

PO-CH/NL/0236 PT B

Part B

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Begins : 12/3/86.

Ends : 17/7/86.



PO -CH /NL/0236



PART B

Chancellor's (Lawson) Papers :

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

Disposal Directions : 25 Years

21/9/95.

PO -CH /NL/0236

PART B

Ch
Letter to issue?

AJK
12/3

FROM: H J DAVIES
DATE: 12 MARCH 1986

CHANCELLOR

OK
as
a
(+ no question)

cc

CST
FST
MST
EST
Mr Cropper
Mr Lord

LABOUR SPENDING PLANS: CHANCELLOR OF THE DUCHY

I attach a draft letter from you to the Chancellor of the Duchy accompanying some further information on the £24 billion exercise.

HJD

H J DAVIES

A type for
Ch's sig, +
retype note
below

DRAFT LETTER FROM CHANCELLOR TO:

Rt hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

We spoke about the fact that

~~You will have seen that~~ Roy Hattersley has now become rather excited about our costing exercise. I see every advantage in keeping this on the boil. It was to be expected that there would be individual items of our version of Labour's programme which they would dispute, but so far ~~we~~¹⁾ see no reason to depart from our estimate ~~of~~^{for} of around £24 billion ~~of~~ the total cost of their programme.

CST suggests his amendment for consistency with his letter to Hattersley
DWK

I attach copies of Roy Hattersley's latest letters to John MacGregor and his replies, together with a note of points you might make in your speech at the weekend, and a copy of the Treasury's central brief on this exercise.

NIGEL LAWSON

Where is this?

LABOUR'S SPENDING PLANS: POINTS TO MAKE

1. Labour have been making wild promises to the electorate for nearly three years. At last the pigeons have come home to roost.

2. ~~John MacGregor~~ decided it was about time that Labour's promises were costed. *(The Chief Secret to the Treasury)*

3. A careful, detailed exercise was carried out, which produced a figure of £24 billion, representing the annual cost of Labour's programme once it had got into full swing. That figure, and all the details, was published in Hansard. *(by Treasury officials)*

4. Since then Labour have tried to deny the numbers quoted - but with almost no success. Mr Hattersley has ^(so far) not disputed ^{mt} 22 of 28 figures. His own corrections of the other 6 have pushed the figure down from just above £24 billion to just below £24 billion.

5. The Labour Party has been rumbled. Their panicky response shows that this cynical strategy of promising the moon to individual pressure groups, while pretending to have a responsible overall economic policy has been found out.

FROM: A Turnbull
DATE: 12 March 1986

- Two drafting amendments suggested.
1. MR F E R BUTLER
 2. SIR P MIDDLETON

cc Chancellor ✓
FST
MST
EST
Miss Kelley
Mr Scholar
Mr Culpin
Miss O'Mara
Mr H J Davies
Mr Cropper
Mr Lord

FERB
12.3.
I have suggested
reponse to both drafts.

MR HATTERSLEY'S LETTER TO SIR ROBERT ARMSTRONG

I attach a draft reply for you to send to Sir Robert to which is attached a draft he in turn might send to Mr Hattersley. In the letter to Sir Robert I have set out reasonably fully how the current exercise was conducted, and informed him of the similar exercise carried out in 1982-83.

AT

A TURNBULL

DRAFT LETTER FROM SIR P MIDDLETON TO

Sir Robert Armstrong

You might like to know the background to the exercise referred to in Mr Hattersley's letter. Conservative Central Office and the Special Advisers compiled a list of Labour Party policy proposals. Treasury officials were asked by Ministers to estimate the costs of implementing these proposals. The information provided by expenditure divisions was purely factual.

~~At this stage of the exercise, [Officials were doing~~
~~no more than they would if asked to cost proposals~~
~~of any outside organisation.]~~ ^{Contributed} The information was then made available to Ministers who, in consultation with the Special Advisers, decided how it should be interpreted and presented.

2. A very similar exercise was set in hand in 1982-83 by the previous Chancellor. As it was nearing completion, the Election was called. The Chancellor's Special Adviser, Sir Adam Ridley, then edited the material provided by Treasury officials into a document which was eventually issued as a press release by Conservative Central Office. Here, too, a distinction was made between the factual information provided by officials and responsibility for the use to which it was put.

3. I attach a draft of a reply which you might send to Mr Hattersley.

July 6
Mr Hattersley
TREASURY
u

DRAFT LETTER FROM SIR ROBERT ARMSTRONG TO

Mr Hattersley

Thank you for your letter of 10 March. Treasury officials were asked by Ministers to estimate the costs of implementing proposals put forward in Labour Party documents or by Labour Party spokesmen. The information provided by officials was purely factual.

It seems to me proper, and consistent with previous practice, for
2. I see no difficulty in the government of the day
to ask civil servants to provide them with factual
information costing the ^{published} (policy proposals of) ~~organisations~~
~~outside government, whether they be~~ political parties,
~~or not.~~ ^{Whether at home or abroad.} Ministers are responsible for the interpretation
of this information and for decisions about its
presentation.

Same point
as earlier

CHANCELLOR
14/2

POLITICS HATTERSLEY

16/3/86

AAA HHH
ERB0190 4 160 202
PA SHAPFULL

1 POLITICS HATTERSLEY<

(NOT FOR PUBLICATION BEFORE 0900 HOURS TODAY SUNDAY MARCH 16)<

BY CHRIS MONCKIEFF: PA POLITICAL CORRESPONDENT<

SHADOW CHANCELLOR MR ROY HATTERSLEY: WARNED TODAY THAT WHILE A
LABOUR GOVERNMENT CONCENTRATED ON CUTTING UNEMPLOYMENT AND
ALLEVIATING POVERTY "ALL OTHER OBJECTIVES" WOULD HAVE TO BE
POSTPONED OR TAKE SECOND PLACE.<

BUT LABOUR'S DEPUTY LEADER: IN A MAJOR INTERVIEW WITH JONATHAN
DINGLEBY ON TV-AM: SAID THERE SHOULD BE NEW MONOPOLY LAWS IN WHICH
NEWSPAPERS: WITH POWER CONCENTRATED "IN FAR TOO FEW HANDS" WOULD BE
INVOLVED.<

HE SAID THAT LABOUR WOULD BE SEEKING A TRIPARTITE AGREEMENT:
INVOLVING THE CBI AND TUC OVER ECONOMIC PRIORITIES TO AVOID "THE
ABERRATIONS AND THE CONFLICT OF THE LAST EIGHT YEARS".<

BUT HE WARNED THAT IF AN UNDERSTANDING WAS NOT ACHIEVED "OTHER
CORRECTIVE MEASURES WILL HAVE TO BE TAKEN - AND NOBODY SHOULD HAVE
ANY DOUBT ABOUT THAT".<

MR HATTERSLEY SAID THE LABOUR'S PLANS TO CLAW BACK TAX CONSESSIONS
FROM THE RICHEST 5% OF THE POPULATION - THOSE ON #30,000 A YEAR
OR MORE - WOULD PRODUCE #3.6 BILLION A YEAR.<

AND HE SAID HE WOULD LIKE TO SEE PEOPLE BELOW THAT LEVEL PAY LESS IN
NATIONAL INSURANCE.<

MF DJC<

164905 MAR 86<

AAA HHH

ERB8183 4 160 105

PA. SHAPFULL

2 POLITICS HATTERSLEY<

(SEE 0900 TODAY EMBARGO)<

MR HATTERSLEY SAID HE DID NOT THINK LABOUR WAS SHIFTING
IDEOLOGICALLY.<

"THE DIFFERENCE BETWEEN NOW AND 1983 IS THAT WE ARE A MORE
PRACTICAL PARTY."<

IT WAS NOW CONCENTRATING ON AREAS "WHERE WE KNOW WE CAN MAKE
PROGRESS AND WHERE WE CAN ARGUE OUR CASE IN HARD, PRACTICAL TERMS".

THERE WERE TWO MAIN AIMS - TO REDUCE UNEMPLOYMENT BY ABOUT A MILLION
IN TWO YEARS AND SPEND MONEY ON THE POOR, THE ELDERLY AND THE SICK.<

"ALL THE OTHER OBJECTIVES WILL HAVE TO BE POSTPONED, OR TAKE SECOND
PLACE IN ACHIEVING THOSE TWO PRINCIPAL AIMS."<

MF DJC<

160901 MAR 86<

AAA HHH

EAR8184 4 160 211

PA SNAPPFULL

3 POLITICS HATTERSLEY<

(SEE 0900 TODAY EMBARGO)<

HE SAID AS A NATION WE WERE PAYING ABOUT \$29 BILLION A YEAR MORE IN TAXES THAN WHEN THE TORIES WERE ELECTED.<

BUT THE RICHEST 5% WERE PAYING LESS TAX AND GETTING A CONCESSION OF \$3.6 BILLION FROM THE TORIES.<

"IF WE WERE SIMPLY TO REVERSE THAT: IT WOULD GIVE US \$3.6 BILLION FOR POVERTY PROGRAMMES."<

HE WARNED THAT IF NO UNDERSTANDING WAS ACHIEVED WITH THE TRADE UNIONS; IT WOULD MEAN THE RECOVERY PROGRAMME WOULD SLOW DOWN.<

"IT WON'T MEAN THAT IT'S ABANDONED; BUT IT WILL MAKE IT MUCH MORE DIFFICULT TO GET THE MILLION JOBS IN TWO YEARS BECAUSE WE WON'T BE ABLE TO SPEND AS MUCH.<

"IF THERE ISN'T THE SORT OF UNDERSTANDING WE NEED IT DOES MEAN THAT OTHER CORRECTIVE MEASURES WILL HAVE TO BE TAKEN; AND NOBODY SHOULD HAVE ANY DOUBT ABOUT THAT."<

MR HATTERSLEY SAID HE HAD NO DOUBT; HOWEVER; THAT BEFORE THE ELECTION THE UNIONS AND THE LABOUR PARTY WOULD COME TO AN AGREEMENT ABOUT A NUMBER OF ASPECTS OF THE ECONOMY.<

"IT WOULD BE VERY MUCH BETTER; POLITICALLY AND ECONOMICALLY; WERE WE ABLE TO ANNOUNCE A TIGHT AGREEMENT; SIGNED; SEALED AND DELIVERED; NOT ONLY ON WAGES

- YOU MUSTN'T EMPHASISE JUST WAGES; AND YOU MUSTN'T EMPHASISE JUST THE TUC EITHER.<

MF DJC<

160902 MAR 86<

AAA.HHH

EABB185 4 160 234

PA SNAPFULL

4 POLITICS HATTERSLEY<

(SEE 0900 TODAY EMBARGO)<

"I KEEP TELLING THE CBI THAT I WANT TO TALK TO THEM ABOUT WHAT THE INVESTMENT LEVELS SHOULD BE; WHAT OUR HOPES FOR EXPORT OUGHT TO BE; HOW WE MANAGE THE BALANCE OF PAYMENTS IN THE NEXT FIVE OR SIX YEARS.<

"IF WE CAN GET A TRIPARTITE AGREEMENT ABOUT RUNNING THE ECONOMY; UNITY ON THE OBJECTIVES; THAT'S ELECTORALLY VERY MUCH BETTER AS WELL AS ECONOMICALLY BETTER."<

MR HATTERSLEY FIERCELY DEFENDED LABOUR'S BAN ON TALKING TO RUPERT MURDOCH'S NEWS INTERNATIONAL JOURNALISTS. HE SAID THE WAY UNION MEMBERS HAD BEEN TREATED WAS A SCANDAL.<

"IT IS NECESSARY ON SOME OCCASION TO STAND ON PRINCIPLE. AND THE CONTRIVANCE AND THE DECEPTION BY WHICH THAT ORGANISATION HAS SACKED ONE WORK FORCE AND EMPLOYED ANOTHER SEEMS SO INTOLERABLE THAT I HAVE TO TAKE A STAND ON PRINCIPLE."<

HE SAID THERE SHOULD BE RESTRAINTS ON FOREIGNERS WHO CAME TO THIS COUNTRY AND BEHAVED IN A WAY MORE APPROPRIATE TO THE AUSTRALIA OF THE OUTBACK OF 1870.<

"THERE CANNOT IN A CIVILISED SOCIETY BE A RIGHT FOR PEOPLE TO BE SACKED BECAUSE IT'S CONVENIENT TO BE SACKED AS A PROCESS OF CALCULATED DECEPTION - AND THAT'S WHAT MR MURDOCH HAS DONE."<

THERE NEEDED TO BE NEW MONOPOLY LAWS IN GENERAL. "A BIG PART OF OUR MONOPOLY LAW HAS ALWAYS CONCERNED NEWSPAPERS AND VERY CLEARLY FAR TOO MUCH POWER IS CONCENTRATED IN ONE MAN'S HANDS."<

END DJC<

60903 MAR 66<

FROM: A B MURRAY

DATE: 17.3.86

- 1. A PS (CHANCELLOR (MR KUCZYS) cc Miss Sinclair
- 2. PARLIAMENTARY. Mr Haigh

Contact with redraft?

Re 17/3

BRIEFING FOR PM'S QUESTIONS : LABOUR'S PROPOSALS FOR TAXING HIGH EARNERS.

As discussed, I attach a revised draft in the light of the Chancellor's comments. *

Handwritten notes in red ink:
 The skill
 V(n)
 low
 Ignorance
 N cases (n)
 Andrew M

A B MURRAY.

para 2 still slightly odd -
 have you used want to see this in
 the morning. Suspect a checkup has
 the f36bn only includes 115 paid by
 those with incomes over £20,000 - Oh?

Handwritten notes in red ink:
 * or 2
 the f36, 20-000
 low income
 Rn.
 17/3

LABOUR'S PROPOSALS FOR TAXING HIGH EARNERS

Factual

Mr Hattersley's strategy paper, approved by ^{the} Shadow Cabinet 12 March 1986, (reported 'Sunday Times' 16 March and 'The Times' 17 March) proposes higher welfare benefits financed from 'the £3.6 billion which the richest 5 per cent have received' since 1979, including cuts in higher rate income tax, abolition of investment income surcharge (IIS), and cuts in capital gains tax (CGT) and capital transfer tax (CTT).

7 cut
S
M

2. £3.6 billion total about right for annual gain in 1985-86 (though breakdown in 'The Times' 17 March appears inaccurate). Top 5 per cent of all tax units (single people and married couples with total income above about £20,000 - some 1.55 million tax units) gain around £3 billion in 1985-86, Compared with indexed 1978-79 regime (changes include rates down, thresholds up 20% in real terms, ~~IIS~~ ^{Investment Income Surcharge} abolished). CGT down £550 million compared with indexed 1978-79 regime (threshold up over 200% in real terms, gains since 1982 indexed). CTT down £70 million (top rate down from 75% to 60%, and to 30% for lifetime transfers, threshold up 36% in real terms). (nb. relatively wealthy will have been ~~main~~ main gainers from capital tax reductions, but impossible to allocate by income).

3. Hattersley paper also reported as suggesting revenue could be raised from National Insurance contributions (by abolishing employees' upper earnings limit, and levying NICs on benefits-in-kind and

income from capital) restricting relief for the Business Expansion Scheme and executive share option schemes, and reversing cut in stamp duty on shares to 1% and abolition of Development Land Tax.

Line to take

Income tax: No apology for cutting absurd rates of income tax under Labour Government (up to 98 per cent including investment income surcharge). Return to penal tax rates would hit some 1½ million households, and have severe disincentive effects for nation's wealthcreators - so damage economy as a whole. Misdirection of effort to tax-avoidance as opposed to wealth creation. Income tax cuts since 1979 not only for rich: 20% real terms increase in personal tax allowances has given greatest proportionate benefit to low paid.

IIS: abolition 1984 removed outdated penalty on thrift and enterprise, and discrimination against savings. In final year before abolition over half those liable to IIS pensioners, 40% basic - not higher - rate taxpayers.

CGT: main change increase in threshold - from only £1,000 1979 - focussing benefits on those with relatively modest gains, plus indexation since 1982. ~~hardly a tax cut to remove charge on paper gains.~~

CTT: ~~main change reduction in highest rates, especially for lifetime transfer - encourages freer transfer and disposal of assets.~~

RUBBISH |

H H C

PPS/Chancellor

12/2

ROY HATTERSLEY - INTERVIEW ON BUDGET

Transcript from: BBC Radio 4, Today, 17 March 1986

INTERVIEWER: (Peter Hobday) Safe in that battered red despatch box tomorrow's Budget secrets lurk. Will it be pennies on pints, petrol and tobacco? Will there be pennies off tax? Will it be a giveaway Budget to try and help the Tories on their way to a third term? Or, in Mrs Thatcher's words, a responsible Budget? Well of course we'll know tomorrow. What Labour would have done had they been in power we know very clearly because their deputy leader and Shadow Chancellor has been bruting his Budget package abroad at every opportunity. Mr Hattersley is with me now, good morning Mr Hattersley. Your proposals have been attacked first as an attack on the rich - almost Healey like "until the pips squeak"?

HATTERSLEY: " I haven't used that sort of language. What I've said is that whilst the population as a whole, the taxpayers in general, have had to bear an extra tax burden of £29 billion a year as a result of Conservative policy the richest 5% in the population have had tax cuts, tax cuts of £3.6 billion. And I believe that the richest 5% - people on £29/30,000 a year - should make their fair contribution to national problems. Particularly, I believe, you cannot justify giving money back to let us say the unearned income supplement, not requiring an extra tax on income which is from capital rather than from work at the same time the country says it's unable to pay a decent pension and pensioners die from cold in the winter. You have to make choices between these things and I prefer a decent pension and decent child benefit to tax handouts to the very rich indeed.

INTERVIEWER: But the experts running the slide rule over your figures say that if you do tax that 5% fairly heavily you're still not going to raise enough money to do the other things that you want to do in terms of

Unchecked
How to
do a quick analysis of X24
was in
and of
Tom
Attacks
as
backwards
v.

HATTERSLEY: No I'm sorry to correct you but they don't say that. Mr Nigel Lawson said that income tax on the richest 5% would not raise sufficient money. But it's not income tax alone; there is capital gains and there is capital transfer tax. There are about 12 concessions of one sort or another which have been provided for the very rich in every Budget since Mrs Thatcher was elected. Were it to be income tax alone then it would be both undesirable and impossible. But Mr Lawson, as is often the case, chooses the areas which suits his argument whether they're honest and accurate or not.

INTERVIEWER: But you would accept, would you not, that the package of measures that you're suggesting would be much more expensive - the figure that the Government has put on it of course is £24 billion - but even if you disregard that as a certain exaggeration on one side it's still pretty high? Can we afford it?

HATTERSLEY: The proposals I shall make on Wednesday come in two categories. One is the alleviation of poverty by helping the pensioners, by increasing child benefit, by providing a decent system of paying the long term unemployed and that is self financing. The richest 5%, the people earning £30,000 or thereabouts, can by making the same contribution to taxes as the rest of the population has made over the last 7 years - and that's no cuts for them but the same sort of increases that other people have had to bear - they can finance the anti poverty package. In the other area, the area of reducing unemployment, there can be a spending of 5, 6 billion of spending which this country can easily afford, if we concentrate all our efforts on that main object - now that does mean that some other proposals under a Labour Government may have to be postponed may have to be temporarily put aside - but we ought to concentrate our resources on reducing unemployment. And if we do that we can bring unemployment down by about a million in about 2 years.

INTERVIEWER: But I press you again Mr Hattersley, can we really afford it

because oil revenues are falling, and falling sharply and not likely to increase and you would therefore be going for a very massive amount of deficit financing which in itself would be inflationary?

HATTERSLEY: We'd be going for an extra amount of borrowing but an amount of borrowing which can certainly be managed in the economy. We have become obsessed by the public sector borrowing requirement which is in itself a wholly inadequate measure of borrowing. If we take the ratio of debt to national income, which is the sort of measurement that more sensible economies use to decide how much debt they can finance, what we propose would keep our debt to income ratio well within line of that in more successful economies. And borrowing for sensible purposes is what prudent countries, like prudent companies and prudent individuals do, and it's only this strange obsession of Mr Lawson which really has got so much responsibility for escalating unemployment and escalating poverty that argues against that sort of prudent investment.

INTERVIEWER: But if you were that prudent I put it to you again, you couldn't afford what it is you're suggesting?

HATTERSLEY: Well I regard this as prudence. I don't believe it's prudent to have 3 1/2, 4 million men and women unemployed and paying something like £7,000 a year to each one of them to keep unemployed. I'd rather pay the money to put them into jobs and that seems to me to be the true prudence.



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: J R CALDER
DATE: 17 March 1986

PS/CHANCELLOR (MR KUCZYS)

LABOUR PARTY'S PLANS TO TAX THE RICH

1. You asked for a quick note on recent reports (e.g. Today's ... Times - attached) of Labour Party's plans to raise £3 billion a year from increasing tax on "the richest 5 per cent of taxpayers".

2. The Times article includes estimates taken from a Labour party paper of the value of tax concessions on income tax and capital taxes said to have gone mainly to the richest sector, totalling some £3.6 billion. We have not been able to relate these figures exactly to recent Parliamentary Answers. The apparent precision of some of the estimates suggests that they have been obtained by attempting to update such figures perhaps to 1986-87 levels.

3. Paragraphs 4 to 5 below discuss what additional yield might be obtained by taxing "the rich". The remaining paragraphs look at the four Labour party estimates quoted in the Times.

cc PS/FST
Mr Monger
Mr Scholar
Mr G P Smith

Mr Isaac
Mr Houghton
Mr Lewis
Mr Battersby
Mr Bryce
Mr Mace
Mr Eason
Mr Gonzalez
Mr Calder
PS/IR

INCOME TAX YIELD AVAILABLE FROM INCREASING TAX ON HIGH INCOMES

4. The Times article refers to the top 5 per cent of taxpayers. These correspond broadly to those liable to income tax at higher rates (i.e. with taxable incomes after reliefs and allowances of over £16,200 in 1985-86 - the Times mistakenly refers to the top 5 per cent of earners having annual salaries above £16,200).

5. The total amount of income (including investment income) liable to tax at higher rates in 1985-86 is £ 10.6 billion, of which £ 4.8 billion is already paid in income tax, leaving £5.8 billion theoretically available if marginal rates of tax were to be increased. As the Chancellor pointed out at Question Time last Thursday (when referring to a marginal tax rate of 100% on individual incomes ^(*) over £30,000), "the actual yield would be closer to zero as relatively few people are prepared to work for nothing."

THE LABOUR PARTY FIGURES

6. The figures are presumably intended to reflect the yield from reverting to tax regimes similar to these in 1978-79 after allowing for changes in price and earnings levels since then. There have been a number of recent Parliamentary Answers comparing tax yields in 1985-86 with those under a 1978-79 regime with thresholds, rate bands etc indexed to 1985-86 levels by reference to the movement in the RPI.

(*) The Chancellor was, of course, referring to individual taxable incomes (i.e. after reliefs and allowances)
- Hansard col 1070 Thursday 13 March.

Income tax

7. The Labour figures are:

	£ million
higher rates	1,931
investment income surcharge	875
total	<u>2,806</u>

... In an Answer to Dr Oonagh McDonald (27 February - attached) the additional yield from reverting to the (indexed) 1978-79 tax structure for 1985-86 was given as

	£ million
higher rates (and thresholds)	1,285
investment income surcharge	740
total	<u>2,025</u>

There is no obvious link between these figures. The higher rate estimate is 50% higher but the IIS figure only 18% higher. Ministers will recall from the debates in 1984 when IIS was abolished, that over half of those liable to IIS were elderly and two-thirds were either elderly or liable at the basic rate (or both), although some 80% of the yield was paid by those with incomes over £20,000 in 1984-85.

8. However, the better off have also benefitted from increases in tax thresholds and the reduction in the basic rate since 1978-79. An Answer to Mr Meacher and Mr Alexander on 25 February gave estimates of the additional income tax yield from reverting to a 1978-79 structure as follows:

Range of total income in 1985-86	Per cent of tax units	Additional Yield
	%	£ million
over £20,000	7	2,640
over £30,000	2	1,810

The additional yield from the top 5% of tax units might, therefore, be about £2.3 billion.

Capital taxes

9. Two Parliamentary Answers (Mr Campbell-Savours 14 February 1985 and Dr McDonald 27 February 1986) have provided estimates for the capital taxes for 1984-85 and 1985-86 as follows:

	<u>Additional yield under 1978-79 structure</u>		
	1984-85	1985-86	Labour figures
CTT	350	70	450
CGT	300	550	387
Total	<u>650</u>	<u>620</u>	<u>837</u>

10. The basis of the estimates was changed in providing the 1985-86 figures, to put them on a similar basis to the income tax estimates. Each of the Labour figures is 29% higher than the 1984-85 estimate, given to Mr Campbell-Savours, but otherwise there seems little connection.

11. The Labour paper assumes that both taxes are paid exclusively by the rich. We do not have information on the incomes of those liable to CGT or CTT. Under the 1978-79 indexed regime, CTT would begin to be payable on estates of £48,000 (compared with £67,000 for 1985-86). This is relatively low, but the yield of tax on these smallish estates is not large. The yield of CGT has been increasing rapidly in recent years; but there are only 150,000 taxpayers estimated to be liable to CGT for 1985-86. The assumption that it is very largely a tax on the rich is not unreasonable.

CONCLUSION

12. It is not entirely clear how the Labour figures have been derived. At a total of £3.6 billion, they are somewhat higher than estimates based on reverting to the 1978-79 income tax structure in 1985-86 for those now liable at higher rates (£2.3 billion) and for capital taxes (£0.6 billion). The Labour figures may have been projected to 1986-87 in which case, some growth in yield is not unreasonable. There does not seem to be much to be gained from attempting to challenge the Labour figures themselves. Points Ministers may wish to make are:

- no guarantee that higher incomes would be there to be taxed, if penal tax rates were reimposed;
- investment income surcharge also penalised the elderly and those on the basic rate.

Q

J R CALDER

Annexes:

1. Times p16 17 March 1986
Parliamentary Answers:
 2. Campbell-Savours 14 Feb 1985
 3. McDonald **27** Feb 1986
 4. Meacher/Alexander 25 Feb 1986
- McDonald 27 Feb 1986*

£3bn tax the rich plan by Labour

By Richard Evans
Lobby Reporter

A £3 billion anti-poverty programme planned by the Labour Party would be financed by Britain's top wage earners who have benefited from tax concessions during the Thatcher years.

Mr Roy Hattersley, shadow Chancellor of the Exchequer, has gained the support of Shadow Cabinet colleagues for the programme to be paid for "by recouping the tax concessions which have, over the past six years, been exclusively enjoyed by the richest 5 per cent of taxpayers".

The money raised would finance "considerable" increases in child benefit, pensions and other welfare payments for the worst off.

Mr Hattersley's strategy, outlined to colleagues last week, emphasizes that the anti-poverty plan should be "discrete" because it would be financed from the 5 per cent of highest earners.

According to Inland Revenue sources, the top 5 per cent of earners in this financial year are those paid annual salaries of £16,200 and above.

Mr Hattersley proposes a £5 a week increase for single pensioners and £8 for a married couple, at an extra cost of £1,000 million. A £3 per week increase in child benefit would cost £1,350 million, while extended long-term rates of supplementary benefit to long term unemployed would require a further £500 million.

"The cost of the programme is less than the £3.6 billion which the richest 5 per cent have received."

In a table headed "Income Tax Cuts for the Rich" he sets out four tax concessions which he says have principally gone to the richest sector. They are:

- Higher-rate income tax cuts — worth £1,931 million a year;
- Removal of investment income — £875 million;
- Capital gains tax cuts — £387 million;
- Capital transfer tax cuts — £450 million.

Today's events

14/2/85 col 288-9 (bound edition)
col 292 (daily edition)

Mr. Campbell-Savours asked the Chancellor of the Exchequer what is his estimate of the cumulative effect on revenue accruing to the Exchequer of changes in (a) income tax, (b) investment income surcharge, (c) capital transfer tax, (d) capital gains tax and (e) income tax above the basic rate introduced since June 1979.

Mr. Moore: [pursuant to his reply, 7 February 1985, c. 673]: Estimates are shown in the table, taking the base for each of the taxes in 1984-85 as given.

The estimates for income tax are based on the difference in liability in a full year at 1984-85 income levels if 1978-79 allowances, rates and thresholds (after indexation to 1984-85 levels by reference to the statutory formula) were substituted for those currently in force.

Similarly, the figure for capital transfer tax represents the estimated effect on the tax payable on transfers in 1984-85 if the 1978-79 structure of the tax were substituted, with statutory indexation of the rate bands after 1982-83.

The figure for capital gains tax also represents the estimated effect on the tax payable on capital gains realised by individuals and trusts in 1984-85 of substituting the 1978-79 tax regime, but excluding the effect of statutory indexation of the threshold after 1982-83. It includes the effect of the indexation of costs of acquisition. These effects cannot be estimated precisely and are subject to a wide margin of error.

It is not possible to determine what income in 1984-85 would have been if the 1978-79 allowances, rates and thresholds had been in force (after indexation) over all the intervening years, or to what extent the changes in the taxes may have affected the levels of transfers or disposals of capital.

Direct Revenue Effects

	£ million
Total income tax	4,300
of which: Investment Income Surcharge (IIS)	730
Rates and thresholds above the basic rate (excluding IIS)	1,120
Capital transfer tax	350
Capital gains tax	300

3

Mr. Lawson: I shall let the right hon. Member have a reply as soon as possible.

Dr. Owen asked the Chancellor of the Exchequer if he will publish a table ranking those 20 countries in the world with the highest gross national product per capita.

Mr. Lawson: The following figures, calculated by the World Bank, are taken from the World Development Report 1985.

