

PO-CH/NL/0236 PTD

Part D.

**CONFIDENTIAL**

(Circulate under cover and notify REGISTRY of movement)

Begins: 18/9/86.  
Ends: 10/12/86.



PO -CH /NL/0236



PART D

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 D

CHANCELLOR

FROM A TYRIE  
DATE 18 SEPTEMBER 1986  
cc Chief Secretary

I attach a draft letter for the Chief Secretary's PPS to send to the Financial Times and a draft release for the Chief Secretary to send to Roy Hattersley. The Chief Secretary has not had a chance to see these drafts yet; pressure of bilaterals.

Several journalists have rung me today asking if we intend to rebut Labour's allegations. Therefore I think we can keep the story running.

On the FT letter paragraphs 5, 6, and 7 can quite easily drop if you think it should be short.

On the letter to Hattersley you may think that paragraph 4 and attachment add too much detail. But if we want to rebut the specific points I see no other way.

Aut.

Ch

A TYRIE

I am very uneasy about rushing into this - and Robert needs to be brought in to consider handling. I don't think you saw Andrew's note\* last night (it was with rest of briefing for BBC TV interview). I'm not at all sure that Andrew is attacking Meade on the right ground on some points. Hold for pages on Monday? AA.

(\* below)

DRAFT LETTER FOR THE CHIEF SECRETARY TO ROY HATTERSLEY

In a speech last night you said:

"Parts of our programme will have to wait for the availability of necessary finance... We must not attempt what we cannot afford or promise what we cannot, prudently, carry out."

2. Are you now able to tell me which of the 38 pledges I costed in July have been deferred?

3. Secondly, I notice that the Labour Party have made several further pledges since July. I attach a list of a number of them. You might wish to withdraw some or all of these before I set to work costing them.

4. Thirdly, I notice that both your assistant Doug Jones and Michael Meacher have questioned the accuracy of the costings and the sources on which they are based. They are wrong on every single point. Mr Meacher does not even keep track of his own pledges and tries to ascribe one of them to 'an adviser'. I attach a detailed note showing Messrs Jones and Meacher's mistakes together with the July recosting which they would be well advised to read with more care.

*What about regional employment subsidy (see AT note)*

## New Labour Party Pledges

### 1. Disability scheme

- "Labour is committed to introducing a new and comprehensive disability income scheme with two separate non-contributory elements: an allowance to compensate for the additional indirect (as well as direct) costs of disablement, payable according to the severity of disablement; and a more streamlined income maintenance benefit."

NEC statements to Conference 7 September 1986. (The document itself estimates the net cost at between £1.5 billion and £1.76 billion).

N.B. The document says that Lab~~our~~ "shall implement the initial stages as a priority". Which part of this programme is your priority?

### 2. Energy

- "Labour will restore full funding of research projects into wave power within the context of a much enhanced

research and develop budget for the novel sources of energy." (ibid)

- "We will diversify Dounreay's research base to include wind, wave and tidal power." (ibid)

- "We intend to develop major new projects, both to explore a range of options for (nuclear) waste disposal and to deal with the decommissioning of existing power stations." (ibid)

- "We also propose to create a science park in West Crumbria to promote and diversify industrial development based on the knowledge and experience at Sellafield." (ibid).

## MISTAKES BY MR JONES AND MR MEACHER

### 1. Supplementary Benefit (Meacher item 36)

Mr Meacher alleges that the £5 billion costing of his Supplementary Benefit proposal is from "a paper by an external adviser which has never been submitted to, let alone accepted by, the Labour party National Executive.

### Rebuttal

The source is Michael Meacher himself in Tribune, February 1986, Mr Meacher said.

"Supplementary Benefit for a couple if they are unemployed, on a short term rate, is about £80. But the rent is paid if they are getting Housing Benefit - say about £20 a week. That takes them to about half the level of the net wage of an average paid worker. I believe they ought to receive about 70%....All benefits - unemployment, retirement, sickness, widowhood - have to be paid at a level at least as high as that family would get from Supplementary Benefit."

### 2. Reduction in the retirement age (item 26).

Mr Meacher says that the source used, Mr Kinnock at the TGWU conference in June 1985, does not begin to pledge

a reduction in the retirement age.

Rebuttal

Mr Kinnock put out a release on that day which said:

"we should ... plan for and provide the means for voluntary and increasing reduction in the retirement age."

3. Education, buildings and equipment (item 18).

Mr Meacher describes this as bogus. Both Mr Meacher and Mr Jones challenged the veracity of the sources.

Rebuttal

Neither Mr Jones nor Mr Meacher have read the footnote. They have both made two mistakes. The first is to allege that these items were costed at £871 million. In fact they are costed at £250 million. The second is to fail to realise that the costings, as the footnote makes amply clear, is the sum of two separate pledges. The wording in the footnote of the costings "Labour's own estimate" applies only to the £60 million in service training, (Mr Radice's figure quoted in the Guardian) Another figure given by Mr Radice in the same article, £50 million to pay for an extra 14,000 teachers, is ludicrously low. The average gross cost of employing a teacher for a year

*I feel this is perhaps too disingenuous. Point for attack is that Kinnock did say "will cost large sums & take many years" - are Meacher/Hattersley now saying it will take so many years that it should be ignored?*

is approximately £12,500, giving a cost of £175 million for 14,000 teachers.

The full quotations from the sources are:

"money should be used to repair and maintain schools and provide new buildings. This would mean £625 million over 5 years."

(Reconstruction of Britain, TUC October 1981, endorsed in a 'New Partnership, a New Britain' - TUC/Labour August 1985.) The second source is the Guardian, 17th April 1985, which stated

"Mr Radice said that Labour would provide ... £90 million for books and equipment".

The calculation of £250 million is a simple one. £625 million over 5 years, divided by 5 and uprated from 1981 - 82 prices gives an annual building repair and maintenance cost of £160 million. To this is added £90 million for books and equipment.

#### 4. 35 Hour week (item 7)

Of this pledge Mr Meacher writes "it is absurd to suggest a 35 hour limit would be reached in a year or even a few years."

### Rebuttal

~~But~~ Mr Meacher is not challenging the source and his words here seem to be an affirmation of Labour's commitment. Mr Meacher has misunderstood the basis on which the costings have been done. They are not a first year cost but a full year cost. It is recognised that it would not be humanly possible to implement all Labour's policies in the first year; it might in some cases take a few years to implement them. Mr Meacher is not challenging the source and his words here seem to be an affirmation of Labour's commitment.

#### 5. New house building (item 13)

Mr Meacher claims that this pledge, costed at £3 billion, will be offset by savings on unemployment and Supplementary Benefit.

### Rebuttal

It is a mistake to believe that Government spending reduces unemployment beyond the short term. Any job creation would soon be dissipated in higher inflation or interest rates leading to the loss of jobs in the private sector. Labour's policies, taken together, would severely damage

the economy and increase unemployment substantially.

III

CONFIDENTIAL

*W. J. P. [unclear]*

DRAFT LETTER FROM THE CHIEF SECRETARY'S PPS TO THE FINANCIAL TIMES

*(Financial Times 17<sup>th</sup> September)*

Peter Riddell, reported Labour's detailed response to the Chief Secretary's costing of their spending plans, which now total at least £28 billion. An article by Michael Meacher in Labour Weekly alleged that there were mistakes in the costings. On every point Labour's allegations are incorrect.

2. For example:

1. Mr Meacher claimed that the source for one of his most expensive pledges, a £5 billion addition to supplementary benefit, is "no more than references in a paper by an external adviser". Unfortunately for Mr Meacher the source is himself in last February's edition of Tribune.
2. Mr Meacher challenges the veracity of the source for Labour's pledge to reduce the retirement age. In fact Mr Kinnock's commitment at the TGWU conference of 24 June 1985 is perfectly clear on this point to anyone who reads the speech.
3. In challenging the sources for the pledge on school buildings and equipment Mr Meacher makes two mistakes. The first is to allege that the Chief Secretary costed these at £871 million. In fact they are costed at £250 million. The second is to fail to realize that the costing

is the sum of two separate pledges. This is made amply clear in the footnote. Clearly Mr Meacher cannot have read it.

3. There are many other examples.

4. Mr Riddell also reports that Mr Hattersley is now describing some of his colleagues' pledges as "mere aspirations" and "dependent upon the availability of resources". It is time Mr Hattersley told us which these are. These pledges are clearly intended to win the support of voters - the electorate need to know which pledges Labour now intend indefinitely to postpone.

5. In trying to judge what Labour might do we need look no further than Labour's last tenure in office. Between 1974 and 1976 they went on a spending spree. In under three years spending rose by 17% in real terms. This is remarkably close to Labour's present £28 billion of planned spending, which would mean an increase of 19% on 1986-7 spending levels.

6. In the 1970s Labour borrowed the money<sup>present</sup>. Here again the similarity is uncanny. Labour's borrowing in 1975-76 represented 9.25 per cent of GDP. The same percentage of today's GDP would give a PSBR of £33 billion. The PSRR is currently £7 billion. Again, £24 billion (33 billion less 7 billion) is remarkably close to Labour's present spending plans.

figures  
need  
checking

7. The figure of £28 billion is a cautious estimate of Labour's plans. The Chief Secretary's costings do not include anything for Labour's renationalisation plans. Nor has the Chief Secretary yet costed several further pledges made by the Labour party since July, for example a commitment to introduce a new disability scheme, a plan to force nationalized industries to take on more labour, and ~~general~~<sup>several</sup> pledges in the energy field. These alone are probably worth several further billion pounds.

8. ~~We know how~~ Labour's profligate borrowing and spending nearly bankrupted the country in the 1970s, throwing us into the hands of the IMF. It is up to Labour to tell us why a repetition of the same policies in the 1980s would lead to better results.



# Inland Revenue

Policy Division  
Somerset House  
FROM: J PAYNE

DATE: 19 SEPTEMBER 1986

PAYNE  
→  
CH/EX  
19/9

1. MR MACE

BAM  
19/9.

2. CHANCELLOR OF THE EXCHEQUER

## SDP PROPOSALS ON TAX AND BENEFITS

1. Mr Hudson's minute of 17 September asked for some further information on the SDP proposals.

2. I regret that in the time available we have not been able to make a full distributional analysis of the SDP scheme. What we have been able to do, is to analyse the proposals in a rough fashion by breaking the population down into different family types, assessing how the scheme will affect these families at various income levels, and estimating the numbers of cases in each relevant income group. We would stress however that this is very approximate. In particular we have had to make simplifying assumptions about national insurance contributions and housing benefit recipients. The figures we have arrived at give a broad picture of the effects of the scheme, but we would be reluctant to see them used in public. In practice they seem to confirm the SDP's claims.

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cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Cassell  
Mr Scholar  
Miss Sinclair  
Miss Noble  
Mr Hudson  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

Mr Isaac  
Mr Lewis  
Mr Beighton  
Mr Mace  
Mr Eason  
Mr Payne  
Mr Dodds  
PS/IR

3. The table below shows our estimates of the effect of the scheme as originally devised:

	Tax units (,000)		
	Gainers	Losers	Total
<u>Non elderly</u>			
single people	11,900	200	12,100
married couples	2,950	8,250	11,200
lone Parents	1,000	10	1,000
<u>Elderly</u>			
single	4,250	50	4,300
married	2,300	200	2,500
<u>Total</u>	22,400	8,700	31,000

*SDP's proposals thus boil down to a big transfer of resources from working married couples to single people and pensioners.*

4. The basic benefit proposals mean that virtually everyone who is currently not paying tax will gain, so restricting the analysis to current taxpayers, out of 20.3 million tax units, 11.7 million will gain and 8.7 million (43%) will lose.

The Revised Proposals

5. These have apparently been put forward in a private report prepared personally for Dr Owen by Maurice Fitzpatrick of the accountants Blick Rothburg and Noble. The only information we have on the proposals is what was reported in the Guardian of 16th September (copy attached to Mr Hudson's note of 17th September) and subsequently in the Guardian of 18th September (copy attached).

*Owen did not refer to them in his Conf. Speech (below).*

6. From these reports it seems that the rescue package is a special child benefit supplement worth £322 a year before tax to be paid to working couples with joint earnings around £9000 to

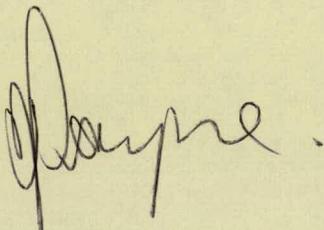
£12,000, who would have lost under the original scheme. The report estimates that this would cost £600 million which could be raised by a form of investment income surcharge, via corporation tax, or from a tougher tax regime for businesses.

*True. The same applies to ~~all~~ of the wrinkles designed to protect special groups, e.g. exempting pensioners from full NIC17.*

7. It is difficult to see how this new proposal could be administered without eating into the simplifications the SDP claim to be making to the tax-benefit system. However, supposing that by some method they were able to prevent losers among two earner couples with children who had incomes below about £12000 a year, there would be about 1.3 million fewer losers or a total of 7.4 million out of 20.3 million taxpayers (or 36%, just over 1 in 3).

8. You also asked how it was that only two-earner couples would pay tax on child benefit. We assume this arises because child benefit will be taxed as the caring parent's income (normally the wife) and she will be able to set her own allowance against it. For most one-earner families therefore the child benefit they receive (£598 per child per year) will not exceed the wife's personal allowance (£2100) and so they would pay no tax on it. Two-earner families on the other hand, where the wife has sufficient income to use up her personal allowance would pay tax on the benefit at 38 per cent, wiping out the proposed increase of £4.50. There will be some cases where one-earner couples will pay some tax on the child benefit, for example if the wife has a large amount of investment income, or if she has a large number of children as four child benefits would exceed her personal allowance.

9. The alternative would be if the SDP had in mind some kind of threshold of earnings above which child benefit would be taxed. But something like that would have severe disincentive effects as the threshold was crossed.



J PAYNE

*C.  
Useful*

CONFIDENTIAL

*WJF*  
*Labour Costings*

FROM: A G TYRIE  
DATE: 19 SEPTEMBER 1986

CHIEF SECRETARY

*This is to be kept in the file.*

cc Chancellor  
MST  
FST  
EST  
Mr Cropper  
Mr Ross Goobey

INSTITUTE OF FISCAL STUDIES AND THE £28 BILLION

The IFS are intending to put out a press release on the £28 billion, probably just before or during the Labour Party Conference (29 September-3 October).

2. I have been through the table with a member of their staff. Their questions were detailed. They have thoroughly checked every reference and spotted those which are not quite as robust as we would like. By the time they approached me they had already worked out many of our assumptions. I have of course helped them wherever I can.

3. I think they are on the whole convinced that the numbers are right. They may question whether all the quotations constitute pledges. They have had lengthy discussions with Doug Jones and will probably bend over backwards to accommodate some of his points, as did Peter Riddell.

4. They are also likely to divide the pledges into two categories: those which they think Labour would try and implement immediately after an Election, for example the unemployment and anti-poverty packages, and those pledges which are nearer the category of aspirations, for example the 35-hour week and the minimum wage pledge.

5. I shall try and obtain an advance copy.

*pp* *M. May*  
A G TYRIE

PUP

FROM: ROBERT CULPIN  
DATE: 19 SEPTEMBER 1986

CHANCELLOR

cc CST

Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

1 paper  
M.

## LABOUR BASHING

You asked if I had any comments on the papers Mr Tyrie submitted yesterday.

2. I am struck by three things.
  - a. You have had a remarkably good press. Not only have you made and kept the running with the £24/28 bn - you have even stolen this morning's headlines from Mr Hattersley on his tax proposals.
  - b. The detailed Labour counters are making little impact. They look like quibbles over fine print.
  - c. If anything makes an impression, it is Mr Hattersley's studied air of calm and reasonableness and moderation - not the detailed nitpicking.
3. It follows that in public:
  - (a) your best bet is to hold to the high ground: "we have published our costings in meticulous detail, explained line by line. If Mr Hattersley doubts them, let him send us a comparable table, in comparable detail, saying precisely which programmes will be implemented when and which deferred." That matches Mr Hattersley's air of reasonableness.

(b) You should not let the debate shift prematurely and piecemeal onto fine print. On some points, Labour's defences look quite plausible. You have a stronger case on the whole than the parts, and it is the whole that registers.

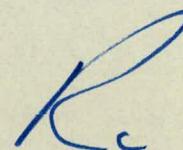
(c) You might well update the £28 billion from time to time, as new commitments come in, but you should not do it so often as to saturate the market or discredit the exercise.

4. Internally, I am sure the advisers should produce a blow-by-blow answer to all Labour's criticisms. But this needs to be thoroughly checked before it is used in public. I have to say, with respect, that the present draft did not convince me on all points, and seemed more strident in places than the facts warrant. I suspect that overstatement here could be counter-productive.

5. If the Chief Secretary wants to write again now to Mr Hattersley, I should stick to the crisp, simple challenge - broadly paragraph 3(a). I should not send him a rebuttal of points by Doug Jones and Michael Meacher which make little impact outside Labour Weekly and the New Statesman.

6. Nor, I think, would I bang off the draft letter to the FT. I think it needs more work and checking; and by the time it has been polished, the moment will have passed.

7. If, next week, it seems worth giving another twist to the story, I should use your speech at Uxbridge. But, needless to say, I am out of my depth in all this sordid politics.



ROBERT CULPIN

FROM: A G TYRIE

DATE: 19 September 1986

CHANCELLOR

cc Mr Culpin  
Mr Cropper  
Mr Ross Goobey  
Mr Turnbull

I agree with Mr Culpin's note.

2. We are definitely close to saturating the market, both in the short term and the long term.

3. In the short term we have other ammunition. We have the tax plans to lampoon for the next fortnight. That takes us up to the moment when you are considering issuing the Alliance costings.

4. Also, as I mentioned in another note, the IFS will probably be putting a release out on the £28 billion in a week's time. This will keep the story running, although it may not necessarily be entirely favourable to us.

5. In the longer term, as you know (and at the risk of making this point once too often!). I don't think we should do another pucker recosting this year. Labour's spending plans might just split the Labour Party during an election campaign (Hattersley versus the spending spokesmen). Although only an outside chance, such a split could turn out to be just as big a bonus as that over defence in 1983. If we push the issue into the headlines continually between now and the election the Press will tire of it and Labour will eventually find a face-saving formula.

AGT.

A G TYRIE



Inland Revenue

*Alex*  
*Stephen Pickford*  
*wd like a word*  
*in this*  
*DK*

*pwp*

Policy Division  
Somerset House

FROM: J H REED

DATE: 19 September 1986

- 1, Mr *Painter*
- 2, CHANCELLOR

*It would clearly be inappropriate for the Revenue to provide a statement, or comment, for the broadcast, as Channel 4 asked us to do. And, as a matter of mechanics, a statement on the lines of 2(iii) below (or even 2(ii)) would be for IDT to arrange.*

CHANNEL 4 NEWS : CT: PAYMENT DATES

1. Channel 4 News are preparing a report on the Habitat Design avoidance device. They intend to put this out in the coming week (cutting is planned for Monday). They have done an interview with Terry Davis MP and we understand he has said that this is a loophole in the legislation and an incoming Labour government would close it off. Channel 4 News asked the Treasury/Revenue for their comments by close today but we have asked them to wait until Monday morning.

2. The possible responses seem to be along the following lines.

- (i) No comment.
- (ii) All aspects of taxation are constantly under review.
- (iii) This particular aspect of the tax system is under review.

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Scholar  
Mr Pickford

Chairman  
Mr Painter  
Mr McGivern  
Mr Reed  
Ms Tyrrell  
PS/IR

In addition we would normally provide factual information about the workings of the system, although we would not go as far as confirming that a particular avoidance device worked. I have consulted the Financial Secretary about this and his inclination is towards (iii). He thinks this might have some deterrent effect. Are you content?

*JH*

J H REED



Inland Revenue

Policy Division  
Somerset House

X Pl. I have the other papers.

FROM: J PAYNE  
DATE: 1 October 1986

I hope these preliminary figures are helpful  
BAM  
C 1/10

1. MR MACE
2. CHANCELLOR OF THE EXCHEQUER

SDP PROPOSALS ON TAX AND BENEFITS

X  
1. Mr Hudson's minute of 24 September asked for figures to show the switch of resources for both versions of the SDP proposals.

