

PO-CH/NL/0236 PT F

Part F

SECRET

(Circulate under cover and
notify REGISTRY of movement)

Begins : 18/2/87,
Ends : 13/3/87.



PO -CH /NL/0236



PART F

Chancellor's (Lawson) papers:

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

Opposition Policies and Statements
1987 General Election

Disposal Directions: 25 Year

21/9/95

PO -CH /NL/0236

PART F



I agree:
go for B.

C.

BRIEFING FOR PM ON LABOUR

1. Andrew Tyrie was in a long meeting, so I had a shot at this myself.
2. On Mr Haigh's draft, I suggest we also take out 7, which gets into the territory we ~~had~~ steered the PM away from on Tuesday. Resulting redraft is at Flag A.
3. I think a shorter formulation might be better still - suggestion at Flag B.

AMH

9/Briefing for No 10
because this
explanatory note
Content?

*Post note Mr Tyndal to
re do X.
We need to make
no point Nat,
quite apart*

FROM: M HAIGH
DATE: 18 February 1987

OR 18/2

Mr Colin Miss O'Hara
cc Miss Sinclair
Miss Evans

PARLIAMENTARY CLERK

LABOUR'S PLANS

*No further part, The
plans will contain higher tax
on average.*

I gather that No 10 have asked for further briefing on today's Telegraph stories (attached). These stories do not apparently reflect anything new from Labour spokesmen since Mr Kinnock's weekend remarks.

2. The stories pick up Mr Hattersley's remarks of last year on the theme that no single level of gross earnings can be picked out as the point at which losers will start. This is right as the system now works: because the higher tax rates bear on taxation income (after allowances and reliefs), the level of gross income at which they bite varies from one taxpayer to another according to the allowances and reliefs they get. But this effect would be offset (if not necessarily completely) by Labour's commitments to restrict personal allowances and mortgage interest relief to basic rate only, which would tend to even out, and level down, the level of gross earnings at which the package started to bite. The story is then finally, and hopelessly, complicated by the commitment to switch to mandatory separate taxation (at an unspecified level of basic "unisex" allowance).

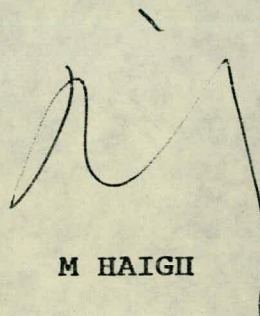
3. The resulting distributional changes would be extremely complex and variable and would defy easy generalisation even if we had a complete specification of the whole package. As it is, we have a series of partial and conflicting indications from Labour spokesmen which are rarely if ever sufficiently explicit about important details ('tax units' or taxpayers'? Gross earnings or gross income or taxable earnings or taxable income?)

4. The risk - if we try to produce quantified briefing ad-hoc for every twist in the story - is that we may fall into the same

sort of confusions that the Opposition are already in. There is an instance of this in the Telegraph editorial yesterday. It said that "After allowing for mortgage interest relief and other concessions the number of taxpayers with taxable incomes of £30,000 or more is roughly half a million, or 2½ of all taxpayers".

The figures in fact relate to numbers with gross incomes over £30,000, before allowing for allowances and reliefs.

5. I attach a line to take and background note on the theme of "Labour in disarray".



M HAIGH

LINE TO TAKE

- Labour spokesmen hopelessly confused about who would be affected by their tax proposals.
- Clear that they have not begun to realise the true implications of their own commitments.
- Not surprising. Apart from wanting to push top tax rates back up they have new plans to cut mortgage interest relief, and even the basic personal allowances, for the higher paid, and to penalise married men at all levels of income.
- Time for Labour to come clean and make clear just what tax rates they would propose to charge and what tax reliefs they would take away. Then we could all see who they think the rich are.
- One thing is already clear. Either their plans would hit many more people, in quite ordinary circumstances, than they have ever so far admitted. Or else tax rates would be back to the absurd levels we inherited in 1978-79. And even this is on the optimistic assumption that top tax rates would yield as much as they hope. Our own experience since 1979 is that top tax yields have gone up when the rates have been cut.

BACKGROUND NOTE

1. Today's Telegraph story contrasts Mr Hattersley's remarks last year that individuals would be affected by Labour's tax proposals at earnings levels from £25,000 upwards, to Mr Kinnock's reported remarks at the weekend that only those earning over £30,000 would be affected.