Country	GNP per capita Dollars 1983
1. United Arab Emirates	22,870
2. Kuwait	17,880
3. Switzerland	16,290
4. United States	14,110
5. Norway	14,020
6. Sweden	12,470
7. Canada	12,310
8. Saudi Arabia	12,230
9. Denmark	11,570
10. Australia	11,490
11. Germany, Federal Republic	11,430
12. Finland	10,740
13. France	10,500
14. Japan	10,120
15. Netherlands	9,890
16. Austria	9,250
17. United Kingdom	9,200
18. Belgium	9,150
19. Libya	8,480
20. New Zealand	7,730

Taxation

Dr. McDonald asked the Chancellor of the Exchequer whether, in the manner of the answer given on 14 February 1985, *Official Report*, column 288, he will publish an updated table on direct revenue effects for 1985-86.

Mr. Moore [pursuant to his reply, 13 February 1986, c.540]: The table shows the additional yield in respect of 1985-86 from the specified taxes if 1978-79 rates, allowances and rate bands (after indexation to 1985-86 levels) were substituted for 1985-86 rates, allowances and rate bands.

Additional yield from reverting to 1978-79 tax structure

	on 1985-86 tax base	£ million
Income tax		6,200
of which:		
Investment Income Surcharge	740	
Rates and thresholds above the basic rate (excluding investment income surcharge)	1,285	
Capital transfer tax		70
Capital gains tax		550

In each case, the 1985-86 tax base is taken as given. It is not possible to determine to what extent changes in the taxes between 1978-79 and 1985-86 may have affected levels of income and transfers and disposals of capital.

The figures for capital transfer tax and capital gains tax are on a different basis from those in the previous reply. The present basis corresponds to that adopted for income tax.

EUROPEAN COMMUNITY

Council of Ministers

Mr. Fallon asked the Secretary of State for Foreign and Commonwealth Affairs if he will publish in the *Official Report* a statement of forthcoming business in the European Community Council of Ministers.

Mrs. Chalker: The usual forecast was deposited in the House today. At present nine formal meetings and one informal meeting of the Council are scheduled for March 1986.

On 3 March the Industry Council will discuss a paper on the Community's approach to improving the competitiveness of industry; and steel trade problems caused by the accession of Spain and Portugal to the Community.

The Council may discuss the EC-non-energy raw materials exploration loans scheme; the next shipbuilding directive; raw materials for biotechnology; progress on a new mechanism on starch and sugar; and the transfer of technology.

On 4 March there will be a special meeting of the African Caribbean Pacific-EEC Council to discuss the guaranteed price for ACP sugar exports to the Community under the sugar protocol to the Lomé convention.

The Environment Council will meet on 6 March to consider the draft directive on large combustion plants intended to lay down reductions in emissions of sulphur dioxide, oxides of nitrogen and dust from all existing large combustion plants; a draft directive on sulphur content of gas oil, which would reduce the maximum permitted sulphur content of gas oil placed on the market within the Community from 1 July 1987; a draft directive on the use of sewage sludge on agricultural land and the new water directive intended to carry forward the existing 1976 directive.

The Council will also discuss the European Year of the Environment.

On 10 March the Economic and Finance Council will discuss a mandate for the Community for the forthcoming negotiations in the OECD consensus group on further improvements in transparency and discipline in the use of tied aid credits for developing countries. The Council will also consider the budget reference framework for 1987; international debt issues; points arising from the European Court of Auditors annual report for 1984; and the Commission's quarterly review of the economic situation in the Community. The Council may also consider a report from the working party on fiscal harmonisation.

The Foreign Affairs Council will meet on 10-11 March. It will continue discussion of the draft mandate for the negotiations on the future of the multi-fibre arrangement. It will also discuss EC-Japan relations and preparations for a new round of multilateral trade negotiations.

The main items on the agenda for the Transport Council on 14 March will be further consideration of the Commission proposals on aviation and shipping. The Council will also consider transitional measures to ensure that the agreed target date of 1992 for the abolition of quantitative restrictions on intra-Community road haulage is met.

The Fisheries Council on 18 March is to consider the 1986 guide prices for certain species and amendments to the technical conservation regulation though these items have yet to be confirmed.

Written Answers to Questions

Tuesday 25 February 1986

[Continuation from column 506]

NATIONAL FINANCE

Personal Incomes

Mr. Meacher asked the Chancellor of the Exchequer what has been the gain or loss to those with incomes (a) under £5,000, (b) £5,000-£10,000, (c) £10,000-£15,000, (d) £15,000-£20,000, (e) £20,000-£30,000, (f) £30,000-£50,000 and (g) over £50,000 a year as a result of each Finance Act since 1979, both in aggregate and per person on average in each of these categories, in each case indicating how much is due to indexation and how much is real gain.

Mr. Alexander asked the Chancellor of the Exchequer (1) what was the value of income tax concessions to those earnings £30,000 per annum and more for each year since 1979;

(2) what was the number of people taken out of tax for each year since 1979 and the cost to the Exchequer in revenue forgone.

Mr. Moore [pursuant to his reply, 15 January 1986, c. 593-94]: The information is in the tables. For each financial year shown, the tables compare the yield from the tax regime in that year with the 1978-79 tax regime. All estimates are calculated on the 1985-86 tax base and all tax regimes have been indexed to 1985-86 levels by reference to the statutory formula. The comparisons therefore allow for budgetary changes in income tax rates and allowances, but not for any changes since 1978-79 in the definition of the income tax base.

The first table shows the total reduction (+) or increase (-) in tax yield from each income range; and the second table shows the average change for individual tax units. The third table shows the change in numbers of individuals liable to tax.

As child tax allowances were being phased out in 1978-79 they have been excluded from the comparison.

It is not possible to provide useful estimates of the liabilities in 1985-86 for the 1978-79 regime without indexation since Inland Revenue records do not cover many of the people who would be brought into tax by such low levels of personal allowances. A partial analysis with incomplete coverage would be misleading.

Range of total income in 1985-86*	Number of units paying tax in 1985-86 (million)	Reductions (+)/Increases (-) in income tax compared with 1978-79 indexed regime						
		1979-80 £ million	1980-81 £ million	1981-82 £ million	1982-83 £ million	1983-84 £ million	1984-85 £ million	1985-86 £ million
Under 5,000	4.2	310	130	-340	-280	-20	140	270
5,000 to 10,000	8.1	1,310	820	-170	-60	500	900	1,210
10,000 to 15,000	4.6	1,260	900	210	290	680	1,050	1,290
15,000 to 20,000	1.8	760	580	250	290	480	680	790
20,000 to 30,000	1.0	830	690	280	330	560	760	830
30,000 to 50,000	0.3	740	650	390	420	570	750	770
Over 50,000	0.09	940	900	780	790	860	1,030	1,040
TOTAL	20.1	6,150	4,670	1,400	1,780	3,630	5,310	6,200
Over 30,000	0.4	1,680	1,550	1,170	1,210	1,430	1,780	1,810

Range of total income in 1985-86*	Average per tax unit						
	1979-80 £	1980-81 £	1981-82 £	1982-83 £	1983-84 £	1984-85 £	1985-86 £
Under 5,000†	60	30	-70	-60	0	30	50
5,000 to 10,000†	160	100	-20	-10	60	110	150
10,000 to 15,000	270	190	50	60	150	230	280
15,000 to 20,000	420	320	140	160	260	370	430
20,000 to 30,000	810	680	270	320	550	750	810
30,000 to 50,000	2,180	1,910	1,150	1,240	1,680	2,210	2,260
Over 50,000	10,440	10,000	8,670	8,780	9,560	11,440	11,560
TOTAL	290	220	70	80	170	250	290
Over 30,000	3,910	3,600	2,720	2,810	3,330	4,140	4,210

Reductions (+)/Increase (-) in numbers of taxpayers‡ liable to tax compared with 1978-79 indexed regime

1979-80 (thousands)	1980-81 (thousands)	1981-82 (thousands)	1982-83 (thousands)	1983-84 (thousands)	1984-85 (thousands)	1985-86 (thousands)
920	1,000	-340	-200	540	1,000	1,400

* All information is in terms of tax units—that is, married couples are counted as one and their incomes combined.

† By reference to the estimated numbers who would be liable to pay tax under the indexed 1978-79 regime; this number is some 900,000 greater than the numbers paying tax in 1985-86, 800,000 in the range of income below £5,000 and 100,000 in the range £5,000 to £10,000.

‡ Counting earning wives separately from their husbands.

FROM: H J DAVIES
DATE: 17 MARCH 1986

CHANCELLOR

cc CST
FST
MST
EST
Sir T Burns
Mr Scholar
Mr Monger
Mr G P Smith
Dr Courtney
Mr Cropper
Mr Lord
Mr Isaac - IR
Mr Corlett - IR

MR HATTERSLEY'S BUDGET

You asked for a quick note on two points made by Mr Hattersley in his interview on the Today programme this morning. The first was on his self-financing plans to increase child benefit, pensions and payments to the long term unemployed. The second concerns the necessary increase to the PSBR and the debt to income ratio.

2. If I could take the second point first, Mr Hattersley claims that the ratio of debt to national income is "the sort of measurement that more sensible economies use to decide how much debt they can finance". And that what he proposed "would keep our debt to income ratio well within line of that in more successful economies".

3. The following table shows gross and net public debt as a percentage of GDP for the major seven OECD economies in 1984.

<u>Country</u>	<u>Gross Debt:GDP</u>	<u>Net Debt:GDP</u>
UK	56	49
US	46	27
Japan	69	57
Germany	42	23
France	32	15
Italy	91	91
Canada	63	31

4. In the normal way we would, I think, use gross rather than net figures. The reasons for the difference between the two vary by country, but as I understand it the major differences result from funded public sector pension schemes. The OECD caution against making comparisons on a net basis because of the nature of the adjustments made in different cases.

5. Using the gross numbers the average number for these seven countries is 52%, with the UK 4% above it.

6. Looking at the last 10 years, we were at 65% in 1975 on this basis, falling to 56% in 1979. We fell a little in the early 80s before returning to 56% in 1984.

7. Clearly it is quite wrong for Mr Hattersley to imply that we are well out of line with other successful economies. The addition of £6 billion (as his proposed PSBR increase) would make a difference of around 2% to the ratio.

Taxing the rich

8. *below* Mr Calder's note discusses the numbers. Central Office confirm that the numbers quoted by the Times are indeed official Labour Party figures. Though they seem to be inaccurate they are not wildly out of line with numbers given in recent PQs. Obviously the Labour front bench has been trying hard to elicit information which will suit their case.

9. The most important point, though, seems to be that Mr Hattersley is very uncertain about who these 5% of people are. He began with an earnings number of £20,000 per family, which was rapidly found to be embarrassing (he specifically denied having used this figure in the Jonathan Dimbleby interview on Sunday). Then he moved up to £30,000, leaving it unclear whether he meant individuals or tax units. We should point out that the only way he can come close to the yield he wants is by penal taxation on all those with taxable incomes of over £16,200 - less than twice average earnings.

FROM: H J DAVIES
DATE: 18 MARCH 1986

CHANCELLOR

*Thanks.
(one comm ✓
for the main point ✓
of comm ✓)*

cc

CST
FST
MST
EST
Sir T Burns
Mr Scholar
Mr Monger
Mr Odling-Smee
Mr G P Smith
Dr Courtney
Mr Cropper
Mr Lord

Mr Isaac - IR
Mr Corlett - IR

MR HATTERSLEY ON DEBT/INCOME RATIOS

Further to my note of last night I am now advised by Mr Odling-Smee that we do focus on net debt/income ratios, rather than gross as I was advised yesterday.

2. I attach a table of Net General Government Debt as a percentage of GDP over the last decade. There is some debate about the quality of the assets of some countries where the gross/net difference is largest. But if we focus on G5, then in the case of Japan they are very largely the assets of public sector funded pension schemes. Similarly in France. These are, on the whole, high quality assets.

X | 3. We can say that our debt income ratio remains considerably higher (above double) the average for the other G5 countries. Of the summit 7 only Italy is higher on a net basis.

109

H J DAVIES

Net General Government Debt as a % of GDP

	<u>1973</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
US	23.5	20.5	20.4	19.7	22.8	25.4	26.8
Japan	-6.1	15.0	17.5	21.0	23.5	26.3	27.4
W. Germany	-6.7	11.5	14.3	17.4	19.8	21.8	23.0
France	8.3	9.8	9.1	9.9	11.3	13.4	15.1
UK	58.5	48.6	48.3	47.6	46.6	47.2	49.2
Italy	52.1	65.5	60.0	66.2	70.8	84.1	93.5
Canada	7.6	14.1	14.9	13.1	20.1	25.2	31.0

8. Slower money GDP growth in 1979-84 than in 1973-79, coupled with increased deficits in most countries, has meant that trends in debt/income ratios have deteriorated. All countries except the UK have experienced rising ratios since the early 1970s, and even for the UK there has been some increase recently. However, apart from Italy, the increases in other countries are from a lower level than in the UK. The relatively high ratio in the UK means that we can sustain relatively high deficits without the ratio rising; while in other countries, comparable deficits will ultimately lead to ratios approaching the UK level. But it is evident that the trend in the UK has also worsened somewhat in recent years, with the ratio tending to rise a little rather than falling as it did up to the late 1970s.

*a very foolish
assumption: as the
low interest rate
policy has continued
[instead of going up]*

FROM: A Turnbull
DATE: 18 March 1986

CHIEF SECRETARY

cc Chancellor
Mr F E R Butler
Mr Scholar
Miss O'Mara
Mr Dyer
Mr Pickering
Mr H J Davies
Mr Lord

Turnbull has gone off his head. He has written this before my hand. proper. Absolutely right.

COSTING LABOUR'S POLICIES

We have considered whether any further correction is needed.

At Questions you said:

"Yesterday I wrote to the right hon Member for Birmingham Sparkbrook and admitted that one of the figures that I gave earlier should be down but that another should be up (OR 13 March, col 1071)".

Mr Hattersley's position

It seems unlikely that Mr Hattersley will pursue the issue of formal correction in Hansard. You may, however, like to have a form of words which corrects the errors discovered, should such pressure arise while you are speaking tomorrow.

- For aid, the entry in the table should be £1,133 million. The relevant note should read "Commitment to double aid within 2-3 years (Mr Neil Kinnock in the Guardian of 30 July 1985). The figure is based on the estimated outturn for the net aid programme in 1985-86)."

- For education the entry alongside buildings and equipment should be £246 million. Note 18 should read "£90 million books and equipment (Mr Giles Radice, Guardian 17 April 1985) plus £156 million for school buildings which is the annual cost, at current prices, of the £625 million programme over 5 years set out in 'The Reconstruction of Britain' published in 1981."

2. There is the option of correcting the bound volume of Hansard. Where corrections are made, this is usually done by writing to the Member the reply to whose question was incorrect. When we are sure that there are no other corrections to make (an exercise is currently underway to check the figures) you will want to consider whether this should be done in this case.

AT

A TURNBULL

(Brian Dyer strongly
advises against: see
note below) DWK

FIRST MINUTE OF
INTERVIEW MISSED

✓
(FILE: HATTERSLEY)
unchecked
PJP

Hattersley - interview on budget

transcript from: BBC Radio 2, Jimmy Young Prog, 20 March 1986

JIMMY YOUNG: ... Well the Government Treasury Minister, John Macgregor, yesterday repeated his claims - and I know you've challenged them - that in fact your programme would cost £24 billion a year. So perhaps you could tell us what you you say it would cost and how we taxpayers are going to pay for it?

HATTERSLEY: Well John Macgregor's changed that now. I mean in the House yesterday he said that it wasn't going to cost that any longer because he'd pushed us off it, which is just as preposterous a claim as the idea that it was actually going to cost that. And I think having seen the letter I got from the head of the civil service which was detaching the civil service from having anything to do with, or very much to do with, these figures that argument is now over. And it's a very silly diversion and we ought to talk about the real subject - the Budget. Well let me tell you what we'd do. We'd pay for the extra pensions and the extra child allowance, and for the proper pay for the long term unemployed, from within the tax system. Whilst most people in this country are paying more in taxes, the total annual tax bill's gone up by nearly £30 billion, £30,000, million, the richest 5% are paying less taxes. They're paying £3.6 billion less than they paid 7 years ago. And we say that the richest 5% ought to be paying their contribution like the rest and we'd finance the pension and child benefit out of expecting the very rich to pay the taxes in the same proportion as othe people.

* YOUNG: Can I just ask you, I mean would what you get from the rich cover all the things that you want to do?

HATTERSLEY: It would more than cover it. Not the job programme, not the job programme. It would cover the pensions, the child benefit and the help to the long term unemployed. The very rich have got back about £3.64 billion and our anti poverty programme, increasing the pension and

So, it would cost about £3.5 billion. So that is contained within itself.

That can be done by moving around the payments and receipts in the whole equation of taxation and benefits.

YOUNG: Can I just ask you; when you say rich Roy you mean who's rich? I mean what income are you talking about?

HATTERSLEY: It's people earning more than £25,000 a year.

YOUNG: Now I've got 4 figures there; there was £30,000, there was £20,000, 16,200 has been mentioned and you've just mentioned £25,000?

HATTERSLEY: Well £16,200 was mentioned in the Times and that's just wrong. The Parliamentary answer given by Treasury Ministers, they wouldn't tell us who the richest 5% were because they knew that was the thing we were after. But they told us the 7% richest and they are the people on 21-22,000 a year. So it's reasonable to extrapolate from that, calculate from that, the richest 5% are earning about £25,000. And as I said on television last night, I don't think we should resent that. I mean I don't think we should begrudge people their very high earnings, we just ought to face the fact that if you don't tax them properly there are penalties. And the penalty is that you can't have a proper pension, you can't have a proper child benefit.

YOUNG: Can I just get that one out of the way: when you say tax them properly what sort of level would they be paying tax then, people on £25,000 a year?

HATTERSLEY: the general income tax level wouldn't change very much because our complaint is not about income tax which ought not to return to as it was 10 years ago - 98% on the marginal £. I don't want income tax ever to get back to that level for £30,000, £40,000, £50,000.

YOUNG: You wouldn't want it to get past what sort of level?

hattersley: I wouldn't want to change income tax very much. What I would want to do is remove some of the other tax perks that they've been given; capital gains tax, capital transfer tax and particularly the tax

on earned income. Nobody ever paid tax on their savings until they got £70,000 or £80,000 in the bank. Now the small saver was never affected by the unearned income surcharge. But I do draw a distinction between what men and women get from the sweat of their brow or the power of their minds and from what they get from a huge amount of money sitting in the bank and I think that ought to be taxed more.

YOUNG: Right we've established where the money is going to come from for those various things. Now could you just underline for us again what the things are then that you would then do with this money?

HATTERSLEY: We'd have an increase of £5 on the single pension, 8% (sic - says £8 later) on the married pension, an increase of £3 on child benefit and the long term unemployed, who are now 1 1/2 million people who've been out of work for a year or more, they lose benefit after they've been out of work for a year, they don't get their full unemployment benefit which seems to me to be appalling and they ought to be having it made up.

YOUNG: Now on these pensions and things Roy, would you means test them so that I mean people on handsome private pensions for instance who don't need them wouldn't get them?

HATTERSLEY: No, there's no way of doing that. If you were to say that people on private pensions or for that matter with people with a lot in the bank, don't get the pension increase then they have to demonstrate that they need the pension before they get it - and the experience of elderly people in particular is that their pride prevents them from going along to their local office and saying I qualify for the increase because I'm very poor. But of course every pensioner has his supplementary benefit on top of the pension and that doesn't go to the very well off, that wouldn't go to the people with very large private pensions. So we are in a sense concentrating the £5 and the £8 on the family who need it most.

YOUNG: Right okay, now we've now covered the things that you can do with the money that you get from the amount of rich people there are. What about the things which you will need extra finance for, what are they and where's the finance coming from?

HATTERSLEY: Well they're jobs. And we've said that you can reduce unemployment by about a million in about 2 years if you do 4 things. Now first of all you spend some money on the capital projects which are so necessary to this country: new houses, the renovation of old houses; replacing old schools and old hospitals with new schools and new hospitals, road mending, that sort of thing. That's about a billion £s worth of work there, a lot of jobs. Secondly, you need to spend some money on the other public services, the caring services; the nurses, the midwives, the home helps. People who are desperately needed to make it a decent society. We're short of them, jobs there. Thirdly, there's the incentive to industry. If we make jobs less expensive for companies by reducing National Insurance contributions that employers pay then they'll take on more labour. So we'd like to cut the National Insurance contribution.

YOUNG: You mentioned a billion £s for the first one, how about the second and third ones?

HATTERSLEY: Well the entire package, there's a fourth element which I'll say very quickly which is a guarantee, a job guarantee, for long term unemployed as recommended by the House of Commons Select committee. And all that together would add to the total Budget a little less than £6 billion.

YOUNG:: £6,000 million, right. Now where's that going to come from?

HATTERSLEY: It's going to be borrowed in general. It's 1.25% of national income. It's just over a penny in the £ of national income and it would increase our borrowing but not as much as most countries more successful than us actually borrow to invest. Jim it's a point you were kind enough

to read from my broadcast last night; there's a time when borrowing to invest is the sensible thing. I don't think borrowing

MORE TO COME.

5

PART II.

It's main Pl
Cabinet.

FAX TO PS/IR
IMMEDIATELY.

to spend on consumption is ever sensible. But borrowing to lay it down in capital, in plant, equipment and jobs is often the prudent option. And that time has now come.

YOUNG: Isn't one of Labour's problems Roy that people listening to this they say here we go again, spend, spend, spend, borrow, borrow, borrow, it'll be Dennis Healey turning back from Heathrow and the International Monetary Fund in a minute. Isn't that one of your problems, the image, rightly or wrongly isn't the image ...?

HATTERSLEY: Yes I know why you say that and in a sense you may be right. The circumstances were quite different in 1976, 10 years ago. I remember those Cabinet meetings vividly and I remember what had happened then. The reason why I think it's right to borrow now for instance is that oil prices have gone down. And although they caused some problems for Nigel Lawson this year I think reduced oil prices reduces costs and ought to give a big boost to our economy in the long run, exporting more, making more, selling more. In 1976 oil prices had just gone up, we were suffering from the first big oil shock[?]. But you are quite to say the image which our opponents try to create, and I'm sure Mr Lawson will when he comes in later this morning, is that we are overspenders. But I can only repeat that the sort of borrowing pattern we have suggested is exactly what will be taken for granted in Germany, Japan, and in France and in America. It's only in Britain where we don't have the sense, as I say, to do what successful companies and families do - borrow for sensible purposes.

YOUNG: Well now as far as the Budget is concerned the fact of the matter is the stock market's booming - I hear on the news this morning the £ is up again, not only against the \$ against the Deutchmark if I may say. Doesn't that underline the Chancellor's view that the economy's strong, the currency's strong, that in fact his policies are working?

HATTERSLEY: Well industry will argue that the currency's over strong.

That what the Chancellor rejoiced at yesterday and you've mentioned this morning is probably going to do a great deal of harm to industry because it'll find it more and more difficult to sell abroad at a £ which is over valued. But the question I asked him in the House of Commons, that's the important one, is if things are going so well how are we going to notice it? I mean if the economy is as strong as he says why do we have 3 1/2 million unemployed and why are we going to have 3 1/2 million unemployed next year and the year after? If things are going so well why can't we help the pensioner a bit? If things are going so well why are we not giving the families a decent deal on child benefit? It's no good saying the stock market are pleased. We don't exist to please the stock market we exist to help the people of this country and the Budget did very little to do that.

YOUNG: I'll ask him all of that when he comes in. Can I ask you something just before you go. What's your reaction to the conduct of the oil companies? The Chancellor made this appeal, he said there was a 7 1/2 pence rise it shouldn't be passed on. It is being passed, by at any rate 3 companies. What do you think he ought to do about them?

HATTERSLEY: Well I don't think there's very much he can do. We always knew they'd do that. Indeed I can't understand why Mr Lawson Tuesday said he believed they wouldn't pass it on. I can remember doing business with the oil companies in 1976 and the oil companies think they're bigger than Governments. They are a monopoly. They rig their prices. And the idea that they might say Mr Lawson would like us not to pass the price on so we won't is frankly ludicrous.

YOUNG: Do you think he was naive in thinking they wouldn't pass it on?

HATTERSLEY: I think he was intensely naive if he really believed it. He was intensely naive. He was bound to, his decision was bound to have that effect. That's why before the Budget we were saying he shouldn't increase the tax in this way because it was bound to be passed on to the

con...er and that seemed to me to be wrong in every particular.

YOUNG: Could I ask you finally Roy, after the Budget the bookmaskers - and you say what's that got to do with anything - the bookmakers shortened the odds on the Tories winning the next election. We've got at any rate one Budget to go before the next election. It's going to be a tax bonanza, or so everybody is saying?

HATTERSLEY: Just let me say it is going to be a tax bonanza. If they have to raffle Mrs Thatcher To get the money they're going to get the money - not that that would raise very much - but they're going to get the money to give a tax bonanza to the election, no doubt about that.

YOUNG: Fair enough. Well, so you are right on the one hand; you've got 3 1/2 million unemployed fair enough. On the other hand, you've got 20 million who actually pay tax. Now do you think that you can persuade the electorate that it is your financial strategy that's going to put the country back on its feet and for you to win the general election?

HATTERSLEY: I do and because I've got a higher opinion of the electorate than the Government seems to have. I think there are millions of families in work who are worried about the people out of work. I think there are millions of families who may get a tax handout at the next election who'll be worried about the poor. And if the country is as decent and compassionate as I believe they'll want a Labour Government that helps the people who get forgotten. If the country is as cynical as Mr Lawson believes then I suppose Mr Lawson will be re-elected. But I don't think his view of society is the one that the British character confirms.

LORD
CH/EX
26/3

FROM: R A L LORD
DATE: 26 March 1986
cc. Chief Secretary
Mr Cropper

CHANCELLOR

SDP/LIBERAL PUBLIC EXPENDITURE PROMISES

Central Office tell me that John Biffen is planning to make a speech itemising SDP and Liberal promises on public spending and has asked the Research Department for details. You or the Chief Secretary may want to have a word with him suggesting that he hold his fire until we have had everything properly costed.

RL

Ch/

Perhaps one
for CST?

AK
26/3

R A L LORD

[Red handwritten signature]

10 APR 1986

FROM: A ROSS GOOBEY
DATE: 10 APRIL 1986

EST

cc **Chancellor**
CST
FST
MST
Mr Cropper
Mr Lord

PRESCOTT LETTER OF 25 MARCH

I attach copies of the Prescott letter, and the draft reply.

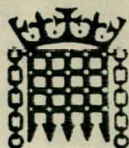
2. I would suggest the following addition:

Para 7... "under control! I detect more than the normal element of humbug, in that, if we are to believe the utterances of your front-bench colleagues, you are committed to more than £24 billion per annum extra in public spending which I presume you would partly finance from borrowing. It would better inform the nation if you could vouchsafe exactly what level of current borrowing you would approve, and what tax increases you would be forced to impose to meet this bill.

Handwritten notes in red ink:
At X, No date in
date in 2 of 2007
Labor has long no
consequence of accident in pass
should be the real value of
outstanding debt. This type of
fund on the
Sunk is with
be paid for

ALM

A ROSS GOOBEY



HOUSE OF COMMONS
LONDON SW1A 0AA

25th March 1986

Ian Stewart MP
Economic Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

ECONOMIC SECRETARY	
REC'D	27 MAR 1986
ACTION	MISS PEIRSON.
COPIES TO	PPS, CST, FST, MST, SIR P. MIDDLETON, MR CASSELL, MR PERETZ, MR CROPPER, MR LORD.

MR H DAVIES.

Dear Mr Stewart,

In the debate on the Budget last Thursday, you said that the borrowing figure of £60 billion quoted by Neil Kinnock and myself was wrong. You also claimed that borrowing in real terms by the last Labour government was twice that of the present government.

The figure of £60 billion referred to the whole period of the present government, not - as you appear to have assumed - the last five years. In fact it covers the six financial years 1979-80 to 1984-85. Borrowing in this period was £10 billion a year on average - 25% higher than under Labour.

Your reference to borrowing in real terms came as something of a surprise from a government which has insisted, against nearly all professional advice, on changing the presentation of public spending from real terms to cash.

Your inexperience in using real terms figures probably explains why your calculations are so inaccurate. In today's prices the present government has borrowed at a rate of £13 billion a year compared with £20 billion for Labour. By no stretch of the imagination could it be said that Labour borrowing was twice Tory borrowing. Nor is the Tory record very impressive when the concealed borrowing in the form of asset sales and oil revenues is taken into account. Between them they add at least another £12 billion to the rundown of the nation's assets.

A better measure of a government's borrowing record is the burden of debt interest. In the last year of the Labour government, this was £7.5 billion. Under the present government, it has risen 140% to £18 billion and is projected to rise further.

X Under the last Labour government the burden of debt fell by 10% of GDP. So far, under this government, it has fallen by only 6.5%.

Of course, these are relatively less important matters than the present government's history of record increase in unemployment, record destruction of jobs and record low level of output growth and poor performance on inflation. But the borrowing record also illustrates its inability to understand or manage the economy.

Yours sincerely,

John Prescott

DRAFT LETTER FROM ECONOMIC SECRETARY
TO MR JOHN PRESCOTT MP

Dear Mr Prescott,

1. Thank you for your letter of 25 March about the borrowing record of this Government compared with the last Labour administration.

2. First of all, I suggest you re-read Hansard. Neil Kinnock quite clearly said that "the Government have borrowed £60 billion in five years...." (O.R. 18 March, col. 187).

3. However, I stick to my view that the scale of borrowing over such different ~~time~~ periods cannot usefully be judged in nominal terms. There is a distinction between the planning and control of public expenditure, where the cash basis has brought important gains (indeed it was a Labour Government which took the first step forward by the widespread introduction of cash limits), and the comparison over time of sectoral demands on the economy's resources.

4. Incidentally, the figures you quote for constant prices are not quite right: they should be £21 billion and £12 billion at today's prices, and the former is pretty close to twice the latter. Even in constant prices the borrowing figures cannot be adequately compared, because they do not allow for the effect of real growth in the economy. As a proportion of GDP, borrowing under the present Government has averaged 3½% in the last seven years, compared with 6¼% in the previous five years under Labour.