In folder.  
2. It is difficult to do this with any accuracy at this stage. Paragraph 3 of my note of 9 September set out our initial analysis of the cost of the proposals based on the SDP's own figures in appendix A of their paper (copy attached to this note). Treasury and Revenue officials are setting up, as a priority, the necessary computer modelling facilities to enable a more detailed analysis to be prepared. I understand this work will be available in the next week or so. Meanwhile on the basis of the SDP's figures there would appear to be a net yield of around £3.8 billion from the tax and NIC changes:

	£b
Abolishing the married man's allowance	4.4
Phasing out higher rate mortgage relief	0.2
Changing personal allowances into allowances against tax	<u>0.4</u>
	5.0

- 
- |    |                     |             |
|----|---------------------|-------------|
| cc | Chief Secretary     | Mr Isaac    |
|    | Financial Secretary | Mr Lewis    |
|    | Sir P Middleton     | Mr Beighton |
|    | Mr Cassell          | Mr Mace     |
|    | Mr Scholar          | Mr Eason    |
|    | Miss Sinclair       | Mr Payne    |
|    | Miss Noble          | Mr Dodds    |
|    | Mr Hudson           | PS/IR       |
|    | Mr Cropper          |             |
|    | Mr Ross Goobey      |             |
|    | Mr Tyrie            |             |

Less integrating tax and NIC and	
disaggregating incomes of husband and wife	- 1.2
	—
Net yield	3.8

There would also be a yield from taxing child benefit. This is reflected in the net cost shown for increasing child benefit (put by the SDP at £1.2 billion). We are not certain how the SDP arrive at this figure. But in practice taxing child benefit at the new level as the income of the caring parent (usually the mother) might yield of the order of £900 million (using the SDP's basic rate of 38 per cent). So the overall additional revenue yield might be nearly £4 3/4 billion.

3. On the SDP figures the cost of the benefit measures would be about £4.3 billion:

	£b
Basic Benefit	2.8
New Carers Benefit	0.3
Increased Child benefit (net of tax)	1.2
	—
	4.3

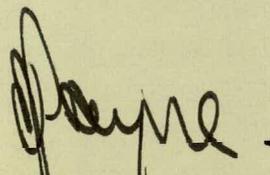
Putting the child benefit figure on a gross (before tax) basis would raise the overall cost to nearly £5 1/4 billion.

4. The net cost of the total package is £0.5 billion.

5. The additional cost of £600,000 for the revised proposals apparently relates entirely to the child benefit supplement for two-earner married couples on earnings between £9,000 and £12,000. But as I mentioned in my note of 19 September we have very little information about this proposal.

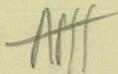
6. DHSS have produced some figures (attached, marked annex F) which estimate the net cost of the original proposals at

around £4 billion. They estimate the yield from the tax and NI changes at £5.3 billion but put the cost of the benefit proposals at around £9.5 billion. This additional cost appears to be largely in respect of the pensioner provisions (including the proposal to end standing charges for them) which DHSS have estimated at nearly £3 billion but which do not appear to be allowed for in the SDP costings, and an increase of nearly £1 billion in the cost of the basic benefit proposals. DHSS officials have stressed that these figures should not be used publicly as they are based on assumptions which have not yet been approved by Mr Fowler. We shall be able to check the figures as soon as our own tax/benefit model is set up.

  
J PAYNE

C.

The DHSS figures are a completely new element in this. As Mr Payne suggests, it may be best not to go any further in public until the costings are firmer.



COSTS AND SAVINGS

NI integration, abolition of MMA and setting a new combined tax allowance of £2100	+ £3.2 bn
Phasing out higher rate Mortgage relief	+ 0.2
Changing allowances into allowances against tax	+ 0.4
Raising Child Benefit by £4.50, but making Child Benefit taxable as income of recipient	- 1.2
Basic Benefit proposals	- 2.8
New Carers' Benefit	- 0.3
	=====
	- 0.5

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This Policy Statement has been approved for publication by the SDP's Policy Committee. The net impact of its proposals involve a small increase in public expenditure. The SDP is reviewing all its policy proposals which have expenditure commitments and will establish clear spending priorities closer to the next General Election.

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## COST OF SDP PROPOSALS IN 'MERGING TAX AID BENEFITS'

Proposals£ billion at November  
1985 levelsCOSTSBasic benefit to replace income support  
and family credit (net of ending free  
school meals and milk and savings on  
housing benefit)

3.5

Child benefit raised by £4.50 a week

3.0 gross

Basic pension proposals

minimum 2.0 gross

Unemployment benefit paid on  
'less onerous work test'

could be substantial

Earnings rule for pensioners abolished

0.2 gross  
(0.1 net)

Death grant

0.2 gross  
( ? net)

Standing charges ended for pensioners

0.6

SAVINGSTax and NI contribution proposals  
(including extra tax on pensions and  
child benefit and limit on mortgage  
interest relief)

5.3

Carers' benefit to replace ICA  
(net of savings)

0.1

NET TOTAL COST

about 4.0

pwp

FROM: A G TYRIE  
DATE: 3 OCTOBER 1986

CHANCELLOR

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

This note sets out:

- (i) The details of Mr Meacher's pledges and its relation to the recosting.
- (ii) Some possible lines on this and the recosting for the party conference speech.

### 1. Mr Meacher's latest pledges

Mr Meacher spoke to composite 14 (speech and composite motion attached) which was passed overwhelmingly and is now Party policy. This makes several pledges which were already in our Meacher add-on (but not in the £28 billion). These are:

- b. Winter premium for pensioners (the text makes it clear it should be an extra £5), worth £180 million
- c. pensioners' exemption from utility charges, worth £540 million. (TV licences are already in the £28 billion);
- e. Christmas bonus, worth £110 million (death grant is already in the £28 billion).

2. The main item is 14a. This reads "...an immediate commitment to...a pensions level of not less than one half of average earnings for a married couple and not less than one-third for a single person;". This is a totally new pledge. Assuming average earnings to be £184.40 (the latest figures available), the gross cost

of this pledge would be £11.75 billion. The net additional cost to the £28 billion exercise would be about £8 billion. (The difference is accounted for by £2½ billion in savings on supplementary and housing benefit and £1.65 billion in the £28 billion on a smaller pensions pledge). £8 billion is not yet a firm figure. I hope to have this by Monday night.

3. Unfortunately Mr Major went public with the figure of £16 billion immediately after Mr Meacher's speech. This is a gross figure based on average male earnings of £208. Mr Major was advised to use this figure because £16 billion has been quoted by the Prime Minister as the cost of ~~the~~ quite similar demand by the National Pensioners' Convention.

4. After some lengthy discussions with DHSS and officials here I do not think that the £16 billion figure will bear close examination. Eventually somebody will notice that it is based on male earnings, not average earnings and the claim we cheated on the interpretation of 'average earnings' would stick. (Of course Mr Meacher might not even be able to think of the right questions to make life awkward for us).

5. I suggest that Mr Major be encouraged to use a figure consistent with the £28 billion exercise. This will probably be about £8 billion. If he wants to use a larger figure he could quote £11.75 provided he makes it clear that it is gross. We don't want the costings exercise undermined by exaggerated claims from our spending ministers - the mirror image of Mr Hattersley's credibility problem!

## 2. Line for the Party Conference Speech

6. There are several ways of presenting Labour's spending plans in the speech:

- (i) You may want to emphasise the Meacher element. You could say for example: "Today I am sending Mr Hattersley his Blackpool Conference bill. We have found it very

difficult keeping track of the comrades' spending. But Mr Meacher did clarify a few items. They come to X billion."

(ii) "The cost of Labour rises all the time. Any gathering of Labour activists will find some spending worth a few pence on the income tax but a whole conference indulges in an orgy of penal taxation and spending. Just to take the latest pledges:" and then cite several from composite 14.

(iii) "When we added an extra £7 billion on to Labour's costings to take account of Mr Meacher he told us it was "absurd". Now he's had a chance to set the record straight. He has added another £8 billion to that £7 billion."

(iv) You may wish to use the line in my note of 1 October.

7. Other big pledges were made in Blackpool, for example for a new disability scheme, and to phase out nuclear power stations (albeit on a long timescale). These are not in the £28 billion. But now I have read composite 14 I agree with the conclusion in prayers this morning that where new pledges are concerned we are better off concentrating on Meacher.

8. On Alliance costings, notwithstanding the decision in prayers, you may wish to consider putting one or two individual items into circulation. The work commissioned at the beginning of September has been completed so it would be easy to do. Anything you throw at the Alliance would be welcomed by the faithful. Also it would enable us to gauge the Alliance's fire power. Unfortunately Channel 4 decided not to run a story on the costings despite a lot of help from me! Do you want to see the revised tables on Monday?

AGS.

A G TYRIE

Do we want to say this? Better, "We have had to work hard to keep track..."

This might have most impact. ...

With you.

CONFIDENTIAL

P.L.P.



FROM: JILL RUTTER

DATE: 6 October 1986

PS/CHANCELLOR

cc: Minister of State  
Financial Secretary  
Economic Secretary  
Mr Cropper  
Mr Ross Goobey  
Mr Hudson  
Mr Turnbull  
Mr Gibson  
Mr Culpin

**MEACHER PLEDGES**

*With you.*  
The Chief Secretary has seen Mr Tyrie's minute to the Chancellor of 3 October.

2 The Chief Secretary has commented that he is sure it is right to concentrate on the Meacher pledges but necessary to get them accurate and not to run the risk of being accused of over-estimating them.

3 The Chief Secretary is attracted to the line in paragraph 6 (i)

A large, stylized handwritten signature in black ink, appearing to read "Mrs Rutter".

JILL RUTTER

Private Secretary

PP

CONFIDENTIAL

CHANCELLOR

FROM A G TYRIE  
DATE 14 OCTOBER 1986

cc Financial Secretary  
Economic Secretary  
Chief Secretary  
Minister of State  
Mr Cropper  
Mr Turnbull  
Mr Kalen  
Mr Culpin  
Miss O'Mara

*Thanks. To James & Al  
Impact of this low low (x 2000).  
recession  
No need for  
relax this yr  
live  
goals.*

I have just received the attached document put out at Labour's Press Conference this morning. It is a companion to the Jobs and Industry campaign and the Freedom and Fairness campaign.

On a quick read there don't appear to be any pledges which add to the £28 billion. It is clearly a "Hattersley vetted" document. Lip service is paid to some of their Front Bench spokesmens' pet ideas, for example:

- John Smith and the proposal for British Enterprise, which will "finance new companies in production processes", etc.
- Giles Radice, adult education
- Michael Meacher, the restoration of SERPS.

Several of Labour's so-called pledges are in fact our policy:

- extension of the invalid care allowance
- phasing out lead in petrol
- two year job training for sixteen/seventeen year olds (how different is this from YTS?).

The document ends with Mr Hattersley's familiar package, to

borrow £6 billion extra in the first year and fund the poverty package from the richest 5% in society.

Mr Kinnock summed up the purpose of this and other documents when he was launching tee shirts to promote the Jobs and Industry campaign. Of these he said:

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

one of my favourites!

AGT.

A G TYRIE

X pl.

FROM: A ROSS GOOBEY  
DATE: 16 OCTOBER 1986

*Man Plans.  
This was a private  
copy for a  
speech in no doubt  
a Matthews speech -  
this was his  
for Campbell  
not to say  
in it's  
gave*

CHANCELLOR

cc Mr Culpin  
Miss O'Mara  
Mr Hudson  
Mr Cropper  
Mr Tyrie

*Lappa!*

LABOUR'S INDUSTRIAL POLICY

Mr Hudson's minute of 16 September asked us to check on the accuracy of a Guardian article about Labour's industrial policy.

- 2. The policy contained in "Statements to Conference" is as follows.
- 3. British Investment Bank (BIB) "to provide finance to regenerate industry".

British Savings Bank (BSB) "a major new socially-owned clearing bank". "We shall also encourage local and regional initiatives linked to those new institutions".

"A new state holding company, British Enterprise (BEB)".

"Supporting local enterprise boards, regional development agencies and various forms of municipal enterprise".

"Enterprise boards and regional development agencies will be maintained or established where needed".

"The BIB and BSB will establish city and regional banks, which will be required to invest finance raised within the region in that region."

- 4. Controlling all this would be a Department of Economic and Industrial Planning (DEIP), which will replace the DTI, the "central economic department of the government working within the policy framework set down by the Cabinet Economic Committee",

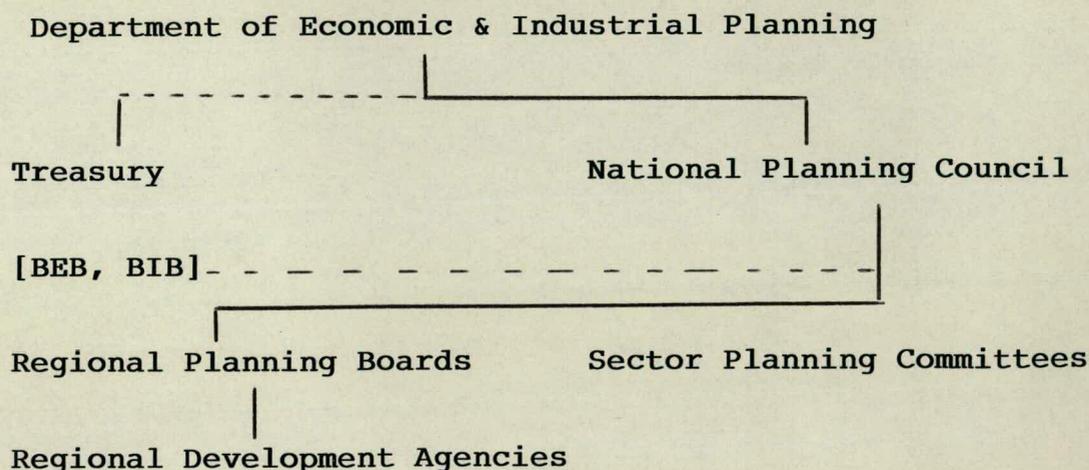
and responsible for the BEB and BIB. "It should also be responsible for the jobs audit, priorities in public expenditure planning and the annual PESC survey". "The DEIP must become the main planning ministry for economic and industrial development, and should take over the strategic planning functions of the Treasury".

5. The operation of planning will be through the National Planning Council (NPC) which will "have its broad parameters set by macroeconomic assessment, but it must also have strong and lively input from sub-groups, tackling problems at the micro level". The NPC "will have much to learn from the NEDC, but its role must be less deliberative and more interventionist".

6. "Sector Planning Committees must be established for key industries" where strategic planning is essential. The NPC would co-ordinate these Committees but they would not be exclusively tri-partite. "They must include: investment expertise (BEB); financial expertise (BIB); policy priorities (DEIP); regional dimension (relevant enterprise and planning boards); industry expertise (secondment, appointment or co-option); trade union knowledge. Other interests would be included as appropriate".

7. "The Treasury would have responsibilities in areas such as exchange rates, interest rates and public sector borrowing, as well as revenue gathering".

8. The structure would look something like this



Absolutely.  
9. Not only does this presage the rebirth of the DEA, reducing the Treasury to the place where the excesses of the DEIP are addressed, but an enormously cumbersome planning procedure is created. From the point of view of the left, it must be quite attractive to emasculate Hattersley in this way, with the much-esteemed Mr Prescott presumably in charge (he wrote the report).

Or Mr Smith?

ARa

A ROSS GOOBEY

Ch.

1. Good knocking copy indeed. Use in your speech in the Debate on the Address, among others?
2. Great sense of "déjà vu", & we may be able to get some good quotations from eg George Brown's memoirs about the fate of the DEA. What ~~the~~ One that sticks in my mind - though probably unsuitable for use in public - ~~is~~ comes when Brown decided to locate the DEA in the ~~Part~~ St James' s Park side of this building. "[Somebody] warned me against this. 'You'll be at the back side of the Treasury', he said. How right he proved to be!"

ARa



Pls copy all  
this to  
A. Tyrie &  
then file ~~it~~  
with Labour  
stuff.

ASH



b f  
2 Nov  
10

3. v. '86.

Chancellor

Andrew

A further random  
thought for your  
conference speech —  
labour, volte-face  
on the BLS.

I attach a few paragraphs  
and some quotations.

AGF.

That.  
Use for  
Quaker speech  
J. S. S.

3/11/86

## LABOUR'S VOLTE-FACE ON THE BES

Few doubt that BES is a great success. (Perhaps some figures).

2. Even Mr Kinnock welcomed my decision to extend the scheme indefinitely in the Budget this year. Straight after my speech he described my decision as "sensible and helpful". Praise indeed!

3. It all looks too good to be true. Surely Labour could not support something with the word "enterprise" in it for long.

4. And they couldn't. A fortnight ago Labour marked down the BES for abolition. (A release at Hattersley's press conference described it as a tax cut for the better off. Abolition could help fund Labour's burgeoning spending plans).

[5. That's six months support for enterprise in six years of the scheme.]

A measure of their ~~is~~ interest in expanding firms that create real jobs.

Don't really think this stands up. See press release.  
2

AMH

## Budget Resolutions and Economic Situation

### AMENDMENT OF THE LAW

#### *Motion made, and Question proposed.*

That it is expedient to amend the law with respect to the national Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

- (a) for zero-rating or exempting any supply;
- (b) for refunding any amount of tax;
- (c) for varying the rate of that tax otherwise than in relation to all supplies and importations; or
- (d) for any relief other than relief applying to goods of whatever description or services of whatever description.—  
[Mr. Lawson.]

*Relevant documents: European Community Document No. 9792/85, Annual Economic Report 1985-86 and the unnumbered document, Annual Economic Report 1985-86 (final version as adopted by the Council).*

4.51 pm

**Mr. Neil Kinnock (Islwyn):** I shall observe the convention with the usual relish and congratulate the Chancellor of the Exchequer on the way in which he delivered his speech. This year he did not quite break his own record of one hour and 14 minutes, but it certainly assisted us to have such a clear and crisp delivery, which took such a short time.

Congratulations are especially in order because the Budget was plainly not the Budget which the Chancellor of the Exchequer thought he could introduce this year. Indeed, it was not the Budget which he wanted to introduce this year. Last year, both at Budget time and at the Conservative party conference, he looked forward to tax cuts. It is obvious that this year's Budget was to have been a bribes Budget, which would begin to make tax cuts with the next general election in mind. Instead, the fall in oil prices and the consequent fall in oil revenues has made it into a bits and pieces Budget. It is a Budget which contains promises of there being some scope next year. It is jam tomorrow from a Chancellor of the Exchequer who is plainly in a jam today.

The Chancellor of the Exchequer will have noticed from the Opposition's response that we sincerely welcome some aspects of the Budget. I think, for example, of the provisions relating to the business expansion scheme both in its continuation and its exclusions, which appear to be sensible and helpful. In addition, the provision to relieve victims of Nazism from tax obligations on their pensions is obviously just and will command unanimous support. The concessions favouring charities are equally welcome, although I hope, as the Chancellor implied, that they will be judiciously monitored, as it would be wrong for any suspect bodies to benefit from them.

I echo, and I hope reinforce, the view expressed by the Chancellor that as a result of his approach we can ensure that petrol prices at least stay the same. Indeed, they should fall, given the benefits that have accrued to oil companies.

Other matters, including the Green Paper, will need close scrutiny. If the Green Paper's proposals were to result in any disadvantage to married women, or were to act as a deterrent to women considering paid work, the Chancellor could expect to meet with hostility from both inside and outside the House.

Naturally, other aspects of the Budget can be criticised. One which stands out is the abolition of the gift tax which is literally a handout to the rich. Following the tradition of the House I propose to leave such detailed considerations to other hon. Members to discuss, but, there is one point that I wish to make, because it represents a fundamental cause of concern.

The Budget should have been particularly distinctive, as it is the first Budget of the post-oil boom era. For that reason, it is endowed with a particular and historic importance. Although the Chancellor of the Exchequer is conscious of the loss of resources, and presumably of the impact of that on our economy, he has chosen to do nothing that will effectively promote the building and rebuilding of our manufacturing economy, and to do nothing to help systematically to provide our country with the modern means of making a living in the future. Such provision for training, research, design and development, and for new machines, should have been made in all the Budgets since 1979, and this year they should have been, not an ingredient, but a primary feature. After all, we find ourselves in difficult times with revenues falling.

The promotion of the redevelopment and regeneration of our economy is not central to this year's Budget, and that makes it a sideshow Budget, and an exercise in taxation juggling that is irrelevant to the main problems of employment and development which face our people and our businesses. The loss of industry during the past six and a half years, and the loss of revenue now facing us, should have made such consideration a primary concern of the Budget, together with compensation for those losses.

Such failures are not the only matters of concern or the only areas in which the Chancellor has sadly failed to make the necessary responses. We must be grateful for the fact that he did not describe his puny package as yet another "Budget for Jobs". I suppose that he has learnt from his experience of last year. He then gave it that grandiose title, but the result was that in the first six months after that Budget there was a net increase in employment of 4,000 people—4,000 people in an economy with 3.4 million registered unemployed, and in a year in which total unemployment rose again by more than 70,000. Thus, we cannot be expected to cheer over the addition of 55,000 people to the community programme or over the fact that the wage has been increased by £2 to the princely sum of £67 a week.