2. Mr Hattersley's more complex formula ("likely to be affected" over £25,000, "almost certain over £27,000", "certain over £30,000") is probably meant to cater for the difference between gross income and taxable income. Since top tax rates apply to income after allowances and reliefs, the level of gross income at which they bite depend on the allowances and reliefs available to the particular taxpayer. Mr Kinnock has presumably just settled for the gross income level which is "certain" to lose on Mr Hattersley's formulation.

3. Because of these, and other, complications, anything Labour spokesmen say in general terms about the earnings of "losers" must be a considerable simplification of the true picture. The only way of giving the full story is to spell out the proposed tax rate schedule, reliefs, and allowances, in detail. The proposed line to take centres round this point.

rise 'from £25,000'

By George Jones
Political Correspondent

A LABOUR Government would introduce higher taxes for all those earning more than £25,000 a year, Mr Hattersley, the Shadow Chancellor, made clear last night.

Interviewed over the weekend, Mr Kinnock said Labour intended to increase taxes only on those earning over £30,000 a year. Other Labour spokesmen have suggested that the earnings level for higher taxes would be £20,000 and £25,000.

But a statement from Mr Hattersley's office last year said: "Any individual earning £25,000 a year is likely to be affected, anyone earning £27,000 a year is almost certain to be affected and anyone earning £30,000 a year is certain to be affected."

Married couples

Mr Hattersley insisted that these figures were based on individual, gross earnings, not the joint incomes of married couples or families.

Labour favours reforming the tax system so that married couples are taxed as individuals, abolishing the present married man's tax allowance.

When Labour was last in power in the top rate of tax was 83 per cent. It is now 60 per cent, and while Labour has said it would not return to the 83 per cent level, it will not give details at this stage of the higher tax rates it will reintroduce.

Treasury sources said last night that about a million people could be affected by Labour's plans to raise taxes on the top five per cent. It would mean those on £25,000 a year, who move out of the 29p standard rate of tax into the higher rates on the top slice of their earnings, would begin to be taxed on some income at 70p in the pound instead of 40p.

Labour plans to raise £3.6 billion from withdrawing the tax concessions introduced by the present Government. The money will be used to pay for an anti-poverty programme of higher pensions, child benefit and benefits for the long-term unemployed.

City Comment—P15

Hattersley's long-term goal.

But financial experts believe Mr Lawson will choose to keep some money in reserve to boost confidence in the City and pave the way for one per cent cut to 10 per cent in bank base rates.

The general view is that the Chancellor will lop 2p off the standard rate of income tax and reduce his public sector borrowing target for next year by about £2 billion.

A one per cent cut in interest rates would allow building societies to reduce their mortgage charges accordingly, saving customers roughly £16 a month net on a £25,000 loan.

Such a move would be extremely popular in the run-up to an election and would also help the Government's fight against inflation. It is estimated that every one per cent cut in the mortgage rate knocks roughly half per cent off the inflation rate.

Exchequer figures yesterday show that the boom in government revenues has been gathering momentum, allowing the Treasury to repay some £3.7 billion of previous debt last month, a much bigger repayment than generally expected.

As a result, net borrowing so far this financial year amounts to just £400 million.

Best for 15 years

With two months to the end of the financial year, the experts are increasingly convinced that the Government will end up with a financial deficit of £4 billion against the Chancellor's target of £7.1 billion—despite the public spending increases announced in the autumn and the £2 billion decline in the tax revenues expected from the North Sea.

It would be the best financial result for any government for more than 15 years, even allowing for the support provided by privatisation receipts.

According to Mr Peter Spencer, economist with Credit Suisse First Boston, company taxes hold the key to the dramatic improvement which has taken place in the Government's financial position, although buoyant VAT and income tax receipts against the background of rising real

incomes are also an important factor.

"This is no flash in the pan", he said yesterday, arguing that mainstream corporation tax payments will reach £6 billion this financial year—double the level two years ago—with an extra £1 billion or so of company tax payments likely in the year ahead.

Corporation tax payments have risen sharply even though the rate of tax has been progressively reduced, from 52 to 35 per cent, providing support for the view that lower tax rates mean higher revenues if accompanied by a removal of special tax privileges.

According to the Treasury, the Government is also reaping some benefit from the high level of pay settlements, with Inland Revenue receipts in the first 10 months of the financial year up by £2.2 billion compared with a year earlier. The high street boom associated with rising incomes has increased VAT and excise duties by £3.1 billion as well.

Shares reached new peaks with the FT 30-share index rising by 10.2 points to a record 1552.3.

The pound also performed well gaining 60 points to \$1.5505.