5. It is in part because of that very high borrowing earlier that debt interest has risen. Now that borrowing has been substantially reduced, we can look forward to reductions in debt interest both in real terms and as a proportion of

GDP. The burden of debt is itself significantly lower, as a proportion of GDP, under the present Government than it was under Labour.

6. Privatisation proceeds and oil revenues have not led to a rundown in the nation's assets; far from it. The privatised companies are being released into the private sector where they will be more productive, for the benefit of the whole economy. And oil revenues have been reflected in a build-up of overseas investments. Net overseas assets have risen to over £90 billion, compared with £12 billion in 1979.

7. Altogether, I am surprised by your keenness to draw attention to this Government's achievements in bringing borrowing under control!

[I.S.]

10 APR 1986

FROM: S J W BRISCOE
 DATE: 10 April 1986

1. MISS PERSON
 2. MR NEILSON

cc Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mr Peretz
 Mrs Butler
 Mr Grimstone
 Miss O'Mara
 Mr Walsh
 Mr M Williams
 Mr McIntyre
 Mr P D Spencer

PRESCOTT LETTER OF 25 MARCH

1. We agreed that I would provide a note on Mr Prescott's letter (copy of letter attached at annex 1) and a draft reply (annex 7) which you could show to the Special Advisers before putting a draft to the Economic Secretary.
2. The provisional outturn of the PSBR in 1985-86 will be published on 16 April, and if the Economic Secretary's reply does not go until then we could amend the draft if necessary in the light of the outturn. But the Economic Secretary may wish to ensure that Mr Prescott gets the letter before Treasury 1st Order Questions on 17 April.

Background

2. I attach:
 - at annex 2, an extract from the briefing supplied concerning Mr Kinnock's claim;
 - at annex 3, Mr Kinnock's words, O.R. 18 March, col. 187;
 - at annex 4, Mr Prescott's words, O.R. 20 March, col. 442;
 - at annex 5, Economic Secretary's words, O.R. 20 March, col. 504;
 - at annex 6, some figures for public sector debt.

£60 billion borrowing in 5 years

3. Mr Kinnock was clearly wrong - he used the six years' borrowing figure and said it represented five years.

Nominal borrowing average

4. Mr Prescott's letter is also wrong concerning the annual average. £10 billion is right, but it is only 22% higher. If the seven year average is used (with the Budget forecast for 1985-86) the figure is only £9½ billion, or 16% higher.

Real terms comparison

5. According to Hansard, the Economic Secretary did indeed say "at today's prices Labour borrowed twice as much". The briefing supplied (see annex 2) had suggested "Labour borrowed nearly twice as much". Mr Prescott is however wrong in suggesting £20 billion pa for Labour and £13 billion pa now: updating the figures of £19.4 billion etc in the table to current prices (ie early 1986) they are £21 billion and £12 billion (for the last 7 years).

Asset sales and oil revenues

6. A paragraph concerning these has been included in the draft reply.

Debt interest

7. Mr Prescott's figures relating to debt interest are broadly correct. Even in real terms there is an increase of about 20 per cent, comparing the Conservative and Labour years. However, that is in part because of the earlier build-up in borrowing.

Burden of debt

8. Mr Prescott further states that the burden of debt fell more, as a percentage of GDP, under Labour than under the Conservatives. The latest estimates from Financial Statistics do not exactly match his figures, but do suggest much the same conclusion (see annex 6). However, the average level of debt (as a proportion of GDP) under the present Government is some 15 per cent lower than under Labour.

Simon Briscoe

SIMON BRISCOE

PUBLIC SECTOR BORROWING UNDER LABOUR AND
UNDER CONSERVATIVES

Mr Kinnock said, in his reply to the Budget Statement, that the present Government "have borrowed £60 bn in 5 years compared with the Labour Government who borrowed £40 bn".

Facts

(See also Budget brief E4.)

	<u>PSBR, £bn</u>			
	<u>Labour</u>	<u>Conservatives</u>		
	5 years 1974-75 to 1978-79	5 years 1979-80 to 1983-84	6 years 1979-80 to 1984-85	7 years 1979-80 to 1985-86 (forecast)
Nominal aggregate	41.2	49.9	60.0	66.8
Nominal average pa.	8.2	10.0	10.0	9.5
Real terms* aggregate	97.2	61.4	71.5	77.9
Real terms* average pa.	19.4	12.3	11.9	11.1
Ratio to GDP average pa.	6½	4	3½	3½

* 1984-85 prices

Line to take

- (i) Kinnock wrong. In first 5 years, Conservatives borrowed only £50 bn even in nominal terms.
- (ii) In today's prices, Labour borrowed nearly twice as much in their 5 years as Conservatives did in first 5 years. (Almost £100 bn compared with around £60 bn.)

[Mr. Neil Kinnock]

a Chancellor. With regard to the 1p reduction in the basic rate of tax, the Chancellor has only to reduce the basic rate by a further 5p to bring taxation down to the 1979 level of burden.

The same faint-heartedness with which the Chancellor tries to wage war on poverty characterises his approach to the City. During the past six and a half years the institutions and individuals there have benefited stupendously from a variety of Government measures, yet what is to be obtained from them? The answer is nothing more than a sum equivalent to the amount lost to the Exchequer by halving stamp duty—£200 million—and at a time when they are doing more than well, and when their conditions and rewards are arousing criticism in the Conservative party and from commentators who are usually slavish in their support for the Chancellor's general strategy. The Chancellor should have taken this chance to ensure that those people on high salaries with high returns pay their way as members of our society.

In all those areas—poverty, jobs and the approach to the City and those who now enjoy positions of great wealth—the Chancellor has seen the need for action, as we know from the way in which he touched on them, but has backed off from acting effectively. That makes it the fudge-it Budget of a Government who during the past seven years have worn away the industrial base of the nation and wasted huge sums of wealth in a rake's progress financed by oil revenues. The Government have taxed ordinary people more than have any other Government in history. They have borrowed more than have any other Government in history. [HON. MEMBERS: "No."] Yes. The Government have borrowed £60 billion in five years compared with the Labour Government, of whom the Chancellor was so critical, who borrowed £40 billion.

Sir Peter Tapsell (East Lindsey). When the right hon. Gentleman quotes those figures, will he bear in mind that this Government at least borrowed from the British, whereas the Labour Government borrowed from abroad in foreign currencies?

Mr. Kinnock: Yes, and as Mr. Tim Congdon has reminded us, as a consequence of that borrowing the Government's repayments of interest are running at £19.5 billion, compared with the total of £8 billion which the Labour Government had to pay to an assortment of people during their last period of office. I hope that the hon. Gentleman's patriotism will extend to other areas, especially to sell-offs—the way in which the Government have been raising funds to finance their programme.

The Government have been raising funds by once-and-for-all sales of assets that have been built up for generations by British taxpayers. The sum is inexhaustible, and that is a ruinous way to proceed. The Government have had the unprecedented and unrepeatable bonus of £55 billion worth of revenues from North sea oil. No other Government have ever enjoyed such revenues, and no British Government have ever so wilfully squandered such wealth.

For years the Government have been told in Budget debates, and at many other times, by us and by others that they should use that windfall deliberately and prudently to modernise and restructure British manufacturing industry. They were provided with a glorious opportunity to do that,

sheltered, as they were, from balance of payments pressures, which have affected every Government in the decades before they came to office, with the asset of oil. They did not take advantage of that. Instead, they have used the resources and revenues to pay part of the bill for unemployment, to make tax concessions to the richest and to send abroad funds that have come in handy for our competitors to finance the advance of their industries. The Government have blown our oil wealth completely and have next to nothing to show for it. Indeed, in some respects they have less than nothing.

Manufacturing investment is still nearly 20 per cent. lower than it was in 1979. Manufacturing output is still lower than it was in 1979. During the Government's seven years the healthy surplus in manufactured trade which they inherited has been turned to a deficit of £3 billion this year, having gone into deficit for the first time in modern British history in 1983. Only the Prime Minister's dwindling palace guard believes that that gap can start to be made up by the sale of services. Certainly the British Invisible Exports Council and an assortment of others who make their living in that sphere know that the gap cannot be made up by the sale of services.

In addition to the failure to sustain manufactured output, investment and trade, we have also seen a massive loss of employment. At present 3.4 million people are registered unemployed, and more people have been unemployed for a year than the total number of unemployed when the Government took office in 1979.

These seven years have been the wasted years, the locust years, and the years which on Saturday the Prime Minister with unconscious and untypical accuracy described as the years of excavation. How right she was. During these seven years great holes have been dug which not only have undermined the structure of our society, but, even more painfully and damagingly, have undermined the self-confidence of millions of people. Now, throughout the country young men and women aged 20 to 22 ask without the merest hint of self-pity or affectation, "Do you think I will ever get a job?"

I am sure that you, Mr. Deputy Speaker, have encountered such young people, as I have. I am sure that Tory Members have also done so. I wonder what Ministers say when they are addressed in that fashion. Do they dismiss the questioners as grumblers, as the Prime Minister did on Saturday? Do they say, as she did, "We have had only six years and nine months and we are only just beginning"? Six years and nine months ago, the previous Chancellor of the Exchequer, the right hon. and learned Member for Surrey, East (Sir G. Howe), began the Conservative party's period of office with his first Budget, which he described as the Budget for a new beginning. It is six years and nine months from beginning to beginning. That is the story of the Government, yet they continue to say that there is no alternative.

Hardly anyone believes the Government now. Conservative Members, and members of the Cabinet do not believe that there is no alternative. Some actually want to be the alternative. The Confederation of British Industry does not believe it, the TUC does not believe it, the Select Committee of Employment of this House does not believe it. The Select Committee on Overseas Trade of the other place does not believe it.

I have a list of people who in different degrees have repeatedly endorsed the proposition that there is a serious and constructive alternative, which consists of bringing

Mr. Prescott: The Paymaster General has a reputation for being considerably sharper than that small point shows. He was put into that job to give it a liberal face and to put sharpness into it. He is not doing very well at the moment.

My right hon. Friend the Member for Sparkbrook and I have discussed our experiences when we visited jobcentres. We do not enter into criticism without getting some assessment and feedback. The job club scheme implies counselling the unemployed on how to get a job because many do not know how to write or to present themselves properly. That is an insult to many unemployed, who have previously been unemployed under a Labour Government when unemployment was 1.2 million. Two million more of these workers were then in work. They do not need any advice on how to get a job. They just want to get a job. That is what my right hon. Friend was concerned about when he made that point.

This Budget debate shows the kind of different reactions that we have seen in the press. I was looking at some of the quotes and newspaper reactions to the Budget. The *Daily Mail* says that

"the Chancellor made a tasty Budget out of the scraps."

The *Daily Express* referred to a

"a Budget for a brave future."

The *Daily Telegraph* said it was "ingenious". I do not read *The Times* and *The Sun*, and neither should anyone else. The intellectual paper, *The Guardian*—I rather like this quote—said:

"All the basic problems that Mr. Lawson has inherited remain to haunt future administrations — appalling infrastructure, desperate housing conditions, low manufacturing investments, a withering technological base, a growing army of disenfranchised poor and unemployed. Yesterday's performance, for all its clever shifts and bright notions, did not even begin to address that grim and growing legacy."

When the Chancellor was faced with that quote on the "Today" programme, he said that it was "typical *Guardian* rubbish", or words to that effect. It was pointed out that the *Financial Times* editorial was similar.

There are two different views about this particular Budget. This is the first time that any Government have clearly rejected the idea of doing anything about reducing the level of mass unemployment. It is the first time that they have given any sign that unemployment is not an electoral liability. They feel that it is far better to operate on tax than on the level of unemployment, and they are morally indifferent as to what is going to be the level of unemployment at the next election. That is one heck of a kick in the teeth for the unemployed.

Another reaction is that it is clearly a money Budget. Anyone who has any doubt has only to see the reaction of Conservative Back Benchers. Whenever money was being doled out, there were cheers and the waving of Order Papers, and suggestions that we cheer. There was not one murmur when we whizzed through the special employment package. Nobody knew that it had been done. I almost shouted, "Where is the beef?"

There was then a press conference the next day for the three-pronged attack by Lord Young—that amateur in the other place — and the Paymaster General to announce their new approach to unemployment. It clearly is a money Budget. My right hon. Friend the Member for Sparkbrook pointed out that the rich will pay less, and the rest will pay more. It is true. That is precisely what came out of that Budget. He showed that a family on £5,000 a year gets 26 pence a week back. A family on £50,000 a year gets £3.30 a week back, which is even proportionately

higher in relation to the income that they earn. When one considers that those earning £50,000 a year actually have received £1 billion in tax since 1979, and are still getting it fed down their throats, that is highly offensive to the 3 million or 4 million unemployed. The money that was given in stamp duty and other capital transfer stamps is twice as much as the amount of money that Lord Young persuaded the Chancellor to give towards these tea and sympathy measures that the Paymaster General has been talking about.

I think the one condemnation of this particular Budget is that it seems that the Government are prepared to borrow. I did not see anyone protest when my right hon. Friend the Leader of the Opposition made the point that this Government have borrowed more than the Labour Government in their five years. We are actually borrowing to pay tax, but apparently it is evil to borrow to put people back into work. That is what this Budget is telling us. It is significant that this Budget does not mention anything about unemployment as an objective policy.

I looked back on some of the speeches that had been made in previous Budget debates, and I should like to remind the House of what was said. We have had six or seven years of this Government's policies, and we can now assume that they have had a chance to work in some form.

In the first Budget of March 1980 there were 1.3 million unemployed. The Chancellor at that time said:

"These are realistic policies, to which there is no alternative." —[*Official Report*, 26 March 1980, Vol. 981, c. 1489.]

By March 1981, and the next Budget, unemployment went up by 957,000 to 2.3 million. The Chancellor came to the House and stated:

"Unemployment may be slowing down." —[*Official Report*, 10 March 1981, Vol. 1000, c. 757.]

Then in November 1981, we had the first fiddle which reduced the unemployment figures by 37,000. That made no difference. Unemployment, by the next budget in March 1982, had gone up by nearly 500,000 to 2.8 million. The Chancellor then stated:

"I have a Budget for industry, and so it is a Budget for jobs." —[*Official Report*, 9 March 1982, Vol. 19, c. 727.]

We got the second fiddle in October 1982, which took a further 190,000 off the figures. By March 1983 unemployment went up by 351,000 to 3.1 million, and the Chancellor said,

"It is a Budget for recovery." —[*Official Report*, 15 March 1983, Vol. 39, c. 157.]

By April 1983 we had entered into another further fiddle —160,000 taken off our unemployed figures.

By March 1984—the Budget that was known as the "Budget for jobs" — unemployment had fallen by 29,000. The curious thing about that was that the only time unemployment fell in this country was in the period between the end of one Parliament and the election of another, because the Government pumped a bit of money into the economy and told local authorities, "Go out and spend, quick." They said, "Spend on housing." No problems with skilled labour.

We then had a new Chancellor, and he said that the Government would assist in the creation of jobs. Well, they got into creating in the "Budget for jobs," and we find in March 1985 that unemployment had gone up by 125,000. By February 1986 it had gone up another 114,000, and the Chancellor told us yesterday of a further substantial range of measures to help the unemployed. I

So the £4.75 billion from that will pay for £4.75 billion worth of tax cuts. It is impossible to think of a more irresponsible way of running the nation's economy.

It is interesting that everything is geared up to the short term. The only principle that governs Government policy is the principle of expediency. It has been elevated to become the Government's sole principle. When one considers manufacturing industry and selling assets, it is illuminating to consider the Government's remedies when those problems finally catch up with us. One of the most important points in the report of the House of Lords Select Committee on Overseas Trade was the Treasury's view about what should happen when North sea oil production declines. The Treasury believes that there should be an adjustment in the exchange rate. In other words, the exchange rate should be allowed to fall. That is the very thing that the Government have been refusing to allow to happen throughout last year, keeping interest rates high because of the inflationary impact. Yet that is what the Government advocates when the decline in North sea oil production catches up with them.

In exactly the same way, when asset sales decline, the Government advocates an increase in borrowing. Yet at present they tell us that that would be irresponsible. We in the Labour party do not believe, addressing the long-term, that those decisions can be postponed any longer.

The Government must play a role in the reinvigoration of the British economy. The Chancellor admits that in the international sphere it is right for Governments to intervene and to be active in regulating the international monetary system. In exactly the same way, I ask the Government to abandon this free market nonsense in our domestic economy. It is as if they believe that the problems of the 1980s can be solved by the remedies of the 1780s. We have only to look at what Government could do, to realise the importance of their role, for example in research and development, education and training.

Our research and development will fall in real terms while that of our competitors is constantly rising. Scientific research is either staying level or perhaps slightly declining, while our competitor countries are increasing it by 20 or 30 per cent. Those are the implications of present Government policies.

There is one further implication and it is perhaps the most important of all. As I said before, the Government virtually accept that they will carry 4 million unemployed into the next election. In effect they now budget for two Britains. I think of the time when someone of my generation will be the average age of the members of the Cabinet. That is a long way off, in the year 2010, but I wonder if it is contemplated that we should carry 4 million unemployed until that time.

A cynical electoral calculation lies at the heart of Government policies. The Government believe that if there are sufficient votes from people who are relatively well paid and in work they can abandon the rest. People who think that are not merely morally wrong but socially dangerous because if 30 to 40 per cent. of our population is cut adrift we will end up threatening democracy. Britain cannot be unified until our priorities change. Unfortunately, there will be no change in priorities until there is a change of Government.

9.42 pm

The Economic Secretary to the Treasury (Mr. Ian Stewart): This Budget comes at the end of a period of five years of continuous growth. It also comes at a time when international conditions have been unusually disturbed because of the sharp fall in the oil price and the movement of foreign currencies and so on. I heard what the hon. Member for Sedgefield (Mr. Blair) said about the consequences of a drop in oil production. I shall have to read his speech tomorrow, because I could not entirely follow his argument. It seems to me that the Labour party is rather disappointed that the economy was not knocked sideways when such a substantial part of the Government's revenue fell away because of the fall in the oil price.

It is right at this time that we should have a cautious and careful Budget and one which does not put too much strain on the markets by over-borrowing. As we were reminded this afternoon, on Monday the Leader of the Opposition said that the Government had borrowed £60 billion in their first five years compared with borrowing by the last Labour Government of £40 billion in the five-year period when they were in office. The right hon. Gentleman is both wrong and misleading. He is wrong because we have borrowed only £50 billion, even in nominal terms, and he is misleading because at today's prices Labour borrowed twice as much.

Tuesday

As a proportion of the gross domestic product Labour borrowed twice as much in five years as the Conservatives have borrowed in seven years. If borrowing were now as high a proportion of GDP as it was in 1976, the public sector borrowing requirement for the current year would not be around £7 billion but £33 billion or 9.25 per cent. of GDP. The right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) spoke about the scope for raising the PSBR and I suppose that is the sort of figure he had in mind. The right hon. Gentleman was an economic Minister at the time. Does he now repudiate the actions of the Government of which he was a member?

There is no doubt about what would have happened if there had been a large increase in the PSBR. We should certainly not now be seeing a fall in interest rates or in inflation. Instead, massive increases would be in prospect. As my hon. Friend the Member for Stratford-on-Avon (Mr. Howarth) said, the Budget has been received as an act of confidence by a reduction in interest rates. The 1 per cent. reduction has been estimated by the CBI to save British industry about £250 million per year, and the reduction in mortgage rates announced over the last two days by several major building societies, will provide an additional benefit to millions of families buying their homes. The combined benefits of the Budget and the reduction in mortgage rates to the average family with two children and a typical outstanding mortgage of £15,000 amount to £3.76 a week.

We are already seeing the benefits of a steady reduction in the PSBR in declining interest rates. This year, the PSBR will be the lowest for the past 14 years as a proportion of GDP, and it is no coincidence that long-term interest rates have now fallen below 10 per cent., and are at their lowest level for many years. The end of overfunding as a policy instrument, which was announced by my right hon. Friend the Chancellor in October, will also ensure that a low borrowing requirement is fully reflected in low actual borrowing.

Public Sector Debt held outside Public Sector

	<u>As % of GDP,</u> <u>at 31 March</u> <u>in each year</u>	
1974	67.9	
5	63.1	1974 to 1979
6	63.3	Labour administration:
7	63.2	ave. = 62.8%
8	61.9	fall = 10.3 percentage points
9	57.6	
1980	52.8	
1	55.3	1979 to 1985
2	54.6	Conservative administration
3	53.4	ave. = 54.9%
4	54.8	fall = 2.1 percentage points
5	55.5	

Source: table S1, Financial Statistics.

FROM: C PICKERING
DATE: 16 April 1986

1. MR SCHOLAR

2. CHIEF SECRETARY

cc: Chancellor
Financial Secretary

Economic Secretary
Minister of State
Sir P Middleton
Mr Butler o/r
Mr Anson
Mr Turnbull o/r
Mr Burgner
Mr Gilmore
Mr Moore
Mr Jameson
Mr Watson
Mr Mountfield
Mr Perry
Mr Colman
Mr Shaw
Mr Burr
Mr Robson
Mr Revolta
Mr Instone
Mr Grimstone
Ms Boys
Miss Noble
Mr Gilhooly
Mr P Davis
Miss O'Mara
Mr Gibson
Mr Kaufmann
Mr S Kelly
Mr Cropper
Mr Ross-Goobey
Mr Lord
HF/03

COSTING LABOUR'S POLICIES

Following your correspondence with Mr Hattersley about the estimated £24b cost of Labour's policies, expenditure divisions were asked to check thoroughly and, if necessary, to refine the costings of the commitments - costings which, as you know, were carried out in some haste earlier this year.

2. This exercise has just been completed. You will wish to see the results before First Order Questions, since you said on Monday that you wanted to use that occasion to press Labour further on the £24b.

*Discussed and agreed
with me*

M/S 16/4

*How to help
to have an updated
and revised table.
M.S.*

3. Divisions' further reflections on the costings are set out below. A general comment, which applies to most of the costings, is that many of the commitments are not specified in sufficient detail to allow very precise estimates to be made of their cost; and many are on slightly different bases (they relate, for example, to different base years), or are arguably overlapping. So there must be reservations about aggregating them without qualifications, as I suggested in my minute of 13 January, and about treating the £24b total as a precise figure. With these necessary qualifications our revised costing suggests a total of some £23.7b rather than the £24.2b published in answer to Mr Choze on 3 March.

4. In the commentary below items are numbered as in the footnotes to your reply to Mr Choze on 3 March (OR vol 193, no 69, cols 29-31, copy attached).

Item 6

5. Item 6 costed the Labour Party's commitment to an educational maintenance award for all over-16's in full-time education, at £965m. HE now think this figure is too high, and that the Department of Education and Science should have used a lower figure for the number of potential recipients for these awards. This revision brings the costing down to £640m. But HE also think that it would have been better to link this commitment with another (which Mr Davies, following an initiative from the Minister of State, asked HE to cost in late January), to phase out parental contributions to student grants: these two commitments were explicitly linked as two parts of the same policy in a Labour policy document, 'Education throughout Life'. Linking these two commitments gives a total cost of £950m - only £15m lower than the £965m given in the Choze answer.

Item 2

6. John Smith's promise was to increase industrial support by at least 50 per cent. It was interpreted as a 50% increase in the whole of DTI's 1985-86 expenditure ("Total DTI", 1986 PEWP, vol 2, page 87, copy attached to you only), including the external finance of the nationalised industries sponsored by DTI. This enlarged programme was then compared with the sharply reducing programme for 1986-87 in Cmnd 9702, and the difference shown as the cost of Mr Smith's promise.

7. This was the interpretation of Mr Smith's promise which underlay the £1,133m costing of this item in the Chope answer. A more restrictive - and one perhaps less open to challenge - interpretation would construe Mr Smith's promise as referring to expenditure on regional policy and industrial support alone. On this basis it would cost £586m - £547m less than given in the Chope answer.

Item 21

8. When the £24b was calculated, the cost of increasing NHS resources by 3 per cent a year was included as a separate component in this item. This could be seen as double counting, since other specific commitments included in this item (abolishing NHS charges, ending competitive tendering, restoring nurses' pay to its real 1980 level and increasing hospital building and repairs) would more than fulfil this aim. To omit it would reduce this costing by £150m. In the absence of clarification by the Labour Party as to whether specific items were intended to count towards this overall aim, we cannot be certain that it is wrong to include it. So we do not propose any change to the costing at this stage.

Item 26

9. DHSS correctly used their long-standing and much-quoted costing, based on 1983-84 benefit rates, for the cost of

reducing the retirement age to 60 for men. They are updating this figure - a major and lengthy exercise. At November 1985 rates, and taking into account changed tax assumptions, DHSS estimate provisionally that the cost would be something like £500m higher. ST1 are checking urgently and will confirm the costing as soon as possible.

Item 27

10. DHSS have now updated the £500m costing of giving long-term supplementary benefit to those unemployed for more than one year. The new estimate is £530m, which DHSS plan to use in public shortly.

Total cost of Labour's commitments

11. In addition to the points discussed above, the adjustment concerning school buildings indicated in your letter of 12 March, though not quantified in that letter, would reduce the total further, by £625m; the aid change identified there would increase it by £233m.

12. The following table summarises the position:

		£ million
Total in Chope Reply		24,160
Less adjustments to	(i) item 2	547
	(ii) item 6	15
Plus	(iii) item 26	500
	(iv) item 27	30
		<hr/>
Total		24,128
Less adjustment to	(v) item 18	625
Plus adjustment to	(vi) item 1	233
		<hr/>
Total taking into account those indicated (though not both quantified) in your letter to Mr Hattersley		23,736
		<hr/>

Other points on the accuracy of the Choape Reply

13. The footnote to item 5 implies that the costing assumed that, as the commitment specified, pay rates on the Community Programme would be brought into line with local authority workers. It did not, since the Programme already pays the 'rate for the job', which is often the rate for comparable jobs in local authorities. The footnote should read '13 week training for all Community Programme participants', since this was the only assumption used.

14. Central Office said the Labour Party/TUC publication, 'A New Partnership, A New Britain', committed Labour to a new regional employment subsidy. In fact, that pamphlet says only (page 24) that "we will need to consider the introduction" of such a subsidy.

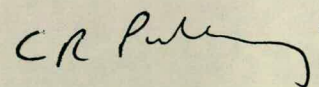
15. Divisions have been unable to identify the commitments mentioned in item 15 in the source provided by Central Office, or the other documents cited by that source.

Conclusion

16. These revised costings broadly confirm the total of some £24b, given the inevitable uncertainties about the precise meaning of many of the commitments costed, and the reservations about aggregation mentioned above. But they have revealed some shortcomings in the description of several of the items (particularly the education costings), and the costing methods themselves are capable in some cases of alternative interpretation. The £24b figure excludes, of course, a number of very large items - renationalisations, certain one-off commitments - which you decided not to ask us to cost and to include in the total - and very recent promises like Mr Meacher's at Fulham.

17. If Treasury Ministers wish us to update these costings it would be helpful if divisions could be given as much notice

as possible before undertaking similar exercises, so that they can clear material within the Treasury and with other Departments. It may be that you will wish to launch an updated figure in the Autumn Statement debate, following the Government's announcement of its own spending plans. If so, it would be helpful if Ministers identified (presumably with the help of the Special Advisers) the new list of commitments as early as possible in September, so as to allow officials as much time as possible to cost them in the very heavy pressures of the autumn.



C R PICKERING

Employment in Government Departments is shown in table 2.22 of "The Government's Expenditure Plans, 1986-87 to 1988-89."

Manpower Statistics

Mr. Ralph Howell asked the Chancellor of the Exchequer what was (a) the total number of civil servants employed in the United Kingdom in central Government Departments, and staff employed in local government in 1985, (b) the percentage of total population and total work force these figures represent, (c) the value of the total salaries paid to these two groups for the year and (d) the percentage of gross domestic product these salaries represent; and if he will give any information he may have as to equivalent figures in France, West Germany, the United States of America and Japan, respectively.

Mr. MacGregor: At mid-1985, the Civil Service employed 585,000 full-time staff and 23,000 part-time staff, in total 1.1 per cent. of the home population and 2.5 per cent. of the employed labour force. Total pay excluding national insurance contributions in 1985-86 is estimated to be £5.25 billion, about 1.5 per cent. of gross domestic product.

Local authorities employed 1.88 million full-time staff and 1.01 million part-timers, in total 5.1 per cent. of the home population and 11.9 per cent. of the employed labour force. No estimate is yet available of the local authority pay bill.

No comparable information is available for other countries.

Public Expenditure

Mr. Chope asked the Chancellor of the Exchequer if he will publish in the *Official Report* the details of the calculations of the cost of Her Majesty's Opposition's spending proposals which he undertook to provide during the debate on the public expenditure White Paper on 20 February, *Official Report*, column 513.

Mr. MacGregor: The details of the Opposition spending commitments with an annual cost of £24 billion to which I referred in the debate on the public expenditure White Paper are set out in the table. The notes to the table give the relevant references to Opposition speeches and publications.