The expansion of the jobs clubs for advice is more of a tort than a support for the unemployed. The Chancellor of the Exchequer, who must be acquainted with the facts, must know that people will regard that as nothing more than an additional opportunity to have a chat and a cup of tea. In some ways that is an advantage in itself, because unemployment can be an extremely lonely condition, but that is about as far as it goes, and the right hon. Gentleman knows that well.

During the past six and a half years poverty has increased significantly. Double the number of families are on supplementary benefit, and an additional 2 million people are so poor that they must depend on supplementary benefit. The Budget said nothing and offered absolutely nothing to the poor. I did not expect that it would, coming from a Government who are weakening wages councils, and who during the next 12 months will make provision to ensure that the old-age pension is worth 3 per cent. less at this time next year than it is now. I could not expect a fullhearted commitment to combating poverty from such

Lab. tax press release  
18<sup>th</sup> Sept.

Examples of tax cuts for the better off under the Tories  
(Estimated additional yield from reverting to 1978/9  
structure on 1986/7 tax base [1])

	<u>£ (bn)</u>
Income tax above basic rates [2] [3] (top 5.3%) [4]	1.485
Income tax at basic rate for top 5% [5]	0.579
Investment income surcharge [6]	0.825
CTT [7]	0.185
CGT [8]	0.650
<u>Business expansion scheme [9]</u>	0.075
<b>TOTAL [10]</b>	<b><u>3.800</u></b>

Footnotes:

- 1 NB This table does not show tax increases which the next Labour Government intends to levy, but tax cuts which the present Tory Government has made.
- 2 Source Hansard W.A. column 355, 15/4/86
- 3 The income tax concessions to the top 5%, including investment income surcharge are estimated as £2.87 m (Hansard W A 23/4/86 Column 178). The average concession per tax unit is £2,760 pa (ie £53.08 per week). The average concession per tax unit for the top 1% is £7,770 (ie £149.42 per week). The 90,000 tax units with an income over £50,000 have received income tax cuts of £1.15 bn per annum - at an average of £12,780 per unit per year (ie £245.77 per week). (Hansard W A 4/4/86 Column 710)
- 4 Top 5.3% of taxpayers pay above basic rates. Source Green Paper on Reform of Personal Taxation (CMND 9756)
- 5 Source as Note 2 plus own calculation on following basis. Estimated income tax relief at standard rate is £5.79 bn. On the modest assumption that the top 5% received at least 10% of this we derive a figure of £0.579 bn. Also see Note 3.
- 6 Source as Note 2. Also see Note 3.
- 7 Source as Note 2. If we take account of indexation - a provision introduced by the Conservatives - this figure

FROM: A G TYRIE  
DATE: 3 NOVEMBER 1986

*AWP*

CHANCELLOR

*AMT*  
*The no work*  
*Parliament go*  
*trans.*

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

You asked for a note on the lines on IFS costings of Labour's spending plans. I attach their press release and document which you might want to skim through.

2. I do not think that the IFS Report gives us enough ammunition to go on to the offensive. It costs Labour's initial spending plans at about £11 billion. Although the report does not claim we have made up the costings or sources they do imply that we may have exaggerated them, first by not distinguishing between initial and long term proposals, and secondly by allegedly using gross figures and not making allowances for offsetting higher tax receipts and lower benefits payments that could result from a reflationary policy.

3. If Mr Hattersley does raise the IFS report you can make the following positive points:

i. The IFS effectively challenges Labour by setting priorities on Labour's behalf. Page 2 reads "We have broken down the elements in Mr MacGregor's list according to the priority which we believe would be attached to the various elements." Challenge to Mr Hattersley! Is the list of policies, described as longer term aims (page 4), no longer the policy of the Labour Government in a five year term?'

ii. The IFS find Labour's minimum wage pledge implausible "if Labour is to remain within its overall financial framework." (Page 5).

iii. The IFS are very uncomplimentary about Labour's anti-unemployment programme. Of this they say: "The anti-unemployment programme is still rather vaguely formulated, and has not been costed in detail". (Page 5).

iv. Although the IFS are reluctant to come down with a firm figure one of the papers two main conclusions is that: "The sum total of these policies is...likely to be expensive." (Page 7).

*Surely we don't want to give ground on the £28 bn.*

✓✓ The main defensive points are:

i. First year v full year

The IFS have costed what they think Labour might do in its first year. It is explicitly not a full year costing.

ii. Figures exaggerated

The IFS are not challenging the accuracy of the sources. The IFS themselves make this point clear. (Page 2). Nor does the IFS challenge the detailed working of each costing, nor the assumptions used.

iii. Offsets

The IFS suggests that there may be offsetting savings from a reflationary policy. You can answer first that, we do not believe that offsetting employment gains from more spending exist in the long run. Higher spending costs jobs elsewhere in the economy.

Secondly, we have netted off offsetting savings for all the Social Security items in the costings, for example pensions, which is net of supplementary benefit and housing benefit; child benefit, which is net of

means tested benefits; training for the unemployed, net of unemployment benefit etc. But we have not put offsetting savings in for taxation because the £28 billion exercise is explicitly a spending exercise.

It is possible that Labour could possibly recoup some money through higher taxation. But Labour also have some very expensive pledges for tax reductions, for example, a commitment to a reduced rate band, and a suggestion by Michael Meacher that the rate should be a mere 15%.

Not something we want to draw attention to unless ~~presented~~ the context suits!  
✓

M. May  
PP A G TYRIE

C.

1. Some useful debating points here, but I'm not sure they get us a snappy line to take for a riposte in the House. ✓
2. You & Robert devised a snappy line a few weeks ago - ~~the~~ see flag. The key point, at ii, seems to me to be that the IPS have not challenged either the programme or the savings. Thus there are £28bn worth of pledges. Revenue flowback uncertain. Labour either risk full cost or postpone pledges.
3. ~~Do~~ IF you agree, I shall draft this into a ~~full~~ speaking note for Thurs. // X

////

P2P

FROM: A G TYRIE  
DATE: 4 NOVEMBER 1986

*Andas*  
CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Financial Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr Turnbull  
Mr Pickering  
Mr J Clark  
Ms Noble  
Mr MacAuslan

**ECONOMIC DEBATE: LABOUR BASHING**

Labour and Public Spending

Since public expenditure will be centre stage I think the best line of attack will be to find a new angle on the £28 billion exercise. There are several options:

- (i) As in almost every other area of policy, on spending Labour will attempt what they tried last time. There are several possible ways of illustrating this:

- PSBR in 1975-76 would be £28½ billion in 1986-87 prices

! - Labour's PSBR in 1975-76 was 9¼% of GDP. Equivalent in 1985-86 would be £33 billion.

- In their first year Labour increased spending by 13%. 13% of £140.5 billion is £18.3 billion. This can be described as the equivalent first year cost of a Labour Government, which is exactly two-thirds of the way to our modest full year costing of £28 billion.

*nominal  
versus real*

2. So Labour do have a strategy for determining the level of spending, it is the same strategy they employed last time.

(ii) Another way of reviving interest in the £28 billion would be to refer to Meacher's spending diarrhoea at their Party Conference, including a pledge on pensions worth £8 billion.

3. Not competent enough to take full responsibility for spending £2.8 billion themselves, the Labour Party will call upon the assistance of Trade Unions and local authorities for planning their spending spree:

- Trade Unions.

"I want trade unions to be involved in every aspect of economic policy." (Hattersley, New Socialist, April 1985).

"I see the need for an agreement with the trade unions on everything...regional policy...exchange rates...exchange control...taxation." (Tribune 10 May 1985).

Already had  
got this one.  
AHH

4. The ridiculing of the Social Compacts/contracts concordats etc. I put up for your Party Conference speech might work in the House.

- Labour local authorities. Labour's plans to spend £28 billion in a full year is appalling enough. Now Labour tell us they will dole it out to their friends in local government. Mr Hattersley said:

"Local authorities will lead the way in Labour's drive to reduce unemployment by 1 million within two years." (June 1986, Association of Direct Labour Organisation. See also my note on Labour LAs).

Labour and Unemployment

5. The better unemployment figures give us opportunity to talk about jobs at length.

6. Mr Hattersley's job package contains one item he once thought could not help unemployment. After the Conservative reduction in NICs Mr Hattersley said:

"The Labour Party has never believed that such changes to the cost of labour and employment could contribute to the solution of the central problem of the economy, which is the reduction in unemployment." (Hansard 29 April 1985, column 35).

He also said:

"We have never believed that an adjustment in the national insurance contributions could be what the Chancellor regards as something synonymous with or comparable to a tax incentive which would in itself create more jobs." (Hansard, 29 April 1985).

7. One of the key proposals of <sup>the 'jobs package'</sup> this is a reduction in employers' National Insurance contributions, costing £1.5 billion a year. Of this Mr Hattersley has said:

"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." (Roy Hattersley, Jimmy Young Show 20 March 1986.)

Mr Hattersley seems to be a convert to the view that high NICs cost jobs.

8. If Labour have raised the IFS report in the debate you might agree with the report that: "The anti-unemployment programme is still rather vaguely formulated, and has not been costed in detail." (Page 5, IFS report - see also my note in the report).

9. Another piece of knockabout would be to refer to Labour's plans for job destruction. Labour claim that they would

*This seems to me ✓ good contrast, but need to be careful about stimulus pressure to cut NICs.*

create one million jobs in the first two years. But set against this they must put the number of jobs which their policies would destroy in the first few days of a Labour Government. In caricatured form:

Jobs put at risk

- On the first day Labour would throw out all US bases 30,000
- On the second day Labour would impose comprehensive economic sanctions on South Africa 100,000
- On the third day Labour would begin the phasing out of nuclear power stations 100,000
- On the fourth day Labour would introduce a minimum wage (at £80, while retaining pay differentials) 600,000\*

Mr Kinnock's first four days work would have put at risk 830,000 jobs.

*AM*  
*h* This might be good stuff for a Party audience, ~~to~~ in the right context, but wouldn't it provoke a noisy row in the House?  
N. Monck rang to say *AM*  
that the numbers would need to be looked at properly, too.

*AGS.*

A TYRIE

\* A pretty suspect figure, but used by David Young in his Party Conference Speech.

PWP

FROM: A G TYRIE  
DATE: 7 NOVEMBER 1986

CHANCELLOR

*Think relevant to debate on Address*

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

Here is a useful piece of knockabout, perhaps for your speech in the debate on the address.

2. "Hattersley's economic policy will fail."

3. Not my words but the words of Labour's prospective Parliamentary candidate for Birmingham, Edgbaston, John Wilton.

*V safe Tony!*

4. There are a couple of other good quotations in the piece. I particularly like: "The rose cannot be pruned. It must be dug up!"

5. You could remind the House of the extremism of many of Labour's candidates and the lurch to Left that will take place after the election. You could perhaps refer to the PRA Associates poll of Labour candidates (albeit Central Office inspired) which bears this out. (copy attached).

*AGT.*

A G TYRIE

# An agenda after Conference

*For five days at Conference I went to fringe meetings hoping to hear someone acknowledge the problem the Left faces within the Party and open a debate on the way forward. I waited in vain.*

I heard speeches made about how strong the Left was within the Party; speeches of self-congratulation; attacks on groups within the Left. We cannot afford these ego trips while the right wing of the Party tightens its grip as we approach the election. We need constructive criticism.

The Left has a strong base, but it has no strong central purpose. (I would have said unified purpose but this is not a plea for unity as such.) The Left is in disarray because it has no central purpose, direction or leadership.

Many gains have been made in policy areas by single issue groups; but many of them appear not to understand or acknowledge the nature of the Party leadership.

Gains made on policy are nothing if the leadership ignores them. Policies which are "unpopular" with the leadership will either not be included in the manifesto, or included but not campaigned for — as happened to many advances won before the 1983 General Election. Yet still we have not learnt the lesson or even acknowledged the nature of the problem.

The Left has to stop being frightened and defensive, especially now with the witch-hunting season in full swing. The Party leadership has to be challenged. Leader and Deputy Leader positions must be

contested as the only way to defend democracy and accountability.

The Party leadership will be at its weakest after the Election when a Kinnock-led government operating Hattersley's economic policy runs into trouble. When the Party leadership turns to screw the working class, it must be challenged.

By John Wilton  
PPC, Birmingham  
Edgbaston

Further constitutional advances are needed: such as control of the manifesto and election of the cabinet and shadow cabinet by Conference.

Structural changes are fine. But to challenge the leadership the Left requires its own leader. Like it or not the Left has to be led. Someone in the Parliamentary Party has got to be prepared not only to "stick their head up", but also to lead.

Having waited five days to bear this at Left fringe meetings, I attended on Thursday a meeting of Labour Left Liaison (LLL). This meeting proved to be a perfect example of the problems the Left faces.

Unfortunately the Chair was worthy of Larry Whitty, the Chair of Conference Neville Hough, and the right wing fixers on the Conference Arrangements Committee. Contributions from the floor were mainly restricted to those who had been picked out before the start. Others were deliberately ignored and eventually discussion was stopped and debate curtailed.

This was absolutely crazy! We had heard plenty of speeches from the platform at this meeting (and all week on the fringes). What was required was constructive debate and contributions from the floor. This was not allowed to happen and for me this represented one of the problems within LLL.

LLL has a role to play. Consultation and liaison is needed at the top amongst groups on the Left. But also desperately required is consultation and liaison at all other levels so that "rank and file members" on the Left can be involved and see an overall focus to their efforts.

The Thursday meeting gave me no indication that attempts were being made to do this. In fact LLL, or certain parts of it, appear to be moving in the other direction.

The Labour Party left needs to have socialist policies as an alternative to those of the Right now being adopted, especially economic policy. We know Hattersley's economic policy will fail, but where is the Left's alternative?

The Left also needs an overall strategy linking single issue groups with overall policy development: so that the demands of Black Sections, LCLGR, LCI, LWAC and others are integral to overall economic and social policies, as they should be.

A checklist of demands and posturing are no use and will win nothing. And above all, all this has to be related to winning the leadership of the Party: not "winning over" the leadership a

la the Labour Co-ordinating Committee (LCC) but changing the personnel.

Mass pressure from single issue groups will not change Kinnock and his friends' position. The rose cannot be pruned. It must be dug up! If the LCC can learn and accept this there may be hope for it, though personally I doubt it. If the LCC cannot, then "those that live by the rose will wither and die with the rose."

LLL (or Campaign Forum) may be able to develop this strategy, but not in its present top heavy form. It needs to reach out to rank and file members, link those involved in single issues at that level, and provide a focus for comrades on the left. It needs to give leadership, but also to link leadership with participation and consultation.

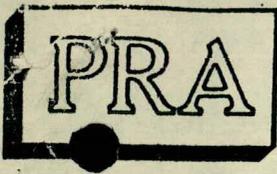
Single issue and single focus campaigns are necessary inside and outside the Party. However, the left must realise that the achievement of its aims requires combined overall change.

The "issue" to bring all groups on the Left together in order to realise their individual aims has to be to change the leadership of the Party and to win the Party to socialism and socialist policies. Now is the time for those in positions to do this to lift their eyes to broader horizons without losing sight of the issues closer to home.

I was going to end with that, but this is not the end. This article is of no use unless action is produced. That must be the next step, otherwise this is as useful as some of the speeches from Left fringe platforms at Blackpool.

*Labour Briefing welcomes this contribution to debate, though unfortunately we have had to cut John's article for lack of space. We invite contributions to the debate started here — and hope to make a contribution ourselves next issue.*

London Labour Briefing Nov. 86



# POLICY RESEARCH ASSOCIATES

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EMBARGO: 5 p.m., Saturday, 27 September 1986

## EVE OF CONFERENCE CANDIDATES' POLL SHOWS LABOUR'S "HIDDEN MANIFESTO"

A major poll of adopted Labour parliamentary candidates published on the eve of the Labour conference has shown heavy majorities in favour of hard-left policies on a wide range of issues. The poll, by Harris, was commissioned by the same research group which exposed the dramatic differences between SDP and Liberal Party candidates on nuclear defence policy last June.

Amongst the main findings of the new poll are the following:-

### 1) TRADE UNIONS

*(Steel said Libs would build on the one legis. on unions.)*

- \* 77% of Labour candidates polled want the present Government's curbs on trade union power to be "radically reversed", whilst a further 19% want them slightly amended and only 1% want them to remain unchanged.
- \* 94% want legislation to permit secondary picketing in industrial disputes, with only 1% opposed to this.
- \* 94% favour the restoration of trade unionists' rights to have a fully closed shop at their place of work. Only 3% disagree.
- \* 86% wish members of the Armed Forces to be allowed to belong to trade unions. Only 8% disagree.
- \* A majority (49% to 46%) of Labour candidates do not approve of trade union ballot procedures being laid down by law.

### 2) COUNCIL HOUSES

- \* Only 35% of Labour candidates favour the right of council house tenants to buy their homes, but 55% want local councils to have the final say whether or not council tenants should be allowed to buy their homes.

### 3) THE POLICE

- \* 77% of Labour candidates favour handing over "control of local police forces and police operations" to locally-elected representatives. Only 8% disagree with this.

### 4) PRIVATE EDUCATION & HEALTH CARE

- \* 80% of Labour candidates favour the abolition of private schools, with only 13% opposed.
- \* 81% favour the abolition of private health care, with only 14% opposed.

[more]

*K. clinging on to an empty smaller group? party - rest? it's coming in full left to determine - This - Council H - defence.*

5) DEFENCE

\* 72% of candidates polled favour the closure of all US military bases in the United Kingdom, whilst 21% disagree. W

\* 92% want Britain's existing Polaris submarines "scrapped as soon as Labour takes office". Just 2% disagree.

\* Almost as many Labour candidates (46%) agree as disagree (48%) with the suggestion that "Britain's best interests would be served if we were not militarily aligned with any major power".

6) NORTHERN IRELAND

\* 49% of candidates believe that a timetable should now be set for the withdrawal of British troops from Northern Ireland, whilst 32% disagree and 19% are undecided.

7) HOUSE OF LORDS

\* 83% want to see the House of Lords abolished in its present form. 9% disagree.

8) IMMIGRATION

\* 62% of Labour candidates want immigration controls to be relaxed, with only 19% opposed to this.

9) NATIONALISATION

\* 98% of Labour candidates want British Telecom to be brought back under public control, with 1% opposed to this.

\* 89% favour renewed public control of Britoil, with 9% opposed.

\* 88% favour this for British Aerospace, with 9% opposed.

\* 84% favour it for Associated British Ports, with 12% opposed.

\* 90% of Labour candidates want public ownership extended to the Pharmaceutical Industry; 83% to Banking; and 61% to the Insurance Companies. Large majorities also favour taking Jaguar, Cable & Wireless, and Amersham International back under public control.

The Harris Research Centre poll interviewed 103 Labour prospective parliamentary candidates (other than MPs) who have been chosen to fight seats at the next General Election. Interviewing was conducted by telephone between 20-22 September.

10) EXTREMISM

The leaders of 90 Labour local authorities were also polled, with broadly similar results - as can be seen from the attached tables. One

[more]

[EXTREMISM - continued]

exception to this pattern was that only 32% of Labour candidates who either favour or are undecided about expelling members of Militant Tendency from the party acknowledge that the problem of extremism is still present. But 72% of Labour local government leaders in favour of or undecided about expelling Militant's members feel that the problem of extremism still remains.

Policy Research Associates, a London-based political research consultancy, commissioned the poll in consultation with the Conservative Research Department. PRA Director Dr Julian Lewis commented: "This poll shows the reality of Labour's 'Hidden Manifesto'. Whether or not Neil Kinnock dares openly to lay such policies before the electorate, voters need have no illusions now what a Labour victory would mean for the country."

[ends]

Press contact: Dr J M Lewis  
(01-) 633 9550  
(Sunday, 28 Sept.,  
2 p.m. - 6 p.m.)

FROM: A G TYRIE  
DATE: 18 NOVEMBER 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Minister of State  
Financial Secretary  
Economic Secretary  
Mr Cropper  
Mr Ross Goobey  
Mr F E R Butler  
Mr Turnbull  
Mr Hudson  
Mr Culpin  
Mr Gibson  
Mr Kalen  
Mr Barker

LABOUR  
MINI RECASTING

The costing of five new items is as follows:-

i) Christmas bonus	110m
ii) Winter premium	180m
iii) Utility charges	540m
iv) Energy policies	370m
v) Pensions	8000m
	<u>9200m</u>

I attach notes setting out items i) and ii), which are pledges by Meacher (in the add-on) confirmed at Blackpool. Item iii), note attached, is identical to a pledge already made by David Owen and costed in the SDP total. On item iv) I attach a note from Paula Diggle. I am awaiting a note from Mark Gibson on Mr Meacher's £8 billion pension proposal to which you alluded in your Party Conference speech. This is DHSS's preferred costing. I also attach the source documents.

