vein, I begin with one or two announcements that my right hon. Friend the Chancellor could not fit into his Budget speech yesterday but which the House will wish to hear at the earliest opportunity—*[Interruption.]* I willingly give way to anyone on the Opposition Front Bench who wishes to announce his resignation either from the office that he holds or from the party to which he affects to belong.

On holiday lettings, my right hon. Friend the Member for Cirencester and Tewkesbury (Mr. Ridley), then Financial Secretary to the Treasury, announced last year that it was not possible to deal with the tax problems of holiday lettings in the abbreviated Finance Bill following the general election but that we should return to the matter in this year's Budget and Finance Bill. We then issued draft clauses for comment.

Many representations have been made to us about the dimensions of the problem, particularly by my right hon. Friend the Member for Blackpool, South (Sir P. Blaker)—

Mr. D. N. Campbell-Savours (Workington): And by me.

Mr. Rees: We are willing to include the hon. Member for Workington (Mr. Campbell-Savours), too. No doubt there will be an opportunity to discuss the representations in more detail in Committee. I should make it clear here and now, however, that the proposed reliefs for holiday lettings will be backdated and will take effect from 6 April 1982. I hope that this will go a long way to allay the anxieties of those involved in this area who are responsible for an important contribution to our tourist industry.

Mr. Eldon Griffiths (Bury St. Edmunds): In the unfortunate absence of my right hon. Friend the Member for Blackpool, South (Sir P. Blaker), may I ask whether the proposal includes caravans?

Mr. Rees: That is a detailed point which might be more properly explored in Committee. It is a refined point as to whether a caravan should be regarded as a house available for holiday lettings. I take note, of course, of my hon. Friend's concern. As he knows, there are many types of caravan, some of which are described as temporary homes, but perhaps we may deal with such refinements on a future occasion.

On the less romantic subject of cable television, capital allowances have been a matter of great concern. The industry and the Inland Revenue have recently had discussions about the tax treatment of providing the protective ducting in which the cable is inserted and the cost of cutting and covering the trenches in which the cable will be laid. The Inland Revenue has taken legal advice on the matter and is today informing the industry that such expenditure qualifies for capital allowances as plant and machinery. Taken in conjunction with my right hon. Friend the Chancellor's announcement about the future rates and allowances, that decision by the Inland Revenue will permit the industry to make its future plans in full knowledge of the tax implications.

As a result of the Government's privatisation programme, which will continue to be a main theme of this Parliament, the Government hold minority residual shareholdings in a number of quoted companies and questions have been asked from time to time about the Government's intention as regards those holdings. It has been suggested that they represent a continuing and deliberate means of exerting Government influence on the companies after they have passed into the private sector. I wish to reassure the House that that is not so. Such an aim would be quite contrary to the main purpose of the Government's privatisation programme. To put the matter beyond doubt, I should make it clear that it is the Government's policy to sell such shareholdings as the circumstances of the companies, the prospectus undertakings and market conditions permit. I assure the House that a full announcement will be made at the time when individual sales are made.

The mechanism of a special share may be used in appropriate cases to safeguard the national interest, as has already been done in the case of Britoil, Amersham International and Cable and Wireless. In line with this approach, minority shareholdings in privatised companies have already been transferred from sponsoring Departments to the Treasury, and this policy will continue.

I now come to the broad sweep of the Budget. It has two themes. It re-emphasises our determination to continue the fight against inflation through sound financial policies, and it introduces a radical programme of tax reforms. Of course, our determination not to compromise our inflation objectives limits what can be done in the tax sphere in the short term. Although my right hon. Friend the Chancellor's task as a tax reformer may be more difficult, his achievements will, I hope, be seen as the more remarkable, particularly his achievements in yesterday's Budget.

Moreover, this Budget should not be seen as a one-off exercise. It will, I hope, set the tone for a Parliament, and

Observer 23 Nov 1986

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prominent executives at
d also at rivals Goldman
Prudential-Bache.

and Gulf and Western. Dreker was
involved with nine of these
companies.