Whitehall unions issue 15pc pay strike threat

By Martin Whitfield, Labour Staff

CIVIL service unions presented a pay claim of more than 15 per cent yesterday and immediately threatened to strike unless the Government makes a favourable

The unions, the CPSA, the Society of Civil and Public Servants, the Inland Revenue Staff Federation and the Northern Ireland Public Service Alliance, say morale is low and staff turnover high as a result of low pay

Passport

Today's Target

+47 EXACTLY

Today's Prize:

A fortnight's holiday for two in a private villa on the Greek Island of Corfu, courtesy of

MEON

ND BUSINESS

Leading lights out of Eurotunnel

THE DEPARTURE of Michael Julien from Eurotunnel to fill one of the hot seats at Guinness could hardly have come at a worse moment for the diggers. It was bad enough losing Sir Nigel Brookes in an atmosphere of mutual recriminations, but to lose the deputy chief executive in the short gap between Sir Nigel's departure and the arrival of a new British chairman smacks of carelessness.

In fact, there may be some light at the end of the Eurotunnel after all. The board meeting in Paris on Friday will name the chairman, and strengthen the board in a way which will overcome the credibility gap now opening up before the project.

Despite first appearances, Mr Julien's departure has nothing to do with rats and sinking ships. Eurotunnel already has strength in depth on the finance side, with Peter Parker (ex-Esso) and Peter Walsh (ex-Snell). Despite all the boardroom ructions, the banks have been happy to pledge the £5 billion of loan finance the project needs—though their commitment still hinges on the success of this summer's £750 million public share issue.

Indeed, there were even suggestions last night that Mr Julien could find himself without a job to do once the public issue is out of the way, though that seems quite a big enough hurdle to jump without looking beyond it.

The timing of his departure seems to have been forced by Grand Metropolitan. Since it has become an open secret that Anthony Tennant was going to Guinness as chief executive, Grandmet's board has been keen to get on with replacing him.

For its part Guinness has to make announcements in one go as part of its attempts to rebuild itself as a credible management team. With at least one serious predator running the rule over the group, Guinness may not have time on its side.

So poor old Eurotunnel found

CITY COMMENT

itself at the end of the chain. Perhaps by Friday, when its new names are named, we shall be able to get down to the serious (if less exciting) business of evaluating the real worth of this vast project.

Labouring on the "rich" definition

LABOUR PARTY plans to tax "the rich" are beginning to look rather silly. Mrs. Thatcher has made a nonsense of them by showing that governments collect more money by cutting taxes rather than increasing them. And now Mr Kinnock is having trouble defining exactly who "the rich" are.

At first, Labour had in its sights everyone earning more than £22,000 a year, but the target group has shifted as it becomes increasingly obvious that ordinary couples with two incomes would be hit.

After raising the magic income figure defining "the rich" to £27,000, the Labour leader has recently begun talking about those earning £30,000 or more. Unfortunately for him, Inland Revenue figures indicate that there are very few people in this rarified category.

After allowing for mortgage interest relief and other concessions, the number of taxpayers with taxable incomes of £30,000 or more is roughly half a million, or 24 p.c. of all taxpayers.

A particular problem for Mr Kinnock is that the Labour party is committed to reforming the tax system so as to make husbands and wives independent, with separate tax allowances.

But Revenue figures show that of the one million "taxpaying units" who pay more than the basic rate the vast majority consist of couples

where both husband and wife earn, rather than individuals. Separating couples for tax purposes would thus virtually drain the pool of higher tax payers.

Like it or not, Labour should face up to the fact that income differentials in Britain have narrowed dramatically since the war, reducing the number of fat cats who can be relied on to finance socialist aspirations.

The obviously rich tend to be either foreign or those who can put themselves beyond the taxman's reach.

Halifax hides £309m light under bushel

ONE of Britain's biggest businesses, the Halifax Building Society, announced its results yesterday. Or rather it nearly did.

Building societies in the Halifax league are still sufficiently sensitive about their mutual status to avoid talking about anything so vulgar as profit.

It was not in the Press release but the Halifax made £309 million before tax last year. On total assets of £28.6 billion, that is a return most banks would find quite satisfactory.

Next week National Westminster Bank is expected to announce profits in the £804 million to £1,041 million range for 1986 but then it has total assets almost three times those of the Halifax, at about £75 billion.

Yesterday the chief executive of the Halifax, John Spalding, stressed that all the society's activities have to be profitable. Even providing rented accommodation in South Wales at £26 a week.

The society has already bought estate agencies, announced details of its unsecured loans and is strengthening its insurance service and housing subsidiary. Next—later this year—come Personal Equity Plans and share dealing. Just like one of the avaricious high street banks, really.