2. Points to note on energy policies are first, that I have arbitrarily ensured that commitments to increase expenditure on research should cancel out savings from ending fast reactor research.

3. Secondly, running costs have been excluded on the grounds that while capital goes into EFLs and scores against public expenditure, the practice in the costings so far has been

to assume that increases in running costs are met through higher charges. £1.7 billion in Mrs Diggle's costing would result in a 20% rise in electricity prices. I have alerted Peter Walker's private office to the possibility that we may issue the energy costing. Mr Walker may wish to take the opportunity to point out the consequences for the electricity prices of Labour's policy.

M- May

A G TYRIE

PTW

CONQUEROR

11

FROM: A G TYRIE  
DATE: 25 NOVEMBER 1986

*mgp*

→ CHANCELLOR

*C.*  
*Please see my note at end.*  
*AHJ*

cc Chief Secretary  
Minister of State  
Financial Secretary  
Economic Secretary  
Mr F E R Butler  
Mr Cropper  
Mr Ross Goobey  
Mr Turnbull  
Mr Pickering  
Mr Kalen

#### ALLIANCE SPENDING PLANS

I attach a copy of the Alliance public spending document leaked to The Independent, and reported today (article attached).

2. The SDP/Liberal Joint Public Expenditure Working Party are meeting today to reconcile their differences. Their conclusions will be sent to the Joint Policy Committee for approval in the first week of December.

3. This leak looks planned. The Alliance (probably the SDP) are clearly trying to get attacks on their spending plans out into the open now, first so that they do not suffer damaging attacks from us nearer the Election, and secondly as a means of putting pressure on the Liberals to moderate their spending plans.

4. The document assesses the cost of "Partnership for Progress"; a joint document which will form the basis of the Alliance manifesto at the next Election. Although it contains many references to policies which would increase spending, careful wording has made it virtually impossible for us to cost. The costings we have done are based largely on two documents published earlier this year, "These are Liberal policies", and "The Only Way to a Fairer Britain".

5. We discussed tactics briefly last Friday. I agree that we are better off waiting until the Alliance finalize their own costings. We will then be able to test their

accuracy. We will also be able to point out the speed with which they have ditched commitments made in their two earlier policy documents.

A05

A G TYRIE

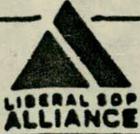
C.

1. This is an extraordinary document. The Alliance researchers seem to be so afraid of having a "£28 bn" exercise done on their policies that they are recommending the deletion or deferral of all sorts of ~~policy~~ pledges.
2. The interesting thing is whether the Alliance leadership will back this tough line, or fudge it, as they ended up doing on the Taverne tax plans. But, as Andrew Tyrie says, this will not be decided until later. And if we cast doubt on their toughness in the meantime, they will only be more resolute.
3. This scupper something I was going to suggest for Daventry on 5 December: an attack on the Alliance for fudging the difficult decisions, and for being ready to "join clubs" (your point on Jenkins) to get round tough decisions. I have asked Alistair & Andrew for other ideas, & we can discuss it at PPN on Monday. But in the meantime, is there anything else you would like worked up?

AMH

25.11

*Confidential.*



# Research Note

## ALLIANCE PUBLIC SPENDING PLANS

NOVEMBER 1986

This paper reassesses the Alliance's public spending plans in the light of:

- the deteriorating economic outlook
- the Government's upward revisions to its public spending plans
- estimated costings of 'Partnership for Progress'

## SUMMARY AND RECOMMENDATIONS

(1) In February 1986 a joint meeting of the SDP Policy Committee and the Liberal Standing Committee agreed that the Alliance's policy commitments should be contained within a framework of 2% p.a. overall growth in real terms. Such a figure is well within the prospective growth of the economy, allowing some freedom to cope with contingencies such as the possible need for a 'quantum' adjustment in public sector pay. It therefore implies no overall increase in the tax burden in the life of a Parliament. There would however be some changes in the tax position of individual households as a result of the redistributive effects of the Alliance's Tax & Benefits reform which the joint meeting decided should be set in a revenue neutral framework.

(2) In February we estimated that this 2% framework would permit by the fifth year of the next Parliament roughly a £10bn increase in non-transfer payment public spending (ie excluding social security) over the Government's plans as then stated. In the Autumn statement the Government has however announced a change of policy from its previous objective of holding public spending constant in real terms. Instead they plan to increase spending by an average of 1.25% real increase p.a. over the period to 1989/90. To the extent that the Government's upward revisions of its plans satisfy Alliance policies, then the additional costs of our commitments set out in 'Partnership for Progress' and elsewhere will have been reduced. But at the same time the Government's U-turn clearly limits the room available for additional spending promises of our own. Within our previously agreed 2% framework, we now estimate this to be an extra £3bn by 1989/90 and £5bn after five years. This gives us very limited room for manoeuvre.

(3) One option (contrasted with the 2% option in Table I below) would be to amend the framework which the joint committee agreed in February in order to permit more flexibility. Instead of 2% p.a. real growth, we could decide to maintain public spending at the same proportion of GDP as in the current year. In that case we might have room to spend an additional £10bn by 1989/90 on top of the Government's plans and an extra £16-17bn after five years. However this option is open to considerable objections:

(a) The Government is still planning to reduce public spending as a proportion of GDP, though at a somewhat slower pace, in order to make room for tax cuts as the economy expands: a commitment to maintain public spending as a constant proportion of GDP in these circumstances implies either a willingness to raise taxes back to their 1986/7 level or steadily increasing public sector borrowing.

(b) We would be basing our plans on the Government's ambitious hopes that 3% p.a. real growth in GDP can be sustained into the indefinite future: such hopes defy past experience.

(c) If we planned on this optimistic basis, we would have to leave some room for contingencies.

(d) This may well be the Labour line.

Don't think so. They seem committed only to about £10bn extra spending come what may: £3½bn on poverty funded by taxing the rich; £6bn on unemployment funded by borrowing. AH

Contradicts what they say above in (1), at X.

In the light of these objections, the committee needs to consider whether it wishes to depart from the 2% guideline it laid down previously.

(4) Whatever guideline is adopted, considerable scaling down of existing policy commitments will be necessary. Table II represents our revised estimate of the additional cost of firm Alliance policies taking account of the Government's latest plans. It should be noted however that:

(a) The first year cost of our policies at £5-6bn is far too high in the light of the Government's plans to increase spending by 2% in real terms in 1987/8.

(b) To fit our plans within a 2% p.a. spending framework, we need to reduce our plans for 1989/90 from £11bn to £3bn and for 1991/2 from £15bn to £5½bn.

(c) Those figures make no allowance for contingencies such as higher public sector pay.

(d) Many policy commitments have been phased over long periods.

(e) The Table does not include the expensive commitments proposed for deletion in the next paragraph below.

(5) 'Partnership for Progress' contains a number of commitments that were not included in previous costings of our policies:

(a) On the expenditure side, pledges to introduce a Job Guarantee, restore the link between pensions and earnings, and equalise retirement ages, could add upwards of a further £8bn to the cost of our policies: in view of the capital our political opponents could make of this, we recommend those specific commitments are deleted from the document.

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

(6) The committee's instructions are therefore requested.

**THE ECONOMIC OUTLOOK FOR THE NEXT PARLIAMENT HAS DETERIORATED:**

(1) The fall in oil prices has brought forward in time the widely forecast medium term weakening of the UK balance of payments.

(2) The very limited responsiveness of earnings to lower retail price inflation has further undermined the UK competitive position and contributed (along with worries about the large increase of credit in the economy) to renewed fears of inflation.

(3) Sterling has been very weak, against the Deutschmark in particular: while this should gradually improve our trade position with EMS-related countries, the weak position of sterling may well restrict any Government's freedom of manoeuvre to make further increases in either public borrowing or spending early in the next Parliament.

(4) Full UK participation in EMS will only result in lowering Britain's high real interest rates if the markets have confidence that the rates at which we enter EMS are sustainable: once within EMS, if a monetary policy that helps industry is to be given priority, the Government will need to demonstrate that a prudent fiscal policy (and a firm incomes policy) are being dedicated to the control of inflation.

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

**THE GOVERNMENT U-TURN ON PUBLIC SPENDING LIMITS THE SCOPE FOR FURTHER INCREASES**

(1) The January 1986 Public Expenditure White Paper aimed to maintain the public expenditure planning total broadly constant in real terms up to 1988-9. The Conservatives had never met this objective. Up to 1985/6 public spending grew at an average rate of 1.5% since 1983/4 and nearly 2.5% since 1978/9. The Chancellor now admits that spending in 1986/7 will be £1.4bn higher than the original £139.1bn plan.

(2) In the current year (1986/7) the Government assumed an increase in revenue from asset sales of £2.1bn over 1985/6. By convention this revenue is deducted from the public expenditure planning total. Without this dependence on increased asset sales, the Government would not have been able to fix the planning total for 1986/7 at the same level in real terms as 1985/6. So the true increase in public spending for 1986/7 is of the order of £3.5bn (ie £2.1bn extra asset sales and £1.4bn overrun).

(3) As the election approaches, the Government has announced spending increases in some sensitive areas (eg health, schools, public investment in run down cities, central grants to hold down rates increases). Also, a 'quantum' adjustment in public sector pay is taking place, in some cases with the Government's avowed disapproval (eg local authority manual workers) or at its instigation (eg Teachers). The Autumn statement has increased spending plans on last year as follows:

	MONEY GDP (£bn)		PUBLIC SPENDING (£bn) (as a % of GDP)			
	Nov '85	Nov '86	Nov '85	Nov '86	Nov '85	Nov '86
1985/6	301.6		134.2		44.5	
1986/7	323.5	318.2	139.1	140.5	43.0	44.2
1987/8	346.7	340.5	143.9	148.5	41.5	43.6
1988/9	362.7	364.3	148.7	154.2	41.0	42.3
1989/90		(a)389.8 (b)386.2		161.5		41.4 41.8

(1) assuming 7% growth in nominal GDP in each of these years

(2) assuming 6% growth in nominal GDP in 1989/90

(4) Next year the Government's plans assume a 1.9% increase in public spending in real terms clearly limiting the scope for a further fiscal boost.

(5) The Government's plans are still unrealistic in one crucial respect. They assume a (7%) cut in defence spending in real terms from the 1985/6 out-turn figure of £17.4bn. Given the notorious tendency of defence costs to rise faster than inflation, there are major doubts about the credibility of this planning assumption without a thorough review of Britain's defence commitments, although in the short term spending targets can be achieved by postponing equipment orders.

THE ALLIANCE'S SPENDING COMMITMENTS HAVE GROWN:

(1) The latest version of our Tax & Benefits proposals involves a net additional cost of about £1.5bn. In earlier documents it was hoped that this reform would be revenue neutral, but to ensure that there are no 'unfortunate losers' that can no longer be so. (However, the Tax & Benefits group is looking at other tax changes that could help fund the gap). On the other hand, £1bn was allowed for benefits in the last Alliance Budget strategy (£1bn on long term benefit for the unemployed, £200m on family support, £200m on child benefit, and £100m on pensioners heating).

*I'm not sure that all of this can be deducted from their £1.5 bn.*

(2) Additional firm policy commitments have been made in a number of areas which were not accounted for in the earlier costing exercise, principally;

- ambitious long-term plans to double the age participation rate in higher education (current spending on universities, polytechnics, and advanced further education is planned to be £2,086m in 1986/7; that figure does not include the cost of capital spending or student awards).

- a doubling of the arts council budget (£135m in 1986/7): this could be presented as a longer term aim.

- an increase in our committed growth rate in NHS spending from 1½% p.a. in real terms to 2% p.a. (½% of NHS budget is £75m in 1986/7; after five years the cost of that extra ½% p.a. will be around £380m. The Government's plans assume a 1% real terms increase for the NHS).

(3) 'Partnership for Progress' contains a number of other, less precise commitments, which our opponents might construe as having large public expenditure implications. For example

(a) (page 14) "a job guarantee for everyone after one year of unemployment, building on the community programme, but aiming both to improve the training element and to extend it to more useful work".

(Estimated gross expenditure on the Community Programme is £1,022m in 1986/7, approximately double the net cost after taking account of reduced employment benefit. This goes to provide 230,000 places. An additional half-million places which would only begin to approach the "job guarantee" objective would therefore cost an extra £2bn gross, £1bn net. The cost would be higher to the extent that more worthwhile jobs with a higher training content were made available. Deletion of this commitment is suggested).

(b) (page 18) "a major expansion of part-time and continuing education".

(page 42) "an entitlement to all adults who have missed out on higher education to a minimum period of further free education".

(These commitments (which are additional to the doubling of the age participation rate), are extremely difficult to cost. John MacGregor claimed a

*writing exercise  
having same effect*

Labour pledge for an adult education entitlement would cost £1740m, on the assumption that there would be 1% equivalent full-time take-up from the eligible population. The commitment clearly needs to be phased over a long period, as shown in table II).

(c) (page 39) "widened availability of legal aid".

(Legal aid services are budgeted to cost £381m in 1986/7: 20% expansion would therefore amount to about £75m. Allowance has been made for this in Table II).

(d) (page 49) "a substantial increase in basic pensions and the restoration of their link to earnings as well as prices".

(The Alliance's current social security proposals raise basic pensions to the long-term supplementary benefit level. That involves a rise of £2.30 p.w. in the single pension and £1.30 p.w. for the couple. This hardly justifies the word "substantial", though our basic benefit proposals are of further assistance to poorer pensioners on a selective basis. Restoration of the link between pensions and earnings would have added about an extra 5% to this year's pensions uprating and cost about £800m. If over a five year period earnings consistently outstrip prices by 3% p.a. - roughly, the experience of this Parliament - pensions would by 1992/3 be costing some £2.5bn extra than if they remain indexed to prices. There may also be unavoidable knock-on effects on other social benefits. Therefore deletion of this commitment is suggested).

(e) (page 49) Phased equalisation of pension age "moving towards general retirement at 60 but with flexibility up to the age of 65".

('Partnership' admits, using 1982 estimates, that the cost would be at least £2.5bn even after benefits savings. John MacGregor estimated the cost at £3bn in 1986/7 prices. Deletion of this commitment is suggested).

(f) (page 51) "Britain should immediately join the 30% club - the group of nations committed to reducing sulphur emissions by 30% by 1993".

(Until there is a technical breakthrough, the capital cost of desulphurisation plant is roughly £200m per major coal fired power station. The CEGB has so far announced that it will remodel 3 power stations, but there are at least another 10 which would require modification in order to meet the 30% club standard - and the problem would be of larger scale if the contribution of nuclear power was to be phased out or reduced. There is no direct public expenditure cost in installing this plant: If however the cost was met by lowering the electricity industry's planned contribution to the Exchequer - £400m in 1986/7 - rather than raising electricity prices, there would be major public expenditure implications. 'Partnership' needs to make clear that this is not our intention).

*Another example  
of SDP's  
tendency to  
join everything  
going!*

(4) 'Partnership' also contains a number of important proposals for tax expenditure which would have serious consequences for the integrity of the tax base. For example

(a) (page 16) "a payroll incentive through reduced employers NIC's to encourage pay deals which are compatible with the control of inflation and modernised industrial relations".

(A 10% reduction in employers NIC's across the board costs £1.2bn. Any incentive to be effective would have to be considerable. It would need to be sufficient to compensate employers for braving the potential risks of industrial action in forcing through pay deals. The cost could however be balanced by revenues from an inflation tax).

(b) (page 19) "Fiscal incentives for investment in new technologies, such as the reintroduction of first year capital allowances for investment in high technology equipment".

(Impossible to cost as the commitment depends on the definition of high technology equipment. However it is likely that any definition would be arbitrary to impose, bureaucratic to administer and discriminatory in its effects. The commitment could be rephrased to say "we would consider the possibility of tax incentives for investment in high technology").

(c) (page 21) "Fiscal and financial incentives to encourage industry to invest in energy saving plant".

(The same objections apply here as above; however, regulations imposing higher technical standards of energy efficiency would not, by contrast, have direct public finance implications. We suggest deletion).

(d) (page 21) "review the system of taxation of oil and gas from the North Sea in order to encourage development of new fields, under whatever market conditions exist".

(The Chancellor has bowed to pressure to loosen the North Sea tax regime. The redraft of 'Partnership' should reflect this).

(e) (page 22) "if farm communities are to thrive, farming must be opened up to new entrants, which we would encourage with fiscal incentives for letting to new entrants and family farms".

(In Partnership the implication seems to be that any extra costs will be financed by savings from the CAP; this should be made clear).

(f) (page 25) "payments under registered profit sharing agreements" should be exempt from National Insurance contributions".

(If half the employees in the private sector had profit sharing arrangements worth an average £20p.w., the cost would be roughly £1.5bn p.a.: however given the conservatism of British management, it is likely coverage would be much smaller than this. We should amalgamate incentives for profit sharing with incentives for lower pay deals and substitute this for any general reduction in employers National Insurance contributions).

(g) (page 26) "'Loi Monory' tax incentives for share ownership".

(Impossible to cost. Purchases of shares, along with all other savings instruments, will be exempt from tax under the long-term reforms 'Partnership' envisages; ie, the exemption from savings tax. However under this new tax regime, spending the proceeds of savings will be subject to tax, thus counterbalancing the loss of revenue implied by a 'Loi Monory' provision. Should therefore be stated as along term aim).

(h) (page 28) "a small allowance to cover some childcare costs - limited to the basic rate".

(Any significant contribution to the childcare costs would be extremely costly. However the latest version of our Tax & Benefits proposals does include provision for a small working mothers' expense allowance).

TABLE I

## ALLIANCE ALTERNATIVES

## OPTION A: 2% REAL GROWTH PER ANNUM

	Government plans (real terms, £bn)	Alliance alternative (£bn)	Addition	
			Over Tories	Over Base
1986/7	140.5	140.5		
1987/8	143.2	143.3	0.1	2.8
1988/9	144.5	146.1	1.6	5.6
1989/90	145.8	148.9	3.1	8.4
1991/2		154.9	5.4 <sup>(1)</sup>	14.4

OPTION B: PUBLIC SPENDING A CONSTANT PROPORTION OF GDP  
(as of 1986/7), ASSUMING 3% GROWTH

	Government plans (nominal, £bn)	Alliance alternative (£bn)	Addition (real, over Gov)	
1986/7	140.5	140.5		
1987/8	148.5	150.5	2.0	
1988/9	154.2	161.0	6.8	
1989/90	161.5	172.3 <sup>(2)</sup> 170.7 <sup>(3)</sup>	10.8 <sup>(2)</sup> 9.2 <sup>(3)</sup>	
1991/2				16-17 <sup>(1)</sup>

(1) assuming that on the Government's plans public spending would continue to rise by 1.25% in real terms after 1989/90.

(2) assuming 7% nominal GDP growth in 1989/90

(3) assuming 6% nominal GDP growth in 1989/90

**TABLE II**  
**SPENDING PLANS (1986 PRICES)**

POLICY	1st Yr Cost	Phasing	Cost in 1989/90	5th Yr Cost
<b>PSS</b>				
Tax & Benefit Reform	£1000m	phasing to be decided	£1500m	£1500m
<b>HEALTH</b>				
Innovation fund	£75m	phased over 5yrs	£250m	£450m
2% growth p.a.	nil		£370m	£740m
<b>EDUCATION</b>				
Adult Education Entitlement	£80m	phased over 15yrs	£240m	£400m
1yr Pre-school experience	£50m	phased over 5yrs	£150m	£250m
Teacher Training	nil	phased over 5yrs	nil	£200m
Double Higher & Further Edu Students	£100	phased over 10yrs	£300m	£500m
<b>16-19's TRAINING</b>				
Tertiary Education Package (inc crash skill programme & E.M.A.'s.	£250m	phased over 5yrs	£750m	£1250m
<b>HOUSING/INFRASTRUCTURE</b>				
All housing schemes	£1200m	phased over 5yrs	£1800m	£2800m
Water/Sewerage	£55m	CBI rolling programme	£55m	£55m

<b>TRANSPORT</b>				
Road	£180m	CBI rolling programme	£150m	£150m
Local	£50m	back to peak	£50m	£50m
Rail	£200m	restores recent cut	£200m	£200m
<b>JOB CREATION</b>				
	£1000m	250k jobs rising to 500k [This depends on training]	£2000m	£2000m
<b>INDUSTRY/REGIONS</b>				
Urban renewal	£160m	CBI rolling programme	£260m	£260m
Regional Dev Agencies	£100m	phased over 5yrs	£300m	£500m
Investment/New Tech	£100m	phased over 5yrs	£400m	£650m
<b>OVERSEAS AID</b>				
Rise to 0.7%GNP	£280m	phased over 5yrs	£840m	£1400m
<b>INCOME STRATEGY</b>				
Pay roll incentive for low wage rises	£500m	depends on incentive	£500m	£500m
Profit Sharing incentives	£100m	assuming increased take-up	£300m	£500m
<b>ARTS</b>				
Double Arts Budget	£30m	phased over 5yrs	£80m	£135m
<b>LAW &amp; ORDER</b>				
Legal Aid/Prisons	£30m	phased over 5yrs	£90m	£150m
<b>LOCAL AUTHORITIES</b>				
Relaxing spending controls	£200m	gradual increase	£600m	£1000m
<b>TOTAL</b>	<b>£5740m</b>		<b>£10985m</b>	<b>£15,585</b>

## NOTES TO TABLE II

### PERSONAL SOCIAL SECURITY

Tax and Benefit reform will not be an easy policy to phase in without being trapped by anomalies; nevertheless that will have to be done. A large measure of the benefits increases will need to be introduced early on, yet unless people are to lose later this can only be done hand in hand with the tax reforms. The Tax and Benefits group are currently addressing this problem.