Labour's Spending Plans: Principal Components

		Notes
Aid	900	1
Industry	11,33	2
National Investment Bank	48	3
Employment		
Training for unemployed	900	4
Community programme uprating	200	5
Educational maintenance award	965	6
35 hour week	3,000	7
Minimum wage	1,000	8
Regional employment subsidy	500	9
Energy	750	10
Arts	140	11
Transport		
Roads	706	12
Rail	248	12
Airports and Ports	154	12
Housing		
New build	3,000	13
Rehabilitation	250	14

		Notes
Urban Programme	500	15
Sewerage	250	15
Education		
Under 5s	400	16
Teachers	235	17
Buildings and equipment	871	18
Close private schools	300	19
Student grants	125	20
Health NHS	780	21
Social Security		
TV licence for pensioners	325	22
Maternity and death grants	220	23
Child Benefit	1,450	24
Pensions	1,650	25
Early Retirement	2,600	26
Unemployment Benefits	500	27
Minor Measures	60	28
Total	24,160	

Notes:

1. Commitment to double aid within 2-3 years of taking office. Phasing of +900, +2000, +31000 assumed. (Neil Kinnock in *The Guardian* of 30 July 1985).
2. 86-87 cost of commitment to increase industrial support by 50 per cent. (John Smith in *Tribune* 8 November 1985).
3. Based on assumed lending of £2 billion in year one and interest subsidy of 4% on 60% of loans. No allowance for bad debts. (NIB described by Roy Hattersley, in a speech in London on 16 May 1985.)
4. Estimated cost (in 1986-87 prices) of commitment to 5-fold increase in training for adult unemployed. (Charter for Young People, June 1985).
5. Adjusted pay rates—in line with Local Authority workers—and more training. (Charter for Young People, June 1985).
6. £27 per week for over 16s in full time education. (Charter for Young People, June 1985).
7. Cost in public services only. ("Working Together", April 1985).
8. Public services cost only of minimum wage set at two thirds of average earnings. (Conference motion 1983).
9. Interpretation of uncosted commitment, based on 1976 subsidy of £2 a head per week, uprated in line with inflation and applied to manufacturing industries only. ("A New Partnership, A new Britain" —TUC/Labour document, August 1985).
10. Mid-point estimate of cost of conservation measures only — mainly a public sector conservation programme. No allowance for increased investment in non-nuclear capacity which would fall mainly on the industry and on prices ("A New Partnership").
11. Doubled funding of performing and creative arts and zero rating for VAT. (Norman Buchan, *Financial Times*, 6 August 1985).
12. 1986 Update of commitments in "Reconstruction of Britain" (TUC 1981) Supported in "A New Partnership".
13. 125,000 new starts a year at £24,000 each. ("A New Partnership").
14. 25,000 renovations a year at £10,000 each. ("A New Partnership").
15. First year of a five-year programme to increase Urban Programme by £2.5bn over 5 years, and sewerage investment by £1.25bn over 5 years ("Public Investment in the Economy" — TUC, October 1984, endorsed in "A New Partnership, A New Britain").
16. 200,000 new places in nursery schools. The Charter for the under 5s (April 1985) recommended a right to pre-school education for all 3 and 4 years olds. Assumes 80 per cent. take-up.
17. 14,000 more teachers and £60m on training. Labour's own estimates, quoted by Giles Radice in *The Guardian*, 17 April 1985.
18. £781m on school buildings, £90m on books (as Note 17).
19. Assumes 500,000 extra pupils in the state sector. (Charter for pupils and parents).
20. Restoration of mandatory award to 78-9 levels. (Charter for Young People, June 1985).
21. £475 million for phasing out of charges, remainder real increases in pay and capital expenditure and end to competitive tendering. ("NHS in Danger"—NEC statement, October 1983).
22. Hansard 27 March 1985—Mr. Gerald Kaufmann.
23. £120 million maternity grant, £100 million death grant (1984 conference motion).
24. £3 a week increase. (Roy Hattersley, *Hansard* 20 March 1985). But note new proposal by Michael Meacher to double child benefit. Would cost another £1.95 billion.
25. Pensions increased by £5 per week (single) and £8 (couple).

(Hattersley, *Hansard*, 20 March 1985).

26. Reduction in retirement age to 60 for men. (Neil Kinnock, 24 June 1985, at TGWU conference).
27. Long term rate of supplementary benefit to unemployed after a year on benefit (Hattersley, *Hansard*, 20 March 1985).
28. Concessionary fares, strengthening NEDC, more grants to other bodies.

European Community (Budget)

Mr. Gerald Bowden asked the Chancellor of the Exchequer what is his latest estimate of the United Kingdom's net contribution to the Community budget in 1985.

Mr. Brooke: A final figure is not yet available, but the latest estimate of the United Kingdom's net contribution to the Community budget in calendar 1985 is £1,870 million.

This estimate compares with that of £1,212 million in the statement on the 1985 Community budget (Cmnd. 9633). The reasons for the abnormally high level of our net contribution during 1985 were set out in that White Paper. The latest estimate is larger than that in Cmnd. 9633 for two main reasons. First, most (£493 million) of the 1,000 mecu (£605 million) abatement payable in respect of our excessive net contribution to the 1984 Community budget was received in the first few days of 1986 rather than in 1985 as assumed in Cmnd. 9633.

Secondly, our share of Community expenditure (particularly FEOGA guarantee expenditure) in 1985 was lower than expected. In 1984, for example, our share of FEOGA guarantee receipts was about 11½ per cent.; in 1985, it was about 9½ per cent.

The United Kingdom's net contribution to the Community budget in 1986 should be very much lower than in 1985. Not only will the 1986 figure reflect the £439 million abatement received in the first few days of 1986, it will also be reduced by abatements payable in 1986 under the Fontainebleau system (and worth at least 1,400 mecu, some £900 million).

The Government's latest estimate of the United Kingdom's net payments to Community institution in 1985-86 remains at £800 million, the figure published in the latest public expenditure White Paper (Cmnd. 9702).

Tax Payers

Dr. McDonald asked the Chancellor of the Exchequer whether he will publish and update the table on the number of taxpayers for 1984-85 and 1985-86 on the same basis as the answer given on 25 January 1984, *Official Report*, columns 607-608.

Mr. Moore [pursuant to his reply, 20 January 1986, c. 85.]: The latest estimates are as follows:

	Thousands			
	1982-83	1983-84	1984-85*	1985-86†
Number of Taxpayers	24,600	24,300	24,050	24,000
Number of taxpayers* if allowances had remained at the level of the previous year	25,800	25,600	25,050	24,850
Difference	1,200	1,300	1,000	850

* Including taxpaying wives.

† Provisional.

Budget Documents

Mr. Tim Smith asked the Chancellor of the Exchequer how many copies of the Budget documents were printed in 1985; how many were sent to the Vote Office; how many were made available to commercial organisations and at what charge for each; what happened to the remainder; what was the cost to the Exchequer of producing the Budget documents; and what was the total amount recovered from commercial organisations.

Mr. Lawson: [pursuant to his reply, 26 February 1986, c. 594.]: In 1985, Her Majesty's Treasury printed 800 copies of the Budget speech, 2,000 copies of a summary of the Budget and 2,072 copies of a press notice. In addition, 1,662 copies were produced of press notices from other Government Departments. One thousand copies of the Budget summary and press notices went to the Vote Office and 150 to the Printed Paper Office. Commercial organisations were sent 180 copies of the speech, summary and press notices. They were charged £2.00, plus the HMSO charge for the financial statement and Budget report. Unused Budget documents (excluding HMSO publications) were kept in stock for a few weeks and then destroyed.

The costs to the Treasury of producing the Budget documents are not readily identifiable from the other printing costs of the Department, but are estimated to be

in the region of £3,000. All moneys received by the Treasury from the sale of publications are brought to account as appropriations in aid of the Treasury vote, class XIII, vote 4. Receipts from the sale of Budget documents are not accounted for separately and cannot be identified except at disproportionate cost.

In addition to the Treasury publications, Her Majesty's Stationery Office printed and published 9,000 copies of the 1985 financial statement and Budget report. Two thousand were sent to the Vote Office, 150 to the Printed Paper Office, and 150 to the Sale Office; 1,603 were sold to Government Departments and 4,691 were sold to other customers, including members of the public and commercial organisations; 406 copies remain in stock. The price to all customers was £5.35 per copy.

The cost of printing and publishing is borne by the HMSO trading fund which recovers its costs from net sales revenue. The Exchequer, therefore, incurs none of the costs of printing, publishing and selling—other than the purchase from HMSO of copies for the use of the Treasury and other Exchequer departments.

ENVIRONMENT

Communal Heating System

Mr. Wheeler asked the Secretary of State for the Environment if he will report on the progress of his

FROM: A ROSS GOOBEY
DATE: 24 APRIL 1986

CHANCELLOR

cc CST
FST
MST
EST
Mr Culpin
Mr Cropper
Mr Lord

Mr P Lilley H/C
Hon T Sainsbury H/C

DRAFT REPLY TO RESPONSE TO £24BN POSTER

I undertook to create a suggested form letter, which is attached.

2. I think it unwise to deviate from the Chope reply, any changes to which should await a formal presentation from the Chief Secretary when we think it is desirable.

3. Mr Pickering has copies of the recent Radice and Rooker pledges, but many of the items are vaguely phrased. We should continue to ask other Departments to badger their opponents for specific commitments (cf Mr Patten's letter to Mr Cunningham).

4. Mr Cunningham seems to have committed himself to further expenditure at a local government conference in Eastbourne (FT P.13 on 24 April) and I am asking Tony Kerpel, Special Adviser at DOE to follow up.

5. I or Rodney Lord's successor in due course, shall keep a constantly revised version of the shopping list until we are prepared to "go public" on a new one.

ARL

A ROSS GOOBEY

Ross
Goobey
→
CH/EX
24/4

LABOUR'S SPENDING PLANS: THE £24 BILLION SPREE

Thank you for writing to us requesting further information about Labour's spending plans.

The details of the figure were spelt out in a Written Reply in the House of Commons by the Chief Secretary to the Treasury, John MacGregor MP on 3 March 1986 *(as announced by Mr MacGregor on [date],)* as follows.

Increases in spending on: £000,000 per year

<i>Overseas</i> Aid	900
Industry	1,133
National Investment Bank	48
Employment:	
Training for unemployed	900
Community programme uprating	200
Educational maintenance award	965
35 hour week	3,000
Minimum wage	1,000
Regional employment subsidy	500
Energy	750
Arts	140
Transport:	
Roads	706
Rail	248
Airports and Ports	154
Housing:	
New building	3,000
Rehabilitation	250
Urban Programme	500
Sewerage	250
Education:	
Under 5s	400
Teachers	235
Buildings and equipment	871
Close private schools	300
Student Grants	125

National Health Service	780
Social Security:	
TV licence for pensioners	325
Maternity and death grants	220
Child Benefit	1,450
Pensions	1,650
Early Retirement	2,600
Unemployment benefits	500
Minor Measures	60
TOTAL	<u>24,160</u>

These figures were costed at Ministers' request from Labour front bench spokesmen's pledges or from Labour Party public policy documents by Treasury officials; such costing exercises have been the common practice of governments of all persuasions in the past.

~~Since~~ ^{so far} it has proved impossible to obtain either confirmation or denial of many other apparent pledges made by opposition spokesmen which involve further expenditure. ~~and so far there has been no~~ ^{Meanwhile, while it} comprehensive response by a Labour spokesman to this list, it is reasonable to assume that the schedule will be refined over ^{time} ~~time~~; there is no doubt as to the general accuracy of the total. ^{need for provisionally} ~~at no push time.~~ Details of the sources of this information are contained in Hansard for 3 March 1986, Written Answer Col 29.

It may interest you to know that, to meet this extra annual expenditure, either the standard rate of income tax would have to rise to 49p from the recently reduced rate of 29p, or VAT would have to be increased to ^{at least} 41% from the current 15%. ~~I think you~~ ^{may well conclude, on the other hand,} will agree that this programme is one which ~~none of us could not~~ ^{possibly} afford and is ^{therefore} a false prospectus.

PS/KST
PS/CH/EX
29/4



FROM: JILL RUTTER
DATE: 29 April 1986

PS/CHANCELLOR

*Ch
Contents with
Re draft standard
reply below?
Re 29/4*

cc: :Financial
Secretary
Minister of State
Economic Secretary
Mr Culpin
Mr Cropper
Mr Lord
Mr Ross Goobey
Mr P Lilley H of C
Hon T Sainsbury H of C

DRAFT REPLY TO THE RESPONSE TO £24 BILLION POSTER

The Chief Secretary has seen Mr Ross Goobey's minute of 24 April.

2 He agrees with Mr Ross Goobey's advice that it would be unwise to deviate from the Chope reply in responding to letters arising out of poster campaign.

*Now content.
As I recall it, the CST
has already pointed out
acknowledged certain errors in
the Chope reply, relating to
and Education. It is
mistaken if there have not
comments on the draft
app. P.S. makes a point
I have made a point
(on commitment).
V. James*

Jill Rutter
JILL RUTTER
Private Secretary

PROYERS
... ..

Cl/
Tare has
was settled.

FROM: A ROSS GOOBEY
DATE: 7 MAY 1986

CHANCELLOR

Content with
attached draft? cc

Re
875

CST
FST
MST
EST
Mr Culpin
Mr Cropper
Mr Tyrie

DRAFT REPLY TO RESPONSE TO £24BN POSTER

A second draft is attached, reflecting the comments received.

2. Since there is to be a written answer updating the Chope
reply for the publicly announced revisions, I have taken that answer
into account.

OK in
✓

AG

A ROSS GOOBEY

LABOUR'S SPENDING PLANS: THE £24 BILLION SPREE

Thank you for writing to us requesting further information about Labour's spending plans.

The details of the figure were spelt out in a Written Reply in the House of Commons by the Chief Secretary to the Treasury, John MacGregor MP on 3 March 1986, as amended by Mr MacGregor in a written answer on 15 May 1986, as follows.

Increases in spending on:	£000,000 per year
Overseas Aid	1,133
Industry	1,133
National Investment Bank	48
Employment:	
Training for unemployed	900
Community programme uprating	200
Educational maintenance award	965
35 hour week	3,000
Minimum wage	1,000
Regional employment subsidy	500
Energy	750
Arts	140
Transport:	
Roads	706
Rail	248
Airports and Ports	154
Housing:	
New building	3,000
Rehabilitation	250
Urban Programme	500
Sewerage	250
Education:	
Under 5s	400
Teachers	235
Buildings and equipment	246
Close private schools	300
Student Grants	125

National Health Service	780
Social Security:	
TV licence for pensioners	325
Maternity and death grants	220
Child Benefit	1,450
Pensions	1,650
Early Retirement	2,600
Unemployment benefits	500
Minor Measures	60
	<hr/>
TOTAL	<u>23,768</u>

in the hands of

These figures were costed at Ministers' request ~~from~~ Labour front bench spokesmen's pledges ^{and the} ~~or from~~ Labour Party's ^{published} public policy documents by Treasury officials. ^{Successful} Such costing exercises have been the common practice of governments of ~~all persuasions~~ in the past.

It has so far proved impossible to obtain either confirmation or denial of many other apparent pledges made by opposition spokesmen which involve ^{still} further expenditure. Meanwhile, ^{although} ~~while~~ it is reasonable to assume that the schedule will need to be updated periodically, there is no doubt as to the general accuracy of the total at the present time. Details of the sources of this information are contained in Hansard for 3 March 1986, Written Answer Col 29.

It may interest you to know that, to meet this extra annual expenditure, either the standard rate of income tax would have to rise to 49p from the recently reduced rate of 29p, or VAT would have to be increased to at least 41% from the current 15%. You may well conclude on the other hand, that this programme is one which could not possibly be afforded and is therefore a false prospectus.

C/ To see how this is progressing.
No doubt the CST will be
going through this very
carefully.

~~Stats~~ PUP

FROM: C R PICKERING

DATE: 9 May 1986

CR
9/5

1 MR SCHOLAR

2 CHANCELLOR OF THE EXCHEQUER

Many of these commitments overlap with
one-another, and a number of our costings rest on
assumptions which necessarily come from the Treasury and
not from the SDP/Liberals. I imagine therefore that
you will wish to be cautious about using these costings
in other than a selective or illustrative way. If you decide
to publish a total, or totals, it will be desirable to give
the Expenditure side time to advise on whether the costings
in toto and in the chosen format stand up.

MCS 9/5

cc CST
FST
MST
EST

Sir P Middleton
Mr FER Butler
Mr Anson
Mr Watson
Mr Burgner
Mr Jameson
Mr Monger
Mr Gilmore
Mr Mountfield
Mr Turnbull o/r
Mr Kitcatt
Mr Moore
Mr Perry
Miss Noble
Ms Seammen
Mr Gray
Mr Shaw
Miss O'Mara
Mr M Williams
Miss Sinclair
Mr Burr
Ms Boys
Mr P Davis
Mr Robson
Mr Revolta
Mr Colman
Mr Norton
Mr Butt
Mr Cropper
Mr Ross-Goobey
Mr Tyrie
HF/03

Thats.
Jameson

Chambers

PICKERING
CH/EX
9/5

SDP/LIBERAL SPENDING AND TAX COMMITMENTS

You asked Divisions, as a matter of urgency, to complete the costing of individual SDP/Liberal policies previously commissioned. This minute reports the results and proposes a procedure for carrying forward the further work that will be required.

The cost of SDP/Liberal policies

2. I attach a list of SDP/Liberal commitments, previously shown in draft to you by Mr Lord. Divisions have re-checked all costings. All costings have been cleared with Departments, with one exception (and in that case the Division is pursuing urgently with the relevant Department, the Lord Chancellor's Department, on Liberal costings on the administration of justice.)

3. In order to do these costings it has been necessary to make many assumptions, some of which may prove to be controversial. In some cases Mr Lord suggested these assumptions, in others Divisions, at Mr Lord's request, have devised their own. In either case, Divisions have taken the view that the chosen assumptions are realistic and reasonable. We will need to be ready, in defending these costings, to say that the assumptions on which they were based were in some cases prescribed and in all cases endorsed by Treasury Ministers. Are you content with these assumptions?

4. The costings are all full year. For most commitments, this means the additional cost of implementing a policy in a full year, given 1986-87 provision at 1986-87 prices. The major exception is a group of SDP social security costings, which take 1987-88 as the base year. ST1 advise that this is the way DHSS usually do such costings. 1987-88 is also of course the first full year in which the July uprating will take effect. The base year has been made clear in the list, for every costing.

5. A number of overlaps between SDP and Liberal costings have been noted in the list. It should be noted that the SDP source also mentions a number of proposals which are not party policy but are under consideration, so the extent of overlap between the parties may grow. The list also indicates a number of commitments by the same party which overlap, or may do. Wherever possible, these two kinds of overlap have been quantified, but the Special Advisers will wish to advise you on the assumptions that might be made where the position is less clear; and, generally, on the defensibility of dealing with the costings in this way.

6. DM asked me to pass on their advice not to include defence costings in any total you may publish. Since the SDP commitment to level real terms provision contrasts with the Government's present policy of declining real terms provision, you may think it best to omit defence for political reasons. Defence was not included in the Labour £24 billion.

7. On 30 April, as you know, the 'Times' reported the SDP and Liberal economic spokesmen as having told their Parliamentary colleagues that there should be a top annual limit of £10 billion on their projected increased expenditure during the lifetime of a five year Parliament (cutting attached). The Chief Secretary commented that this limit "would add 11 per cent to VAT, bringing it to 26 per cent, or, if it is to be financed by increased borrowing, much higher interest rates or, if they are simply going to mint the money, much higher inflation." (Statement in West Derbyshire, 1 May 1986) You will wish to take into account the £10 billion in considering the overall cost of SDP/Liberal policies.

Procedure for costing overall totals

8. I understand that Mr Tyrie is taking up where Mr Lord left off, and he will be suggesting overall totals as you have requested. I suggest that the following procedure should help to ensure that the rest of the exercise goes smoothly:

- (i) Mr Tyrie should use the attached list to suggest overall totals for the two parties, building on Mr Lord's previous work;
- (ii) Once Treasury Ministers have taken a view on Mr Tyrie's proposed totals, Divisions should be asked to check that no problems arise. If Ministers decide to add the two parties' totals, the resulting figure should also be checked by Divisions.

Conclusions

9. Do you agree with:

- (i) the assumptions used in the attached list? (see paragraph 3 above)
- (ii) the procedure proposed at paragraph 8 above?

C R Pickering

C R PICKERING

THE TIMES

Alliance chiefs set to impose spending limit on manifesto

By Anthony Bevens, Political Correspondent

Leaders of the Liberal-Social Democratic Alliance are seeking cuts in their policy commitments in an attempt to impose a top annual limit of £10,000 million on their projected increased expenditure during the lifetime of a five-year Parliament.

A confidential letter sent to Alliance MPs by the parties' two economic spokesmen, Mr Ian Wrigglesworth, SDP MP for Stockton South, and Mr David Penhaligon, Liberal MP for Truro, says: "There are going to be severe public expenditure restraints for some years to come and a number of cherished hopes may have to be delayed.

"The truth is, unless we are prepared to argue for substantially higher taxation, which we do not believe to be feasible, we must be prepared to establish strict priorities for higher spending, to consider phasing in the more expensive changes, to identify areas where savings can be made, and to seek new solutions to problems."

It is understood that Alliance leaders have been stung into tough action by the Government's damaging charge that Labour commitments could cost as much as £24,000 million — vehemently denied by Mr Roy Hattersley, the shadow Chancellor.

The Alliance letter, agreed by a joint leadership policy meeting, says: "The Alliance should plan for a maximum 2 per cent per annum increase in total public expenditure over an initial five-year period, compared with the present government's experience of a 1.5 per cent increase since 1983-84.

"Extra spending to create jobs and revive industry and commerce should have the highest priority, with other policy areas taking second place except to the extent that they fulfil these economic objectives."

An annex to the letter says that existing commitments include real improvements in health and personal social services, education and training, housing, transport, inner cities, job creation, industry and overseas aid.

A spending standstill would be imposed on agriculture, law and order, defence and environmental services.

But the letter also gives a warning that the Alliance commitment to boost public sector pay in real terms may have to be financed by efficiency improvements or reductions in service.

It says: "Real improvements in public sector pay are expensive — a 25 per cent increase in nurses' pay would cost £750 million per annum; 10 per cent would cost £300 million...25 per cent increase in teachers' pay would cost £1.25 billion per annum; 10 per cent would cost £500 million."

The letter says that the task of restraining public expenditure will not be easy, as the present government has discovered. "Even a government dedicated to cutting back public expenditure has not been able to do so."

1/10

SDP	Proposal	Source and date	Assumptions used	Cost/saving
[Direct quote from source]	8	All references to Policy Documents listed in 'The Only Way to a Fairer Britain' (February 1986)		(+/-) [Over 1986 PEWP provision for 1986-87, unless stated otherwise] For tax changes, - = increased revenue + = reduced, compared with 1986 FSR (rounded to nearest £10 million, except for costings below £10 million)

DEFENCE

(i) We believe defence spending must be maintained in real terms	Policy Documents 10/2/86 p5.1	1985-86 Falklands exclusive provision maintained level in real terms to 1988-89, using 1986 FSR GDP deflators	1986-87 cost +£250 million 1987-88 cost +£500 million 1988-89 cost +£890 million [proxy for full year]
(ii) To maintain a British nuclear capability as a contribution to European defence but to cancel the extravagant Trident programme	Policy Documents 10/2/86 p5.2	Replace Trident by either (i) Anglo-French developed ballistic missile (ii) European developed cruise missile (iii) Cruise missiles purchased from US Proposed options would involve additional costs (i) for development of missile system; (ii) for development of missile system plus additional dedicated missile carrying submarines or ships; (iii) for additional dedicated missile carrying submarines or ships Conflicts with Liberal policy	Not costable, but likely to be <u>more expensive</u> than Trident
(iii) Abandon the heavy cost of maintaining Fortress Falklands	Policy Documents 10/2/86 p5.1	No garrison kept in Islands. Largest part of Falklands costs are for replacement of equipment lost in 1982 campaign and for capital works, which would be unaffected by decision not to garrison Islands in future. Overlaps with Liberal commitment	-£140million approximately

(iv) Dual Key on Cruise

Policy Documents
10/2/86 p.5.3

Would involve substantial costs,
but not possible to quantify

INDUSTRY

(i) Expanding and revitalising the British Technology Group to provide equity capital for high risk projects in partnership with private industry

Policy Documents
10/2/86 p1.4

Since 1980 NEB (part of BTG) has been disposing of its investments and repaying pdc to the Government. In that period approximately £280 million of pdc has been repaid (disregarding Rolls Royce and BL transferred to DTI). Estimated cost assumes the same amount of capital is reinjected into the BTG over a similar period ie six years. A faster injection of capital is unlikely, short term, as the size of the NEB has been reduced and would need to be built up again to handle increased investment

£50 million per year over 6 years

(ii) A new industrial credit scheme administered by the banks, offering loans at below market rates of interest to companies who want to go ahead with investment schemes which help them restructure and become more competitive, improve the quality of their products, their marketing and distribution.

Policy Documents
10/2/86, p1.2, 1.4

-

+£100 million pa

A subsidy of £100 million pa over 5 years would enable £2 billion of medium term loans to be made available for industry at a rate of 5% below market rates of interest

(iii) Extending the loan guarantee scheme to a maximum of £250,000 Policy Documents 10/2/86, pl.4

Assume increase in ceiling on individual loans from £75,000 to £250,000 implies large increase in lending guarantee. For illustration have costed effect of guaranteeing 3 times levels announced in 1986 Budget on basis of (i) 70% guarantee; (ii) premium payable to Government of 2½%; (iii) unchanged failure rates. 1986-87 no change
1987-88 +£10 million
1988-89 +£30 million

(iv) Establishing Small Firm Investment Companies to provide financial and new government assistance to small firms Policy Documents 10/2/86, pl.4

That tax relief will be given to investors at their marginal rates in respect of investments channelled through the SFICs +£25 million

That £50 million is invested in a given year by investors all with a marginal rate of 50% and none of these investments would have otherwise gone into BES approved funds

TRADE UNIONS

(i) A Trade Union Development Fund to assist those unions seeking to merge or reorganise their functions to meet the demands of new technologies and working methods Policy Documents 10/2/86, pl.12

Merger/reorganisation costs would be no greater than total TUC education budget (£4 million) and Government's contribution would be 50 per cent. +£2 million

EMPLOYMENT

- | | | | |
|--|-----------------------------------|---|----------------------------|
| (i) Further expansion of Community Programme to provide a job guarantee to all those unemployed for over year | Policy Documents
10/2/86, p1.2 | Public expenditure cost (net) of $\frac{1}{2}$ - $\frac{3}{4}$ million extra places; supervisor/non-supervisor ratio 1:9; proportion of participants taken off count 80%; average length of stay 9 months: existing net expenditure £500 million. | +£1 $\frac{1}{2}$ billion. |
| (ii) Bring together vocational training and education in a new programme for 16-19 year olds, building on two year YTS | Policy Documents
10/2/86, p1.5 | Cannot be costed on basis of this very general proposal: however costs would be substantial if "building on two year YTS" means extending paying allowances to those now receiving education but not in receipt of allowance. But could then overlap significantly with SDP (education (iii)) | not available |
| (iii) Expand careers service with an additional Adult Advisory role | Policy Documents
10/2/86, p4.4 | No indication of size of expansion proposed. Virtually impossible to estimate with any accuracy likely take-up of adult advisory service: assume 15% increase in costs; existing expenditure by local authorities on careers service around £80 million in 1986-87. | +£10 million |

INFRASTRUCTURE

- | | | | |
|---|------------------------------------|---|----------------|
| A £1 billion programme of public sector capital investment, concentrated mainly on construction | Policy Documents
10/2/86, p.1.1 | None necessary as proposal is explicitly costed (although the base is not defined). May overlap with other infrastructure policies listed elsewhere in SDP list (Education (i), HPSS (i)), and Liberal list (Energy (iii), (iv), Transport (ii), (v), Local Authority (i), (iv)). | +£1 billion pa |
|---|------------------------------------|---|----------------|

TAXATION

(i) Establish the legislative framework for a counter inflation tax, to be held in reserve and brought into operation in the second year if required	Policy Documents 10/2/86 p1.2	Impractical to quantify for full year, 0 but no effect in first year	0
(ii) A remissible tax to encourage firms to provide the right level and quality of training	Policy Documents 10/2/86 p1.4	Assume additional tax equivalent to 1 per cent of employers' NICs (net of contracted-out rebate), $\frac{3}{4}$ of which remitted	-£30 million
(iii) Tax exemption for union contributions	Policy Documents 10/2/86 p1.12	1984 union membership numbers and contributions projected to 1986. Average marginal tax rate 32 per cent.	+£120 million
(iv) Reform of the tax regulations governing voluntary organisations	Policy Documents 10/2/86 p4.2	Revenue-neutral	-
(iv) Integrated tax/benefit system	Policy Documents 10/2/86 p4.7	Impossible to quantify - cost could be large	[]
(v) Phasing out the married man's additional tax allowance	Policy Documents 10/2/86 p4.7	Phased abolition, including married man's age allowance, in four years	-£1 billion 1986-87 -£4.5 billion full year

LOCAL GOVERNMENT

(i) A £1 billion boost to local authority current expenditure	Policy Documents 10/2/86, p 1.2	Possibility of double-counting with education policies listed below: (esp. (i), (iii)).SDP document not clear. If there were double counting, would reduce SDP total spending by £370 million.	+£1 billion
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EDUCATION

(i) (a) All children for whom a nursery place is not available will be able to start primary school in the September of the school year in which they are five and	Policy Documents 10/2/86, p4.3	600,000 4 year olds at January 1985, of whom 50 per cent are not receiving pre- primary education. Initial unquantifiable capital and training costs. Full take-up by rising-fives. Regarded as an interim measure before (b) achieved.	See assumptions
(b) Within five years the SDP would aim for all children under 5 to have had at least one year's education experience	Policy Documents 10/2/86, p4.3	624,000 4 year olds by January 1991. 80% take-up, compared to current public sector participation rate of 44%. Existing split maintained between nursery schools and classes, and infant classes in primary schools. Costing includes £20 million for initial buildings-related and teacher training costs. (Calculated as about one fifth of five year programme for such costs.)	+£240 million (full year)
(ii) End the Assisted Places Scheme	Policy Documents 10/2/86, p4.3	Cost of scheme will reach £50 million by 1988-89, constant thereafter. Assumes phased withdrawal. Increases, after first year, £7 million pa up to -£50 million. Liberals made same commitment.	-£50 million full year
(iii) All young people in education after 16 to be eligible for education benefit based on need	Policy Documents 10/2/86, p4.4	SDP's own figure. NB significantly lower than costing of Labour's similar commitment, though differences can probably be explained by lower levels of award and means-testing.	+£150 million

HEALTH AND PERSONAL SOCIAL SERVICES

(i) The SDP is committed to 1½% per annum real growth in health and personal social services spending	Policy Documents 10/2/86, p4.1	Compared with 1986 PEWP figures, deflated by FSBR GDP deflator. [NB SDP may have different notion of 'real' (eg over NES pay and prices index, or allowing for demographic changes.)]	1986-87 -£160 million* 1987-88 +£30 million 1988-89 +£290 million (*ie PEWP shows higher than 1.5% real growth for 1986-87)
(ii) Set up Employment and Innovation Fund of £500 million to finance projects which are designed to remove inequalities, increase employment and improve services	Policy Documents 10/2/86, p4.1	Spread over three years, as suggested in SDP document.	1986-87 +£100 million 1987-88 +£170 million 1988-89 +£230 million
(iii) We support generic substitution unless doctors specify that the brand name drug must be prescribed	Policy Documents 10/2/86, p4.1	Savings uncertain: SDP paper suggests £100 million pa. DHSS say less than £50 million now that Selected List is in force. Liberals made same commitment.	-£50 million

SOCIAL SECURITY

(i) SDP propose a 'basic benefit' to replace supplementary benefit, Housing Benefit, Family Income Supplement and free school meals.	See eg Dr Owen 'A United Kingdom' (1986) pp 4.7-4.8	Dr Owen's costing £4,160 million, assuming expenditure on existing benefits at 1984-85 prices. [Not for public use: DHSS officials estimate that SDP proposals would cost far more.]	+£4,160 million
(ii) Child benefit. We would increase it by 25% to £8.50 for 1985-86 and maintain its real value in future	Policy Documents 10/2/86, p4.7,4.10	1987-88 costing. Assumes increase to £8.50 from July 1986 proposed level of child benefit (£7.10, ie slightly less than 25 per cent).	+about £680m pa
(iii) Increase the single parent addition by at least £5	Policy Documents 10/2/86, p4.7	Each 10p increase in one parent benefit costs approx. £2 million net of savings on other benefits. Assume £5 addition to the one parent benefit (successor of single parent addition). 1987-88 costing.	+about £100 million pa

(iv) Extending eligibility for Invalid Care Allowance and Non Contributory Invalidity Benefit to married women	Policy Documents 10/2/86, p4.8	Costing quoted is for extending ICA to married women. NCIB proposal long out of date. NCIB replaced in November 1984 by Severe Disablement Allowance payable to married women. 1987-88 costing.	+about £100 million pa (but figure uncertain)
(v) The long term unemployed should receive the long term rate of Supplementary Benefit	Policy Documents 10/2/86, p4.8	Extension to people unemployed for more than one year (usual definition of long term unemployed). 1986-87 costing.	+about £530 million pa
(vi) Abolish the earnings rule for pensioners	Policy Documents 10/2/86, p4.8	November 1985 benefit rates. 1986-87 costing.	+ about £190 million pa public expenditure cost gross + about £85-95 million pa (net of tax offsets)
(vii) Death Grant: our policy is to increase it to £250 for all, reclaimable from the estate of those who are better off and can afford it	Policy Document 10/2/86, p4.8	DHSS think small net cost but to publish would involve revealing assumptions DHSS Ministers have refused in past to publish, in other contexts.	See assumptions
(viii) Maternity grant: propose its increase to £300.	Policy Document 10/2/86, p4.10	Now £25; non taxable (note: SDP propose that it should be taxable). NB gross figure used because table relates to public expenditure. Figure net of tax assumes treated as earned income. 1987-88 costing.	about +£190 million <u>gross</u> about +£170 to £180 million <u>net</u>
(ix) 1% reduction in all employers' national insurance contributions	Policy Document 10/2/86, p1.1	GB accruals figures; contribution revenue only (excluding effect on Treasury Supplement), 1986-87 costing.	+£1,600 million revenue effect ie not public expenditure

Liberal**Proposal****Source and date****Assumptions used****Cost/saving**

(+/-)

[Direct quote from source]

[Over 1986 PEWP provision for 1986-87,
unless stated otherwise]

For tax changes, - = increased revenue

+ = reduced, compared
with 1986 FSBR(rounded to nearest £10 million, except
for costings below £10 million)DEFENCE

(i) Increase expenditure on conventional defence, offset by savings from the abandonment of Trident and of the extravagant Fortress Falklands policy.