A.P. A

LABOUR'S TAX PLANS: LINE TO TAKE

- Labour spokesmen hopelessly confused about who would be affected by their tax proposals.
- Clear that they have not begun to realise the true implications of their own commitments.
- Time for Labour to come clean and make clear just what tax rates they would propose to charge and what tax reliefs they would take away. Then we could all see who they think the rich are.
- Labour plans doubly dishonest. Not only do they not say who would be affected by the swingeing increases they plan for the so-called rich. But also, they have not said how they would pay for their massive spending plans, amounting to at least £28 billion. Clear that in fact the tax burden would go up for everybody.

LABOUR'S TAX PLANS: LINE TO TAKE

- Two things clear from Labour pronouncements on taxation and spending.
- First, Labour totally confused about who would be affected by their tax proposals.
- Second, though they have tried to conceal it, Labour's plans for massive spending increases, amounting to ~~to~~ at least £28 billion, would mean that the tax burden would go up for everybody.

LABOUR'S TAX PLANS:
LINE TO TAKE

Type
Pl. type passage on paper, as amended,
and type tape on separate sheet, asap.

- Labour spokesmen hopelessly confused about who would be affected by their tax proposals.
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A

X

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3217/35

CONFIDENTIAL

✓ - RD
FROM: P J CROPPER
DATE: 18 FEBRUARY 1987

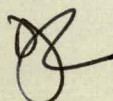
CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Scholar
Sir Angus Fraser C & E
Mr Battishill IR
Mr Ross Goobey
Mr Tyrie

CONSERVATIVE BACKBENCH FINANCE COMMITTEE

PRE-BUDGET MEETING 17 FEBRUARY 1987

Attached is a note of the meeting.



P J CROPPER

CONFIDENTIAL

FROM: P J CROPPER
DATE: 18 FEBRUARY 1987

CHANCELLOR

CONSERVATIVE BACKBENCH FINANCE COMMITTEE

PRE-BUDGET MEETING 17 FEBRUARY 1987

Treasury Ministers listened to representations from Members - about fifty present.

Sir William Clark: Congratulations on the state of the economy.

Nigel Forman: considered that the Budget had to do three things:

Improve UK competitiveness
Stabilise the pound
Seek to address the North/South problem.

His recommendations were

1. A budget manifestly prudent and cautious.
2. Do not over index the personal allowances.
3. Introduce a £1,500 band taxed at 25%.
4. Take 1p or, at most, 2p off the basic rate.
5. Introduce some form of time limited scheme of Profit Related Pay.
6. Make an exceptionally good speech, it being election time.

7. Point towards joining EMS in the next Parliament.

8. Point towards comprehensive tax relief in the next Parliament.

Sir Philip Goodhart was not generally in favour of eroding the tax base. However he would plead for one very small new loophole - tax relief on private health scheme subscriptions for those 65 and over. This would cost some £25 million and be good for the private health industry.

Michael Fallon believed the problem was the burden of tax on the low paid. There were 7 million earning less than £7,000 a year. We should forget the top rate stuff: concentrate relief on the low paid by tackling both thresholds and rate. He would tax the first £5,000 at 20%.

Ian Gow accepted that there was difficulty about a low rate. But the gap between 0 and 29% was too great. So he still hoped there could be a reduced rate band. He also favoured:

(i) a PSBR less than $1\frac{1}{4}\%$ of GDP.

(ii) Some good graphs and charts in the budget broadcast.

Sir John Stokes. Things had so bucked up for industry in his part of the world (West Midlands) that he would concentrate tax relief entirely on the individual. He would also sub-index smoking and drinking.

David Howell said we should reduce high rates on low incomes, but not exclude cuts in the top rates as well. It was important to demonstrate that present prosperity was sustainable.

John Watts. The budget should be prudent, cautious and popular. He would concentrate on reducing the basic rate, and add £1 a week to the OAP.

Alan Howarth believed a cautious budget would please the voters: we should move faster towards a balanced budget. He would take 1p off the basic rate, slightly over-index the allowances, reduce NICs at the lower end, do something about top rates of tax.

Gerald Neale said we should not discourage people from seeking work: the Inland Revenue were being tiresome in pursuing agricultural workers who wanted to be treated as self-employed.

John Maples believed we should concentrate on a lower rate or a reduced rate band: not bother about allowances. He would continue reform at the lower end of the NIC scales, and get the top rate below 60%.

Eldon Griffiths wanted lower tax on incomes and hoped the budget speech would be in suitable form for publication as an election document.

John Townend wanted less borrowing, 2p off the basic rate, and it should be made less attractive to live in sin.