Come what may, the manifesto is bound to contain proposals for immediate action to help the poor before the implementation of the reformed and integrated system. This cost can be expected to be at least £1bn - the limited sum last year's Alliance Budget contained for tackling poverty.

Financial support for carers will be included in the Tax and Benefits package, although some extra cost is implied by the 'Carer's Charter'; this could come under the NHS 'innovation fund'.

### HEALTH

Innovation Fund; The total cost was estimated at £500m; however, the Conservatives are setting up a special fund to tackle waiting lists (£50m over two years), which reduces the additional cost of our proposals.

After that, the current broad commitment is 2% p.a. (as much as £300m p.a.), which should be taken to include the various specific policy proposals. However, Government plans now envisage about 2.2% real growth in NHS spending next year and 1% p.a. thereafter. The fund to tackle waiting lists is included within these figures.

### EDUCATION

Adult Education Entitlement; The cost of expanding adult education provision is potentially very high. It would seem reasonable therefore to regard it as a very long term aim (over three Parliaments?). Over 15 years it could be about £80m p.a., rising proportionately as the timescale is shortened (this figure is based on John MacGregor's costing of the similar Labour commitment, which he estimates on the basis of 1% full-time equivalent take-up).

Pre-school experience; about 100,000 places would be needed at a potential cost of £250m (it could be less, depending on the 'experience' anticipated). Clearly this could be phased over the life time of a Government, giving a first year cost of £50m.

Higher salaries for Teachers may be fulfilled by the present Government, and is not costed here; more training was costed at £400m, but Government plans now assume an extra £200m p.a. for teacher training by 1987/8, so the first part of Alliance plans is already in place.

The highest potential cost lies with increasing the numbers entering higher education, particularly if new buildings are required. To double the number might cost £1bn, even without substantial capital investment or grant increases. The Government has announced increases in University funding - but realistically these will do little more than allow the Universities to stand still.

#### 16-19's TRAINING

These are gross estimates updated from 1984/5 figures on the basis set out in Example 2 of the SDP paper 'Tertiary education for all'.

#### HOUSING

The cost of this programme is estimated at £3bn gross (or £1.3bn net); depending on the macro economic strategy eventually adopted this may be put in very quickly, or phased over (say) five years. £1.6bn was allowed for first year capital spending on Housing in the last Alliance Budget, but the Government is now proposing to increase gross capital expenditure on housing by £450m in 1987/8 (though it falls back in later years).

The water and sewerage renewal is estimated by the CBI to require £50m a year, though this seems a rather low figure.

#### TRANSPORT

Our plans for road building were originally estimated to involve £250m extra rising to £500m. However, the Government has now increased capital spending by £70m rising to £100m. Restoring local transport subsidies to their peak would cost £50m. Finally, investment in rail could be funded by restoring the recent £200m cut in subsidy.

#### JOB CREATION

This will depend on the macro-economic strategy adopted; for that reason the figures suggested have varied enormously. In the last Alliance Budget strategy the cost allowed was £1bn.

#### INDUSTRY/REGIONS

The CBI have suggested an urban renewal programme of £300m p.a., of which the Government has now set aside £40m; in addition, when complete the Regional Development Agencies will require £500m p.a., and the various investment/new technology programmes total £650m p.a..

## OVERSEAS AID

The policy is costed at £250m in year one rising to £1.4bn in year five. However the policy is to achieve a fixed % of GNP, so the cost will increase as the economy grows.

## INCOME STRATEGY

The pay-roll incentive for non-inflationary wage settlements, and the profit sharing incentives, are likely to cost £1bn plus once adopted, though the level of incentive and take-up will obviously affect this. It seems reasonable to assume that the pay roll incentive for low wage rises would come in in one block, but that profit sharing would cost more over time as more companies took it up.

## ARTS

Doubling Arts budget costs £135m and can be phased.

## AGRICULTURE

Commitments include increased resources to rural development and conservation agencies, a 'Farm Bank' providing cheap loans to farmers, and the reversal of cuts in agricultural research, education, and advice. However the implication of 'Partnership' is that any proposals for increases in spending on agriculture should be funded by cuts in CAP.

## LAW AND ORDER

We envisage a phased increase in spending on legal aid and prisons of £150m.

## DEFENCE

The policy is to continue with current spending totals, though with revised priorities.

## SCOTLAND, WALES, N. IRELAND.

The programmes outlined above are for the UK as a whole, although a breakdown will have to be prepared.

## LOCAL AUTHORITY SPENDING

Our proposals include an allowance for the effects of less tight central control over local authority spending (other than spending implied above, eg Housing) of £200m in year one rising to £1bn after five years. However, this figure is only a rough indication of the likely magnitude involved.

THE INDEPENDENT

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

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

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

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

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

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

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

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

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

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

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

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

By Colin Brown  
Political Correspondent

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

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

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

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

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

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

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

Commitments which the report says should be delayed include:

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

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

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

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

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

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

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

MR PRESCOTT  
AND THE TRAINING  
LEVY

FROM: A G TYRIE  
DATE: 3 DECEMBER 1986

CHANCELLOR

*Mr. Prescott. Mr. Pinner  
sus. discuss @  
ap. to X  
recom.*

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

TYRIE  
→ CH/EX  
3/12

MR PRESCOTT AND THE TRAINING LEVY

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

*MoM notes that Kenneth Clarke has also challenged Mr Prescott in a recent speech.  
AHH*

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

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

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

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

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

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

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

The Effects of the Scheme

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

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

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

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

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

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

*M Clark*

*pp* A G TYRIE

3117/05

DRAFT LETTER TO MR HATTERSLEY

### LABOUR AND THE TRAINING LEVY

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

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

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

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

DRAFT  
LETTER  
TO  
MR  
HATTERSLEY

11 NOV 1986

# Labour call for training levy on all firms

MR CB 49

Prescott.

By Andrew Marr,  
Political Correspondent

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Labour split on training levy plan

By PETER PHELPS

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

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

## Defuse

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

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

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

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

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

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

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

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

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

## THE INDEPENDENT

# Hattersley turns down Prescott's levy scheme

By Andrew Marr  
Political Correspondent

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

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

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

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

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

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

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

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

Two-horse race, page 17

## THE TIMES

# Labour's job pledge a 'fraud'

By Sheila Gunn  
Political Staff

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

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

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

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

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

Morning Star

# Hattersley in new row

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

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

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

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

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

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

an almost immediate U-turn on the issue.

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

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

II

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

**Mr. Prescott:** Eureka!

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

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

**Mr. Prescott:** Why?

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

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

**Mr. Prescott:** Bare knuckles.

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

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

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

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

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

**Mr. Prescott rose—**

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

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

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

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

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

**Mr. Prescott:** Yes.

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

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

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

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

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

[Mr. Roy Hattersley]

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

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

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

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

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

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

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

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

3117/10

*Handwritten initials*

FROM: A G TYRIE

DATE: 5 DECEMBER 1986

CHIEF SECRETARY

*Red checkmark*

→ cc **Chancellor** *-2nd*  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Mr MacAuslan  
Mr Pickering  
Mr Haigh

MR PRESCOTT AND THE TRAINING LEVY

I attach a redraft of the 'training levy' letter with the Hattersley "1 per cent levy" quotation included and the other quotations removed, as you requested.

2. I have spoken to Paul Channon's Special Adviser again. Mr Channon is agreeable to the idea of writing letters to John Smith and Roy Hattersley on the same day. It would probably be most appropriate to deliver the letters on Tuesday and hopefully to get something in Wednesday morning's papers. This will help Mr Channon to press Labour further in DTI First Order PQs on Wednesday.

*M. May*  
A G TYRIE  
*ps*

DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO  
MR HATTERSLEY

LABOUR AND THE TRAINING LEVY

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

2. Since then your colleague Mr Prescott has made it clear that a 1% levy would be the minimum.

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



HOUSE OF COMMONS  
LONDON SW1A 0AA

cc Chancellor

FET Andrew-did  
EST you deal  
MST with this?  
Mr Cooper  
Mr Ross-Groby  
Mr Tyrie  
Miss O'Leary  
Mr Culpin

10 December 1986

*No! simply  
ambivalent*

C.  
Looks as though we've got  
under Hattersley's skin! How  
should we best use this in  
Parliament? "Clear that RHM  
Sparksbrook has given up on public  
expenditure"?

HH 10.12.

*John MacGregor*

Thank you for your letter of 10 December 1986.

As "Shadow" Chief Secretary, Bryan Gould will be replying in due course.

*Yours sincerely  
Roy Hattersley*

*but "Shadow" Chief Secretary,  
John Shadow "Chief Secretary"!*

Rt Hon John MacGregor MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Roy Hattersley MP  
House of Commons  
London  
SW1A 0AA

10 December 1986

*Dear Roy,*

**LABOUR AND THE TRAINING LEVY**

During the Knowsley by-election as you know John Prescott put forward a plan for a 1 per cent training levy on the turnover of all businesses, big and small, which he estimates would cost £5 - £6 billion. Since then we have had exchanges in the House seeking clarification of whether this is indeed a policy commitment or not. We have waited in vain for any to be forthcoming: that is why I am writing to you today.

When John Prescott made that commitment you were reported as saying: "the idea that there should be a 1 per cent levy is not policy, ..., and I can't imagine it is going to be policy.". Since then he has made it clear he believes that a 1 per cent levy would be the minimum.

So it does appear after all that once again Labour is committing itself to a policy which will place a severe burden on industry. It is therefore necessary for you to clarify who represents official Labour Party policy - John Prescott and his 1 per cent or you? Are you now prepared to over-rule John Prescott and make clear to Parliament and to the country that the 1 per cent turnover levy is not your policy?

*Yours sincerely,*  
*JH*

JOHN MacGREGOR

10/12/86.

CONSERVATIVE RESEARCH DEPARTMENT

BACKGROUND BRIEFING ON LABOUR'S DEFENCE POLICY

1. LABOUR ISOLATED : THE INTERNATIONAL DIMENSION
2. THE FALLACY OF ONE-SIDED DISARMAMENT
3. DROPS IN THE OCEAN : LABOUR'S PLANS FOR CONVENTIONAL DEFENCE
4. CONVENTIONAL DEFENCE : PAST NEGLECT AND EMPTY PROMISES
5. LABOUR SPÓKESMEN : RÉVEALING QUOTES

## 1. LABOUR ISOLATED : THE INTERNATIONAL DIMENSION

Fact : Labour's non-nuclear defence strategy would lead inexorably to the break-up of NATO.

### Background :

- \* If US servicemen in Britain were to lose their nuclear protection as a result of the expulsion of the US nuclear bases, American public opinion would demand withdrawal from our soil.
- \* The removal of tactical nuclear weapons from the 1st British Corps in West Germany would create a major gap in the nuclear deterrence provided by NATO's land forces on the Central Front.
- \* If Britain removed US nuclear weapons from its soil, it would be highly likely that other NATO countries like West Germany, Belgium and Italy would follow suit. US troops would not stay in Western Europe in those circumstances and without them there would be no defence against Russian attack.

### \* Relevant Quotes :

- \* Mr Richard Perle (US Assistant Secretary of Defence) :

'The programme of the British Labour Party under Neil Kinnock is so wildly irresponsible, so separate and apart from the historic Nato strategy, that I think a Labour government that stood by its present policies - and I rather doubt that they would - would, if it didn't destroy the alliance, at least diminish its effective ability to do the task for which it was created' (Times, 25th September 1986).

- \* Mr Stephen Solarz (US Democratic Congressman, Member of House of Representatives, Foreign Relations Committee) :

'The implementation of Labour's anti-nuclear policy would probably lead to the disintegration of the Alliance Labour says it wants to preserve' (Wall Street Journal, 6th November 1986).

'What Labour intends to do would bring the biggest crisis in the NATO Alliance since the Soviets built their wall in Berlin' (Observer, 23rd November 1986).

- \* Mr Henry Kissinger :

'I have always favoured independent nuclear capabilities in Europe...I do not see how Europe can contribute intellectually to a debate in a field of technology in which it has excluded itself' (Times, 2nd December 1986)

\* General Bernard Rogers (NATO Supreme Commander in Europe) :

'Should plans such as those in the Labour Party ever be realised, America would decide that does it, we will no longer expose our 350,000 soldiers to the risk of the kind of thinking which shifts responsibility for defence on to others. The Soviet Union, with this massive strength on the ground, would laugh at us' (Independent, 5th December 1986).

\* M. Jacques Chirac (French Prime Minister) :

'Nuclear deterrence remains the only effective way of preventing war in Europe' (Times, 3rd December 1986).

\* M. Charles Hernu (Former French Socialist Defence Minister) :

'If our Labour friends in England are against nuclear weapons for reasons of morality then they should take their argument to its logical conclusion. The crossbow is immoral. All weapons are immoral. War is immoral. But it is not moral to get killed by someone else' (Daily Mail, 10th November 1986).

\* NATO Defence Ministers :

'We reject unilateral disarmament which would result in the abandonment by NATO of its deterrent strategy and hence the basis of its security and stability' (Brussels, 5th December 1986).

## 2. THE FALLACY OF ONE-SIDED DISARMAMENT

Fact : One-sided disarmament, as a means for achieving reductions in the Russian arsenal, has been tried repeatedly and failed. Only by negotiating from strength can the West persuade the Soviet Union to agree equal and verifiable reductions in arms.

### Background:

- \* In the late 1950s, Britain gave up all its chemical weapons (CW). The US has had a 17 year moratorium on CW production. The Russians have responded by building up their own CW capacity: 300,000 tonnes of nerve agent alone, which seriously threatens Western security.
- \* Between 1972 and 1978, the United States exercised one-sided restraint on new strategic nuclear systems, deploying none. The Russian response was to introduce no less than 6 new ballistic missiles or missile systems.
- \* Between 1972 and 1978, NATO deployed no new nuclear forces in Europe which could reach the Soviet Union. The Russian reply was to introduce the Backfire bomber and the mobile SS-20 missile.
- \* In 1978 NATO decided to respond to the Soviet build-up by taking a decision to deploy Pershing 2 and Cruise in Europe. The deployment of these missiles in 1983 met with sustained criticism from both CND and the Labour Party; they said that progress towards arms control would be wrecked. The result has been the exact opposite. The Russians have come back to the negotiating table. At Reykjavik they were talking seriously about a proposal which would remove every Soviet SS20 missile from European soil altogether.

### 3. DROPS IN THE OCEAN : LABOUR'S PLANS FOR CONVENTIONAL DEFENCE

Fact : The loss of Britain's nuclear capability could not be compensated for by conventional weapons since the latter would be no deterrent whatever against nuclear attack or the threat of nuclear attack. Moreover, the deployment of resources saved by the cancellation of Trident to conventional defence would do virtually nothing to alter the conventional imbalance in Western Europe.

#### Background :

- \* NATO's strategy of flexible response combines deterrence and defence, and is based upon a wide range of nuclear and conventional forces. Without nuclear weapons, NATO is unable to present a credible deterrent to the numerically superior Warsaw Pact nuclear and conventional forces. Britain's armed forces, including our independent strategic nuclear deterrent, play a significant role within NATO strategy.
- \* Labour propose to cancel the Trident programme and use the money to strengthen our conventional defences. Even if every penny devoted to the Trident programme was spent on conventional defence Britain could only afford at most one or two extra armoured divisions, comprising 300 tanks. Yet the Soviet Union has a superiority in the number of tanks 100 times as great as that.
- \* In fact of the Trident programme, £3 billion has already been committed to the Trident programme and the savings would therefore be nowhere near as great.
- \* In addition, it is far from clear that a Labour Government would deploy all the savings to conventional defence. The NEC's 1986 Statements to Conference speaks only of part of the savings being used in that way.
- \* Labour Party defence policy would also involve the withdrawal of all short range nuclear weapons in support of B.A.O.R. This would leave B.A.O.R. exposed to the nuclear, chemical and biological capability of the Warsaw Pact. In the words of one British military commander in Germany : 'Without a nuclear guarantee we would become nuclear "cannon-fodder"' (Sunday Telegraph, 5th October 1986).

## 5. LABOUR SPOKESMEN : REVEALING QUOTES

Many Labour MPs - including front-bench spokesmen, such as Mr Denis Healey and Mr Roy Hattersley - have repeatedly made clear their opposition to the central features of Labour's new defence policy.

### 1. RT HON DENIS HEALEY MP

#### On Unilateralism :

- \* 'I would fight to change the policy before the General Election. If I failed then I wouldn't accept office in a Labour government' (Guardian, 15th September 1981).
- \* 'The only real answer to the nuclear threat is multilateral disarmament and not unilateral gestures' (Daily Telegraph, 1st October 1981).
- \* 'The reason we were defeated, in so far as defence played a role, is that people believed we were in favour of unilaterally disarming ourselves. It wasn't the confusion, it was the unilateralism that was the damaging thing. And all the opinion polls have shown that' (Interview with Marxism Today, April 1986).
- \* 'I was torn to shreds in the miners' canteen by miners saying to me, "we're not going to vote for a party which is in favour of unilaterally disarming Britain"' (ibid).

#### On The Americans

'The Americans have a very active presence and policy in every single part of the world and if we broke with them, we would lose any possibility of influencing them' (Interview with Marxism Today, April 1986).

#### On US Bases

- \* Asked whether 'we could end up keeping America's weapons here if that is what the Alliance wanted', Mr Healey replied : 'I would doubt it, but it's not inconceivable' (BBC Panorama, 29th September 1986).
- \* 'Whether we like it or not, it is the stability of the military balance between NATO and the Warsaw powers which has kept Europe at peace for over 30 years when over 20 million people have been killed in wars outside Europe. NATO's nuclear strategy is an essential part of that balance. To threaten to upset it by refusing to let America base any of her nuclear weapons in Britain would make war more likely, not less likely' (Guardian, 14th August 1981).
- \* 'It would be equally impossible to opt out by renouncing nuclear weapons and declaring neutrality, because nuclear ally and non-nuclear neutral will be condemned alike to death in a nuclear winter...Thus the argument that the presence of foreign nuclear bases on one's territory makes one a nuclear target loses its relevance' (Fabian Society Tract 501, January 1985).

### On offshore American nuclear weapons

'So offshore American nuclear weapons will remain necessary to deter a nuclear attack on Europe even when all nuclear weapons have been withdrawn from European soil' (Fabian Society Tract 501, January 1985).

But Mr Neil Kinnock has said: 'You can't have a non-nuclear policy if you have, under the control of any country, nuclear bases on your country's soil or in its surrounding waters' [Emphasis added] (Tribune, 15th July 1983)

### On the nuclear umbrella

'The US, whether we like it or not, has nuclear weapons. The US is a member of NATO. Possession by the US of nuclear weapons is obviously a deterrent' (The London Standard, 30th September 1986).

But Mr Neil Kinnock has said: 'If we are not prepared to use the weapon system ourselves we certainly would not be asking anyone else to jeopardize themselves by the use of that weapon' (BBC TV, "This Week, Next Week", 28th September 1986). Mr Kinnock also said that 'it would be immoral' for the UK to continue to enjoy the protection of NATO's nuclear umbrella (ibid)

## 2. RT HON ROY HATTERSLEY MP

### On Unilateralism

'I wouldn't feel able to be one of the people who implemented the policy' (ITV Weekend World, 3rd May 1981).

### On US Bases

'There is an inherent inconsistency in saying we will remove all foreign bases from this country while we have the NATO commitment in our policy' (Financial Times, 5th October 1983).