We would include Polaris in arms reductions negotiations

Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p19

Trident construction stopped immediately, and Polaris decommissioned within lifetime of new Parliament

No net savings. Abandonment of Trident would provide savings in capital costs in the range £500-£1000 million a year over the procurement period (up to mid 1990s). (But note: savings will be much reduced once first Trident boat ordered.) If Polaris dropped, would provide annual running cost savings for UK strategic nuclear force of order of £500 million. (But note: this saving would be likely to be reduced by accelerated decommissioning costs, presently unquantifiable.) Elimination of Falkland garrison would save approximately £140 million a year. Overall, these proposals could release of the order of £1-1.5 billion a year up to mid-1990s and perhaps £750 million a year thereafter for increased expenditure on conventional defence.

OVERSEAS AID

(i) To achieve the UN official target of 0.7% of GNP within five years of taking office, rising to 1% by the end of the century.	Liberal Party Policy Briefing: These are Liberal Policies. January 1986 pp 19-20	Full annual cost reached after 5 years making no allowance for increases in GNP. Includes aid programme and aid administration (Labour costings included only former).	+£1360 million full year
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RURAL POLICY

(i) Greater resources for Small Industries in Rural Areas (COSIRA)	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p14	COSIRA is an agent of the Development Commission through which it gets its central Government funds. The Development Commission this year will receive £26 million of which approx. £8.3 million will be spent on COSIRA run projects. Spending by the Development Commission (including the portion of its provision destined for COSIRA) has increased steadily over the last few years. Total provision is now double 1980-81 funding (£13 million); COSIRA funding is up from £5 million in 1980-81. We assume spending for both will increase at least at the same rate over next 5 years. Ample scope for more spending should the bodies be invited to propose additional projects	+£2 million pa for Development Commission, including £600,000-£700,000 for COSIRA
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INFRASTRUCTURE

(i) A £1 billion programme of public sector capital investment, concentrated mainly on construction	SDP/Liberal Autumn Statement	None necessary as proposal is explicitly costed (although base is not defined). May overlap with other infrastructure policies listed below	+£1 billion
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TAXATION

(i) Reintroduce lower level initial rate of tax	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	Indexed reduced rate band as applying in 1978-79: ie 25 per cent rate on first £1,550 of taxable earnings	+£1.4 billion
(ii) Cumulative Capital Receipts Tax in place of Capital Transfer Tax	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p 10	Revenue-neutral	-
Comprehensive tax credit scheme	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	Impossible to quantify - cost could be large	[]
(iii) Phase out married man's tax allowance	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	See SDP taxation (v) for assumptions, and costing of same commitment.	
(iv) Abolish domestic rates and introduce Local Income Tax ... with a tax, at a single national rate, on the unimproved value of all land	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	Revenue-neutral but would increase marginal rate of income tax, offsetting proposed reduced rate band	-
(v) Restrict charitable status to charitable objectives	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p14	In context of education priorities. Amount of relief given to education charities not known (NB education is statutorily a charitable purpose): arbitrary assumption of 10 per cent reduction in direct tax relief to charities. (Inland Revenue cannot substantiate figure - prefer not to publish.)	-£40 million
(vi) End tax reliefs for private medical care schemes	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p15	<u>No such relief.</u> Saving figure based on possibility that aim is extension of taxation of medical schemes as benefit in kind to those earning less than £8,500 (as was case before 1982)	[-£7 million]

(vii) Abolish VAT on live performances	Liberal Party Policy Briefing: These are Liberal Policies January 1986 p15	Assumes covers theatres, concerts etc, not eg sport	+£35 million
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(viii) Low level tax on blank music and video tapes to finance consumer vouchers	Liberal Party Policy Briefing: These are Liberal Policies January 1986 p15	Assuming no behavioural changes. Yield from 10% levy on audio tapes £5 million, and £5 million from 5% levy on video tapes. But assumed receipts spent on consumer vouchers	-
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ENERGY

(i) A massive programme for Energy Conservation using both local authorities and the public sector as agents	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p18		+£0.5 billion in 1986-87 (Part of £4 billion package - see below)
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(ii) Fund pilot projects aimed at substantially decreasing the emission of sulphur and nitrogen oxides	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p16	Existing research and costings	Perhaps +£50 million for pilot, +£2.5 billion over 10 years if proceeded with
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(iii) We support combined heat and power systems	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p17	5 CHP/District Heating schemes at £0.5/1 billion per City	1986-87 +£50 million £2½/5 billion over 10-15 years. Full year cost (after 5 years) +£250 million
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(iv) [Support for ...] pilot projects in the technology of renewable power houses ... We support ... alternative energy sources	Liberal Party Policy Briefing: These are Liberal Policies January 1986, pp16-17	Double present spend. [1986-87]	+£45 million pa
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(v) We would phase out all nuclear stations	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p17	(a) Stop using all existing nuclear power stations (cost uncertain)	+£500 million full year
		(b) Build 5 new coal or oil stations at 2500 MW ea. Estimated expenditure +£7¼ billion over 7-10 years (1986-87 prices)	+£200 million 1st full year +£750 million peak year.

TRANSPORT

(i) Making good the neglect of recent years of highway maintenance	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p18	Plans in 1986 PEWP already allow for elimination of backlog of central government road maintenance	
(ii) Acceleration of road by-pass construction and of relief roads	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p18	Roads programme, (June 1985 to March 1987) includes 40 bypass schemes costing a total of £344 million at November 1983 prices. Statutory procedures mean little would be done in first year. Some acceleration possible in second year. Part of 'jobs package' of £4 billion a year	Nil 1986-87 up to +£30 million 1986-87
(iii) Concentrating resources on ... road safety	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p18	Arbitrary figure, but pressures to spend more relatively small. Current budget £8 million	+£1 million
(iv) Increased revenue support to maintain public transport as an essential public service	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p18	Total spending on subsidies to public transport was around £1.5 billion in 1985-86 (because of deregulation, 1986-87 provision uncertain, therefore 1985-86 more reliable baseline). Assume 5% increase.	+£75 million

(v) Capital investment on transport should be substantially increased from present levels, including the railways, so as to create a highly efficient modern system	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p17	BR have stated their current investment plans are compatible with their objectives. No evidence of justifiable investment being rejected. Liberals precise objectives unclear: suggested costs assume they meant 10 or 20 per cent increase in current investment levels. Rail electrification part of 'jobs package' of £4 billion a year.	+£35/70 million a year
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(vi) Enlarge and modernise those parts of the inland waterways system with potential as new commercial routes	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p17	It is generally recognised by BWB and others that most existing canals do not have significant potential for commercial exploitation as they are too narrow and shallow and often in the wrong place. Costings based on past experience and some broad feasibility studies for 5-10 year programme.	+£10 million full year
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HEALTH AND PERSONAL SOCIAL SERVICES

(i) An increase in real expenditure on Health and Social Security for the elderly, the handicapped, mentally ill and children	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p14		Not costable but see SDP
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(ii) Allocating £500 million for a special fund for health and social services	Liberal Party Policy Briefing: These are Liberal Policies. January 1986	Spread over three years, as suggested in Liberal document. Part of 'jobs package' of £4 billion a year. Same as SDP commitment (SDP HPSS (ii)).	1986-87 +£100 million 1987-88 +£170 million 1988-89 +£230 million
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SOCIAL SECURITY

(i) Increase retirement pension by 25% (not a direct quotation)

Liberal Party response to Green Paper 'Reform of Social Security' (Cmnd 9517-9), September 1985.

Note: this proposal is combined with phasing out of SERPS which would yield substantial savings in next century. Liberals propose to finance increase by requiring contracted-out to pay contracted-in National Insurance contributions.

Increasing basic rate RP would have net cost (after offsetting savings on supp. ben., and housing benefit and tax) of £2½ billion in a full year at estimated 1986 rates of benefit. (This compares with an estimated spend on SERPS in 1986-87 of £209 million, £4.3 billion in 2003-04, and £25.5 billion in 2033-34 (November 1985 prices).)

DEVOLUTION

(i) As a first step towards federalism, Scotland should be given self-government, with its own Parliament, with a single tier of most-purpose authorities, Wales an assembly with executive powers

Liberal Party Policy Briefing: These are Liberal Policies. January 1986 p.6

Not possible to quantify, but effects could be substantial

LOCAL AUTHORITY AND ENVIRONMENT

(i) Housing: about half the programme rehabilitating existing buildings, and half in assisting new housebuilding by housing associations and local authorities

Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9

(Output is kept within the limit implied by the total expenditure ceiling.)

)Unspecified part of +£4 billion per annum package (see below)

(ii) Regional schemes for inner city renewal, flood protection, coast-erosion prevention and environmental improvement

Liberal Party Policy Briefing: These are Liberal Policies. January 1985, p9

(iii) Giving local authorities the right to decide whether or not to sell council dwellings and the terms for sale	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	Reduced sale of dwellings by around 5,000 in 1986-87, gradually declining (average capital receipt for sold dwelling is £10,000).	Loss of £50 million receipts in 1986-87, gradually declining.
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(iv) Government to make financial provision to replace any housing stock sold	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	<ol style="list-style-type: none"> 1. average cost of new dwelling = £24,000 2. average capital receipt from sold dwelling = £10,000 3. additional funds needed to replace sold stock = £14,000 4. annual number of dwellings sold = 70,000 in 1986-87, gradually declining 5. measure is additional to existing provision for new building. 	+£1 billion in 1986-87, gradually declining (+£0.8 billion in 1988-89)
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EDUCATION

(i) Increased government funding for the Open University, the Open Tech and local support for the University of the Third Age	Liberal Party Policy Briefing: These are Liberal Policies. January 1986 p.12	To restore the OU to the same real terms position as in 1983-84 (peak year) would require £5 million. To maintain Open Tech at 1985-86 (peak year) level would cost £3 million. No data kept by central government on l.a. spending on University of the Third Age. Further expansion unquantifiable.	+£8 million
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(ii) Liberals support the changeover to comprehensive tertiary education for 16-19 year olds	Liberal Party Policy Briefing: These are Liberal Policies. January 1986 p.12		unquantifiable increase
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(iii) End the Assisted Places Scheme

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p14

Cost of scheme will reach £50 million by 1988-89, constant thereafter. Assumes phased withdrawal. SDP make same commitment.

-£5 million in first year, increasing by £7 million pa thereafter up to -£50 million in full year

CITIZENS' RIGHTS AND THE LAW

(i) Many groups in our society are oppressed because many individuals are unaware of their full political and civil rights. We would provide increased resources for political education to remedy this.

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p5

Provision for publicity on elections and voting rights currently £5 million a year. Assume 20 per cent increase

+£1 million

(ii) To aid this process, there should be a single Anti-Discrimination Board

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p5

Replacement of CRE and EOC by the new body (both cost, together, £14.1 million in 1986-87)

Net cost/saving unquantifiable

(iii) Increase remission from one third to one half of the sentence. Reduce maximum permissible sentences

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p5

In theory, substantial net savings from reduced prison costs

(iv) Educational provision for ethnic minorities should aim to enable those citizens to obtain employment, promotion and training opportunities on an equal basis.

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p5

Section 11 L.G. Act 1964 covers grants for special needs of commonwealth immigrants. Total S.11 grant funding [in 1986-87] for education is about £80 million. Assume extension to all ethnic groups (adding one third to cost) and perhaps also increasing funding of teaching posts under it (see also xi and xii below).

+£30 million

<p>(v) Particular hardship has resulted from the 1981 Nationality Act, which Liberals will repeal ... Wives, husbands, children and close dependents of UK residents should be allowed to join their families in Britain</p>	<p>Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p5</p>	<p>Many more cases would be dealt with by Immigration and Nationality Dept; and most would succeed. At present, 7,000 applications from spouses succeed (3500+ fail for various reasons). If they all succeeded, extra fees income would be £210,000 which should cover any staff increases that would be necessary</p>	<p>Overall nil effect</p>
<p>(vi) Incentives for police officers .. to live in the areas for which they are responsible</p>	<p>Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15</p>	<p>Presumably an allowance, not payable to policemen living in quarters (18 per cent), not to every other officer (no incentive). Total police strength 119,000. Assume half of those not in quarters receive extra £1,000 a year</p>	<p>+£50 million</p>
<p>(vii) Make police forces more accountable</p>	<p>Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15</p>	<p>Police Complaints Authority total cost £2 million. Assume reformed on new basis: presumably at similar cost.</p>	<p>Impossible to quantify but presumably marginal</p>
<p>(viii) Independent complaints procedure .. give elected representative power to decide on budget, policy, operational strategy and the employment of senior officers</p>	<p>Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15</p>	<p>Total la spending on police is £2.9 billion. Even marginal increases as result of loss of control over police spending if decisions on manpower etc which at present rest with Home Secretary are delegated could cost several hundreds of £ million. Impossible to quantify but would be sizeable effects (but some local pressures might be downward?).</p>	

(ix) Disbanding of SPG and similar groups and their non-replacement	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p14	Precise effects not readily available	Unquantifiable but marginal.
(x) Strengthen the 1976 Race Relations Act ... Oblige local authorities and employers to maintain ethnic records	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	No significant effect on H.O expenditure, but significant new burdens on las and private sector. Assume increased la spending on monitoring, and some extra staff, plus some extra staffing in HO to collate returns	Unquantifiable. (NB new burdens on las and private sector.)
(xi) Oblige local authorities to promote a genuinely multi-racial teaching force and curriculum ...	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	Implies additional use of S.11 grants	Covered by (iv) above
(xii) Increased provision for, and of, mother tongue teaching	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	Implies additional use of S.11 grants	Covered by (iv) above
(xiii) A Standing Commission on Animal Protection	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p17	A new body to be established. Precise costing not possible without indication of its remit. Assume part-time Chairman, 2 members, secretary + clerk + office, as a minimum	+£100,000 minimum
(xiv) a Legal Services Commission should be set up which through local legal services committees would have responsibility for the financing of law centres ...	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.5	Total for UK. About 80 law centres to provide full coverage in England and Wales, and proportionate numbers in Scotland and Northern Ireland. Assume cost supply-led.	+£20 million

(xv) Income and capital limits should be raised to make more people eligible for legal aid.	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.5	UK total. Assume 85 per cent eligibility (currently about two thirds).	+£100 million
(xvi) ...a new Department of Justice	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.5		Unquantifiable: should replace existing services
(xvii) Criminal and civil procedures must be reformed to give adequate protection to the rights of the individual ... simplify and improve the drafting and interpretation of statutes and the process of law reform	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.6	Could lead to savings in public expenditure and reduced costs for litigants	Unquantifiable
(xviii) set up a new system of family courts	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.6	Wide variety of options, with greatly varying costs	Unquantifiable
(xix) Legal aid should be extended to Industrial Tribunals	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.6		+£10 million

SUPPORT FOR POLITICAL PARTIES

(i) Parliamentary candidates ... should be able to reclaim basic expenses	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p7	Approx. 3000 electoral candidates x £3240 - election expenses max + electors addition	+£10 million
(ii) Extend financial support for Parliamentary Opposition parties	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9	Houghton proposals 1977 costing uprated	+£5 million

EMPLOYMENT

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|---|---|--|--|
| (i) Development of facilities for 2 year traineeship for young people aged 16-18 in schools, colleges, industry and skill centres, providing 500,000 places | Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9 | Number of places envisaged for two year YTS (360,000) and net costs (£600 million) scaled up to meet 500,000 target proposed. Overlaps with £4 billion 'jobs package' (see below). | +£250 million |
| (ii) Substantial expansion of adult training opportunities and facilities designed to equip people with newer skills | Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9 | Size of expansion not indicated. Costing shown assumes 50% increase over existing expenditure. Net would be lower, by uncertain amount. Overlaps with £4 billion 'jobs package' (see below). | +£135 million (on top of existing expenditure of £270 million) |

JOBS PACKAGE (p9)

Create 1 million jobs in 3 years, at cost of £4 billion per annum (some measures covered above) by following:

- (a) See Local authority and environment (i)
- (b) greatly expanded domestic energy conservation programme using mainly unskilled labour, major sewerage and water mains schemes, similarly labour intensive (see Energy (i))
- (c) increased rail electrification
- (d) See Transport (ii)
- (e) Health and Personal Social Services (ii) (100,000 new jobs)
- (f) Environmental improvements
- (g) See Employment (i) and (ii)
- (h) Support for wide range of 'projects' (infrastructure, environment, community art, etc). Could overlap with other Liberal and SDP commitments (see eg SDP infrastructure commitment).

Proposal	Source and date	Assumptions used	Cost/saving (+/-)
<u>SDP/Liberal</u>			
<u>AGRICULTURE</u>			
(i) extra public subsidy for small farmers who live outside the current designation of Less Favoured Areas	'Guardian' report of New SDP/Liberal agriculture policy (25 April 1986)		Would increase expenditure (insufficient detail to cost)
(ii) membership of EMS to prevent discrimination against British farmers	'Times' report (23 April 1986)		Would depend on any subsequent change in green £ parity
(iii) tax incentive to encourage landlords to let more land and a credit scheme to provide low interest working capital to encourage employment of more local labour	'Times' (23 April 1986)		Would reduce revenue (insufficient detail to cost)
(iv) help for research to promote new crops and enterprise	'Times' (23 April 1986)		Could be additional or found within existing R&D budget
(v) guaranteed prices for set levels of cereals production with farmers allowed to produce more for disposal at market prices	'Times' (23 April 1986)		Expenditure neutral or could produce savings (depending on production levels agreed)
(vi) Fairer arbitration between landlord and tenant over quotas for milk farmers going out of production	'Times' (23 April 1986)		No expenditure implications

[Over 1986 PEWP provision for 1986-87, unless stated otherwise]

PWP Pps 101



FROM: JILL RUTTER
DATE: 12 May 1986

PS/CHANCELLOR

PS/KST
PS/CH/EX
12/5

cc: PS/Financial Secretary
PS/Minister of State
Sir P Middleton PS/EST
Mr F E R Butler
Mr Scholar
Mr Pickering
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Discussed at Prayers

SDP/LIBERAL SPENDING AND TAX COMMITMENTS

The Chief Secretary has seen Mr Pickering's minute of 9 May.

2 The Chief Secretary is concerned about the approach to this exercise. He believes that the most promising approach is to wait for responses from colleagues - he wrote last week to spending Ministers asking them for their costings of SDP/Liberal commitments.

3 The Chief Secretary is concerned that some of the numbers are for tax foregone, others for pure spending.

* 4 The Chief Secretary would like to discuss this at a forthcoming Prayers meeting.

Jill Rutter

JILL RUTTER
Private Secretary

* I understand that this may have been discussed at Prayers this morning.

FROM: C R PICKERING

DATE: 15 May 1986

1 MR BUTLER

2 CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Anson
Mr Turnbull
Mr Scholar
Mr Burgner
Mr Gilmore
Mr Jameson
Mr Watson
Mr Perry
Mr Burr
Mr Instone
Mr Grimstone
Miss Noble
Mr P Davis
Mr Shaw
Miss O'Mara
Mr Gibson
Mr Kelly (HE)
Mr Cropper
Mr Ross-Goobey
Mr Tyrie
HF/03

COSTING LABOUR'S POLICIES

You asked for an update of the cost of Labour's continuing commitments, on the basis of the revisions described in my submission of 16 April (copies attached for you and other Treasury Ministers).

2. I attach a table, with notes. It follows my previous submission, subject to the points below. It has been cleared with AEF, HE, ST, LG, GE and PE. It is designed for internal use only. We assume you will not wish to use a revised total until the full updating, possibly in the autumn, particularly in view of the Chief Secretary's Reply to Neil Hamilton MP, down for answer today (attached).

3. The commitment to phase out parental contributions has been added to item 20, its natural home, with the promise to increase student grants. The Minister of State has pointed to the comparatively low priority given by Mr Radice to the former. 'Education Throughout Life', the pamphlet in which the commitment appears, refers to the "other pressing claims for extra spending which [the Labour Party] believe should be given higher priority" than this and the linked commitment, included in the reply to Mr Chope, to introduce awards to 16-18 year olds in full-time education. Ministers may nonetheless think it right to include both when the total is updated, as being policies to which, despite their low relative priority, the Labour Party are clearly committed.

4. ST1 advise that DHSS's updating of item 26, the cost of reducing the retirement age to 60 for men, adds £400 million, rather than the provisional £500 million mentioned in my earlier submission.

5. Mr Ross-Goobey has identified the ultimate source of the commitments in item 15 - a TUC publication 'The reconstruction of Britain' (copy of relevant page attached). As you can see, it gives costings of £2 billion and £1 billion for urban improvements and sewerage respectively, as part of a total package whose cost is given as £4 billion. The TUC's 1984 pamphlet 'Public Investment in the Economy' (copy of relevant page attached) gives a total cost of £5 billion for a package containing the same elements and citing the 1981 document as a source. Central Office have clearly uprated the commitments in item 15 by 25 per cent, which seems reasonable. Thus the original costing stands, though the footnote has been amended to make the full provenance explicit.

C R Pickering

C R PICKERING

SDP/LIBERAL SPENDING AND TAX COMMITMENTS

Prayers Folder

part

What are the folders?
DISCUSSED
PRAYERS, &
ACTION
AHEAD

FROM: C R PICKERING
DATE: 16 May 1986

Mus 16/5

- 1 MR SCHOLAR
- 2 PS/CHIEF SECRETARY

- cc PPS
- PS/FST
- PS/MST
- PS/EST
- Sir P Middleton
- Mr FER Butler
- Mr Anson
- Mr Watson
- Mr Burgner
- Mr Jameson
- Mr Monger
- Mr Gilmore
- Mr Mountfield
- Mr Turnbull
- Mr Kitcatt
- Mr Moore
- Mr Perry
- Miss Noble
- Ms Seammen
- Mr Gray
- Mr Shaw
- Miss O'Mara
- Mr M Williams
- Miss Sinclair
- Mr Burr
- Ms Boys
- Mr P Davis
- Mr Robson
- Mr Revolta
- Mr Colman
- Mr Norton
- Mr Butt
- Mr Cropper
- Mr Ross-Goobey
- Mr Tyrie
- HF/03

content with timing proposed at "X" on page A?

No

CR 16/5

Ca
has a very deep knowledge of these numbers and she's wrong - one by 1/2 bn (I did not speak to be direct, so I don't know details) He hopes we won't move ahead on this too fast.

RE 16/5

SDP/LIBERAL SPENDING AND TAX COMMITMENTS

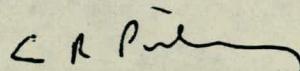
The Chief Secretary wrote on 6 May to a number of spending Ministers about SDP and Liberal spending plans. He asked them to press the relevant SDP and Liberal spokesmen to commit themselves more specifically than to date on various policies (copies attached of letters to the Secretaries of State for Employment, Environment, Education and Science, Social Services, Trade and Industry and Transport, and the Minister for Overseas Development).

2. At least one Department has interpreted the Chief Secretary's letter as superseding the costing exercise reported in my minute of 9 May. To make the position clear, the Chief Secretary has agreed that Miss Rutter should write to the private secretaries of his Cabinet colleagues,

PICKERING
→ PS/CST
16/5

enclosing the list of SDP/Liberal costings as a basis for Departments' comments.

3. I enclose a draft letter, which has been agreed with Mr Butler and Mr Tyrie. Miss Rutter and Mrs Lomax may like to draw their Ministers' attention to the deadline for Ministerial comments to their respective Ministers, to ensure they are content. So far as I know, Ministers have not yet decided when they want first to use these costings in public.



C R PICKERING

A

DRAFT LETTER

FROM: PS/CHIEF SECRETARY

TO: PS/ SECRETARY OF STATE FOR SOCIAL SERVICES

COPIES TO: Private Secretary to the Prime Minister, Private Secretaries to the Cabinet, PS/ Minister of Overseas Development, Brian Griffiths in the no 10 Policy Unit, and PS/Sir Robert Armstrong.

SDP/LIBERAL SPENDING COMMITMENTS

On 6 May the Chief Secretary wrote to your Secretary of State and a number of colleagues about work that is currently under way to cost SDP and Liberal spending commitments. He asked them to press those parties' spokesmen to make more specific commitments than they have done to date.

The Chief Secretary has asked me to circulate the enclosed list of costings, which Ministers have commissioned and which has been prepared within the Treasury in consultation with Departments. The Chief Secretary believes that the list will serve as background to Parliamentary exchanges with the SDP/Liberals; it will also serve as the starting-point for the overall costings of these parties' policies which the Chief Secretary intends to compile and publish later in the summer.