■ Wall Street's Watergate, page
37.

REFUND 100%
JAPAN: 227 yen
PORTUGAL: 207 escudos
SWITZERLAND: 2,345 francs

Selling rates at Barclays, Heathrow, on Saturday morning. On the week, the trade-weighted index of the pound remained steady at 58.3.

ITALY: 1,340 lire
NETHERLANDS: 3.17 guilders
SPAIN: 167.75 pesetas
UNITED STATES: \$1.396

BP sale could cut taxes



Lawson: Sell-off hinges on PSBR figures

THE CHANCELLOR is planning to finance his pre-election Budget tax cuts next year with the sale of the rest of the Government's £3 billion holding in British Petroleum, writes Adam Raphael, Political Editor.

Authoritative Whitehall sources acknowledge that a further sale of part or whole of the Government's 31.7 per cent stake in the oil company is under close consideration but insist that no final decision has yet been taken.

If all the Government's BP shares were sold, their current value would be sufficient to finance a 3p cut in the standard rate of income tax from 29p to 26p.

Lawson's decision on whether to proceed with the sale is thought at Westminster to be likely to turn on the outcome on public

borrowing. He is committed to keep the PSBR at 1¼ per cent of GDP, or roughly £7 billion next year. The BP sale would enable him to meet that target while giving a large tax boost to the economy.

BP's shares fell 5p last week to 693p—still close to their year's high—after reporting nine-month profits of £1.58 billion, rather better than the market had expected.

When the Chancellor was pressed recently by Tory backbenchers about the Government's stake in BP, he accepted that there was no longer any legal bar to further disposal.

Lawyers advising the Government have recently concluded that the commitments given at the time of the last BP sale in September 1983, that there would be no further disposals for the 'foreseeable future,' have expired.



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PLAY
COUNCIL

Chirac to press for dialogue about labour

David Housego in Paris

Jacques Chirac, the French Minister, announced last night that he would be meeting union and employers' representatives in the coming weeks in an effort to strengthen collective bargaining and renew dialogue with the labour force. Chirac announced his initiative at a press conference aimed to renew confidence in his administration. The recent strikes and student demonstrations have considerably weakened the Government's popularity according to opinion polls. The press conference followed a day-long meeting of Mr Chirac's conservative administration intended to define the Government's legislative priorities for the year before the presidential election due in May 1988.

Chirac's projects to be given priority—which include new proposals for widening employee participation in the private sector—reflect the Government's growing preoccupation with social issues. Although Mr Chirac has initially been meeting trade union leaders, he has so far held formal gatherings as a means of demonstrating his freedom of administration's reluctance to interfere in relations between industry and labour. His change of tack is bound to be seen as a return to the style of trilateral gatherings between unions and employers analysed under the socialists in the similar round table conferences called to achieve social peace after the labour disturbances of May 1968.

Mr Chirac denied at the press conference that the changes marked a "turning point" for his administration. Mr Chirac said his discussions with union and employers' leaders would ensure that employees were better informed of the changes introduced into the working environment. In the recent strikes in mind, Mr Chirac said change would only be accepted "unless the employees are clearly prepared, explained and discussed before being implemented."

He described employee participation and the development of popular capitalism as being at the heart of the Government's policy. He said the Government intended to extend the public sector and the service both employee participation and other private ideas.

emphasising the

30 January 1987

Restored to the middle ranks

There is no denying that Rank Organisation's full year figures were good. They would have been quite good even if Rank had not capitalised some interest, restated the comparisons and had some help from acquisitions. With pre-tax profits up more than a fifth to £164.1m, and after the shares gained 21p to 611p yesterday, Rank has almost achieved a market-average multiple.