Jonathan Sayeed felt we were in danger of losing the elderly vote: so he would differentially raise the age allowance for income tax.

Sir Adam Butler wanted lower interest rates and a reduced rate band.

Tim Yeo wanted a cautious budget. He preferred higher tax thresholds and lower NICs. He would cut the employer's NIC rate. He wanted a continuing fall in public expenditure as a percentage of GDP, and a budget speech commitment to tax reform.

Patrick Cormack wanted help for the lower paid.

Sir Brandon Rhys Williams hoped for a commitment to extreme simplification of the tax system. He would abolish higher rate taxes, end the farce of separate NI contributions, and increase child benefit.



P J CROPPER

PWF

3113/37

FROM: A G TYRIE
DATE: 18 FEBRUARY 1987

CHANCELLOR

*Have 1
manuscript
SUS
Lunt
you need
Kinnock's
TV part?
ASAP
Hudson*

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

KINNOCK INTERVIEW ON PANORAMA

In prayers today I mentioned Kinnock's attempted smear, claiming that we would double VAT in the third term, and also his ignorance about the inflation rate, claiming that we were responsible for a rate of 26%, the post-war record.

2. Andrew Hudson has spotted that Mr Kinnock's ignorance extends even as far as his own emergency first year package. He said in the interview that the £3.6 billion he hopes to claw back from the top 5% of income earners would be used to finance treatment for the disabled. This has never been part of the "poverty package".

3. I have briefed both the Chief Secretary and the Financial Secretary on this for the debate this afternoon. But if we don't use it then I think it will be a powerful point for the Budget Debate.

AGT

A G TYRIE

Kinnock Interview
'Panorama' - 16th February ~~*Monday*~~ *Chancellor*
Sustaining Capital
Revenue

combat unemployment and to give the economy a base for industrial development to enable it to produce its way out of difficulty. Now in addition to that there is the war that we have to conduct on poverty which is a spreading epidemic in our society - disastrous increases over these last 7 years. And in order to finance that we need to ensure that those people, the top 5% of income getters, in our society who have received such a tax holiday from Mrs Thatcher over the last 7 years start to pay their whack again. And they have benefitted to the tune of around about £3.6 billion a year in direct concessions to them. We are going to remove those concessions so we can finance an increase in old age pensions and treatment for the disabled that should be, indeed are, required in a society

INTERVIEWER: Do you know how many individuals and couples earn over £27,000 a year which you're proposing to tax again?

KINNOCK: How many? It's about 5% of total income earners.

INTERVIEWERS: That's about 750,000, how are you going to get £3 1/2 billion from them?

KINNOCK: Because they are the people who have received £3 1/2 billion, just them, £3 1/2 billion a year from Mrs Thatcher ...

INTERVIEWER: So you'll have to put the tax rates up to what they were before, 83%?

KINNOCK: No need to do that.

INTERVIEWER: 98%?

KINNOCK: No need to do that. Nobody paid that, nobody paid that.

INTERVIEWER: Nobody paid the 83%?

KINNOCK: Nobody paid the 83% or very few indeed. Much better to charge it at a level and to ensure that it is paid in a way that secures the return of that £3.6 billion. And I'd certainly be prepared if you want to have me on again to go into the most refined detail about exactly how that's going to take place.

IMMEDIATE

PWP

FROM: A G TYRIE
DATE: 19 FEBRUARY 1987

CHANCELLOR

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

LABOUR COSTINGS

Over the past fortnight or so Labour have produced six pledge-laden policy documents. These are:

- (i) 'Investment in People'. This contains six possible new pledges and involves re-working of several existing pledges.
- (ii) 'Caring for People', looks as if it confirms Composite 15 of the last Labour Conference, part of which was remitted for further consideration at that time.
- (iii) 'Towards a New Agriculture', a Labour view, by Messrs John, Robertson, Randall.
- (iv) 'Jobs and the Environment' by Clark.
- (v) 'For the Good of All' (Aid) by Holland.
- (vi) 'Fresh Directions', a policy document on transport.

2. In addition Harriet Harman has submitted a document on nursery education to the NEC and there have also been reports on a confidential NEC discussion document, which may shortly become policy, on Civil Service pay.

3. These are the ones that I have spotted, but it is quite possible fellow advisers will point me to other documents and pledges.

4. We will set to work quickly on these documents but I think it is unlikely we will be able to digest them before the Budget Debate.

Discuss handling at Prayers?
Presumably, we want to have one updated revised figure for 1987-88, to go into bat on for the next few months?

AGT.