### On NATO

'Our policy on NATO was foolishly confused. We are committed to membership of NATO by a vote of five to one at Party Conference yet we were saying at the same time that we would not accept our NATO obligations. Now people are not so stupid as to mistake that as anything other than hideous confusion' (Tribune, 29th July 1983).

### On the 1983 General Election

'The hard truth of the defence problem is that unilateral nuclear disarmament, getting rid of our nuclear weapons when other countries did not get rid of theirs, was the most unpopular policy on which the Labour Party has ever fought a general election' (ibid).

3. DR. JOHN GILBERT MP

On nuclear blackmail

'If this country were to abandon its strategic nuclear capability it would be totally exposed to nuclear blackmail which would mean that the Russians would not need to fight a war. They would only have to threaten war. We would have no option to but capitulate. Neil Kinnock is saying that if you don't want nuclear weapons yourself it would be immoral to be defended by someone who has got them and so what he is doing is leaving this country absolutely naked to nuclear blackmail' (Sunday Telegraph, 5th October 1986).

On conventional defences

'The idea that you can keep up our conventional forces by a few tanks and a couple of frigates and this would compensate NATO commanders for the loss of their nuclear facilities is misleading to the point of mendacity' (ibid).

4. AUSTIN MITCHELL MP

On Labour's policy

'Labour's policy may be sensitive and sensible. It may blend in well with new defence thinking. Unfortunately, it is also unsaleable' (Guardian, 21st November 1986).

5. 1986 NEC STATEMENTS TO CONFERENCE

On Defence Spending

'We recognise that some of the funds currently earmarked for nuclear and Falklands spending may have to remain within the defence budget. After a number of years, it will be realistic to expect that most of these savings could be released elsewhere'.

#### 4. CONVENTIONAL DEFENCE : PAST NEGLECT AND EMPTY PROMISES

Fact : Labour's pledge to use the savings from Trident to build up our conventional defences cannot be trusted.

##### Background :

- \* The last Labour Government inflicted serious damage on Britain's defences. It cut defence spending on five separate occasions, and allowed forces' pay to fall below that of comparable civilian rates. The loss of trained manpower reached alarming proportions.

Total expenditure on defence fell from £5.346 billion in 1975-76 to £5.089 billion in 1978-79 (constant 1975-76 prices - Statement on the Defence Estimates 1980, Cmnd 7826 - 11).

Forces manpower fell from 167,000 on 1st April 1975 to 158,000 on 1st January 1979 (Army); from 95,000 to 85,400 (RAF); and from 76,200 to 73,500 (Royal Navy and Royal Marines). Source : Statement on Defence Estimates 1979.

- \* Britain's contribution to NATO was so severely damaged that Dr Luns, NATO's Secretary General, felt impelled to issue a stern rebuke to Mr Mulley, the Defence Secretary, about the cumulative effect of Labour's cuts (September 1977).
- \* The House of Commons Expenditure Committee warned that the cumulative effect of defence cuts would be increasingly felt by our front line forces, and that they were being seriously deprived of the modern equipment necessary to maintain sufficient conventional capability to deter the Warsaw Pact from acts of aggression (HC 254, 17th March 1977).
- \* As early as 1975, the then Chief of the Defence staff, Sir Michael Carver warned that the forces were down to 'absolute bedrock' (BBC TV, 31st July 1975). Even after all these cuts, the 1978 Labour Conference endorsed, by an overwhelming majority, the National Executive Committee's call for further cuts averaging £1.8 billion p.a.
- \* Labour's pledges involving extra public expenditure have been costed at an annual £28 billion by the Treasury (letter from Mr John Macgregor to Mr Roy Hattersley, 31st July 1986). Those expenditure commitments do not include any pledges for extra defence spending. It is quite clear that a Labour Government would have to renege on the majority of its commitments, unless it were prepared to increase the basic rate of income tax to 53p in the pound, or VAT to at least 43 per cent (assuming it had to raise £28 billion).
- \* Labour's policies would lead to a rapid economic crisis. In those circumstances, defence spending would be first in line for the chop. This is all the more likely, given that the next Parliament will see an influx of Left Wing Labour MPs.

\* In a speech in Bournemouth on 13th May 1986, Mr Roy Hattersley said that a Labour Government would 'outline a tough framework for public spending which sets out our priorities for jobs, industry, health, education and housing.' Mr Hattersley made no reference at all to defence.

\* The Labour Party has not demonstrated any credible commitment to strengthen Britain's defences. Indeed, its aim is to cut defence expenditure. In its 'Statements to Conference' (1986), Labour's National Executive Committee said:

'Over time, the aim of the Labour Party is to bring Britain's defence spending towards the average of our major European allies as a proportion of national income' (p.35).

Note: Britain spends about 5.2 per cent of GDP on defence, compared with a European average of 3.3 per cent. A cut of about 2/5 (40 per cent) in defence expenditure would therefore be required to bring us into line with our European allies.

The NEC's 'Statements to Conference' also says that whilst there will be some resources made available to improve Britain's conventional defences, there will also be 'some savings in the overall levels of military spending' (p.37).

#### Relevant Quotes

\* Mr Denzil Davies, Labour's defence spokesman has, until recently, only claimed that savings from cancelling Trident would help maintain conventional defence commitments - not increase them:

'We believe that the money saved on Trident should be used for non-nuclear defence. It should be used to maintain and preserve existing commitments' (Hansard, 30th June 1986, col. 724).

'We have made it clear that we will abolish Trident. We have also made it clear that, without Trident, it will be possible to maintain conventional defence spending at present levels' (Hansard, 30th January 1986).

\* And Mr Michael Meacher, social security spokesman, has said of the Government's 3 per cent p.a. increase in defence expenditure :

'We've made it clear that we would stop that, and indeed cut such expenditure. But certainly that 3% increase could easily be applied to health instead' (Tribune, 14th February 1986).

# ● Labour's Campaign

## Modern Britain in a Modern World A Power for Good

### PRESS INFORMATION

PR 278/86

10 December 1986

### GETTING LABOUR'S MESSAGE ACROSS

With the launch of Labour's campaign MODERN BRITAIN IN A MODERN WORLD - today, Wednesday 10 December - campaign packs are going out to every constituency party, MP, MEP and prospective parliamentary candidate in the Labour Party.

Thousands of brochures setting out Labour's defence strategy are being sent to government and military personnel in Britain, NATO, the United States and Europe as part of a major information exercise.

Following Labour's party political broadcast on defence last week (3 December) and today's national news launch, Labour's front bench spokespeople will be explaining in detail our defence and international policies at a series of regional press conferences in the following weeks (see information note on dates and venues).

Discussions with our NATO allies will continue to take place. NEIL KINNOCK will meet JOHANNES RAU, leader of the West German SPD tomorrow 11 December, and they will hold a joint press conference at 12.45 in the Grand Committee Room, House of Commons.

DENIS HEALEY, Labour's Shadow Foreign Secretary, will be holding a private briefing of ambassadors from NATO countries at 11 a.m. on Tuesday 16 December at the House of Commons. A statement will be issued following that meeting.

In coming months Labour Party members will be actively campaigning on our defence policies throughout the country - getting the message across that Labour is offering the electorate a sane, sensible and secure defence policy that strengthens our real defences with the most effective conventional weapons.

ENDS.

"It is the first duty of any government to ensure the security of the country over which it governs. We will discharge that duty fully, for this is our country and we defend our country as we always have."

Neil Kinnock



# ● Labour's Campaign

## Modern Britain in a Modern World

### A Power for Good

#### PRESS INFORMATION

PR 275/86

10 December 1986

#### RECENT LABOUR PARTY CONFERENCE DECISIONS ON DEFENCE

Labour's conventional weapon defence policy is summarised in 'The Power to Defend our Country', launched with this campaign.

The basis of these policies are the comprehensive National Executive Committee statement "Defence and Security for Britain" adopted by 5.3 million to 1.3 million votes at the 1984 Annual Conference, and the National Executive Committee statement "Defence Conversion and Costs" adopted by the 1986 Annual Conference. This included the commitment to spend money on conventional defence saved from ending the Trident nuclear missile system.

The 1986 Conference also adopted two composite resolutions.

Composite 26 reaffirmed, by 5.4 million to 1 million, support for British membership of NATO. It also called for a new treaty to be negotiated to govern the continuing presence of US non-nuclear bases in Britain. By 5.3 million to 1.1 million composite 27 reaffirmed Labour's existing defence policies and called for strict political control on all arms sales. Conference also adopted an emergency resolution on the Royal Naval Dockyards.

Calls for British withdrawal from NATO and removal of all US bases and communications facilities from Britain were rejected by 5.4 million to 1 million and 5.2 million to 1.2 million respectively.

ENDS.

"It is the first duty of any government to ensure the security of the country over which it governs. We will discharge that duty fully, for this is our country and we defend our country as we always have."

Neil Kinnock

● **Labour's Campaign**  
**Modern Britain in a Modern World**  
**A Power for Good**

PRESS INFORMATION

PR 272/86

10 December 1986

LABOUR'S DEFENCE POLICIES  
AND PUBLIC OPINION.

Measurements of public opinion vary with the precise questions asked by pollsters. But, over time, there is a discernible trend in public opinion. And 'snapshot' polls indicate greater balance in public opinion than sometimes thought.

A 'snapshot' picture is shown in the Gallup political index of October 1986.

On the broad question of nuclear versus conventional weaponry, the view held by the greatest number of people is in favour of nuclear weapons and strong conventional forces. But there is a 10% decline in this view since May 1983 and a 7% jump amongst those favouring conventional weapons alone. The exact figures are as follows:

Continued:

"It is the first duty of any government to ensure the security of the country over which it governs. We will discharge that duty fully, for this is our country and we defend our country as we always have."

Neil Kinnock



	<u>October 1986</u>	<u>May 1983</u>
Britain should have only a few or no weapons of any kind.	9	(10)
Britain should be strong in conventional weapons but no nuclear weapons	26	(19)
Britain should rely on nuclear weapons with a small conventional force	12	(12)
Britain should rely on both nuclear weapons and a strong conventional force	45	(55)

Gallup

It should be noted that the preference is for both nuclear and strong conventional weapons. If a choice is faced because of limited resources, the balance could be different.

Gallup went on to ask about America's use of nuclear weapons on Britain's behalf. The sample was asked whether they approve or disapprove Mr Kinnock's statement that he would ask for conventional military help but not the use of nuclear weapons if threatened with invasion:

	<u>October 1986</u>
Strongly or somewhat approve	47
Strongly or somewhat disapprove	41
Don't know	12

Gallup

And Gallup also asked about Caspar Weinberger's statement that Labour's anti-nuclear defence policy would seriously weaken NATO and increase the likelihood of war.

Continued:

The response was:

	<u>October 1986</u>
Strongly or somewhat agree	41
Strongly or somewhat disagree	42
Don't know	17

Gallup

The longer-term trend is revealed in British Social Attitudes: the 1986 report (edited by Jowell, Witherspoon and Brook, published by Gower).

This survey tested attitudes to nuclear missiles and the safety of Britain. 1983-85:

	1983 %	1984 %	1985 %
<b>American nuclear missiles:</b>			
make Britain a safer place	38	36	36
make Britain less safe	48	51	53
<b>British independent nuclear missiles:</b>			
make Britain a safer place	60	56	54
make Britain less safe	28	33	34

This concern broke down by age within gender 1983-85:

	1983 %	1984 %	1985 %
<b>American missiles make Britain less safe:</b>			
Men aged 18-34	46	52	56
35-54	43	50	50
55+	44	45	48
Women aged 18-34	60	63	63
35-54	52	49	51
55+	40	50	47
<b>British missiles make Britain less safe:</b>			
Men aged 18-34	36	37	40
35-54	26	30	34
55+	27	30	31
Women aged 18-34	34	40	43
35-54	29	32	31
55+	22	28	25

Page 4

The table clearly shows that concern about US nuclear weapons has become more widespread in virtually all age and gender groups. And that there have been similar, if smaller, increases in the concern about the threat to this country's security posed by Britain's own nuclear weapons.

ENDS.

# ● Labour's Campaign

## Modern Britain in a Modern World

### A Power for Good

#### PRESS INFORMATION

PR 276/86

10 December 1986

#### MODERN BRITAIN IN A MODERN WORLD

#### REGIONAL PRESS CONFERENCES

The following press conferences are scheduled this week and next on Labour's international and defence campaign:

<u>VENUE</u>	<u>SPEAKER</u>	<u>CONTACT FOR MORE DETAILS</u>
<u>Wednesday 10 December</u>		
4 p.m. Foreign Press Association (Members only)	Denis Healey MP - Shadow Foreign Secretary Denzil Davies MP - Shadow Defence Minister	Rosemary Spencer 01 930 0445
<u>Thursday 11 December</u>		
Southampton	George Robertson MP - Front bench Foreign Affairs Team	Richard Bates 0703 334462
Coventry	Martin O'Neill MP - Frontbench Defence Team	Pat Gow 0203 79638
Bristol	Kevin McNamara MP - Frontbench Defence Team	South West Regional Office 0272 298018/9
<u>Friday 12 December</u>		
Glasgow	Martin O'Neill MP/ George Robertson MP	Helen Liddell 041 332 8946
Norwich	Denzil Davies MP - Shadow Defence Minister	John Campbell 0603 622107

"It is the first duty of any government to ensure the security of the country over which it governs. We will discharge that duty fully, for this is our country and we defend our country as we always have."

Neil Kinnock



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VENUE

SPEAKER

CONTACT FOR MORE DETAILS

Tuesday 16 December

Welwyn Hatfield

Denzil Davies MP

Chris Longworth  
07073 34530  
07072 64225

Thursday 18 December

Nottingham

Kevin McNamara MP

Peter Coleman  
0602 411351

Newcastle upon Tyne

George Foulkes MP

Nick Brown MP  
091 265 4353

ENDS

## Human Rights

# The power of our convictions

Britain can, and must, stand up for freedom wherever it is threatened – in Eastern Europe, Latin America, Asia, Africa or anywhere else.

Freedom is diminished where there is discrimination because of race, sex or religion; the free expression of political views is suppressed by harrassment, torture or imprisonment; and where trade unionists are not free to organise.

We don't want to be the world's policeman and we don't want to be the world's pastor either; but we must be the friends of freedom. Nowhere is this need greater than in Southern Africa today.

The victims of apartheid have been scorned by Mrs Thatcher. By preventing effective sanctions, she has condemned Southern Africa's black population to more years of misery and diminished Britain's reputation in the world.

Labour will stand by the people of Southern Africa. We will support comprehensive mandatory sanctions. We will stop investment and support a world-wide economic boycott.

We will stand up for the rights of independent sovereign states. The Soviet union must withdraw its occupying forces from Afghanistan.

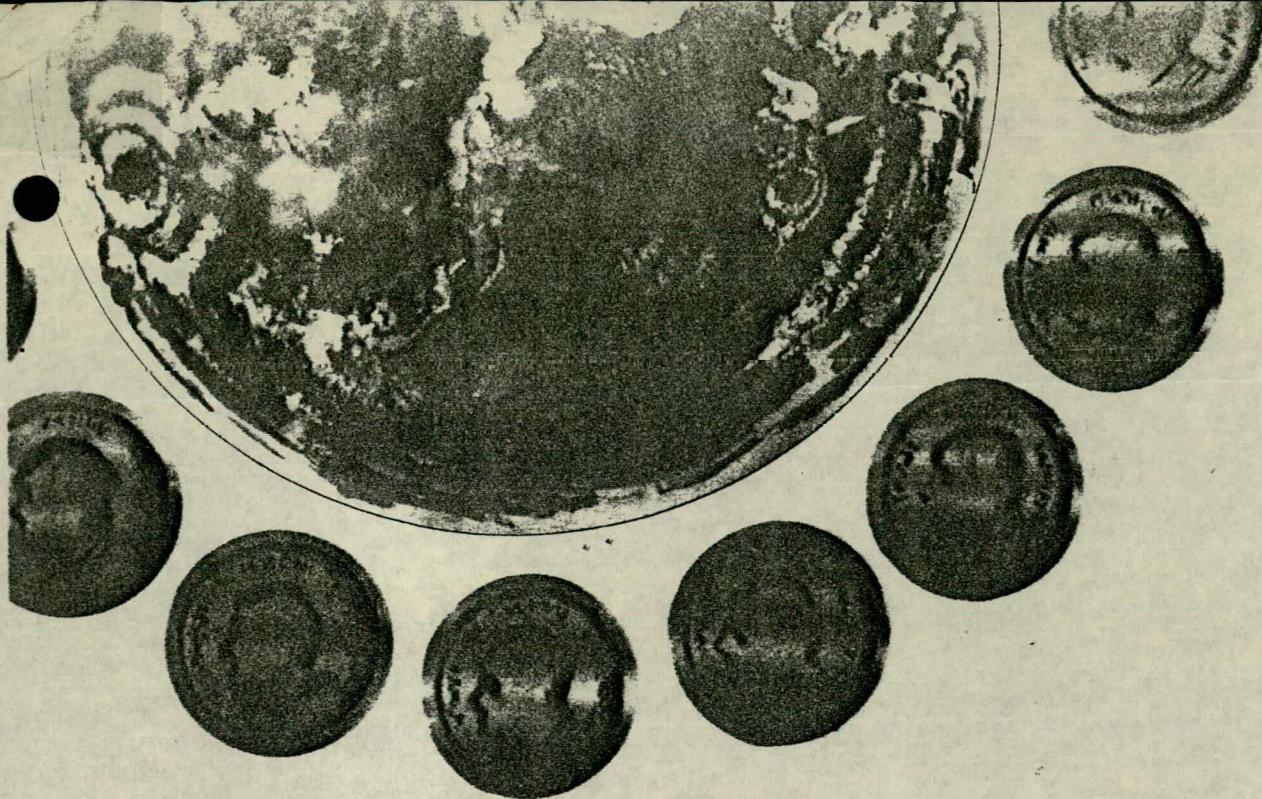
Even in the absence of invasion, we must uphold the principle that it is wrong for one country to dominate or threaten another.

That certainly applies in the case of Nicaragua where US financed guerrillas – the Contras – are murdering innocent people and menacing the existence of that newly established democracy.

We will press the cause of human rights around the world. We do not take Mrs Thatcher's selective view of human rights. We support the independent trade unionists of Poland; we will continue to press the Soviet Union to honour its obligations under international human rights agreements and allow free emigration of people from its territory. At the same time, we will support those working for democracy against repressive regimes, East and West, North and South.

Britain should not seek to force its views upon the rest of the world. But our own freedom gives us pride and it also gives us a responsibility to lead opinion and action for liberty of individuals and communities. While the world remains an unjust and unequal place we will do all in our power to change that and stand by the strength of our convictions.





International Economic Co-operation

## Partnership equals good sense

A Labour Britain will work with our partners for an economically secure and stable future at home, in Europe and throughout the world.

In Europe, we are working with our sister parties, including those of the other eleven members of the Community, on plans designed to achieve lasting economic recovery and to reduce unemployment. It is increasingly difficult for countries to solve their economic problems alone: we need co-ordinated expansion.

If there is no co-ordination, expanding countries will suck in imports while failing to increase their exports sufficiently to pay for them. On the other hand, adopting our approach lessens the balance of payments risks as all countries buy more from each other. As we adopt new fiscal policies to stimulate investment and demand, different problems in individual countries will emerge. But we will solve them faster by working together rather than separately. And an internal trade policy within the Community should ensure that, as its national economies expand, trade and new jobs are distributed evenly.