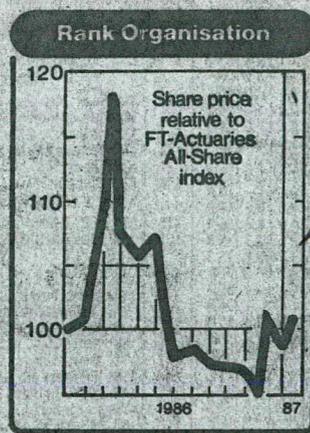
The post-Granada fall-out in the shares seems largely to have been forgotten, and the City's only concern is that if a big acquisition comes along it should be the right one. Rank may prefer to see its multiple rise yet further before contemplating a major move, and in the market's current mood that may well happen. Nearly everything is working in Rank's favour. Its dependence on UK discretionary spending is just right when real incomes are racing ahead, and Rank is doing well to make the most of it by reconstructing Butlin's, sprucing up cinemas and encouraging bingo players to play fruit machines too. Meanwhile Rank Xerox seems to be thriving on a strong Yen, which, with an EEC anti-dumping levy as well, has finally brought price stability, rather than continual declines, to the European copier market. And even though Fuji Xerox is suffering, lower Yen profits translate into higher sterling earnings.

Investors need not question, just yet, what might go wrong. But the consumer boom cannot last for ever, and some of its markets are as immature as the customers. Banging up prices at Butlin's could backfire. And capitalising interest, though perfectly valid, requires a continued high level of spending. Similarly, the switch from renting to selling copiers might boost initial profits at the expense of later years. It could take some pretty good acquisitions to plug the gaps.

TSB

The ease with which TSB group has beaten a prospectus profits forecast made only two months before its year end is slightly surprising, given the upwards move in interest rates immediately post-flotation. For TSB is that rare bird, a bank which suffers when rates move up. Not that the market was ever going to be too exercised about these figures, which were greeted by a 2½p fall in the share price to 80p; it is waiting

Index fell 13.4 to 1,427.0



to see how the TSB spends its £1.4bn windfall. The sharp reduction in TSB's growth of retail lending revealed in yesterday's figures shows that the bank is not—thank heavens—letting the money burn a hole in its vaults.

However, that leaves the main question unanswered. Should the shares of a company with very subnormal rates of return be on a large premium to those of the competition? It's a market that likes to say yes.

Norsk Data

Norsk Data has spent two years defying its own gloomy predictions that 40 per cent-plus compound revenue growth is unsustainable. Last year's figures, in particular the second half, suggest growth rates are indeed re-entering the earth's atmosphere; yet an ungrateful market, which can hardly claim it was not forewarned, has knocked £1 off the share price leaving it on £20½ and a scarcely onerous multiple of 14.

It is true that pre-tax profits—up 29 per cent at £43.8m—were slightly below expectations and margins slipped a fraction. However, in spite of the problems of the Norwegian economy and heavier than usual development costs Norsk has managed to retain most of its growth momentum. Sales outside Norway grew by 50 per cent—most spectacularly in India and Denmark—and now account for about half total sales and slightly less than half pre-tax profit.

The super-mini-computer market remains buoyant and

Norsk's experience of customising for the fragmented European market has given it an edge over much US competition which it should be able to press home with the new range. Higher new product margins, combined with a drop in sales growth, will soon start producing an avalanche of cash, leaving Norsk with the desirable problem of trying to dampen growth so as not to surprise a sceptical market.

BP

The legal advance which now permits UK companies to denominate their share capital in more than one currency is of relevance to more than just the banking community. It seems that BP is interested in the implications of the court's ruling. Like all the oil majors it is overwhelmingly dependent on dollar earnings. More particularly, BP has over the past year engaged in a US investor relations blitz, with considerable success. Last Easter it gloomily calculated that 99 per cent of its shares were held in the UK. That figure has now been cut down to 95 per cent, with BP ADR's currently trading at about 10 times the volume typical before BP directors started their regular shuttle to the US.

However, the British Government may soon throw a rather large spanner into BP's plans to internationalise its shareholder base. It plans to sell its remaining stake in the company, which would raise £4.5bn at current prices. In its previous disposals of BP shares the Government was true to its political aim of maximising UK equity ownership, and none of the shares went directly overseas. Continued government faith in the UK investment community—which has kept its BP weighting low enough to leave room for the Government's stock—could damage BP's schedule of having 10 per cent of its shares held outside the UK by the end of the year.