A G TYRIE

(//)

1253/53

FROM: A ROSS GOOBEY
DATE: 19 FEBRUARY 1987

CHIEF SECRETARY

cc Chancellor *e*
Financial Secretary
Economic Secretary
Minister of State
Mr Cropper
Mr Tyrie

CHRISTOPHER SMALLWOOD

I think it was you who asked whether Mr Smallwood was actually an adopted candidate for the SDP.

2. Smallwood was on the candidates list but is not now. He is certainly still one of the wide group of economic advisers.

3. Christopher Huhne of the Guardian is the SDP's PPC for Oxford West and Abingdon.

A-RG

A ROSS GOOBEY

3217/41

FROM: P J CROPPER
DATE: 19 February 1987

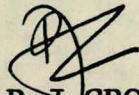
CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Ross Goobey
Mr Tyrie
Miss O'Mara ←

CHRISTOPHER SMALLWOOD

Miss O'Mara has looked at the Smallwood article for us.

2. Although her advice is that the article is defective on several grounds, it could yet be useful to throw crudely at the Alliance.


P J CROPPER

*only for can
refer to Mrs - woman
John
Has Mr J's economic advisor
can
or?*

Industry's miracle revival

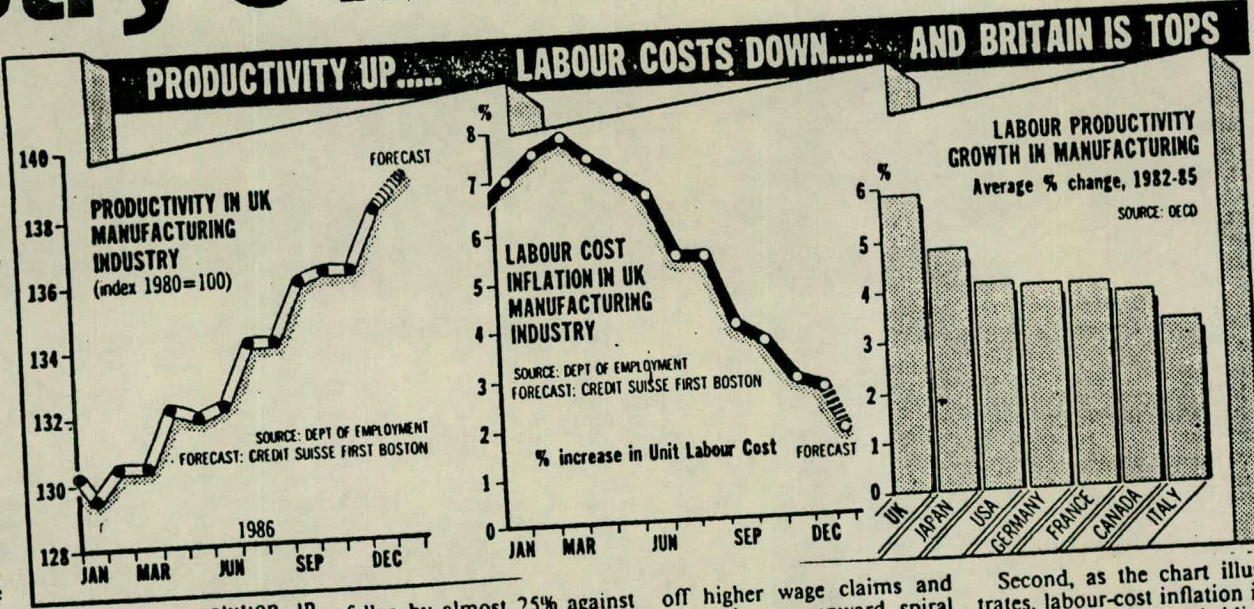
John Lawson

● Britain's industry is being transformed by a new surge in productivity — and more is on the way, says **CHRISTOPHER SMALLWOOD**, Economics Editor

THE unmistakable message from a wealth of economic data is that the performance of British manufacturing industry has been transformed over the last five years. It is now placed to take maximum advantage of the huge boost to competitiveness provided by the depreciation of the pound in recent months. It is poised to expand its share of world markets and to beat back the tide of imports that has been flooding in since the consumer boom began.

Industry has been spectacularly successful at putting its house in order, yet this success has gone largely unrecognised. Productivity rose by as much in the last five years as it did over the previous 15. Still more striking, since output began to recover after the recession of 1980-1, productivity has grown more rapidly in Britain than in any other major industrial country. As the table above shows, Britain tops the league by a substantial margin — but then it had further to go than its more efficient competitors.