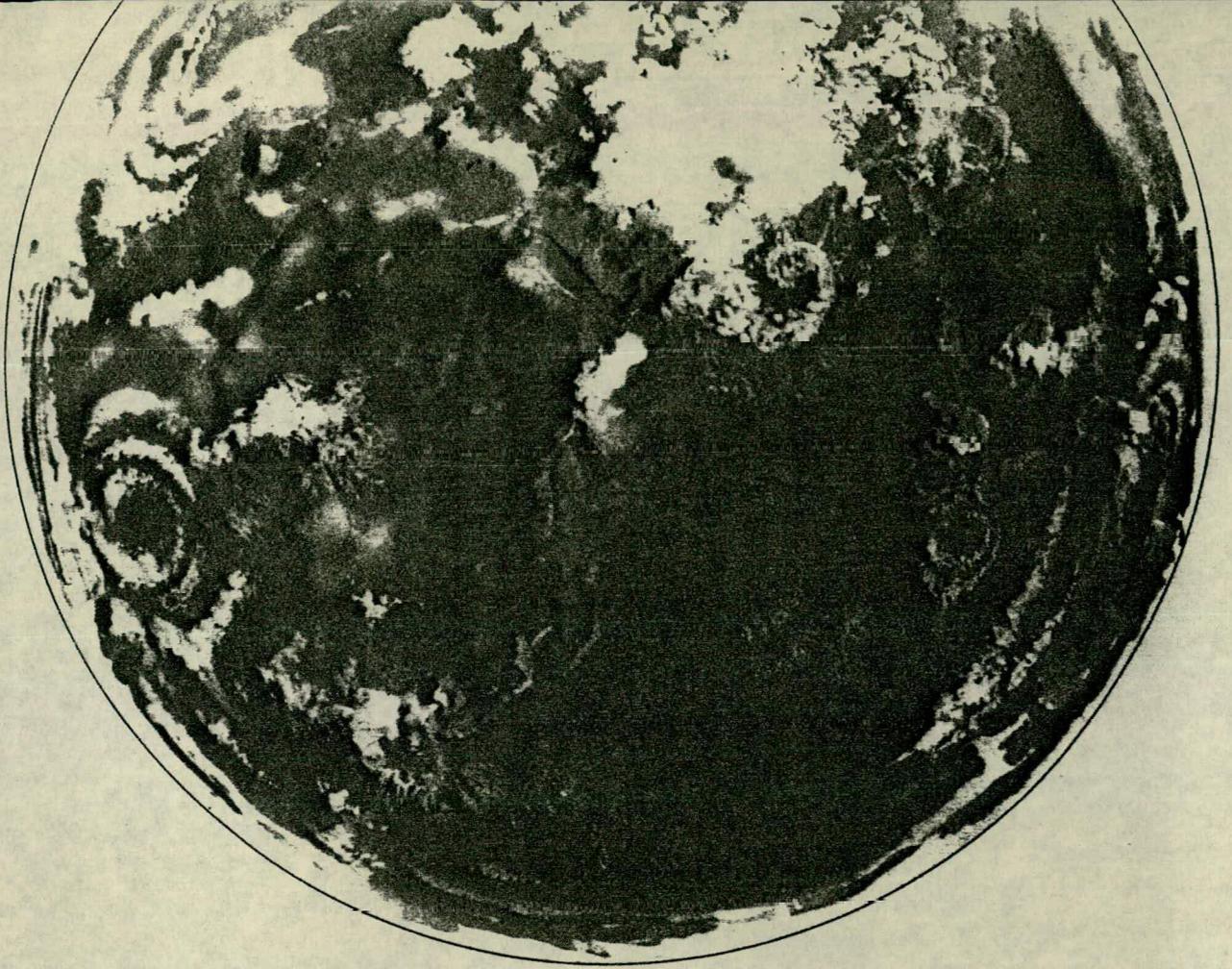
The European Community needs radical reshaping to meet the problems of the 1980s.

Far reaching reforms are needed to tackle industrial and trade problems speedily and effectively. The Community's energies and resources should not be tied to supporting an absurd agricultural policy and its bloated budget but should be invested in industry and employment throughout the regions of Europe.

Through our membership of the world's major economic organisations we are committed to working with the industrialised countries of the world to promote growth and create jobs.

Monetarism and its "free market" equivalents elsewhere in the world have not helped Britain or the world economy grow and prosper: on the contrary, they have worsened a world slump.

By working together with our partners, a Labour Britain will help pull us out of that slump and to put the rest of the industrial world on the road to recovery.



Modern Britain in a Modern World

## A power for good

The modern world is fast changing and full of opportunity. New technologies offer the chance for us to solve many of the world's problems; but those very technologies bring the risk of disaster if we do not work together to use them for the common good.

For many, the modern world is already dangerous and inhospitable.

Millions starve. The nuclear arsenals increase. Racism degrades many nations. The spectre of the terrorist haunts every airport. A plague brought by international drug smugglers threatens to wreck the minds and bodies of a generation. Regimes of differing political colour throughout the world, fearful of what their citizens might say if they are free to express a view, torture them and lock them away.

What is Britain's role in that modern world?

It is a very long time since the end of Empire. We are clearly no longer the world's arbitrator.

But there is a great deal that we can achieve. As a member of the Commonwealth, as a member of the United Nations Security Council, as a member of the European Community, as leading participants in many other councils of the world community, we have much to offer and much to

Labour 

gain. As a nation with a long history of civilisation, culture, learning and innovation, we are admired and imitated throughout the world. We continue to have a valuable contribution to make to the solution of world problems. That is a source of justifiable pride and *real* patriotism.

But under Mrs Thatcher, Britain is not making that contribution.

Her attitudes and policies have ensured that today Britain is regarded by many as a transatlantic outpost of the United States; a country seeking a world role by piling up expensive and dangerous nuclear weapons; one ruled by a government so out of touch with the modern world that it believes it can be neutral on the question of apartheid and that it can answer the needs of the world's starving with lectures on prudence and Victorian values.

That is not Labour's approach.

We believe that the people of modern Britain have a clear and realistic perception of our country's role in the world; its strengths; its priorities; its duties; its potential.

Britain *can* be a power for good in the world.

Good will come from both independent and joint action to help the world's poor – through aid, through encouraging trade, by tackling the crisis of international debt and ensuring that people have the means to pull themselves out of poverty.

Good will come in leading international co-operation on problems of economic growth, environmental pollution and on the threat of the international terrorist and drug smuggler that *can* be solved by persistent, planned effort.

Good will come from Britain taking a leading role in the advancing human rights throughout the world.

Good will come by abandoning nuclear delusions; by strengthening our conventional forces to provide effective defences.

A modern Britain should act in harmony with the aspirations of its people, serving moral duty, advancing material interest, ensuring real security.

It is not a soft option, it requires real strength. The strength of commonsense about our role and common interest with our allies, our trading partners and those who need our help in their struggle against famine and disease.

That is the place for Modern Britain in a Modern World.

## Defence

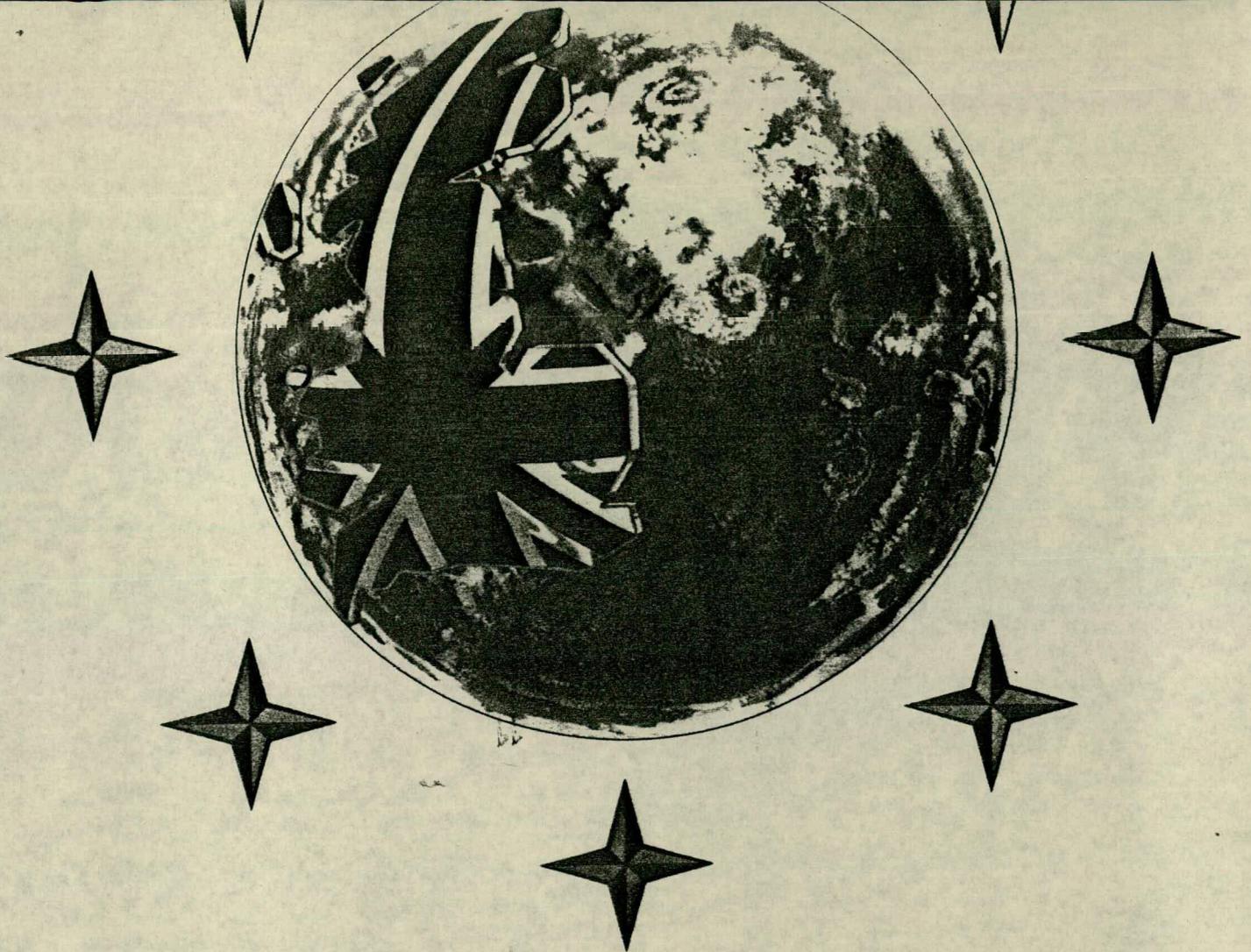
# The power to defend our country

It is a primary duty of government to see that the British people are effectively defended against military threat. Labour has always fulfilled that responsibility, and naturally we will continue to do so by land, sea and air and through the NATO alliance.

NATO is a partnership of democracies to defend democracy. A source of strength.

Now the Conservative government, with its fixation on nuclear weapons, is cutting support for new non-nuclear equipment by 30 per cent. The £10 billion purchase of the Trident missile system will jeopardise the strength of our army, navy and air force and hence diminish our commitment to NATO.

Labour is strongly opposed to such a course. We shall not buy Trident and we shall decommission our nuclear weapons, including Polaris. As in many other areas, now is a crucial time of choice: either we go further down the tunnel of increased dependence on nuclear weapons, or we use our precious resources to sustain and modernise our armed forces and those who supply



and serve them. It is not possible for any government, of any political persuasion, to have it both ways. That is the reality.

We make the non-nuclear choice.

And we do that:

**First**, because we must defend our own island. We must also commit troops and air power to the European central front and sustain our full naval role in the North Atlantic.

**Second**, because in our close and crowded continent of Europe, the use of nuclear weapons is simply not feasible. As Chernobyl horrifyingly proved, lethal radioactive contamination knows no boundaries. Any significant exchange of nuclear weapons would exterminate both defender and aggressor.

Our policy will have implications for NATO when we join the majority of countries in the Alliance that do not have or accommodate nuclear weapons. But so long as we continue to contribute 95 per cent of our defence budget and 5 per cent of our national income to maintaining the strength of the alliance, any accusation of lack of commitment is patently false.

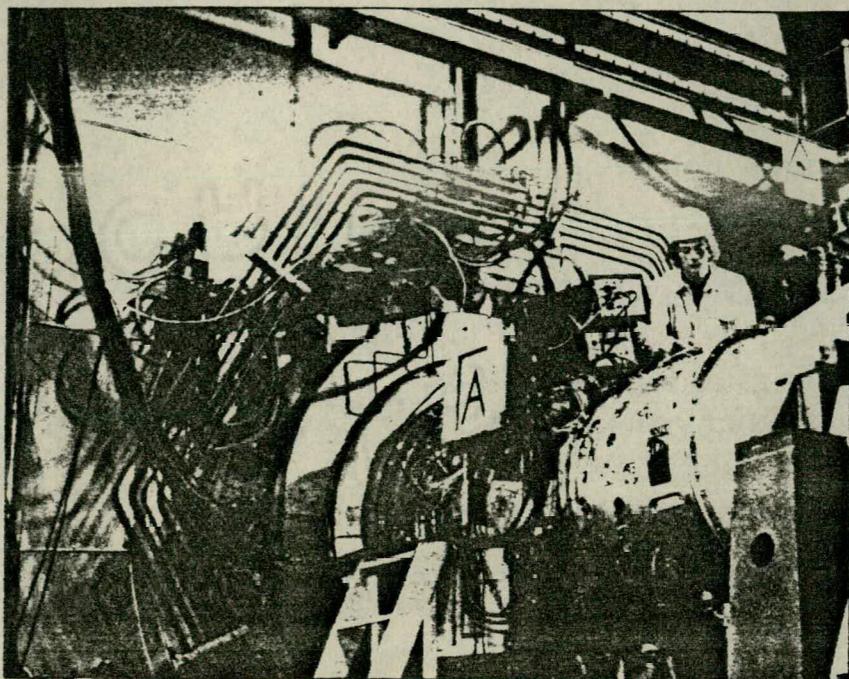
In NATO, we will argue for the adoption of a policy of No First Use of nuclear weapons. We shall sustain the important non-nuclear part of our relationship with the US which benefits both our countries. And we shall strongly support the efforts made by Ronald Reagan and Mikhail Gorbachev to achieve major reductions in strategic weapons and the removal of intermediate weapons from East and West in Europe.

Reykjavik gave the world a revelation of the possible. Although we, like many Americans, are opposed to 'Star Wars', we consider that it was wrong of the Russians to link this issue to the removal of intermediate weapons like Cruise. Nevertheless, the Reykjavik momentum must continue and Mrs Thatcher's obstructive efforts are indefensible.

Her delusions of nuclear grandeur will waste billions on buying Trident; it is neither independent, credible, necessary nor – if our proper defence is to be maintained – affordable.

Labour, by contrast, stands for real security and dependable defence for Britain and Europe.

That is how we will do our duty to protect Modern Britain in a Modern World.



## Defence and jobs secure with Labour

Mrs Thatcher's defence policy is governed by two obsessions: nuclear weapons and privatisation. And as a result she threatens your jobs and, in the long run, industry's ability to meet Britain's defence needs.

Trident costs £10 billion, half of it to be spent on American jobs. To find the money, Mrs Thatcher is slashing the budget for building the conventional weapons and equipment on which no fewer than nine out of ten British defence jobs depend.

Without Trident we could afford to build the equivalent of 90 frigates, 500 fighter aircraft or 10,000 armoured vehicles.

Privatisation and contracting out is putting commercial profit before Britain's security. It won't produce better or cheaper products: it will worsen employment conditions and pension rights, and break up our defence enterprises.

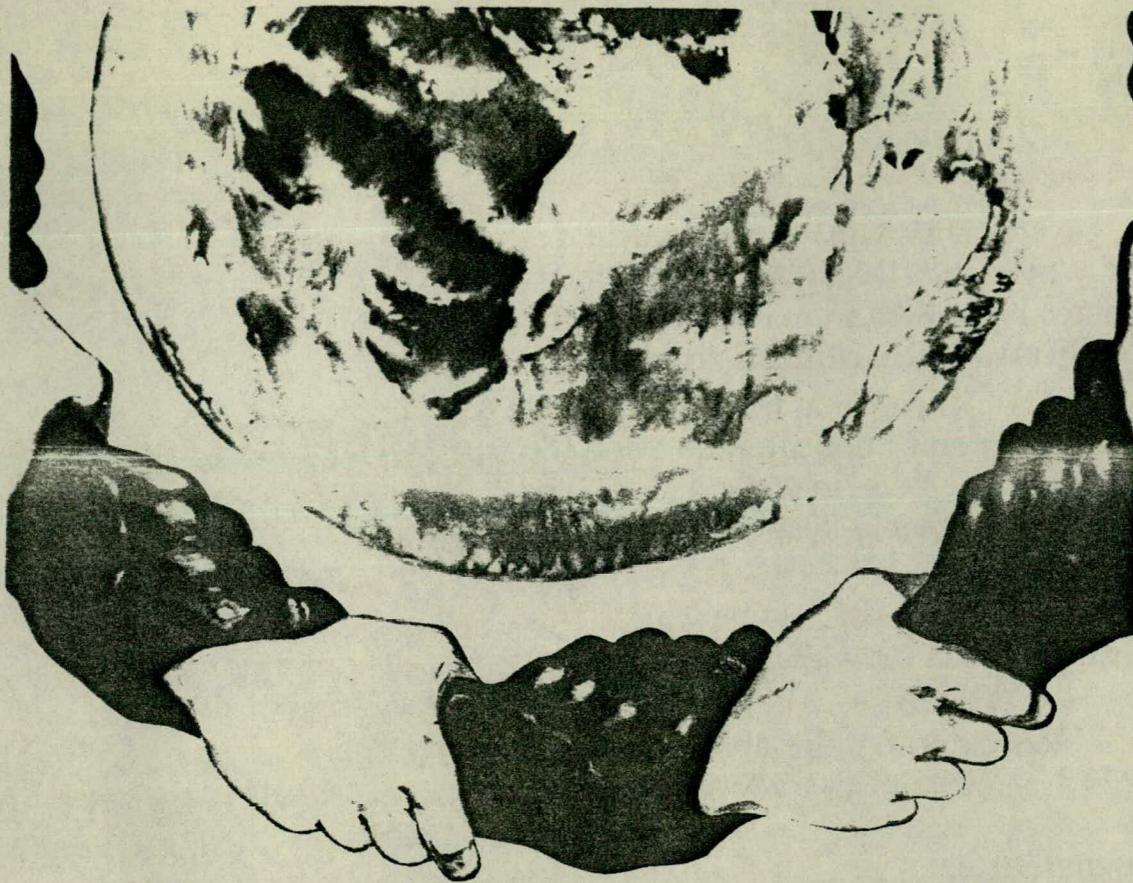
Labour will cancel Trident. Instead we'll spend the money here in Britain building conventional weapons and equipment, keeping jobs in being.

And we will safeguard defence establishments to make sure we have the skills and the research and development to keep Britain secure in its own defence.

## Modern Britain in a Modern World



**Labour** 



# For the good of all

The British people have a clear sense of duty. When faced with starvation in Africa, they reached into their pockets. In the meantime, the present government was busy cutting aid to Africa and the rest of the developing world.

That's not Labour's way. We recognise that in a world where millions face a constant struggle for survival, we must help those in the developing countries who want to work their way out of hopelessness.

A Labour government will expand Britain's development aid to meet the UN target. We will focus aid on those who need it most, and make sure that the local people are fully involved in running projects.

Second, we will work with our trading partners and with international organisations to improve trade with the developing world, and to tackle the international debt crisis which keeps many of the poorer countries in poverty.

Rich and poor nations are part of one world. It is for their good – and for ours too – that we must share its wealth.

If you would like to know more about Labour's policies for A Modern Britain in a Modern World, write to:

The Campaigns Office,  
The Labour Party, 150 Walworth Road,  
London SE17 1JT.

Modern Britain in a Modern World

Labour



# Britain's defence policy

# The choice

The British people today face a stark choice in the defence of their country.

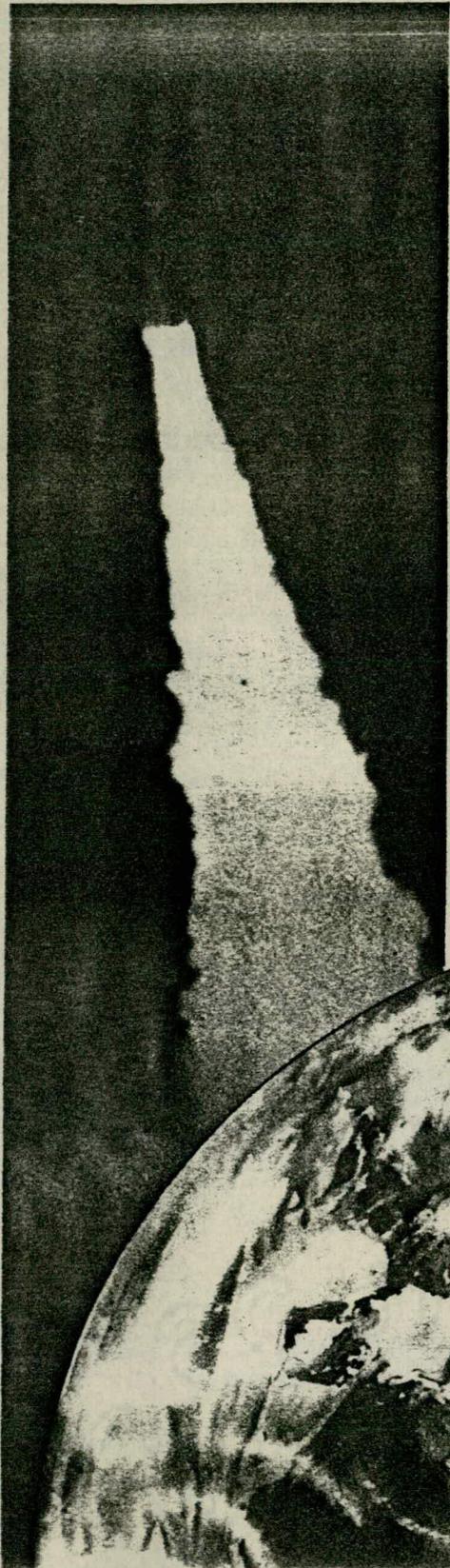
Either we buy the Trident nuclear missile system at a cost of over £10 billion, a system providing no real defence against attack.