Not that the Government should be swayed by BP's corporate plans. HMG owns the shares and can do whatever it wants with them. However, if the net flow of about \$1bn of BP's shares to the US over the past year is anything to go by, the Exchequer would secure the fattest cheque by selling the lot to the Americans.

F12

Government need of quick BP sale

By David Smith, Economics Correspondent

An early sale of part of the Government's stake in British Petroleum is essential if the Treasury is to meet its privatization target for 1987-88.

The £4.75 billion target for this year is unlikely to be hit, and the present programme of asset sales for the next financial year is £2 billion below the official target of £5 billion.

A major element in the credibility of the Government's borrowing targets will be the ability to hit ambitious goals for privatization proceeds over the next few years.

The Treasury is likely to sell its remaining 31.7 per cent stake in British Petroleum, worth about £4.5 billion, split between the 1987-88 and 1988-89 financial years, in order to bridge the privatization gap.

Mr Norman Lamont, Financial Secretary to the Treasury, announced in the Commons last week that the Government would be taking its £750 million repayment of loan stock from British Gas in the present financial year.

The announcement came as some surprise in the City, because of the recent good run

of figures for government borrowing. Analysts had expected the Chancellor to defer the repayment of the British Gas loan until 1987-88 as a result of the healthy borrowing position this year.

However, the repayment of the loan this year is necessary to avoid an embarrassing missed target for privatization. Even with the £750 million, Treasury officials said that this year's privatization proceeds were likely to be only £4.34 billion, nearly £400 million below the official £4.75 billion target.

This missed target, while of relatively little importance to the overall fiscal sums, has come in spite of the stock market boom, which should have raised overall proceeds above the target.

For 1987-88, £1.62 billion will be received from the second payment on British Gas shares, £800 million from Rolls-Royce, £410 million from the second payment on British Airways' shares and £500 million from the sale of the British Airports Authority.

The total, £3.3 billion, is well below the £5 billion target. Some of the gap will be made up by a second redemption of British Telecom shares.

PRIVATIZATION PROCEEDS

Issue	1986/87 (£ bn)	Issue	1987/88 (£ bn)
British Telecom(3rd call)	1.09	British Gas (2nd call)	1.62
British Gas	1.80	Rolls-Royce	0.8
BT Preference shares	0.25	BT Preference shares	0.5
British Airways	0.45	British Airways	0.41
British Gas debt	0.75	British Gas debt	0.25
Total	4.34	British Airports	0.5
		Total	4.08

Source: Treasury

THE INDEPENDENT

Balancing act²
from BP

THE see-saw equation behind British Petroleum's exposure to the oil price has buffered shareholders from the worst of the crude market collapse.

For in a year which has seen oil prices range from \$10 to \$26 a barrel chairman Sir Peter Walters at least managed to maintain the real value of the dividend by lifting the payment by 1p to 35p by way of a 23p final.

The explanation rests with BP's growing interests in activities like chemicals, oil products and petrol retailing which benefit from lower oil prices. Come a drop in oil revenues and their profit contribution rises to offset, at least partly, the dramatic im-

pact on profits from the main exploration and production division. The other compensation came from the unlikely source of the Inland Revenue: the drop in oil revenues saw a reduction in the tax bill from £2.786bn to £663m over the period.

Without these hedging mechanisms — which are one of the main attractions of a stock like BP — the effect of the oil price drop would have been more dramatic.

Even so it is easy to see why Sir Peter calls for oil prices to be maintained at \$18. The impact was seen most dramatically in stock losses which rose from £218m to £962m over the full year period. These refer to losses made on BP's huge reserves of stored crude as market prices plunged below the cost at which they were originally purchased.

Taking these into account historical cost profits slumped 49 per cent to £817m for the full year in 1986. Looking at accounts on a replacement cost basis — the way BP understandably prefers — profits are marginally down from £1.816bn to £1.779bn over the same period. The performance was broadly in line with analysts' predictions although shares eased 1p to 750p.