Since 1981, productivity has advanced at 6% a year. Such a sustained improvement can only be explained in terms of changed attitudes towards innovation, improved industrial relations (as evidenced by a dramatic fall in the number of stoppages), and better-directed investment — in short, a whole series of changes add-



ing up to a revolution in Britain's industrial performance.

Productivity should rise by a further 6% this year, building on last year's spectacular advance, illustrated in the chart. But it may do better still. Manufacturing productivity is now over 7% higher than a year ago, and manufacturing industry has unparalleled opportunities to expand output rapidly so that productivity could grow even faster than it has been.

Britain's competitive position in international markets has been given a tremendous boost by the recent sharp depreciation of the pound, particularly against the European currencies. Sterling has

fallen by almost 25% against the D-mark over the last year, boosting British exports to the wealthy German market, and by slightly less against other EEC countries. This has provided a crucial competitive advantage since over 60% of our trade with developed countries is with the EEC.

The National Economic Development Council reported in December: "British unit labour costs in manufacturing, the best indicator of competitiveness, are now lower in relation to Germany's than they have been in all but six of the last 20 years." In sharp contrast to the position following all previous devaluations since the war, the competitive advantage industry now enjoys is unlikely to be eroded by inflation.

The conventional wisdom is that a lower exchange rate raises import prices, sparking

off higher wage claims and generating an upward spiral of costs and prices. This has been the consistent experience with devaluations over the last 40 years. But the depreciation of 1986 took place in uniquely favourably circumstances. There are important reasons for supposing that this time the competitive advantage it has conferred on industry will stick.

First, the impact of the fall in sterling on inflation was mostly wiped out by last year's collapse in oil prices. In addition, although the value of the pound has dropped dramatically against European currencies, it has risen modestly against the dollar. Since many of Britain's raw material imports are priced in dollars, this also helps to keep inflation down. So there is no reason this time why devaluation should kick off an inflationary spiral.

Second, as the chart illustrates, labour-cost inflation in manufacturing was subsiding rapidly through most of last year. Growth in unit labour costs reached a peak of 8% year on year, in March 1986. Since then, it has fallen steeply, and is currently estimated by Credit Suisse First Boston at 1.8%. While earnings in manufacturing have continued to grow quickly, productivity has grown even quicker so that unit labour costs have fallen back.

Unit labour costs should continue to grow at the current modest rate, or even less. The latest indications from the CBI pay databank are that some reduction in the level of settlements in manufacturing industry may be achieved this year (settlements fell from 5.6% to 4.6% between the third and fourth quarters of last year), and this combined with an excep-

tional productivity performance means that industry should at least preserve its competitive advantage.

In fact, it should do better than this because labour costs overseas are likely to rise more rapidly than in Britain. Industrial growth in Germany and Japan, in terms both of output and of productivity, is likely to fall well short of British industry's performance as the effects of the revaluations of the D-mark and the yen are increasingly felt — these currencies have doubled in value against the dollar over the last two years.

This means that although British industry is now 25% more competitive against Germany than it was a year ago, the gap, far from diminishing, will probably widen.

According to the NEDC, manufacturing industry has a margin of spare capacity of at least 10%, which will be augmented as the benefits of the high rates of investment in recent years come through. So there is every reason to expect a major step forward by British industry in world markets — and in the home market too.

There is one blackspot. The boost in productivity from the existing labour force reduces the need to take on extra workers, so do not expect a rapid decline in unemployment from this British mini-economic miracle. Long dole queues will be with us for sometime.

Take comfort, however, from the fact that, in the longer run, those countries with the highest productivity also have the lowest unemployment.

FROM: A ROSS GOOBEY
DATE: 19 FEBRUARY 1987

CHANCELLOR *C*

cc Mr Hudson
Mr Cropper
Mr Tyrie

*Spoke ARG, 20.2.
P. Lilley is
organising this.
AH*

Yes possible ✓

KINNOCK AND HATTERSLEY SPEECHES

I attach a copy of the Hattersley speech.

2. There is no transcript available of the Kinnock interview on TVS on Sunday. We have traced a copy of the video to the House of Commons Library. A Member's researcher is allowed to see this on a Monday or a Friday.

3. Would you like someone to do this, taking the juicy quotes down, either as your "researcher" or as Peter Lilley's research assistant?

ARG

A ROSS GOOBEY

ENC

C.

1. If tax cuts are so evil, why didn't Hattersley vote against them last year? Or, for that matter, successive threshold increases?

2. Labour are drifting their ground to "The money is available for our programmes". Plenty of good rejoinders, in time to think before the Bgt debates ~~to~~ exactly how we deploy the arguments?