The Chief Secretary would be grateful for any comments on this list - before the House of Commons goes into recess for the summer - from his colleagues, including any which arise from any further statements by SDP/Liberal spokesmen. X

I am copying this letter to [see above]

SDP

⁸
[Direct quote from source]

Proposal

Source and date

All references to Policy Documents listed in 'The Only Way to a Fairer Britain' (February 1986)

Assumptions used

Cost/saving
(+/-)

[Over 1986 PEWP provision for 1986-87 unless stated otherwise]
For tax changes, - = increased revenue
+ = reduced, compared with 1986 FSBR
(rounded to nearest £10 million, except for costings below £10 million)

DEFENCE

(i) We believe defence spending must be maintained in real terms

Policy Documents
10/2/86 p5.1

1985-86 Falklands exclusive provision maintained level in real terms to 1988-89, using 1986 FSBR GDP deflators

1986-87 cost +£250 million
1987-88 cost +£500 million
1988-89 cost +£890 million
[proxy for full year]

(ii) To maintain a British nuclear capability as a contribution to European defence but to cancel the extravagant Trident programme

Policy Documents
10/2/86 p5.2

Replace Trident by either

- (i) Anglo-French developed ballistic missile
- (ii) European developed cruise missile
- (iii) Cruise missiles purchased from US

Not costable, but likely to be more expensive than Trident

Proposed options would involve additional costs

- (i) for development of missile system;
- (ii) for development of missile system plus additional dedicated missile carrying submarines or ships;
- (iii) for additional dedicated missile carrying submarines or ships

Conflicts with Liberal policy

(iii) Abandon the heavy cost of maintaining Fortress Falklands

Policy Documents
10/2/86 p5.1

No garrison kept in Islands. Largest part of Falklands costs are for replacement of equipment lost in 1982 campaign and for capital works, which would be unaffected by decision not to garrison Islands in future. Overlaps with Liberal commitment

-£140million approximately

(iv) Dual Key on Cruise

Policy Documents
10/2/86 p.5.3

Would involve substantial costs,
but not possible to quantify

INDUSTRY

(i) Expanding and revitalising the British Technology Group to provide equity capital for high risk projects in partnership with private industry

Policy Documents
10/2/86 pl.4

Since 1980 NEB (part of BTG) has been disposing of its investments and repaying pdc to the Government. In that period approximately £280 million of pdc has been repaid (disregarding Rolls Royce and BL transferred to DTI). Estimated cost assumes the same amount of capital is reinjected into the BTG over a similar period ie six years. A faster injection of capital is unlikely, short term, as the size of the NEB has been reduced and would need to be built up again to handle increased investment

£50 million per year over 6 years

(ii) A new industrial credit scheme administered by the banks, offering loans at below market rates of interest to companies who want to go ahead with investment schemes which help them restructure and become more competitive, improve the quality of their products, their marketing and distribution.

Policy Documents
10/2/86, pl.2, 1.4

-

+£100 million pa

A subsidy of £100 million pa over 5 years would enable £2 billion of medium term loans to be made available for industry at a rate of 5% below market rates of interest

(iii) Extending the loan guarantee scheme to a maximum of £250,000 Policy Documents 10/2/86, pl.4

Assume increase in ceiling on individual loans from £75,000 to £250,000 implies large increase in lending guarantee. For illustration have costed effect of guaranteeing 3 times levels announced in 1986 Budget on basis of (i) 70% guarantee; (ii) premium payable to Government of 2½%; (iii) unchanged failure rates.

1986-87 no change
1987-88 +£10 million
1988-89 +£30 million

(iv) Establishing Small Firm Investment Companies to provide financial and new government assistance to small firms Policy Documents 10/2/86, pl.4

That tax relief will be given to investors at their marginal rates in respect of investments channelled through the SFICs +£25 million

That £50 million is invested in a given year by investors all with a marginal rate of 50% and none of these investments would have otherwise gone into BES approved funds

TRADE UNIONS

(i) A Trade Union Development Fund to assist those unions seeking to merge or reorganise their functions to meet the demands of new technologies and working methods Policy Documents 10/2/86, pl.12

Merger/reorganisation costs would be no greater than total TUC education budget (£4 million) and Government's contribution would be 50 per cent. +£2 million

EMPLOYMENT

- | | | | |
|--|-----------------------------------|---|---------------|
| (i) Further expansion of Community Programme to provide a job guarantee to all those unemployed for over year | Policy Documents
10/2/86, pl.2 | Public expenditure cost (net) of $\frac{1}{2}$ - $\frac{1}{2}$ million extra places; supervisor/non-supervisor ratio 1:9; proportion of participants taken off count 80%; average length of stay 9 months: existing net expenditure £500 million. | +£1½ billion. |
| (ii) Bring together vocational training and education in a new programme for 16-19 year olds, building on two year YTS | Policy Documents
10/2/86, pl.5 | Cannot be costed on basis of this very general proposal: however costs would be substantial if "building on two year YTS" means extending paying allowances to those now receiving education but not in receipt of allowance. But could then overlap significantly with SDP (education (iii)) | not available |
| (iii) Expand careers service with an additional Adult Advisory role | Policy Documents
10/2/86, p4.4 | No indication of size of expansion proposed. Virtually impossible to estimate with any accuracy likely take-up of adult advisory service: assume 15% increase in costs; existing expenditure by local authorities on careers service around £80 million in 1986-87. | +£10 million |

INFRASTRUCTURE

- | | | | |
|---|------------------------------------|---|----------------|
| A £1 billion programme of public sector capital investment, concentrated mainly on construction | Policy Documents
10/2/86, p.1.1 | None necessary as proposal is explicitly costed (although the base is not defined). May overlap with other infrastructure policies listed elsewhere in SDP list (Education (i), HPSS (i)), and Liberal list (Energy (iii), (iv), Transport (ii), (v), Local Authority (i), (iv)). | +£1 billion pa |
|---|------------------------------------|---|----------------|

TAXATION

(i) Establish the legislative framework for a counter inflation tax, to be held in reserve and brought into operation in the second year if required	Policy Documents 10/2/86 pl.2	Impractical to quantify for full year, 0 but no effect in first year	
(ii) A remissible tax to encourage firms to provide the right level and quality of training	Policy Documents 10/2/86 pl.4	Assume additional tax equivalent to 1 per cent of employers' NICs (net of contracted-out rebate), $\frac{1}{4}$ of which remitted	-£30 million
(iii) Tax exemption for union contributions	Policy Documents 10/2/86 pl.12	1984 union membership numbers and contributions projected to 1986. Average marginal tax rate 32 per cent.	+£120 million
(iv) Reform of the tax regulations governing voluntary organisations	Policy Documents 10/2/86 p4.2	Revenue-neutral	-
(iv) Integrated tax/benefit system	Policy Documents 10/2/86 p4.7	Impossible to quantify - cost could be large	[]
(v) Phasing out the married man's additional tax allowance	Policy Documents 10/2/86 p4.7	Phased abolition, including married man's age allowance, in four years	-£1.1 billion 1986-87 -£4.5 billion full year

LOCAL GOVERNMENT

(i) A £1 billion boost to local authority current expenditure	Policy Documents 10/2/86, p 1.2	Possibility of double-counting with education policies listed below: (esp. (i), (iii)).SDP document not clear. If there were double counting, would reduce SDP total spending by £380 million (ie total of (education) (i) and (iii) below, less £10 million for capital expenditure on (i).	+£1 billion
---	------------------------------------	--	-------------

EDUCATION

(i) (a) All children for whom a nursery place is not available will be able to start primary school in the September of the school year in which they are five and	Policy Documents 10/2/86, p4.3	600,000 4 year olds at January 1985, of whom 50 per cent are not receiving pre- primary education. Initial unquantifiable capital and training costs. Full take-up by rising-fives. Regarded as an interim measure before (b) achieved.	See assumptions
(b) Within five years the SDP would aim for all children under 5 to have had at least one year's education experience	Policy Documents 10/2/86, p4.3	624,000 4 year olds by January 1991. 80% take-up, compared to current public sector participation rate of 44%. Existing split maintained between nursery schools and classes, and infant classes in primary schools. Costing includes £20 million for initial build-ings-related and teacher training costs. (Calculated as about one fifth of five year programme for such costs.)	+£240 million (full year)
(ii) End the Assisted Places Scheme	Policy Documents 10/2/86, p4.3	Cost of scheme will reach £50 million by 1988-89, constant thereafter. Assumes phased withdrawal. Increases, after first year, £7 million pa up to -£50 million. Liberals made same commitment.	-£50 million full year
(iii) All young people in education after 16 to be eligible for education benefit based on need	Policy Documents 10/2/86, p4.4	SDP's own figure. NB significantly lower than costing of Labour's similar commitment, though differences can probably be explained by lower levels of award and means-testing.	+£150 million

HEALTH AND PERSONAL SOCIAL SERVICES

- | | | | |
|--|-----------------------------------|---|--|
| (i) The SDP is committed to 1½% per annum real growth in health and personal social services spending | Policy Documents
10/2/86, p4.1 | Compared with 1986 PEWP figures, deflated by FSBR GDP deflator. [NB SDP may have different notion of 'real' (eg over NHS pay and prices index, or allowing for demographic changes.)] | 1986-87 -£160 million*
1987-88 +£30 million
1988-89 +£290 million
(*ie PEWP shows higher than 1.5% real growth for 1986-87) |
| (ii) Set up Employment and Innovation Fund of £500 million to finance projects which are designed to remove inequalities, increase employment and improve services | Policy Documents
10/2/86, p4.1 | Spread over three years, as suggested in SDP document. | 1986-87 +£100 million
1987-88 +£170 million
1988-89 +£230 million |
| (iii) We support generic substitution unless doctors specify that the brand name drug must be prescribed | Policy Documents
10/2/86, p4.1 | Savings uncertain: SDP paper suggests £100 million pa. DHSS say less than £50 million now that Selected List is in force. Liberals made same commitment. | -£50 million |

SOCIAL SECURITY

- | | | | |
|--|---|---|------------------------|
| (i) SDP propose a 'basic benefit' to replace supplementary benefit, Housing Benefit, Family Income Supplement and free school meals. | See eg Dr Owen 'A United Kingdom' (1986) pp 4.7-4.8 | Dr Owen's costing £4,160 million, assuming expenditure on existing benefits at 1984-85 prices. [Not for public use: DHSS officials estimate that SDP proposals would cost far more.] | +£4,160 million |
| (ii) Child benefit. We would increase it by 25% to £8.50 for 1985-86 and maintain its real value in future | Policy Documents
10/2/86, p4.7,4.10 | 1987-88 costing. Assumes increase to £8.50 from July 1986 proposed level of child benefit (£7.10, ie slightly less than 25 per cent). | +about £680m pa |
| (iii) Increase the single parent addition by at least £5 | Policy Documents
10/2/86, p4.7 | Each 10p increase in one parent benefit costs approx. £2 million net of savings on other benefits. Assume £5 addition to the one parent benefit (successor of single parent addition). 1987-88 costing. | +about £100 million pa |

(iv) Extending eligibility for Invalid Care Allowance and Non Contributory Invalidity Benefit to married women	Policy Documents 10/2/86, p4.8	Costing quoted is for extending ICA to married women. NCIB proposal long out of date. NCIB replaced in November 1984 by Severe Disablement Allowance payable to married women. 1987-88 costing.	+about £100 million pa (but figure uncertain)
(v) The long term unemployed should receive the long term rate of Supplementary Benefit	Policy Documents 10/2/86, p4.8	Extension to people unemployed for more than one year (usual definition of long term unemployed). 1986-87 costing.	+about £530 million pa
(vi) Abolish the earnings rule for pensioners	Policy Documents 10/2/86, p4.8	November 1985 benefit rates. 1986-87 costing.	+ about £190 million pa public expenditure cost gross
(vii) Death Grant: our policy is to increase it to £250 for all, reclaimable from the estate of those who are better off and can afford it	Policy Document 10/2/86, p4.8	DHSS think small net cost but to publish would involve revealing assumptions DHSS Ministers have refused in past to publish, in other contexts.	See assumptions
(viii) Maternity grant: propose its increase to £300.	Policy Document 10/2/86, p4.10	Now £25; non taxable (note: SDP propose that it should be taxable). NB gross figure used because table relates to public expenditure. Figure net of tax assumes treated as earned income. 1987-88 costing.	about +£190 million <u>gross</u> about +£170 to £180 million <u>net</u>
(ix) 1% reduction in all employers' national insurance contributions	Policy Document 10/2/86, p1.1	<u>GB</u> accruals figures; contribution revenue only (excluding effect on Treasury Supplement), 1986-87 costing.	+£1,600 million revenue effect ie not public expenditure

Liberal

Proposal
[Direct quote from source]

Source and date

Assumptions used

Cost/saving
(+/-)

[Over 1986 PEWP provision for 1986-8
unless stated otherwise]

For tax changes, - = increased revenue
+ = reduced, compared
with 1986 FSBR

(rounded to nearest £10 million, except
for costings below £10 million)

DEFENCE

(i) Increase expenditure on conventional defence, offset by savings from the abandonment of Trident and of the extravagant Fortress Falklands policy.

We would include Polaris in arms reductions negotiations

Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p19

Trident construction stopped immediately, and Polaris decommissioned within lifetime of new Parliament

No net savings. Abandonment of Trident would provide savings in capital costs in the range £500-£1000 million a year over the procurement period (up to mid 1990s). (But note: savings will be much reduced once first Trident boat ordered.) If Polaris dropped, would provide annual running cost savings for UK strategic nuclear force of order of £500 million. (But note: this saving would be likely to be reduced by accelerated decommissioning costs, presently unquantifiable.) Elimination of Falkland garrison would save approximately £140 million a year. Overall, these proposals could release of the order of £1-1.5 billion a year up to mid-1990s and perhaps £750 million a year thereafter for increased expenditure on conventional defence.

OVERSEAS AID

(i) To achieve the UN official target of 0.7% of GNP within five years of taking office, rising to 1% by the end of the century.	Liberal Party Policy Briefing: These are Liberal Policies. January 1986 pp 19-20	Full annual cost reached after 5 years making no allowance for increases in GNP. Includes aid programme and aid administration (Labour costings included only former).	+£1360 million full year
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INFRASTRUCTURE

(i) A £1 billion programme of public sector capital investment, concentrated mainly on construction	SDP/Liberal Autumn Statement	None necessary as proposal is explicitly costed (although base is not defined). May overlap with other infrastructure policies listed below	+£1 billion
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TAXATION

(i) Reintroduce lower level initial rate of tax	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	Indexed reduced rate band as applying in 1978-79: ie 25 per cent rate on first £1,550 of taxable earnings	+£1.4 billion
(ii) Cumulative Capital Receipts Tax in place of Capital Transfer Tax	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p 10	Revenue-neutral	-
Comprehensive tax credit scheme	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	Impossible to quantify - cost could be large	[]
(iii) Phase out married man's tax allowance	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	See SDP taxation (v) for assumptions, and costing of same commitment.	

(iv) Abolish domestic rates and introduce Local Income Tax ... with a tax, at a single national rate, on the unimproved value of all land	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p10	Revenue-neutral but would increase marginal rate of income tax, offsetting proposed reduced rate band	-
(v) Restrict charitable status to charitable objectives	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p14	In context of education priorities. Amount of relief given to education charities not known (NB education <u>is</u> statutorily a charitable purpose): arbitrary assumption of 10 per cent reduction in direct tax relief to charities. (Inland Revenue cannot substantiate figure - prefer not to publish.)	-£40 million
(vi) End tax reliefs for private medical care schemes	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p15	<u>No such relief.</u> Saving figure based on possibility that aim is extension of taxation of medical schemes as benefit in kind to those earning less than £8,500 (as was case before 1982)	[-£7 million]
(vii) Abolish VAT on live performances	Liberal Party Policy Briefing: These are Liberal Policies January 1986 p15	Assumes covers theatres, concerts etc, not eg sport	+£35 million
(viii) Low level tax on blank music and video tapes to finance consumer vouchers	Liberal Party Policy Briefing: These are Liberal Policies January 1986 p15	Assuming no behavioural changes. Yield from 10% levy on audio tapes £5 million, and £5 million from 5% levy on video tapes. But assumed receipts spent on consumer vouchers	-

ENERGY

(i) A massive programme for Energy Conservation using both local authorities and the public sector as agents	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p18	Scope for public sector insulation investment. Total £5 billion, approx. over 5-10 years	+£0.5 billion in 1986-87 (Part of £4 billion package - see below)
(ii) Fund pilot projects aimed at substantially decreasing the emission of sulphur and nitrogen oxides	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p16	Existing research and costings	Perhaps +£50 million for pilot, +£2.5 billion over 10 years if proceeded with
(iii) We support combined heat and power systems	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p17	5 CHP/District Heating schemes at £0.5/1 billion per City	1986-87 +£50 million £2½/5 billion over 10-15 years. Full year cost (after 5 years) +£250 million
(iv) [Support for ...] pilot projects in the technology of renewable power houses ... We support ... alternative energy sources	Liberal Party Policy Briefing: These are Liberal Policies January 1986, pp16-17	Double present spend. [1986-87]	+£45 million pa
(v) We would phase out all nuclear stations	Liberal Party Policy Briefing: These are Liberal Policies January 1986, p17	(a) Stop using all existing nuclear power stations (cost uncertain)	+£500 million full year
		(b) Build 5 new coal or oil stations at 2500 MW ea. Estimated expenditure +£7¼ billion over 7-10 years (1986-87 prices)	+£200 million 1st full year +£750 million peak year.

TRANSPORT

- | | | | |
|--|---|---|---|
| (i) Making good the neglect of recent years of highway maintenance | Liberal Party Policy Briefing:
These are Liberal Policies
January 1986, p18 | Plans in 1986 PEWP already allow for elimination of backlog of central government road maintenance | |
| (ii) Acceleration of road by-pass construction and of relief roads | Liberal Party Policy Briefing:
These are Liberal Policies
January 1986, p18 | Roads programme, (June 1985 to March 1987) includes 40 bypass schemes costing a total of £344 million at November 1983 prices. Statutory procedures mean little would be done in first year. Some acceleration possible in second year. Part of 'jobs package' of £4 billion a year | Nil 1986-87
up to +£30 million 1986-87 |
| (iii) Concentrating resources on ... road safety | Liberal Party Policy Briefing:
These are Liberal Policies
January 1986, p18 | Arbitrary figure, but pressures to spend more relatively small. Current budget £8 million | +£1 million |
| (iv) Increased revenue support to maintain public transport as an essential public service | Liberal Party Policy Briefing:
These are Liberal Policies
January 1986, p18 | Total spending on subsidies to public transport was around £1.5 billion in 1985-86 (because of deregulation, 1986-87 provision uncertain, therefore 1985-86 more reliable baseline). Assume 5% increase. | +£75 million |

(v) Capital investment on transport should be substantially increased from present levels, including the railways, so as to create a highly efficient modern system

Liberal Party Policy Briefing:
These are Liberal Policies
January 1986, p17

BR have stated their current investment plans are compatible with their objectives. No evidence of justifiable investment being rejected. Liberals precise objectives unclear: suggested costs assume they meant 10 or 20 per cent increase in current BR capital investment levels. Rail electrification part of 'jobs package' of £4 billion a year.

+£35/70 million a year

(vi) Enlarge and modernise those parts of the inland waterways system with potential as new commercial routes

Liberal Party Policy Briefing:
These are Liberal Policies
January 1986, p17

It is generally recognised by BWB and others that most existing canals do not have significant potential for commercial exploitation as they are too narrow and shallow and often in the wrong place. Costings based on past experience and some broad feasibility studies for 5-10 year programme.

+£10 million full year

HEALTH AND PERSONAL SOCIAL SERVICES

(i) An increase in real expenditure on Health and Social Security for the elderly, the handicapped, mentally ill and children

Liberal Party Policy Briefing:
These are Liberal Policies
January 1986, p14

Not costable but see SDP

(ii) Allocating £500 million for a special fund for health and social services

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986

Spread over three years, as suggested in Liberal document. Part of 'jobs package' of £4 billion a year. Same as SDP commitment (SDP HPSS (ii)).

1986-87 +£100 million
1987-88 +£170 million
1988-89 +£230 million

SOCIAL SECURITY

(i) Increase retirement pension by 25% (not a direct quotation)

Liberal Party response to Green Paper 'Reform of Social Security' (Cmnd 9517-9), September 1985.

Note: this proposal is combined with phasing out of SERPS which would yield substantial savings in next century. Liberals propose to finance increase by requiring contracted-out to pay contracted-in National Insurance contributions.

Increasing basic rate RP would have net cost (after offsetting savings on supp. ben., and housing benefit) of £3¼ billion in a full year at estimated 1986 rates of benefit. (This compares with an estimated spend on SERPS in 1986-87 of £209 million, £4.3 billion in 2003-04, and £25.5 billion in 2033-34 (November 1985 prices).)

DEVOLUTION

(i) As a first step towards federalism, Scotland should be given self-government, with its own Parliament, with a single tier of most-purpose authorities, Wales an assembly with executive powers

Liberal Party Policy Briefing: These are Liberal Policies. January 1986 p.6

Not possible to quantify, but effects could be substantial

LOCAL AUTHORITY AND ENVIRONMENT

(i) Housing: about half the programme rehabilitating existing buildings, and half in assisting new housebuilding by housing associations and local authorities

Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9

(Output is kept within the limit implied by the total expenditure ceiling.)

)Unspecified part of +£4 billion)per annum package (see below)

(ii) Regional schemes for inner city renewal, flood protection, coast-erosion prevention and environmental improvement

Liberal Party Policy Briefing: These are Liberal Policies. January 1985, p9

(iii) Giving local authorities the right to decide whether or not to sell council dwellings and the terms for sale	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	Reduced sale of dwellings by around 5,000 in 1986-87, gradually declining (average capital receipt for sold dwelling is £10,000).	Loss of £50 million receipts in 1986-87, gradually declining.
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(iv) Government to make financial provision to replace any housing stock sold	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	<ol style="list-style-type: none"> 1. average cost of new dwelling = £24,000 2. average capital receipt from sold dwelling = £10,000 3. additional funds needed to replace sold stock = £14,000 4. annual number of dwellings sold = 70,000 in 1986-87, gradually declining 5. measure is additional to existing provision for new building. 	+£1 billion in 1986-87, gradually declining (+£0.8 billion in 1988-89)
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EDUCATION

(i) Increased government funding for the Open University, the Open Tech and local support for the University of the Third Age	Liberal Party Policy Briefing: These are Liberal Policies. January 1986 p.12	To restore the OU to the same real terms position as in 1983-84 (peak year) would require £5 million. To maintain Open Tech at 1985-86 (peak year) level would cost £3 million. No data kept by central government on l.a. spending on University of the Third Age. Further expansion unquantifiable.	+£8 million
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(ii) Liberals support the changeover to comprehensive tertiary education for 16-19 year olds	Liberal Party Policy Briefing: These are Liberal Policies. January 1986 p.12		unquantifiable increase
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(iii) End the Assisted Places Scheme	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p14	Cost of scheme will reach £50 million by 1988-89, constant thereafter. Assumes phased withdrawal. SDP make same commitment.	-£50 million in full year
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CITIZENS' RIGHTS AND THE LAW

(i) Many groups in our society are oppressed because many individuals are unaware of their full political and civil rights. We would provide increased resources for political education to remedy this.	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p5	Provision for publicity on elections and voting rights currently £5 million a year. Assume 20 per cent increase	+£1 million
(ii) To aid this process, there should be a single Anti-Discrimination Board	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p5	Replacement of CRE and EOC by the new body (both cost, together, £14.1 million in 1986-87)	Net cost/saving unquantifiable
(iii) Increase remission from one third to one half of the sentence. Reduce maximum permissible sentences	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p5		In theory, substantial <u>net savings</u> from reduced prison costs
(iv) Educational provision for ethnic minorities should aim to enable those citizens to obtain employment, promotion and training opportunities on an equal basis.	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p5	Section 11 L.G. Act 1964 covers grants for special needs of commonwealth immigrants. Total S.11 grant funding [in 1986-87] for education is about £80 million. Assume extension to <u>all</u> ethnic groups (adding one third to cost) and perhaps also increasing funding of teaching posts under it (see also xi and xii below).	+£30 million

(v) Particular hardship has resulted from the 1981 Nationality Act, which Liberals will repeal ... Wives, husbands, children and close dependents of UK residents should be allowed to join their families in Britain

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p5

Many more cases would be dealt with by Immigration and Nationality Dept; and most would succeed. At present, 7,000 applications from spouses succeed (3500+ fail for various reasons). If they all succeeded, extra fees income would be £210,000 which should cover any staff increases that would be necessary

Overall nil effect

(vi) Incentives for police officers .. to live in the areas for which they are responsible

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p15

Presumably an allowance, not payable to policemen living in quarters (18 per cent), not to every other officer (no incentive). Total police strength 119,000. Assume half of those not in quarters receive extra £1,000 a year

+£50 million

(vii) Make police forces more accountable

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p15

Police Complaints Authority total cost £2 million. Assume reformed on new basis: presumably at similar cost.

Impossible to quantify but presumably marginal

(viii) Independent complaints procedure .. give elected representative power to decide on budget, policy, operational strategy and the employment of senior officers

Liberal Party Policy Briefing:
These are Liberal Policies.
January 1986, p15

Total la spending on police is £2.9 billion. Even marginal increases as result of loss of control over police spending if decisions on manpower etc which at present rest with Home Secretary are delegated could cost several hundreds of £ million. Impossible to quantify but would be sizeable effects (but some local pressures might be downward?).

(ix) Disbanding of SPG and similar groups and their non-replacement	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p14	Precise effects not readily available	Unquantifiable but marginal.
(x) Strengthen the 1976 Race Relations Act ... Oblige local authorities and employers to maintain ethnic records	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	No significant effect on H.O expenditure, but significant new burdens on las and private sector. Assume increased la spending on monitoring, and some extra staff, plus some extra staffing in HO to collate returns	Unquantifiable. (NB new burdens on las and private sector.)
(xi) Oblige local authorities to promote a genuinely multi-racial teaching force and curriculum ...	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	Implies additional use of S.11 grants	Covered by (iv) above
(xii) Increased provision for, and of, mother tongue teaching	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p15	Implies additional use of S.11 grants	Covered by (iv) above
(xiii) A Standing Commission on Animal Protection	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p17	A new body to be established. Precise costing not possible without indication of its remit. Assume part-time Chairman, 2 members, secretary + clerk + office, as a minimum	+£100,000 minimum
(xiv) a Legal Services Commission should be set up which through local legal services committees would have responsibility for the financing of law centres ...	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.5	Total for UK. About 80 law centres to provide full coverage in England and Wales, and proportionate numbers in Scotland and Northern Ireland. Assume cost supply-led.	+£20 million

(xv) Income and capital limits should be raised to make more people eligible for legal aid.	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.5	UK total. Assume 85 per cent eligibility (currently about two thirds).	+£100 million
(xvi) ...a new Department of Justice	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.5		Unquantifiable: should replace existing services
(xvii) Criminal and civil procedures must be reformed to give adequate protection to the rights of the individual ... simplify and improve the drafting and interpretation of statutes and the process of law reform	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.6	Could lead to savings in public expenditure and reduced costs for litigants	Unquantifiable
(xviii) set up a new system of family courts	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.6	Wide variety of options, with greatly varying costs	Unquantifiable
(xix) Legal aid should be extended to Industrial Tribunals	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p.6		+£10 million

SUPPORT FOR POLITICAL PARTIES

(i) Parliamentary candidates ... should be able to reclaim basic expenses	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p7	Approx. 3000 electoral candidates x £3240 - election expenses max + electors addition	+£10 million
(ii) Extend financial support for Parliamentary Opposition parties	Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9	Houghton proposals 1977 costing uprated	+£5 million

EMPLOYMENT

- | | | | |
|---|---|--|--|
| (i) Development of facilities for 2 year traineeship for young people aged 16-18 in schools, colleges, industry and skill centres, providing 500,000 places | Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9 | Number of places envisaged for two year YTS (360,000) and net costs (£600 million) scaled up to meet 500,000 target proposed. Overlaps with £4 billion 'jobs package' (see below). | +£250 million |
| (ii) Substantial expansion of adult training opportunities and facilities designed to equip people with newer skills | Liberal Party Policy Briefing: These are Liberal Policies. January 1986, p9 | Size of expansion not indicated. Costing shown assumes 50% increase over existing expenditure. Net would be lower, by uncertain amount. Overlaps with £4 billion 'jobs package' (see below). | +£135 million (on top of existing expenditure of £270 million) |

JOBS PACKAGE (p9)

Create 1 million jobs in 3 years, at cost of £4 billion per annum (some measures covered above) by following:

- (a) See Local authority and environment (i)
- (b) greatly expanded domestic energy conservation programme using mainly unskilled labour, major sewerage and water mains schemes, similarly labour intensive (see Energy (i))
- (c) increased rail electrification
- (d) See Transport (ii)
- (e) Health and Personal Social Services (ii) (100,000 new jobs)
- (f) Environmental improvements
- (g) See Employment (i) and (ii)
- (h) Support for wide range of 'projects' (infrastructure, environment, community art, etc). Could overlap with other Liberal and SDP commitments (see eg SDP infrastructure commitment).

Proposal	Source and date	Assumptions used	Cost/saving (+/-)
<u>SDP/Liberal</u>			
[Over 1986 PEWP provision for 1986-87 unless stated otherwise]			
<u>AGRICULTURE</u>			
(i) extra public subsidy for small farmers who live outside the current designation of Less Favoured Areas	'Guardian' report of New SDP/Liberal agriculture policy (25 April 1986)		Would increase expenditure (insufficient detail to cost)
(ii) membership of EMS to prevent discrimination against British farmers	'Times' report (23 April 1986)		Would depend on any subsequent change in green £ parity
(iii) tax incentive to encourage landlords to let more land and a credit scheme to provide low interest working capital to encourage employment of more local labour	'Times' (23 April 1986)		Would reduce revenue (insufficient detail to cost)
(iv) help for research to promote new crops and enterprise	'Times' (23 April 1986)		Could be additional or found within existing R&D budget
(v) guaranteed prices for set levels of cereals production with farmers allowed to produce more for disposal at market prices	'Times' (23 April 1986)		Expenditure neutral or could produce savings (depending on production levels agreed)
(vi) Fairer arbitration between landlord and tenant over quotas for milk farmers going out of production	'Times' (23 April 1986)		No expenditure implications



FST
NST
EST
McGregor
McTyrrie
McLeod Gorbey

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NA

6 May 1986

Dear David,

SDP AND LIBERAL SPENDING PLANS

You will have seen that the SDP/Liberal economic spokesmen are concerned that their spending proposals may be running away with them, (Times, 30 April 1986 - enclosed). They are now trying to restrict the maximum cost to an annual £10 billion extra.