The way forward will be to juggle the constituent parts of its world-wide empire to fine tune the overall performance to oil price forecasts. Capital expenditure will be maintained at about £3.8bn. As Sir Peter warns unless the government acts on cutting North Sea oil taxes, the company will have no hesitation about switching its vast

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BP or not BP—the
question taxing Nigel³³

SIR Peter Walters hates uncertainty. And the 55-year-old BP chairman yesterday delivered a polite but firm message to the Government: he is fed up not knowing what his biggest shareholder plans to do, writes Ben Laurant.

The state's holding in BP was last reduced in September 1983. Some 130 million shares were sold off—and the Government promised no more sales for two years.

But it still has a 31.7% BP stake worth £4.3 billion, and equal to 4p in the pound off income tax for a year.

And despite Chancellor Nigel Lawson's current good fortune, with the Exchequer apparently awash with cash, the City firmly believes a further chunk of BP will be sold to the public soon.

Not knowing what the Government has in store interferes with long-term financial planning, said Sir Peter. "It would be nice to know one way or another what the position is," he sighed.

But the chairman admitted the Government does not meddle in the running of the company. So why his concern? Is BP planning a rights issue or big acquisition paid for by new shares?

Sir Peter refused to comment on stories that BP wants to buy Dome



By Philip
Robinson
CITY EDITOR

Petroleum—although BP sources say privately they wouldn't touch the company with a barge-pole. And talks which could have led to BP buying Marathon's North Sea interests drew a blank.

But the constant talk of a likely government sale of part of it stake is doing nothing to help BP's share price.

The full-year figures, yesterday shunted the shares down a further 17p to 746p. Just a month ago they were 814p.

BP earned £1,779 million in 1986 after knocking off tax and ignoring the fall in value of oil in the company's storage tanks. The 1985 figure was £1,816 million.

The last quarter of the year saw BP's margins on refining and selling products squeezed as the price of crude picked up. And the City fears this year could see a slump in earnings to £1,250 million.

The oil price drifted lower to around \$16.80 a barrel yesterday—an awkward level which cuts deeply into BP's profits from bringing oil out of the ground without offering the promise of a wind-fall on refining.

And despite Sir Peter's efforts to keep the shares attractive by raising the dividend 1p to 35p for the year, BPs still has few friends.

Analyst Sue Graham of Merrill & Lynch summed it up: "For safety, go for British Gas."

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More BP shares for sale

CHANCELLOR Nigel Lawson is expected to reveal Government plans for an autumn sale of BP shares within the next few weeks, writes David Simpson.

Lawson is likely to use his Budget speech to confirm that the Government will sell the fourth tranche of shares in the UK's largest company since the Tories came to power in 1979 to meet its target of £5 billion from state asset sales in 1987-88.

At present the Government holding in BP is 31.7 per cent, 578.5 million shares with a stock market value of £4.7 billion on the current BP price of 811p. Lawson is expected to indicate that the Government will sell off an unquantified number of shares during the new fiscal year if market conditions prove appropriate.

The Tories, if they are returned to power, are understood to have budgeted to offer the public between 10 and 15 per cent of BP towards the end of this year. Selling 14 per cent of the remaining state shareholding to leave the Government with a 17.5 per cent stake in BP could raise almost £2 billion.

Asset sales already in place will bring in the

Government no more than £3.75 billion toward its £5 billion target for the year. The sale of Rolls-Royce in May and of the British Airports Authority in the early summer will raise around £1.25 billion.

The second payment for British Gas shares, due on 6 June, will bring in £1.8 billion while the second payment for British Airways shares on 18 August will realise a further £400 million.

The Government does not believe at this stage that it will be able to organise other major asset sales, including the water authorities and the Electricity Council, before the end of the financial year, leaving it with a fund-raising vacuum in the second half of the year which BP would fill.