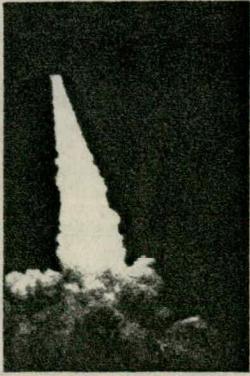
Or we use our scarce resources to equip and modernise our defence forces in Europe and at home.

We cannot do both.

This government is cutting support for new, non-nuclear defence equipment by almost a third. Buying Trident will inevitably lead to cuts in the strength of the army, navy and air force – and prevent us from contributing our share to NATO.

The choice is effective defence; or reliance on a nuclear delusion. The British people must decide.





# The choice



It is a prime duty of government to see that the British people are effectively defended against military threat. Labour has always fulfilled that responsibility – and will continue to do so through the NATO alliance.

NATO is a source of strength. But this government is weakening our defence forces.

## Nuclear defence is no defence

A nuclear battle fought in the crowded towns and cities of Europe is unthinkable. As Chernobyl proved, lethal radioactive contamination knows no boundaries. Any significant exchange of nuclear weapons would exterminate both attacker and defender. And scientific predictions indicate a lasting 'nuclear winter' through the Northern Hemisphere following the use of nuclear weapons. Which nation would be the first to commit suicide?

Because they are buying Trident, they cannot maintain the full British commitment to NATO.

Labour is strongly opposed to this. We make the non-nuclear choice.

We will not buy Trident, we will decommission existing nuclear weapons, including Polaris.

We make this choice, first, because we must defend our island. The only effective deterrent to invasion is determined, well-equipped, well-trained forces on land, sea and air.

Secondly, reliance on nuclear weapons is not a strategy for safety; it is a strategy for suicide.

Together with our allies, we must lead the way to strengthen NATO; this means concentrating resources on improved conventional forces.

At Reykjavik, President Reagan and Mr Gorbachev gave the world a glimpse of hope, a revelation of the possible.

But Mrs Thatcher, left in the cold, frustrates agreement on nuclear weapons.

## Thatcher disarming by stealth

This government is critically undermining our armed forces.

The *Royal Navy* will have insufficient ships – and could never mount an operation like the Falklands again.

The *Royal Air Force* must take second place to foreign buyers of aircraft.

The *Army* is facing cuts that will make it smaller, ill-equipped and inadequately trained.

Possessed by a nuclear fixation, she wishes to waste billions on Trident, rather than equip our armed forces to do their job.

Labour will show the way to international peace.

We'll rid Britain of nuclear weapons while providing real, effective defence.

Labour chooses real security for the people of Britain.



If you wish to know more about Labour's policies for a Modern Britain in a Modern World, write to:

The Campaign Office, The Labour Party, 150 Walworth Road, London SE17 1JT

Name \_\_\_\_\_

Address \_\_\_\_\_

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# ● Labour's Campaign

## Modern Britain in a Modern World

### A Power for Good

#### PRESS INFORMATION

PR 277/86

10 December 1986

#### HOW THE TORIES ARE CUTTING BRITAIN'S REAL DEFENCES

In order to pay for Trident the government are reducing conventional defence spending. Their spending programme is described in the attached figures. These figures are from "Trends in UK Defence Spending in the 1980s" by Malcolm Chalmers, Bradford University, September 1986. The public expenditure plans announced by Chancellor Nigel Lawson in November have not substantially modified these figures.

"It is the first duty of any government to ensure the security of the country over which it governs. We will discharge that duty fully, for this is our country and we defend our country as we always have."

Neil Kinnock



UK Defence Spending in the 1980s

(£ million, 1984/5 prices)

Year	84/5	85/6 Est.	86/7 Est.	87/8 Proj.	88/9 Proj.	89/90 Proj.	% Change 84/5- 89/90
Total Defence spending	17186	17190	16839	16486	16085	16085	- 6.4%
of which							
Trident spending	163	232	500	700	900	1000	
non-Trident spending	17023	16958	16339	15786	15185	15085	-11.4%
-----							
Total Equipment spending	7961	8054	7579	7403	7008	6934	-12.9%
of which:							
Trident equipment spending	150	200	450	650	850	950	
Other equipment spending	7811	7854	7149	6753	6158	5984	-23.4%
-----							
Total New Equipment spending	4757	4916	4795	4623	4228	4154	-12.7%
of which:							
Trident equipment spending	150	200	450	650	850	950	
Other new equipment spending	4607	4716	4345	3973	3378	3204	-30.4%

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

# Labour's Campaign

## Modern Britain in a Modern World

### A Power for Good

#### PRESS INFORMATION

PR 281/86

10 December 1986

STATEMENT BY THE RT HON DENIS HEALEY MP, SHADOW FOREIGN SECRETARY, AT THE LAUNCH OF THE MODERN BRITAIN IN A MODERN WORLD CAMPAIGN ON DECEMBER 10, 1986, AT 10.30 A.M.:

"As Shadow spokesman on Foreign Affairs I will confine my remarks to the implications of our new proposals for Britain's role in NATO and our relations with our allies.

President Reagan, and his main advisers on Defence and Foreign policy, Mr Weinberger and Mr Shultz, have all made it clear that the West must develop a new approach both to NATO strategy and to disarmament. On NATO strategy, Mr Weinberger has "rejected received wisdom about limited war and graduated escalation". Because "the United States no longer has a significant nuclear superiority over the Soviet Union", the Reagan Administration, he says, is committed "to make conventional deterrence work". So is the British Labour Party.

Two days after Mrs Thatcher met President Reagan at Camp David last month, Secretary Shultz said that the United States Administration was committed to seek agreement with the Soviet Union on eliminating intermediate nuclear missiles from Europe and cutting strategic nuclear offensive forces by 50% over a five years period. In the following five years America and Russia would seek to eliminate all remaining ballistic missiles, tactical as well as strategic. The Labour Party supports these goals.

Against this background "a central task" he said, "will be to establish a conventional balance as a necessary corollary for a less nuclear world". The Labour Party fully agrees.

We believe that our new proposals for defence and disarmament will make a major contribution to the success of the alliance in achieving a stable balance of conventional forces in Europe and in agreeing with the Soviet union to reduce nuclear and conventional forces.

We recognise we must pursue our objectives in a way which will not damage the unity of the alliance. Certain decisions within NATO have always been the prerogatives of national governments. For example Mrs Thatcher has unilaterally decided to cut

continued:

"It is the first duty of any government to ensure the security of the country over which it governs. We will discharge that duty fully, for this is our country and we defend our country as we always have."

Neil Kinnock

British defence spending substantially over the next few years whatever our allies may say and our opponents may do. Similarly the Labour Party's decision to de-commission Polaris and cancel the Trident programme is one for Britain alone, as is generally agreed even by our severest critics. Where other elements in our policy may be held to concern the alliance as a whole, they will be matters for discussion in the normal way.

We are convinced that in such discussions we shall be able to show our allies that the removal of Cruise missiles, Poseidon submarines and nuclear bombs from British territory will not be against their interests. Indeed restricting the F111 aircraft based in Britain to the conventional role will strengthen NATO's conventional deterrent, as will the military resources freed by our decision to cancel Polaris and Trident.

The Labour Party believes that its defence policy, particularly if accompanied by similar decisions in other countries, will so strengthen NATO conventional forces in Europe as to rule out military aggression. As the Economist newspaper reported in August, NATO forces on the central front are already very close to being considered enough to hold that front with conventional weapons.

We believe that the members of NATO should seek to raise the nuclear threshold in Europe so as to move towards "no first use" of nuclear weapons, but we recognise that NATO's strategy in Central Europe must be indivisible and that Britain must accept the agreed strategy of the alliance until it succeeds in changing it.

On the other hand the security of Europe would be immensely strengthened for both sides, if NATO and the Warsaw Pact were to seek agreement on reducing their forces in ways calculated to minimise mutual fears. This is a task which in the nuclear field is now under way, as a result of the Reykjavik Summit. We must apply the same approach to conventional forces in Europe. Mr Weinberger has already proposed regular talks between the military leaders of the United States and the Soviet Union, and regular meetings at the highest levels of the Departments of Defence and State with their Soviet counterparts.

The Labour Party strongly supports these proposals. We find it difficult to understand why NATO last week rejected the Soviet proposals for direct discussions of these matters between the military leaders of the two alliances.

To sum up, we believe that the defence policy of a Labour Britain will play a central role in moving NATO and East-West relations in the direction which American leaders have already chosen."

ENDS.

# Labour's Campaign

## Modern Britain in a Modern World

### A Power for Good

#### PRESS INFORMATION

PR 274/86

10 December 1986

#### LABOUR'S DEFENCE POLICIES AND EXPERT OPINION

Labour's defence policies are sometimes regarded as challenging a widely and strongly-held consensus. In fact, no consensus exists in NATO any more. The nuclear dilemma has troubled soldiers, politicians and academics alike since the atom bomb was invented. Now NATO's strategy has been increasingly called into question by the loss of US nuclear superiority at all levels.

Nowhere is this questioning more in evidence than in America itself.

As CASPAR WEINBERGER, American Defence Secretary, said in October 1985 at the National Press Club :

"Most of the concepts that shape our thinking about what forces we need and how they would be used were formulated in the 1950s and early 1960s ... The world has changed so profoundly since the 1950s and 1960s when most strategic ideas were formulated that many of these concepts are now obsolete."

As is known, Mr Weinberger does not support the conclusions Labour reaches. But he recognises fresh thinking is needed.

"It is the first duty of any government to ensure the security of the country over which it governs. We will discharge that duty fully, for this is our country and we defend our country as we always have."

Neil Kinnock



Other Americans go further than Weinberger. In August 1986 a prominent group, including **ROBERT McNAMARA** (former US Defence Secretary), **PAUL WARNKE** (former Chief US Arms Negotiator), **GEORGE KENNAN** (former US Ambassador to Moscow), and **McGEORGE BUNDY** (former US National Security Assistant), published 'Back from the Brink'. In it they concluded :

"NATO's strategy of relying on the first use of nuclear weapons has, in our view, not only diminished its ability to respond with conventional forces but also increased the likelihood that at the height of a crisis NATO would resort to nuclear weapons."

These sentiments are not pacifist or pro-Soviet. **ROBERT McNAMARA** and **DENIS HEALEY** were the main architects of change in NATO strategy in the 1960s. They are now both convinced of the need for further radical change. **HEALEY** said in 'Beyond Nuclear Deterrence' (1985):

"There is now a growing feeling among military experts that NATO must look in a different direction - towards a non-provocative strategy of conventional deterrence which could protect NATO territory without using nuclear weapons if deterrence should fail. We in the Labour Party share this feeling."

The challenge to received wisdom was most demonstrably underlined by the summit at Reykjavik in October this year.

As **GEORGE SHULTZ**, US Secretary of State, said recently in the context of Reykjavik:

"We may be on the verge of important changes in our approach to the role of nuclear weapons in our defence."

He went on to say:

"It may be that we have arrived at a true turning point. The nuclear age cannot be undone or abolished; it is a permanent reality. But we can glimpse now, for the first time, a world freed from the incessant and pervasive fear of nuclear devastation ... a defence strategy that rests on the threat of escalation to a strategic nuclear conflict is, at best, an unwelcome solution to ensuring our national security." (Chicago Sun Times Forum, 18 November 1986).

An alternative solution is more difficult to reach given the complexity of the issues. But the fundamental issues of military strategy are being widely questioned by prominent British military figures as well as Americans.

As FIELD MARSHAL LORD CARVER has said:

"At the theatre or tactical level any nuclear exchange, however limited it might be, is bound to leave NATO worse off in comparison to the Warsaw Pact, in terms of military and civilian casualties and destruction ... To initiate use of nuclear weapons ... seems to me to be criminally irresponsible."

(Quoted in Foreign Affairs, Autumn 1983)

And as the late EARL MOUNTBATTEN OF BURMA also said:

"As a military man who has given half a century of active service I say in all sincerity that the nuclear arms race has no military purpose. Wars cannot be fought with nuclear weapons. Their existence only adds to our perils because of the illusions which they have generated."

(Strasbourg 1979)

So there is a wider view than sometimes believed that nuclear weapons are not a substitute for adequate, conventional firepower.

It is sometimes argued, though, that our need for nuclear weapons arises from an overwhelming Warsaw Pact superiority in conventional forces.

This is not substantiated by authoritative, independent analysts.

The INTERNATIONAL INSTITUTE FOR STRATEGIC STUDIES states in the 'Military Balance 1986-87':

"The overall conventional balance continues to be such as to make military aggression a highly risky undertaking."

The **ECONOMIST** special defence report (August 30 1986) stated:

"It is clear that NATO's forces on the central front are very close to being strong enough to hold that front with conventional weapons."

**CASPAR WEINBERGER** said in 1984 (Report to Congress on Improving NATO's Conventional Capabilities):

"As this report illustrates, contrary to some claims, NATO does not suffer an unmanageable initial weakness in aggregate conventional combat power".

And **GENERAL BERNARD ROGERS**, NATO Supreme Allied Commander in Europe has said (International Defence Review No 2 1986):

"The advantage is with the defender and they (the Warsaw Pact) will give us credit for being stronger than we give ourselves credit for."

A section of opinion argues, however, that Labour's policies threaten America's commitment to defending Europe. But this view is by no means held uniformly.

The **WASHINGTON POST** editorial of December 2 1986 stated:

"If Britain ruled out all nuclear weapons, including the American weapons now at British bases, the United States would not respond by retreating into isolation as some Europeans fear or by pulling all its troops home from Europe."

Two prominent officials in the US Administration share this view:

**CASPAR WEINBERGER:**

"US forces are maintained in Europe directly in support of US political and military interests - not as an act of charity towards our allies"  
(Fiscal Year 1984 Report to Congress)

And RICHARD PERLE, Assistant Secretary of Defence for International and Security Policy:

"We maintain this guarantee because it's very much in our own interests, and what matters in the long run is not so much whether Europeans take it seriously, but whether the Soviet Union takes it seriously, and all of the evidence is that they take it very seriously indeed."  
(Channel 4 Inquiry, September 1986)

And as SIR MICHAEL HOWARD, Regius Professor of History at Oxford University, has observed:

"The United States is 'coupled' not by one delivery system rather than another, but by a vast web of military installations and personnel, to say nothing of the innumerable economic, social and financial links that tie us together into a single coherent system."  
( 'Back from the Brink' Bundy et al)

And GENERAL BERNARD ROGERS has added his view recently:

"I see no situation, military or political, which would cause me to withdraw American forces from Europe. That would be disastrous."  
(Quoted in Daily Telegraph 2 October 1986)

Because our policies are not aimed at harming American interests or getting rid of American conventional forces in Britain there is no practical reason why we shouldn't work constructively with the policy of modernising NATO strategy. Half the NATO countries do not have US nuclear weapons on their territory and as NATO Secretary-General LORD CARRINGTON said in agreeing that Spain could remain free of nuclear weapons whilst staying in NATO:

"Anything's possible in NATO. There are no hard and fast rules."  
(Quoted in Daily Telegraph, 6 January 1986)

Furthermore, there is a strong lobby in America for Europe to strengthen its non-nuclear defence capability - by boosting the army, navy and airforce as Labour wants to do.

This concern of our Allies is best expressed by SENATOR SAM NUNN, Chairman of the US Armed Services Committee:

"The amount of resources we are putting into the defence picture are going to be woefully inadequate to provide a viable conventional deterrent in the future. And as I've mentioned previously on many occasions, if we do not have that growing sense of viability with our conventional deterrent, if we are simply left with either the white flag of surrender or starting a nuclear war in response to a non-nuclear attack, the credibility of NATO's deterrent is going to erode and erode and erode, and in my opinion that Alliance will erode."  
(Channel 4 Inquiry, September 1986)

Halting this erosion requires radical re-thinking on everyone's part. This process was advanced at Reykjavik but finally blocked over the issue of 'Star Wars'. There are many Americans who share Labour's regret that this was made an obstacle by the Soviets and also share our opposition to Reagan's vision of Star Wars in the first place.

JAMES SCHLESINGER, former US Defence Secretary, summed up this view on Star Wars:

"It would be irresponsible for us to base our defence posture on rhetoric that may sell well on the political scene but bears little relationship to the underlying technical, budgetary and strategic realities."  
(MITRE Symposium, October 25 1984)

Labour will continue to play its full part in these security policy debates. We may not have all the answers and we cannot achieve what we want by going it alone. But in government we shall certainly provide a powerful and imaginative alternative to the status quo. And there will be other influential voices to support this search for change.

ENDS

FROM: A TYRIE  
DATE: 10 DECEMBER 1986

CHANCELLOR

cc: Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey  
Miss M O'Mara  
Mr Turnbull  
Mr Kalen  
Mr Evans  
Parliamentary Section

*Make  
A sinner @  
Prayer par  
Xmas mem*

**LABOUR'S SPENDING PLANS**

First Order PQs

You asked for a note on the latest state of play on the costings exercise. No more items have been costed since you announced the partial re-costing in the debate on the Address. In fact the latest figure from DHSS for Mr Meacher's pensions pledge is £7.6 billion. I think this is spurious accuracy; the figure has moved around so much over the past few weeks I think we can safely stick with £8 billion. I attach a note on this from ST1.

The items are:

	£
Christmas bonus	110m
Winter Premium	180m
Utility charges	540m
Energy policies	370m
Pensions	<u>8000m</u>
	<u>9200m</u>

£28 billion would imply an income tax rate of 53 pence in the pound or a VAT rate over ~~50%~~ <sup>43%</sup>. You know how crude these figures are. I suggest we stick with these figures rather than float new ones for £37 billion.

As far as I know Labour have not made any spending pledges in the past few weeks.

## Further thoughts on the costings exercise

I have given some thought about how to stir interest in another re-costing. Some of the possibilities are:

- work up a notional 'bureaucracy count' for Labour's plans. How many extra bureaucrats will be required to administer all this spending? This will, of course, add to the spending totals in some cases.
- ? - issue the detailed workings of our costings. This will increase the risk of someone spotting a mistake. On the other hand we have a great deal of time to check them. They would certainly add an air of solidity to the whole exercise.
- introduce a "pledges abandoned" section to the next re-costing table. We probably have enough evidence to do this.
- issue the next re-costing with a list of other costly pledges, for example, the training levy, social ownership, various VAT exemptions, etc

On timing it will not be easy to do a re-costing in the run up to the Budget. We could try and issue it soon after that, either just before or just after the Easter Recess. By that time some ammunition should have accumulated in the form of further pledges. It will enable us to uprate the pledges to 1987-8 prices. It will also be an opportunity to further refine the pledges and make them even more watertight.

AGS.

A TYRIE

**PROPOSAL** INCREASE STATE PENSION TO A THIRD AVERAGE EARNINGS FOR SINGLE PENSIONERS AND A HALF FOR MARRIED COUPLES.

**SOURCE AND DATE**

Labour party conference 1986 Composite 14.

**ASSUMPTIONS USED** Means tested benefits (supplementary benefit and housing benefit) or linked benefits (primarily invalidity and widows benefits) raised in line.

**COST** £8 billion.

**PRICE AND PROVISION BASIS** 1986-87 Prices.

**FULL YEAR/OTHER** Full year.

**TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP**

First year.

**IMPLICATIONS FOR OTHER PROGRAMMES** None.

**OVERLAPS** £5 and £8 commitment.

**COMMENTS** (1) Costing over and above £1.65 billion costing of £5 and £8 commitment and based on average male and female earnings of £184 per week.

(2) Costing is to nearest £ billion. Unrounded figures are £7.6 billion if either means tested or linked benefits assumptions are used. Means tested benefits assumption preferred because:

(a) Meacher has not said whether he will increase means tested benefits in line;

(b) Unless Labour do uprate means tested benefits in line richest pensioners (eg. Denis Healey or Jim Callaghan) would gain most and poorest pensioners would get nothing at all.

(c) Hattersley has said in context of £5 and £8 pensions pledge Labour that "we would include the additions to supplementary benefit to ensure for pensioners that what we gave with one hand we would not take away with another." (OR 19 March vol94 col 311). Meacher must be aware of this pledge.

(3) If both (ie. means tested and linked benefits) are raised cost is £10 million to nearest £billion

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