As a natural corollary to our successful assault on the cost of Labour's spending plans, we have been working on the policies set out by the SDP (notably in their document "The Only Way to a Fairer Britain") and the Liberals ("These are Liberal Policies, January 1986). Many of these policies are vaguely expressed and need clearer definition.

It would help me greatly if you could use every suitable opportunity, in SDP/Liberal supply days (though they are few), in other ways in the House and elsewhere, to get the spokesmen for the two parties to commit themselves more specifically in the areas of your responsibility, and let me know the results, so that a proper costing exercise can be carried out.

This operation is being co-ordinated here by my Special Adviser, Andrew Tyrrie.

Yours,
JM

JOHN MacGREGOR

set to impose spending limit on manifesto

By Anthony Bevin, Political Correspondent

Leaders of the Liberal-Social Democratic Alliance are seeking cuts in their policy commitments in an attempt to impose a top annual limit of £10,000 million on their projected increased expenditure during the lifetime of a five-year parliament.

A confidential letter sent to Alliance MPs by the parties' two economic spokesmen, Mr Ian Wrigglesworth, SDP MP for Stockton South, and Mr David Penhaligon, Liberal MP for Truro, says: "There are going to be severe public expenditure restraints for some years to come and a number of cherished hopes may have to be delayed."

"The truth is, unless we are prepared to argue for substantially higher taxation, which we do not believe to be feasible, we must be prepared to establish strict priorities for higher spending, to consider phasing in the more expensive changes, to identify areas where savings can be made, and to seek new solutions to problems."

It is understood that Alliance leaders have been stung into tough action by the Government's damaging charge that Labour commitments could cost as much as £24,000 million - vehemently denied by Mr Roy Hattersley, the shadow Chancellor.

The Alliance letter, agreed by a joint leadership policy meeting, says: "The Alliance should plan for a maximum 2 per cent per annum increase in total public expenditure over an initial five-year period, compared with the present government's experience of a 1.5 per cent increase since 1983-84."

"Extra spending to create jobs and revive industry and commerce should have the highest priority, with other policy areas taking second place except to the extent that they fulfil these economic objectives."

An annex to the letter says that existing commitments include real improvements in health and personal social services, education and training, housing, transport, inner cities, job creation, industry and overseas aid.

A spending standstill would be imposed on agriculture, law and order, defence and environmental services.

But the letter also gives a warning that the Alliance commitment to boost public sector pay in real terms have to be financed by efficiency improvements or reductions in service.

Tories stay calm in by-election

Conservatives in Derbyshire West maintained a stoical calm yesterday after the latest opinion poll suggested that its once large lead for the May 8 by-election contest was being whittled down by opposition parties (Philip Webster writes).

Mr Patrick McLoughlin, the Conservative candidate, took the press on a peaceful ride along the Cromford canal on a horse-drawn barge, and declared that he would not be panicked by the opinion polls.

The BBC *Newsnight* poll which gave the Conservatives 37 per cent, the Alliance 32 per cent and Labour 30 per cent - it received only 17 per cent in 1983 - has electrified the campaign.

Mr David Steel last night accused the Conservative and Labour parties of trying to keep the "Buggins turn" principle of politics alive.

Speaking at a meeting in Haxby, west Derbyshire, the Liberal leader said that strenuous efforts were being made by the Tories to talk up the Labour Party's vote. At the same time the Labour Party was praying that the Tories might hang on to both seats.

Mr Neil Kinnock, leader of the Labour Party, said yesterday that the party would forge closer links between local councils and residents (Sheila Gunn writes).

He launched the party's *Your Service* charter, which elaborates on the radical reforms in local and central government announced last week.

It commits councils under Labour government to: as council tenants how they want their homes renovated; set up neighbourhood council offices; employ better-trained more welcoming staff; purge official jargon to form a simple language; and mount public information campaigns on benefits and local services.

General election: M Parris (C) 29,695; Y Bingham (AB) 14,371; J March (Lab) 9,060. C March (Lib) 1,114.

THE TIMES WEDNESDAY APRIL 30 1986



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State
Department of Environment
2 Marsham Street
London
SW1

6 May 1986

Dear Kenneth,

SDP AND LIBERAL SPENDING PLANS

... You will have seen that the SDP/Liberal economic spokesmen are concerned that their spending proposals may be running away with them, (Times, 30 April 1986 - enclosed). They are now trying to restrict the maximum cost to an annual £10 billion extra.

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It would help me greatly if you could use every suitable opportunity, in SDP/Liberal supply days (though they are few), in other ways in the House and elsewhere, to get the spokesmen for the two parties to commit themselves more specifically in the areas of your responsibility, and let me know the results, so that a proper costing exercise can be carried out.

This operation is being co-ordinated here by my Special Adviser, Andrew Tyrie.

Yours,
John

JOHN MacGREGOR



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
London
SE1

6 May 1986

Dear Keith,

SDP AND LIBERAL SPENDING PLANS

You will have seen that the SDP/Liberal economic spokesmen are concerned that their spending proposals may be running ... away with them, (Times, 30 April 1986 - enclosed). They are now trying to restrict the maximum cost to an annual £10 billion extra.

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This operation is being co-ordinated here by my Special Adviser, Andrew Tyrie.

Yours,

JM

JOHN MacGREGOR



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP
Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1

6 May 1986

Dear Norman,

SDP AND LIBERAL SPENDING PLANS

... You will have seen that the SDP/Liberal economic spokesmen are concerned that their spending proposals may be running away with them, (Times, 30 April 1986 - enclosed). They are now trying to restrict the maximum cost to an annual £10 billion extra.

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This operation is being co-ordinated here by my Special Adviser, Andrew Tyrie.

*Yours,
JH*

JOHN MacGREGOR



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

6 May 1986

Dear Paul,

SDP AND LIBERAL SPENDING PLANS

... You will have seen that the SDP/Liberal economic spokesmen are concerned that their spending proposals may be running away with them, (Times, 30 April 1986 - enclosed). They are now trying to restrict the maximum cost to an annual £10 billion extra.

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It would help me greatly if you could use every suitable opportunity, in SDP/Liberal supply days (though they are few), in other ways in the House and elsewhere, to get the spokesmen for the two parties to commit themselves more specifically in the areas of your responsibility, and let me know the results, so that a proper costing exercise can be carried out.

This operation is being co-ordinated here by my Special Adviser, Andrew Tyrie.

Yours,
JH

JOHN MacGREGOR



FST
MSI
EST
Mr Cropper
Mr Tyrie
Mr Raso Gookay

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Transport
2 Marsham Street
London
SW1

6 May 1986

Dear Sir,

SDP AND LIBERAL SPENDING PLANS

... You will have seen that the SDP/Liberal economic spokesmen are concerned that their spending proposals may be running away with them, (Times, 30 April 1986 - enclosed). They are now trying to restrict the maximum cost to an annual £10 billion extra.

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This operation is being co-ordinated here by my Special Adviser, Andrew Tyrie.

Yours,

JOHN MacGREGOR



FST
MST
EST
Mr Cropper
Mr Tyrie
Mr Rao-Gobey

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Timothy Raison MP
Minister for Overseas Development
Eland House
Stag Place
London
SW1E 5DH

6 May 1986

Dear Tim,

SDP AND LIBERAL SPENDING PLANS

... You will have seen that the SDP/Liberal economic spokesmen are concerned that their spending proposals may be running away with them, (Times, 30 April 1986 - enclosed). They are now trying to restrict the maximum cost to an annual £10 billion extra.

As a natural corollary to our successful assault on the cost of Labour's spending plans, we have been working on the policies set out by the SDP (notably in their document "The Only Way to a Fairer Britain") and the Liberals ("These are Liberal Policies, January 1986). Many of these policies are vaguely expressed and need clearer definition.

It would help me greatly if you could use every suitable opportunity, in SDP/Liberal supply days (though they are few), in other ways in the House and elsewhere, to get the spokesmen for the two parties to commit themselves more specifically in the areas of your responsibility, and let me know the results, so that a proper costing exercise can be carried out.

This operation is being co-ordinated here by my Special Adviser, Andrew Tyrie.

Yours,

JOHN MacGREGOR

FROM: F. E. R. BUTLER
16th May, 1986.

CHANCELLOR OF THE EXCHEQUER

- c.c. Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir Peter Middleton
- Mr. Anson
- Mr. Turnbull
- Mr. Scholar
- Mr. Burgner
- Mr. Gilmore
- Mr. Jameson
- Mr. Watson
- Mr. Perry
- Mr. Burr
- Mr. Instone
- Mr. Grimstone
- Miss Noble
- Mr. P. Davis
- Mr. Shaw
- Miss O'Mara
- Mr. Gibson
- Mr. S. Kelly
- Mr. Pickering
- Mr. Cropper
- Mr. Ross-Goobey
- Mr. Tyrrie

When is the
update
planned to occur
for the
costing
of the
labour's
commitments
-

When is the update planned to occur for the costing of the labour's commitments -

Handwritten notes in red ink covering the left side of the page, including a box containing "SM also below:-"

COSTING LABOUR'S POLICIES

I attach the revised cost of Labour's commitments.

2. The strategy is to stick to the figure of £24 billion, which is justified by the revised table. It is also to avoid for the time being giving different costings for individual items than those published in the original reply to Mr. Chope. Recipients should therefore avoid giving figures for individual components of the list as far as possible and should in particular avoid giving figures for those which have been revised and are marked with (a) in the table attached to Mr. Pickering's minute.

F. E. R. B

F. E. R. BUTLER

FROM: F. E. R. BUTLER
22nd May, 1986.

CHANCELLOR

*Thanks.
1 time to persons
@ X can be completed
quickly. M.*

c.c. Chief Secretary
Financial Secretary
Sir Peter Middleton
Mr. Turnbull
Mr. Scholar
Mr. Pickering
Mr. Cropper
Mr. Ross Goobey
Mr. Tyrie

COSTING OF SDP/LIBERAL POLICIES

Mr. Tyrie is letting you have this weekend an aggregate of the cost of Alliance policies.

*still to arrive
(probably come tomorrow)*

2. This is based on the official costings on which departments were consulted, and Mr. Pickering has worked very closely with Mr. Tyrie today to eliminate errors or double counting in the aggregation. If these figures were not so politically sensitive I would regard the process they have been through as adequate.

3. As you know, in the interests of double checking, the Chief Secretary has sent the figures to the Ministers of spending departments and has asked them to scrutinise them personally. That process could lead to some modifications.

4. Experience shows that, once the Government has committed itself to a figure of this sort, it has to be able to stick to it. So, in view of the possibility that the comments which have been invited from other Ministers might bring about some change in the figures, I strongly recommend that the total should not be publicly used until we have had other Ministers' responses and arrived at figures on which everybody is agreed.

F.E.R.B.

F. E. R. BUTLER

CONFIDENTIAL

FROM: A G TYRIE
DATE: 23 May 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr P Cropper
Mr A Ross Goobey
Mr Robin Butler
Mr Scholar
Mr C Pickering

LIBERAL/SDP COSTINGS

1. I attach provisional totals for SDP and Liberal spending commitments. Commitments are considerably more difficult to define than Labour's. They are imprecise, and in the Liberals case repetitive, itself a reflection, perhaps, of how lightheartedly they have gone about cobbling together their promises.

2. I do not think these costings are yet solid enough to bear public examination because of:

(i) Overlaps

Explan
I have made a preliminary attempt to remove overlaps within each party's costing, but not between them. When in doubt I have tried to take them out.

(ii) Other Ministers' Comments

We have requested replies to the Chief Secretary's letter to Ministerial colleagues to be in by 13 June. These may

throw up further commitments, or amendments to those already costed.

3. Other Points

(i) **Defence.** The Chief Secretary has decided to leave defence out of the costings. ?

(ii) **Basic benefit.** The Chief Secretary does not think we should use the DHSS's estimate of the cost of basic benefit (26 billion), which in any case may not have been cleared with Mr Fowler.

(iii) **Assumptions.** I have slightly changed the assumptions made by Mr Lord on these costings (see notes appended).

(iv) **Tax pledges.** I have omitted tax pledges (minus figures in the costings) which were listed in Mr Pickering's note. It will complicate presentation. I gather these sums were done on Labour's costings. ?

I think there may be scope for a separate exercise listing Opposition Parties' tax pledges and the taxation/borrowing gap between their spending and tax pledges. A 'tax pledge total' would probably have maximum impact if issued around the time of the next Budget.

(v) **"Full Year Figures".** These costings are full year figures, but as with Labour's, not necessarily for the same year.

(vi) **One combined or two individual figures?** We can use 1, 2 or 3 figures. In view of overlaps between the parties' pledges the grand total will clearly be less than the sum of each party's costing. I favour trying to capture attention with one grand figure.

AGT.

SDP PUBLIC SPENDING COMMITMENTS

	FULL YEAR COST £m	NOTES
INDUSTRY		
British Technology Group	50	1
New credit scheme	100	2
Small Firm Investment Companies	25	3
Extend Loan Guarantee Scheme	30	4
EMPLOYMENT		
Community Programme	2000	5
Careers Advisory Service	10	6
Trade Union Development Fund	2	7
INFRASTRUCTURE	1000	8
LOCAL AUTHORITY CURRENT EXPENDITURE	620	9
EDUCATION		
Nursery	240	10
Assisted Places Scheme	-50	11
Education Benefit Post 16	150	12
HEALTH		
1½% real growth	-165	13
Employment and Innovation Fund	100	14
Generic substitution	-50	15
SOCIAL SECURITY		
Child Benefit	680	16
Single Parent Addition	100	17
Invalid Care Allowance	100	18
Long Term Supplementary Benefit	530	19
Earnings Rule	190	20
Maternity Grant	175	21
Basic Benefit	4160	22
	9997	

@ 1984-85 price;
∴ more now

SDP'S PUBLIC SPENDING COMMITMENTS: NOTES

1. Expansion of BTG - assumes build-up at roughly the same rate as disposals have taken place over the past six years. (p.1.4)*.
2. Subsidised credit administered by banks for investment, helping companies "restructure and become more competitive". SDP costing. (p.1.2, 1.4).
3. Assumes £50m of new money invested a year on which tax relief is given at average marginal rate of 50%. (p.1.4).
4. Extend to maximum of £250,000 ceiling on individual loans. Assume 3 times levels of spending announced in 1986 Budget on basis of (i) 70% guarantee; (ii) premium payable to Government of 2½ per cent; (iii) unchanged failure rates.
5. Commitment is to expand the Community Programme to provide a job guarantee to all those unemployed for over a year. Cost assumes ½ to ¾m extra places, supervisor to non supervisor ratio 1:9, average length of stay nine months, proportion of participants taken off count 80%. Benefit savings netted off. (p.1.2).
6. Expansion of careers service proposed. Cost equivalent to an increase of about 12½% on present expenditure of £80m. (p.4.4).
7. Fund to assist unions to merge or reorganise to meet the demands of new technologies and working methods. Assumes overall costs no greater than current TUC education budget (£4 million) and Government contribution 50 per cent.

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

8. As costed by SDP. (p.1.1).
9. As costed by SDP. (p.1.2). Assume £380 million overlap with "Nursery" and "Education Benefit post 16" (See 10 and 12 below).
10. Commitment within 5 years to provide all children under 5 with at least 1 year's educational experience. (p.4.3).
11. Saving from ending Assisted Places Scheme would reach £50m by 1988-89 assuming places not withdrawn from individuals already offered them. (p.4.3).
12. As costed in "Tertiary Education for All". Would provide an average of £10 per week, net of child benefit, for about half the 16-18 year olds in education. (p.4.4).
13. Represents a cut in 1986-87. (p.4.1).
14. Assumed first year cost of fund of £500m. (p.4.1).
15. SDP estimate of £100m saving too large now selected list is in force. (p.4.1).
16. Commitment to increase Child Benefit by 25% in 1985-86 and maintain its real value in future. 1987-88 costing. (p.4.7).
17. Assumes minimum increase specified by SDP of £5 per week on One Parent Benefit (successor to single parent addition). 1987-88 costing. (p.4.7).
18. Extend to married women. 1987-88 costing. (p.4.8).
19. Long term supplementary benefit for everyone unemployed for more than one year. (p.4.8).

20. Cost of abolishing the earnings rule for pensioners at November 1985 benefit rates. (p.4.8).
21. Increase in Maternity Grant from present £25 to £300 net of proposed tax.
22. The Basic Benefit would substitute for 4 existing means-tested benefits - Supplementary Benefit, Family Income Supplement, free school meals and Housing Benefit - but at a higher level. Dr. Owen in his book "A United Kingdom" puts the extra cost of the new benefit at £4160m at 1984-85 prices. In fact the SDP proposals, as currently designed (p.4.7-4.8), would cost far more - perhaps as much as £26 billion more than - current spending on the benefits it would replace. The assumption made here is that the cost of the benefit would be constrained to the levels assumed by the SDP.

LIBERAL PUBLIC SPENDING COMMITMENTS

	FULL YEAR COST £m	NOTES
OVERSEAS AID	1360	1
ENERGY		
Energy Conservation	500	2
Reducing sulphur and nitrogen oxides	50	3
Combined heat and power systems	50	4
Alternative energy sources	45	5
Phasing out nuclear power stations	500	6
New fossil fuel power stations	200	7
INFRASTRUCTURE	1000	8
TRANSPORT		
Revenue support	75	9
Inland Waterways	10	10
HEALTH		
Special fund	100	11
SOCIAL SECURITY		
Pension	3250	12
ENVIRONMENT		
Council house sales discretion	50	13
Replacement of council houses sold	1000	14
EDUCATION		
End assisted places scheme	-50	15
Open university	8	16
CITIZENS RIGHTS		
Legal Aid	110	17
Ethnic minorities	30	18
Police location incentive	50	19
Legal services commission	20	20
STATE SUPPORT FOR POLITICAL PARTIES	15	21
JOBS PACKAGE	2550	22
EMPLOYMENT	385	23
OTHER	1	24
	<hr/> 11309 <hr/>	

LIBERAL PUBLIC SPENDING COMMITMENTS: NOTES

1. Liberal Party is committed to increasing overseas aid to 0.7% of GNP over 5 years. This is the full annual cost after 5 years making no allowance for increases in GNP. (p.19-20).* NB. Unlike Labour costing includes aid administration.
2. Assume £5 billion to be spent over 5 to 10 years.
3. Cost is for pilot projects on reducing emissions of sulphur and nitrogen oxides. Full-scale programme could cost £2.5bn over ten years. (p.16).
4. Commitment to support combined heat and power systems. Assumes 5 schemes at a cost of £500-£1000m per city. Full year net after 5 years. (p.17).
5. Commitment to support alternative energy sources. Assumes doubling of present spend. (p.16-17).
6. Full year cost of phasing out existing nuclear power stations. (p.17).
7. £200m is first full year cost. Three new fossil fuel power stations (minimum capacity 2500 mw each) would be necessary to replace closed nuclear capacity. Total cost £6,500m over 5-7 years.
8. Infrastructure £1bn commitment identical to SDP's; includes Liberal commitments for £35m on railway capital investment and £30m on road bypass construction.
9. Commitment to increase revenue support for public transport. Assumes 5% increase on 1985-86 provision. (p.18).
10. Based on British Waterways Board's past experience and feasibility studies.

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

11. Special fund for health and social services. 1986-87 portion of 3 year programme, as Liberals propose.
12. Cost of 25% increase in retirement pension at estimated 1986 rates of benefit. Savings from abolishing SERPS, which Liberals also propose, would become substantial only in the next century. (Liberal response in September 1985 to Green Paper on Social Security (Cmnd.9512)).
13. Local authorities to be given right to decide whether or not to sell council dwellings and terms of sale. Loss of receipts in 1986-87 estimated at £50m. (p.15).
14. Commitment to make financial provision to replace council dwellings sold. Average capital receipt from dwellings sold = £10,000. Average cost of new dwelling = £24,000. Number of dwellings expected to be sold in 1986-87 = 70,000. Additional funds needed to replace sold stock = £14,000.
15. Saving from ending Assisted Places Scheme would reach £50m by 1988-89 assuming places not withdrawn from individuals already offered them.
16. Increase funding for Open University, Open Tech. and University of the Third Age. Assume Open University restored to 1983-84 level, in real terms: Open Tech. to 1985-86 in real terms (both peak years). No data available on University of Third Age.
17. (i) Raise income and capital limits for legal aid eligibility. Assume 85 per cent eligibility. (ii) Extend legal aid to Industrial Tribunals.
18. Educational provision for ethnic minorities. Assumes grants under S.11 Local Government Act 1964 for special needs of Commonwealth immigrants extended to all ethnic groups. (p.5).

19. Incentive to police officers to live in the areas for which they are responsible. Assumes half police not living in quarters receive extra allowance of £1000 a year. (p.15).
20. Provide 80 law centres in England and Wales, proportionate number in Northern Ireland. Assume cost supply-led.
21. Basic expenses for Parliamentary candidates estimated at £10m. (p.7). Financial support for Opposition Parties: Houghton proposals revalorised £5m. (p.9).
22. Includes expenditure on housing, environment, transport, communications, health and social services, other major projects, youth training, adult retraining, project support. (p.9). Calculated by netting off items mentioned above from the £4 billion p.a. the Liberals promise to spend on package.
23. (i) develop 2 year traineeships for 16-18 year olds; 500,000 places; assume scale up current YTS and net costs. (ii) Extend adult training: assume 50 per cent increase in existing expenditure.
24. Animal protection, £.1million and road safety, £1 million, rounded to £1m.

FROM: A ROSS GOOBEY
DATE: 4 JUNE 1986

PS/CHANCELLOR

C/ content?

cc

CST
FST
MST
EST

Mr Culpin
Mr Pickering
Mr Cropper
Mr Tyrie

Content:

CR 416

DRAFT REPLY TO RESPONSE TO £24BN POSTER

Central Office would still like to send a reply to the few enquiries.

2. The attached is the original draft adjusted by adding a reference to the Written Answer of 15 May.

3. I should like to send this to Central Office as soon as possible if everyone is content.

AG

A ROSS GOOBEY

LABOUR'S SPENDING PLANS: THE £24 BILLION SPREE

Thank you for writing to us requesting further information about Labour's spending plans.

The details of the figure were spelt out in a Written Reply in the House of Commons by the Chief Secretary to the Treasury, John MacGregor MP on 3 March 1986, which he has also referred to in a Written Answer on 15 May 1986, as follows.

Increases in spending on:	£000,000 per year
Overseas Aid	1,900
Industry	1,133
National Investment Bank	48
Employment:	
Training for unemployed	900
Community programme uprating	200
Educational maintenance award	965
35 hour week	3,000
Minimum wage	1,000
Regional employment subsidy	500
Energy	750
Arts	140
Transport:	
Roads	706
Rail	248
Airports and Ports	154
Housing:	
New building	3,000
Rehabilitation	250

Urban Programme	500
Sewerage	250
Education:	
Under 5s	400
Teachers	235
Buildings and equipment	871
Close private schools	300
Student Grants	125
National Health Service	780
Social Security:	
TV licence for pensioners	325
Maternity and death grants	220
Child Benefit	1,450
Pensions	1,650
Early Retirement	2,600
Unemployment benefits	500
Minor Measures	60
TOTAL	<u>24,160</u>

These figures were costed by Treasury officials at Ministers' request on the basis of Labour front bench spokesmen's pledges and the Labour Party's published policy documents. Such costing exercises have been the common practice of successive governments in the past.

It has so far proved impossible to obtain either confirmation or denial of many other apparent pledges made by opposition spokesmen which involve still further expenditure. Meanwhile, although it is reasonable to assume that the schedule will need to be updated periodically, there is no doubt as to the general accuracy of the total at the present time. Details of the sources of this information are contained in Hansard for 3 March 1986, Written Answer Col 29.

It may interest you to know that, to meet this extra annual expenditure, either the standard rate of income tax would have to rise to 49p from the recently reduced rate of 29p, or VAT would have to be increased to at least 41% from the current 15%. You may well conclude on the other hand, that this programme is one which could not possibly be afforded and is therefore a false prospectus.

CONQUEROR



COSTING OPPOSITION PROGRAMMES: DEFENCE

31.13/05

FROM: A G TYRIE
DATE: 5 June 1986

VIVEN LIFE

Handwritten notes in red ink:
Rex, @ A ✓
27.4.16 ✓
translated ✓
James ✓

- PS/Chancellor
- PS/Chief Secretary
- PS/Minister of State
- PS/Economic Secretary
- Sir Peter Middleton
- Mr F E R Butler
- Mr Anson
- Mr Scholar
- Mr Monger
- Mr Kitcatt
- Miss O'Mara
- Mr Pickering
- Mr Cropper
- Mr Ross Goobey

COSTING OPPOSITION PROGRAMMES: DEFENCE

I saw your minute of 3 June.

2. I suggested to the Chief Secretary that we leave defence out of the costings. The attached note sets out the reasons why.
3. It maybe helpful if the Financial Secretary and I have a brief word about this when he has seen the note.

Handwritten signature: AGT

A G TYRIE

FROM: A G TYRIE
DATE: 16 MAY 1986

CHIEF SECRETARY

cc Mr P Cropper
Mr A Ross Gooby

You asked for more information on suggestions I made on how to handle SDP Liberal spending commitments on defence and basic benefits.

1: Defence

As Mr Pickering's note of the 9 May sets out the SDP commitment is:

- "We believe defence spending must be maintained in real terms"
- "To maintain a British nuclear capability as a contribution to European defence but cancel the extravagant Trident programme." They would also abandon Fortress Falklands"

The Liberal commitment is:-

- "Increase expenditure on conventional defence offset by savings from the abandonment of Trident and of the extravagant Fortress Falklands policy."

The SDP commitment is clearly for higher spending than our own. They might claim that the replacement of Trident with another form of nuclear weapons system would generate savings, but this is unlikely. Assuming no saving on nuclear policy, SDP policies overall would entail a net increase of spending of at least £100 million in 1986-7.

The Liberal commitment clearly implies that they will maintain overall defence expenditure at the same level in real terms.

Presentation

Defence is one of several areas of fundamental disagreement between the SDP and the Liberals. But I do not think the costings exercise is the best way of exploiting it. I suggest that, as with Labour's costings, we leave out defence:

- (i) We are cutting defence expenditure in real terms. The SDP, particularly David Owen, would be quick to drape themselves in the Union Jack.
- (ii) A key element in the accuracy of any costings figure we gave would be the assumptions made on the SDP's proposed replacement of Polaris. We have nothing precise to go on here at the moment. They are due to publish a joint policy document on defence shortly to paper over the cracks.
- (iii) The SDP/Liberals might be hoping to exploit defence as a vote winner but this will be difficult for them. They will be acutely sensitive to the dangers of further splits amongst themselves. However cleverly the joint policy document papers over the cracks it will almost certainly be rejected by the Liberal conference in the autumn.

2: Basic Benefit

You may recall Miss Wallace's memo of 24 April on this, attached.

The main point is that, taking reasonable assumptions, the cost would be £26 billion extra.

The assumptions are:

- Income support at the same level as illustrative figures in the White Paper's technical annex
- 25 per cent increase in the Child *credit element* of basic benefit
- Inclusion of mortgage interest costs
- Child Benefit disregarded for the assessment of income.

Even with Child Benefit income assessable and mortgage relief excluded this would reduce cost by only £5 billion.

Presentation

X/ Although the SDP's own estimate of £4.16 billion for the cost of basic benefit is totally inadequate I do not think we can use the £26 billion figure as part of the costings:

- It would more than double total figure for the Alliance to £40 billion plus..
- It would take the sting out of Labour's £24 billion.

We might at some stage have an opportunity of embarrassing them in the House with this figure. Since Treasury officials are not happy with the costing anyway perhaps its exploitation is better left in the hands of Mr Fowler.

AGT.

A G TYRRE

FROM: F. E. R. BUTLER
10th June, 1986.

PS/CHANCELLOR

C/ Any views?

- c.c. Chief Secretary
- Financial Secretary
- Minister of State
- Economic Secretary
- Sir P. Middleton
- Mr. Turnbull
- Mr. Scholar
- Miss O'Mara
- Mr. Culpin
- Mr. Pickering
- Mr. Cropper
- Mr. Ross Goobey
- Mr. Tyrie

*Content with Mr Pickering's answer (para 2 reply).
 Agree to para 2 & 3, it is necessary to give a detailed breakdown for Mr B that you can refer to. This is necessary for the revised figures attached.*

DRAFT REPLY TO RESPONSE TO £24 billion POSTER

minutes of 26/5. This can require same

Mr. Pickering has copied to me Mr. Ross Goobey's minute of 4th June.

2. In addition to Mr. Pickering's comments on the draft letter, with which I agree, I am very concerned about quoting the detailed figures in the Chief Secretary's reply of 3rd March, which have now in some cases been substantially revised.

3. If it is necessary to give any detailed figures at this stage for the component items of the £24 billion total, we should use the revised figures attached to my minute of 16th May (copy attached). But it would be better to avoid the detailed figures and say that, while Opposition spokesman have questioned a few individual components of the costings which will be revised from time to time, there is no reason to doubt the broad accuracy of the figure of £24 billion.

Attached at A

X

Should answer your letter.

F.E.R.B.

F. E. R. BUTLER

FROM: F. E. R. BUTLER
16th May, 1986.

CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr. Anson
Mr. Turnbull
Mr. Scholar
Mr. Burgner
Mr. Gilmore
Mr. Jameson
Mr. Watson
Mr. Perry
Mr. Burr
Mr. Instone
Mr. Grimstone
Miss Noble
Mr. P. Davis
Mr. Shaw
Miss O'Mara
Mr. Gibson
Mr. S. Kelly
Mr. Pickering
Mr. Cropper
Mr. Ross-Goobey
Mr. Tyrie

COSTING LABOUR'S POLICIES

I attach the revised cost of Labour's commitments.

2. The strategy is to stick to the figure of £24 billion, which is justified by the revised table. It is also to avoid for the time being giving different costings for individual items than those published in the original reply to Mr. Chope. Recipients should therefore avoid giving figures for individual components of the list as far as possible and should in particular avoid giving figures for those which have been revised and are marked with (a) in the table attached to Mr. Pickering's minute.