The recovery in oil prices since the December OPEC meeting decision to look for an \$18-a-barrel price structure has made the Tories more confident that a large slice of BP shares will find buyers at an attractive price. The Government shares would probably be sold at no more than a 3 per cent discount on the prevailing market price.

When the Government last reduced its BP holding, through a tender offer in September 1983, the striking price for the shares was only 435p.

Shaky Brent recovers

LONDON traders remained nervous about the price of oil this weekend, with North Sea Brent traded at \$17.40, \$1.20 higher than Friday's close a week ago, as the market corrected its earlier pessimism that the OPEC agreement was breaking down, writes George Parker-Jervis.

OPEC ministers were quick to attack market movements after Brent fell below \$16 on Monday. A Venezuelan source claims that OPEC production is below the 15.8 million barrels per day agreed last December. Independent sources broadly agree.

But the latest figures issued by the International Energy Authority indicate that, at 428 million tonnes, stocks exist for 98 days' consumption, up from 413 million tonnes (97 days) at this point last year. The IEA forecasts unchanged consumption for the second quarter.

The drop had the effect of pushing working prices lower: Brent usually maintains a differential over the heavier Arab grades characterised by Dubai blend, but when Brent dropped it fell no lower than Dubai at \$15.90. With the disappearance of the premium, buyers for Brent resurfaced.

In particular, Japanese

buyers returned to the spot market after several weeks while they waited to gauge resistance to the OPEC \$18 level.

Facing contradictory signals, markets in London and New York have proved volatile: Brent jumped 60 cents on Tuesday and a further 55 cents on Wednesday. Few traders dared to gamble on such a recovery, preferring to hedge each deal to make a five to 10 cent turn.

A cargo of Brent is 600,000 barrels and for the week's trading range the gain or loss on a single cargo could amount to \$1 million.

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CHANCELLOR'S WIND-UP IN BUDGET DEBATE

GROWTH

Some link from BP - not sure how.

1. During his lengthy speech on Wednesday, the RHG for Sparkbrook boasted that the growth rate in Labour's period in office averaged 1.9 per cent. Certainly, the depth of the world recession meant that in our first Parliament, growth was below par. But since the last Election, it has averaged fully 3 per cent. Two out of the last four years have seen faster growth than Labour ever achieved, and 1984 matched Labour's best year, in spite of the coal strikes.

In fact, average of $\frac{1}{4}$ per cent.

it didn't

not update in this form

2. In fact, the five years to 1986 have been the steadiest such period of growth since the War at a rate approaching 3 per cent a year.

3. The present upswing has already lasted much longer than the one under Labour. And it is still going strong - indeed, it is picking up pace. And the reason for this is clear when you look at two key features of the upswings. However, the RHG mentioned neither, even in a speech of over 50 minutes. So let me do so now.

4. First, inflation. Over Labour's time in office, it averaged 15½ per cent. In our first Parliament, we got that

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down to 11.3 per cent. And since the last Election, the average has been under 5 per cent.

5. The second difference is the balanced nature of the growth. Honourable Members opposite have recently adopted a very puritanical - some would even say sanctimonious - attitude to consumption and investment. Consumption, they say, is bad. Investment is good. But that was scarcely their record in office. Comparing their upswing with the present one, consumers' expenditure went up at roughly the same rate - about 3 per cent a year. The difference comes in investment; under Labour, fixed investment rose by only $1\frac{1}{4}$ per cent a year; in the present upswing it has gone up by 4 per cent a year. I expect a further 4 per cent increase in 1987, and the latest DTI Investment Intentions Survey suggests that industrial investment will rise by around 6 per cent both this year and next.

Then into verdict.

monetary conditions, as of course will the exchange rate.

C5. In my Lombard Association speech last April, I set out at considerable length precisely how in practice monetary policy is operated. Rt Hon and Hon Members who are interested in such matters will no doubt have observed that Mr Paul Volcker, Chairman of the United States Federal Reserve Board, in his written testimony to the Senate last month, explained how the Fed operates monetary policy in remarkably similar terms.