F.E.R.B

F. E. R. BUTLER

<u>Commitment</u> (see also attached notes)	<u>Original</u>	<u>Revised</u>
	<u>costing</u> £ million	<u>costing</u> £ million
1. Aid (a)	900	1,133
2. Industry (a)	1,133	586
3. National Investment Bank	48	48
4. Training for unemployed	900	900
5. Community programme training (a)	200	200
6. Educational maintenance award (a)	965	640
7. 35 hour week	3,000	3,000
8. Minimum wage	1,000	1,000
9. Regional employment subsidy (a)	500	500
10. Energy	750	750
11. Arts	140	140
12. Roads	706	706
Rail	248	248
Airports and ports	154	154
13. Housing: new build	3,000	3,000
14. Housing: rehabilitation	250	250
15. Urban Programme	500	500
Sewerage (a)	250	250
Education:		
16. under 5s	400	400
17. teachers	235	235
18. buildings and equipment (a)	871	246
19. close private schools	300	300
20. Student grants (a)	125	435
21. Health	780	780
22. TV license for pensioners	325	325
23. Maternity and death grants	220	220
24. Child benefit	1,450	1,450
25. Pensions	1,650	1,650
26. Early retirement (a)	2,600	3,000
27. Unemployment benefits (a)	500	530
28. Minor measures	60	60
TOTAL	<u>24,160</u>	<u>23,636</u>

(a) Costing and/or note amended in revised version

Str X: Re P882/PX quotes in Standard. What matters is what it looks like for LWTZ (they are frustrated): probably not much more than 130 p per share. P882 confirms (myself).

UNCLASSIFIED

FROM: J P McINTYRE
DATE: 8 JULY 1986

- 1. MR GIMSTONE
- 2. CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir P Middleton
- Mr Butler
- Mr Monck
- Mr Moore
- Mrs Butler
- Mr Gunton
- Mr Pickering
- Mr Stock
- Mr Cropper
- Mr Ross-Goobey
- Mr Tyrie

We have previously suggested a line for you to take on this. Once we know more about the Labour Party's intentions we will be able to offer further comment. J.P.M. 8/7

BRITISH TELECOM: LABOUR PARTY POLICY

You asked for a short analysis of the Labour Party's plans for BT, as reported in some of yesterday's newspapers.

2. Occasional reports have been appearing in the press for some months about the Labour Party's approach to privatised businesses, notably BT. The draft policy document referred to in the reports has not been published, and the assessment which follows is therefore very much subject to seeing the details of the proposals.

- 2. It seems that shareholders in BT would be offered a choice:
 - (i) Sell back their shares to the Government at the original purchase price (130p), or
 - (ii) exchange their shares for non-voting tradeable bonds, which would carry an incentive for retention over 5 or 10 years.

No distinction is made in these latest reports among the various categories of shareholders, namely institutions, employees, and the general public. And the government would hold 100% of the voting shares in BT.

UNCLASSIFIED

3. In so far as investors chose option (i), the government would incur public expenditure in making cash purchases of securities from the private sector. If all BT investors were to choose this option and if the shares were repurchased at the original price of 130p, the cost would be approximately £3.9 billion.

4. It is more difficult to assess the possible costs of option (ii), as we do not know the rate of interest which would be payable on the non-voting bonds nor whether there would be any other incentive to retain the bonds over a period. However, the provisional view of GEP and the CSO is that the issuing of the bonds themselves would not score as public expenditure but would be treated as a PSBR-financing transaction, involving the exchange of one financial instrument for another. Interest payments on the bonds would, of course, count as public expenditure each year. Assuming again that everyone were to take up option (ii) and that fixed interest of 10 per cent a year was payable on the bonds, the annual public expenditure costs would be something like £390 million.

X | 5. GEP and the CSO emphasise that they would need more information about option (ii) before being able to give a firm view on the public expenditure/PSBR treatment.

Paul McIntyre

J P MCINTYRE

HEALEY
"U-TURN"

PRAYERS

FROM: A ROSS GOOBEY
DATE: 11 JULY 1986

CHANCELLOR

cc CST
FST
MST
EST
Mr Scholar
Miss O'Mara
Mr Culpin
Mr Cropper
Mr Tyrie

THE HEALEY "U-TURN" 10TH ANNIVERSARY

Mr Healey returned from Heathrow on his way to Hong Kong and Manila on 28 September 1976.

2. This was the same day that Mr Callaghan made the famous Peter Jay speech. As well as the "we used to think that you could spend your way out of a recession" extract, there are the following two which might be used at some stage.

3. "We have to get back to fundamentals. First, overcoming unemployment now, unambiguously depends on our labour costs being at least comparable with those of our major competitors."

4. "Whatever was done in the short term, the only long-term cure for unemployment was to create a healthy manufacturing industry that would hold its own overseas and in doing so would be able to hold its grip in the domestic market. It was from a healthy and expanding manufacturing industry that Britain would be able in due course to resume the growth and improvement of the social services and also create the jobs necessary to reach what was desperately required, their employment targets".

5. On 28 September 1976, the Electricity Council borrowed \$500 million on terms ¼ point worse than Venezuela and doubt was expressed by "Lex" whether the Government could actually borrow at all. True banana republic days.

ARG

A ROSS GOOBEY

FROM: A ROSS GOOBEY
DATE: 15 JULY 1986

CHANCELLOR

lan
Monck

CST
FST
MST
EST
Mr Monck
Mr Moore
Mr Scholar
Mr Grimstone
Mr McIntyre
Mr Culpin
Mr Cropper
Mr Tyrie

LABOUR POLICIES: "SOCIAL OWNERSHIP"

Andrew Tyrie has managed to locate the policy document.

2. The plan is to offer BT shareholders three options:

i) 130p in cash

ii) A long term capital bond which will increase in price over time "like National Savings Certificates" but will only be worth 130p initially.

iii) A long term income bond on which the increase "will be steady in the first four years" and increase thereafter.

3. It is therefore quite clear that the initial market value of these pieces of paper is unlikely to be much more than 130p.

4. Anyone taking the "Capital" bond will presumably sacrifice current income.

5. Anyone taking the stepped interest bond will see no income increase for some years.

6. The best argument I can think of to use is that we have been through all this before. Transport 3 per cent 1978-88 are still

trading at only 93 over 40 years after nationalisation, and Gas 3 per cent 1990-95 are only 77. Both of course were much lower in the meantime but were no doubt represented at the time as fair compensation for the long term holder.

7. The document also suggests some jiggery-pokery with public sector accounting, to take external finance of the public sector companies out of the PSBR.

8. There is a whole host of other goodies in the document in terms of committing BT to extra expenditure, such as "phones for all", more phone boxes in desolate and deprived areas (like the island of Gruinard no doubt) which BT will have an obligation to keep operative. There is also the wonderful expression that they would like to see "new innovative tariff structures", - rather than old innovative structures?

9. A thorough examination of the document for other nuggets will take place over the next few days.

ARL

A ROSS GOOBEY

FROM: A G TYRIE

DATE: 15 July 1986

CHANCELLOR

CC:
PS/Chief Secretary
Financial Secretary*Advisers
Mr Grimstone***SOCIAL OWNERSHIP**

I attach a copy of Labour's draft paper on Social Ownership, discussed yesterday in their Home Affairs Policy Committee and due to go before the NEC at the end of the month.

2 This is a muddled and unimaginative paper. Mr Grimstone, Alistair and myself will be submitting a note tomorrow giving a line to take on re-nationalisation of BT. I set out below a few other points which may be useful for First Order PQs.

- (i) Labour is still hopelessly trapped by Clause 4. Having re-affirmed Clause 4 the paper immediately attacks the public ownership policy of previous Labour Governments:

"current disenchantment with public ownership is rooted in the failures of past Labour Governments to adapt to new demands.":

This is followed by a very quotable line:

"post-war Labour Governments all too often brought the commanding 'depths' into public ownership, turning public industry into little more than the recovery ward for the private sector's crippled poultry".

- (ii) We should not allow our attention on BT to obscure the grand scale of re-nationalisation suggested in this paper. The paper advocates obtaining a stake in the key manufacturing sectors, in British Aerospace and Rolls Royce, in Royal Ordnance factories, naval shipyards and dockyards. They also intend to create another BNOC type

oil company, and a publicly owned clearing bank (this presumably supersedes their earlier commitment to take ~~on~~ public stake in the banking sector to supplement the National Investment Bank), all this in addition to gas (when privatised) and BT. Only their wish to take a major stake of the British Pharmaceutical industry into the public sector seems to have been deleted from earlier pledges on nationalisation.

(iii) Apart from the confiscation threat there is also a vague promise to give local authorities power to interfere in the industrial activity of their area:

"we intend to give local government a specific power to intervene in the local economy and industry." (Page 22)

(iv) There are also some extraordinary suggestions, *bordering* on the farcical. For example:

- "meter readers (for gas etc) should receive specific public relations training", This PR training is apparently designed to overcome the problem that meter readers leave the doorstep too soon after having rung the bell!
- "We propose to give every person on the electoral register a "citizen guarantee"! Each person will receive a customer rights contract. This will give them entitlement to a given level of service from socially owned utilities. (Page 45). Among the benefits are that "no phone box should be out of order for longer than, say, one working day."
- among the benefits of social ownership to BT ^{are} "phones for everyone".

(v) The most imaginative idea in the document is the attempt to ~~decide~~ ^{change} by the change of name from nationalisation to social ownership. As with Labour's Jobs and Industry Campaign :

Kinnock's own description of this

"They are sounding a bell to get people to come and look, and not be too bothered about the package." (Kinnock, FT 14 June 1985).

AG.

A G TYRIE

FROM: A ROSS GOOBEY
DATE: 16 JULY 1986

CHANCELLOR

*This will need to
be done in my
Party long speech
in some form.*

cc CST
FST
EST
MST
Mr Monck
Mr Scholar
Mr Grimstone
Mr McIntyre
Mr Culpin
Mr Cropper
Mr Tyrie

"SOCIAL OWNERSHIP"

I submit the ideas Andrew Tyrie and I have generated after further discussion. Mr Grimstone has made several helpful suggestions.

2. The policy must be attacked as nationalisation dressed up in new (goat's ?) clothing, much as the Social Contract was Trade Union power in a disguise. The document's authors "reaffirm clause IV". Have they really learnt nothing since 1918 when the constitution was promulgated?

3. The Labour Party want to rob British Telecom shareholders, either by offering cash or securities worth 130p now. This is a vindictive attack on those 4 million Telecom workers and all 1.6 million individuals who own Telecom shares directly, and the many millions more who own shares via their pension fund or insurance policy. Socialists see people who have bought shares in privatized companies as class traitors, but the owners include many Trade Union funds, Labour local authority and nationalised industry pension funds. "We are all class traitors now".

*Comparison
with today's
market
price of 200*

4. Those who remain in the bonds are indeed held in bondage, the converse of golden handcuffs - lead shackles perhaps?

5. There is a substantial passage in the document which purports to find a way of having state owned industry outside the public sector in accounting terms. No matter how much cooking of the books Labour will do to fool itself, such a charade will not fool the international holders of sterling or the domestic holders of government debt.

6. The scope of the proposed nationalisation is really very wide, and would certainly take the public sector beyond 50% of GDP. Amongst those companies mentioned is the TSB. Do you think it might be helpful to hold this up to ridicule? It might well be removed from late drafts of this document. It would be merged with Giro and National Savings to form the People's Bank, and Labour would be paying something for which this Government is receiving nothing. From whom would a speculative gain be rent?

ARL

A ROSS GOOBEY

FROM: A TYRIE
DATE: 17 JULY 1986

CHIEF SECRETARY

Cl
Thus arrived
pretty late.
I don't if everyone
can have read it
Re
17/7

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

TYRIE
→
CST
17/7

7 Stubs of
'Accounts N'?
Adm?

LABOUR COSTINGS

I attach a table with the latest re-costing and notes.

2. The total for existing pledges is virtually unchanged. Costings have been uprated to 1986-87 figures and territorials have been added. Some items have decreased or have been dropped, see below. New pledges (29-32 inclusive) are worth £2.5 billion, excluding the DES costing of "Education Throughout Life" which is probably worth several billion pounds on its own. We do not yet have firm costings for this. Six Meacher pledges (33-38 inclusive), the solid items from a massive list sent to us by DHSS, are worth £9.16 billion.

3. We have the option of issuing either the £26 billion (plus DES) and a separate Meacher figure, or c £36 billion, pointing to Meacher as the cause of the jump. By taking the first approach we can portray Labour's spending plans as a taxi-meter, inexorably rising as times goes by, and Meacher as a freelance joker. By issuing a global figure we increase the chance of forcing a response from Hattersley and put greater pressure on Meacher.

4. I think that if we change the figure (and this was the purpose of the costing) we should issue the highest figure that is robust. This may detract from the headway which we have made with the £24 billion, but that would be the case with £26.25 billion plus DES, as much as it is with £36 billion. There are other reasons for favouring an approach which puts maximum pressure on Meacher - see "the political message" below.

✓

Significant changes to the first re-costing

i. Aid (1). The old pledge to double aid has been replaced by Hattersley's more expensive pledge to increase overseas aid to 0.7% of GNP.

ii. Training for the unemployed. (4). This has fallen slightly because social security savings have been netted off.

iii. Energy. (10). The old pledge was extremely vulnerable. We are now using a smaller more robust pledge from an earlier source.

iv. Arts. (11). This is down £30 million because Labour's pledge to zero rate VAT was erroneously included in the original costing.

v. Rail. (12). Slight reduction because £180 million of the £300 million Labour committed themselves to spend over 5 years on main-line electrification is already being spent by us.

vi. Airports and Ports. (12). These have been dropped. The commitment to improve airports is probably not additional to BAA's existing capital expenditure plans. Ports have been dropped because they no longer count as public expenditure.

vii. Minor measures. These have been reduced because the source of one of the pledges is untraceable.

New Items (29-32 inclusive)

i. The assumptions for the adult education entitlement (30) will require careful vetting when we receive it back from DES.

ii. Meacher costings. The child benefit figure (35) is Meacher's pledge (£3.25 billion) less Hattersley's on child benefit (item 24). Supplementary benefit (36) is very dependent on, albeit cautious, assumptions.

Possible lines of attack by Labour

i. Labour may point to items which have gone down since the Chope PQ as evidence of the frailty of the costings. I have drawn attention to the important ones above. They are: (4) training for the unemployed, (10) energy, (11) arts, (12) rail, airports and ports, (28) minor measures.

ii. The pledge on which item 9, regional employment subsidy, was based, is weak. It survived the first recosting unscathed and would be a sore thumb if omitted now. I have left it unchanged in this second re-costing. The quotation, from A New Partnership - A New Britain (TUC Labour document 1985) is: "We will need to consider the introduction of a new regional employment subsidy." The assumption is that the £2 per head per week subsidy, uprated in line with inflation is applied to manufacturing industry only.

The Political Message of the Costings

The first exercise put across the message that Labour's spending plans are hopelessly extravagant and unrealistic. It was also a vehicle for reminding people what happens when spending is let rip, be it 1976 or 1986.

In addition to reiterating that message I think we can use these costings to make two further points:

i. Meacher can no longer be taken seriously as a Front Bench spokesman. Our very cautious calculations put his pledges at nearly £10 billion. Norman Fowler will weigh in with a much larger figure. Apparently

DHSS estimate that one recent speech by Meacher in the House may alone be worth £15 billion. Mr Fowler will also attack some of Mr Meacher's other crazy ideas.

Knocking Meacher out may enable us to come off the defensive on health and social services for a while, particularly if the media are brought to concentrate on his credibility rather than our alleged cuts.

ii. We should emphasise that these costings have been undertaken with extreme caution. They do not take account of nationalisation, nor some of Labour's generous tax and NIC pledges. They do not include pledges where the spending effects are of only one year's duration. Nor do they include other vaguer pledges by Kaufmann, Radice, Meacher, Cunningham and others. They are a very conservative estimate of the cost of another Labour Government.

We have not made enough of the tax effects of Labour's spending plans. Public expenditure totals are fairly recondite numbers but changes in income tax and VAT are not. I am more convinced than I was in May that we should launch an attack on their tax plans (which I suspect overall may be roughly revenue neutral) and thereby force them to admit that the full weight of their spending proposals will have to be met by higher taxation, printing or borrowing. Perhaps this could be timed to coincide with another expenditure re-costing.

Launching the re-costing: Mechanics and Timing

I do not think that it will be easy to get as much coverage for this re-costing as we obtained for the £24 billion. The fact that we were costing Labour's plans in the Treasury was news last time - it will not be again. This is the main reason why I favour orientating the re-costing around the lunacy, of one spending Minister's plans to give it more newsworthiness. Our objectives should be to get the newspapers talking about Labour's spending plans rather than ours, to get Hattersley to rise to the bait and, if possible, to cause disarray in Labour ranks.

What is
was the
of Meacher?

Let's have
a look @
their tax
plans

??

All hands on deck
argue how far up

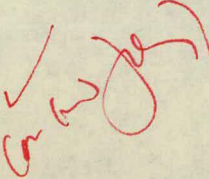
On timing I think there are two options, either immediately before the Recess or in September. The advantage with issuing it before the Recess are:

i. We can use a written PQ provided we table it before the House rises. The latest date for tabling would be 24 July.

ii. The NEC is meeting at the end of the month. A successful attack on the "mad hard left spenders" might prevent Labour from reaping the benefits they are hoping to obtain from this meeting - the impression of unity and moderation. It was reported in the Guardian today that the Shadow Cabinet is meeting to discuss public expenditure commitments later this month: "The discussion will be about the approach, and there will be no figures."!

iii. A July launch leaves the way clear for the use of Alliance costings in September. The key bull point will be that strictly Alliance pledges (even including overlaps which we have found between Liberals and the SDP on their behalf) will be considerably less than either the SDP total or the Liberal total. The best time to exploit this must be the Party Conference season when the Liberals and the SDP go through their annual "ritual of unity". The SDP Conference starts on 15 September. If we issue both costings in September they may get in each other's way.

The arguments in favour of September are:

 i. There is a risk that a launch at the end of July may get lost in "silly season" news. This cuts both ways - we may get more coverage in August.

9. ii. Without the vehicle of a PQ there may be Treasury reservations about launching Treasury work at what would have to be a political occasion.

iii. An issue in September may succeed in disrupting the Labour Party Conference to some extent.

On balance I favour a written PQ before the House rises followed immediately by a speech by the Chief Secretary. This should be co-ordinated with a series of speeches by relevant spending Ministers emphasising the modesty of our costings and using it as a platform for discrediting their opposite numbers. Speeches by half the Cabinet on the same topic would be newsworthy in itself. I do not think it would diminish Treasury credit for the exercise. It would mean a lot of hard work co-ordinating this but I think there is time. I have already sounded out several Special Advisers to check that their Ministers would be interested. We would also need to brief the press heavily.

Officials have done an enormous amount of work on this re-costing, far more than for either of the previous ones. They are just as keen^{as us}/to see the material put to good use! I have no doubt that Sir Peter Middleton and other officials will have a Treasury interest in the timing and mechanics of the launch.

AGS.

TABLE

drop - to vega

COMMITMENT a-----	ORIGINAL COSTING	REVISED COSTING (15.5.86)	REVISED COSTING (11.7.86)
a	£ million	£ million	£ million
1. Aid	900	1,133	1,460
2. Industry	1,133	586	590
3. National Investment Bank	48	48	50
4. Training for unemployed	900	900	750
5. Community programme training	200	200	240
6. Educational maintenance award	965	640	730
7. 35 hour week	3,000	3,000	3,250
8. Minimum wage	1,000	1,000	1,100
9. Regional employment subsidy	500	500	500
10. Energy	750	750	170
11. Arts	140	140	110
12. Roads	706	706	730
Rail	248	248	220
Airports and ports	154	154	-
13. Housing: new build	3,000	3,000	3,130
14. Housing: rehabilitation	250	250	250
15. Urban programme	500	500	510
Sewerage	250	250	260
16. Under 5s	400	400	470
17. Teachers	235	235	230
18. Buildings and equipment	871	246	250
19. Close private schools	300	300	360
20. Student grants	125	435	470
21. Health	780	780	760
22. Free TV licence for pensioners	325	325	320
23. Maternity and death grants	220	220	220
24. Child benefit	1,450	1,450	1,450
25. Pensions	1,650	1,650	1,650
26. Early retirement	2,600	3,000	3,000
27. Unemployment benefits	500	530	530
28. Minor measures	60	60	50
29. Pay some LA councillors (a)	-	-	40
30. Education throughout life (a)	-	-	-
31. Wage subsidy (a)	-	-	1,400
32. Expand public services (a)	-	-	1,000
TOTAL	24,160	23,636	26,250 (+) 25,750

MEACHER COSTINGS

-----	£ million
33. Double Christmas bonus	110
34. Winter premium	180
35. Child benefit	1,800
36. Supplementary benefit	7,200
37. Drug abuse	20
38. Cut drugs bill	-150
TOTAL	9,160

What are addition of things down?

NOTES:

1. Increase overseas aid to 0.7 per cent of GNP recommended by United Nations. Replaces Neil Kinnock's 30 July 1985 commitment to double aid within 2-3 years. Costing based on FSBR forecast for 1986-87 for GDP at market prices. No published forecast for GNP - but unlikely to be very different from GDP. (Roy Hattersley's speech to Overseas Development Institute, 9 June 1986.)

2. Cost of commitment to increase industrial support by 50 per cent above the 1985-86 level. Previous costing was already at 1986-87 prices. (John Smith in "Tribune" 8 November 1985.)

3. Based on assumed lending of £2 billion in year one and interest subsidy of 4 per cent on 60 per cent of loans. No allowance for bad debts. (NIB described by Roy Hattersley in a speech in London, 17 May 1985.)

4. Cost of a five fold increase in the 1984-85 level of provision for training adult unemployed, ^enot of social security benefit savings and uprated to 1986-87 prices. (A Plan for Training, TUC/Labour, July 1984).

5. 11 week training for all Community Programme participants. Increase in cost partly due to 1986 increase in CP places. (Plan for Training, TUC, July 1984.)

6. £27 a week for over 16s in full time education. Assumes offsetting savings in child benefit. Estimate of number of recipients revised since previous costing, including to put figures on GB basis. The Labour Party has made it clear (in "Education throughout Life") that there are other pressing claims for extra spending which they believe should be give higher priority. (Charter for Young People, June 1985).

7. Cost in public services only. Increase partly due to rise in average earnings. NB rounded from £3,375 million to nearest

What is public services?

£250 million, as in the original costing, because heavily dependant on various assumptions. (Working Together, April 1985.)

*Did it
985
2/3 1987?*

8. Public services cost only of minimum wage set at two-thirds of average earnings. Increase partly due to rise in average earnings. (Conference Motion, 1983.)

change

9. Interpretation of uncosted proposal, based on 1976 subsidy of £2 a head a week, uprated in line with inflation and applied to manufacturing industries only. Previous costing was already at 1986-87 prices. (A New Partnership, TUC/Labour, August 1985.)

change

10. TUC proposal for increase in energy conservation programmes in public and private sectors at cost of £525 million over 4 years. Previous £750 million costing was mid-point of DEn estimate of total scope for increase in worthwhile public spending on energy conservation schemes. (The Reconstruction of Britain, TUC, October 1981.)

✓

11. Doubled funding of performing and creative arts at 1985-86 level of Arts Councils' grant in aid, uprated to 1986-87 prices. Costing no longer includes effect of proposal to zero rate VAT for the arts. (Norman Buchan, Financial Times, 6 August 1985.)

change

12. Uprating of commitments in Reconstruction of Britain (TUC 1981):

(i) The roads commitment was to spend an additional £570 million a year for 5 years. Uprated to 1986-87 prices.

(ii) For rail it has been assumed that the full cost would add to the EFL and that the commitment to spend £180 million over 5 years on main line electrification would not be additional to BR's current electrification plans (£300 million over 5 years on East Cost main line scheme). DTp have not yet commented on whether or not they agree with this approach;

(iii) The commitment to spend £600 million over five years on improving airports has been dropped. It is not clear whether this proposal would be additional to BAA's existing capital expenditure plans;

(iv) Ports have also been dropped. Public Trust Ports obtain capital from private markets. Government controls on capital spending and borrowing were removed under the Ports (Finance) Act 1985. So from 1985-86 trust ports have been classified to the private sector.

13. 125,000 new starts at £25,000 each. DOE have raised their estimate of average cost of new start from £24,000. (Reconstruction of Britain). *(NOC-1981) Study New Law for a later plan?*

14. 25,000 renovations a year at £10,000 each. Assumes majority of renovations would be for hard-to-let housing. Estimate has not been uprated because DOE consider that it may already be on the high side. (Reconstruction of Britain).

15. First year of a five-year programme to increase Urban Programme by £2 billion over 5 years and sewerage investment by £1 billion over 5 years. (Reconstruction of Britain.) Uprated to 1986-87 prices.

16. Right to pre-school education for all 3 and 4 year olds. Assumes 80 per cent take up. Includes territorial effects not previously costed. (The Charter for the Under 5s, April 1985.)

17. 14,000 more teachers and increase in-service training. Labour's own estimate of the cost of employing extra teachers (only), after taking account of UB savings, on what basis is not clear, is £50 million. (Giles Radice, Guardian, 17 April 1985).

18. Increased expenditure on school building, repair and maintenance is based on uprating of commitment (Reconstruction of Britain) to spend £625 million over 5 years. £90 million

on books and equipment (Giles Radice, Guardian, 17 April 1985).

✓ 19. Assumes 500,000 extra pupils in the state sector. Includes territorial effects not previously costed. (Charter for Pupils and Parents).

✓ 20. Restoration of mandatory award to 1978-79 levels and abolition of parental contributions. Includes territorial effects not previously costed and is net of housing benefit savings. (Education throughout Life, 1986.) the Labour Party has made it clear (in Education throughout Life) that there are other pressing claims for extra spending which they believe should be given higher priority.

21. Costings no longer include commitments to 3 per cent real growth in NHS spending or restoration of nurses' pay to real levels of 1980; both commitments have been superseded by the Review Body awards. Now includes territorial effects. Components are:

(i) £600 million for phasing out of charges and ending private practice in NHS (NEC statement, October 1983);

✓ (ii) £100 million for real increase in capital spending (Reconstruction of Britain)

(iii) £60 million for end to competitive tendering (Neil Kinnock, speech at Bournemouth, 22 April 1985 Col 482).

✓ 22. Gerald Kaufmann (OR 27 March 1985^{Col 482}).

✓ 23. £120 million maternity grant, £100 million death grant. Previous costing was already at 1986-87 prices. (1984 Conference motion).

✓ 24. £3 a week increase. Previous costing was already at 1986-87 prices. Net of means tested benefit savings. (Roy Hattersley, OR 20 March 1985, Col 881).

25. Pensions increased by £5 a week (single) and £8 (couple). Previous costing was already at 1986-87 prices. Costing net of supplementary and housing benefit savings. (Roy Hattersley OR 20 March 1985 Col 881.) NB Michael Meacher has called for restoration of pensions uprating link with prices/earnings (OR 22 April 1985 Col 625).

26. Reduction in retirement age to 60 for men. (Neil Kinnock, 24 June 1985, at TGWU Conference). Assumes benefit rates at 1985 level, in line with costing given in DHSS PQ (1 May 1986, Col 467).

27. Pay long term scale rate to unemployed people after a year on benefit. Assumes higher number of claimants at benefit rates prevailing in 1986-87. Previous costing was already at 1986-87 prices. (Roy Hattersley OR 20 March 1985 Col 881.) Used by Minister of Social Security (OR Vol 95 No 4 cols 403-4, 16 April 1986.)

28. Components are:

(i) £50 million for concessionary fares (Charter for Transport, April 1985);

(ii) £3½ million for strengthening the NEDC (John Smith in Tribune, 8 November 1985);

(iii) The previous costing included "more grants to other bodies", but these have not been clearly identified.

29. Implementation of Widdicombe proposals. (Speech by John Cunningham at LAMSAC conference, 23 April 1986.)

30. Costing not yet available.

31. Proposed in Employment Committee report (29 January 1986) and endorsed by Roy Hattersley (OR 19 March 1986 Col 310). Remainder of Committee's proposals assumed to be subsumed within other costings. (£1.5 billion for urban rehabilitation and £0.4

What?

billion for increased employment in the social services).

32. Increase public service employment in nursing, mid-wife and home-help service. (Roy Hattersley, OR 19 March 1986 Col 310.) In same speech Roy Hattersley^e promised to spend: £1 billion a year on public sector capital programmes; assumed to be subsumed within other costings.

33. Assumed that Michael Meacher's commitment to double Christmas bonus to £40 would be for a couple. (Daily Mirror 2 April 1986).

34. Winter premiums of £5 a week for needy pensioners and widows. Assumed no offset on heating additions to supplementary benefit. (Michael Meacher OR 6 March 1986).

35. Raise child benefit to £14 a week. This cost is additional to cost of implementing item 24 and is net of means tested benefit savings. (Michael Meacher, Tribune, February 1986.)

36. Mr Meacher's proposal that an unemployed couple on supplementary benefit should receive 70 per cent of the average net wage (including housing benefit) and that unemployment, retirement, sickness and widows' benefits should be raised in line.

37. Increase funds to combat drug abuse. Meacher's own figure. (Michael Meacher, Cold Comfort).

38. Cut drugs bill by reduction in rate of return and promotional expenditure. Mid-point of DHSS estimate of possible £100-£200 million savings. (Michael Meacher, Cold Comfort.)

NB

For items 16, 19 and 21 territorial consequences have been calculated by adding the formula increases for Scotland, Wales and Northern Ireland to the England costing. For item 20, the formula increases have been added to the England and Wales costing (DES expenditure on student awards is counted for England and Wales in PES.)

Don't
Subst
Use
Not

This is
a big
re: items