Yes - ASAP

ALLIANCE
BUDGET
STATEMENTS

3111

CONFIDENTIAL

FROM: A G TYRIE
DATE: 20 FEBRUARY 1987

CHANCELLOR

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

ALLIANCE BUDGET STATEMENTS

1. The attached note on the Alliance Budget statement was left in a photocopier in the House and came to me via Central Office.
2. It seems that the Alliance already have cold feet about Roy's profligate borrowing plans. In his LBS speech Mr Jenkins suggested the PSBR should be raised to 3% of GDP, about £5 billion, ^{form} not the £4 billion mentioned in this paper.
3. Can we make use of this document? Not much, I think.
4. Perhaps we should get the Party Chairman (we are in purdah) to attack Mr Jenkins' £5 billion ^{form} borrowing plans so that when they issue their Budget Statement with a reduced PSBR figure we can claim that we have forced them to retreat and that they can't stop squabbling among themselves.
5. The removal of the tax cut which they propose is also embarrassing, but I don't think we can get much extra mileage by pointing to their plans to increase taxation.
6. Alternatively, we could merely give this document to a journalist and to point his nose in the right direction.
7. We will be able to make our attacks on their tax and PSBR proposals much more forcefully after the Budget.

AGT.

A G TYRIE

ALLIANCE ECONOMIC POLICY

The SDP/Liberals don't put numbers on their economic policies any more. Numbers act like searchlights on the rift between the two parties.

2. But a fortnight ago Roy Jenkins slipped up. He told us what he thought the PSBR should be, he wants it pushed up to £12 billion.

3. How long will we have to wait before the squabbles between the Parties result in them changing that figure?

ALLIANCE BUDGET STATEMENT

I have been giving some thought as to how the outcome of our budgetary policies as outlined in Roy Jenkins' London Business School speech can be presented in our pre-Budget statement.

If we are to avoid some of the adverse consequences of our expansionary package, some adjustments should be made, both technical and to the measures.

The balance of payments is clearly a cause for concern. The Money Programme simulations put the deficit at £6.6 billion in the 4th year. This means a reduction from base of £5.4 billion. This is made up, on a rough calculation based on the Warwick Alliance simulations, as follows.

Reduction from base Year4 (£bn.)

Cancel Tax Cuts from 1988	+ 2.6
£2bn Current spending	- 2.4
£2bn capital spending	- 4.0
£1bn employers NICs	- 0.5
Job Guarantee (750,000 places)	- 2.1
Interest Rate Cut	+ 0.4
Incomes Policy	+ 0.6
	<u>- 5.4</u>

Some of the changes we can make are technical, as a result of using the Warwick Unit's assumptions. We can take out the tax cut, since this is our pre-Budget statement and we are not constrained by the Money Programme's scenario of an election in October. We can use Warwick's more favourable pay policy assumptions. But these together would still leave us with an unacceptably high current account deficit.

I therefore suggest that we re-design the package in a way which would leave the jobs target intact, probably result in a rate of inflation around 5% by the end of the run, but would mean that the £4 bn addition to the PSBR in Roy's speech would be reduced.

A re-working of the measures as set out in the table below could keep the current account within manageable proportions and enable it to be talked down further, ie. by reference to the import content of capital investment and the potential of our industrial strategy for improving competitiveness. The Money Programme assumption of a 2½% appreciation consequent upon joining EMS would not appear, which would also help. Our programme would thus cut unemployment by around 1.2 million, roughly the same as in

the Money Programme simulation. But the current account deterioration would be contained at £2.4 billion, leaving the deficit in 1990 (the last year of our runs) at £ 3.6 billion.

Suggested Reworked Package.

<u>Year4</u>	<u>Cut in Unemployment.</u>	<u>Current A/C</u>
Capital Spending (£2bn)	213,000	- 5.0
Current Spending (£1bn)	114,000	- 0.6
Employers NICs (£1bn)	39,000	- 0.5
Jobs Guarantee (550,000)	510,000	- 1.7
Incomes Policy	263,000	+ 1.2
Interest Rate Cut	154,000	+ 0.4
Cancel Tax Cuts etc.	-146,000	+ 3.8
	<u>1,147,000</u>	<u>- 2.4</u>

(Source: Alliance Simulations: Warwick Unit)

Tony Humphris. 3rd February 1987.

*PWP
Approved*

FROM; JILL RUTTER

DATE: 20 February 1987

MISS C EVANS

CC:

PS/Chancellor

PS/Financial Secretary

Mr Tyrie

Mr Mace - IR

LABOUR TAX POLICIES

... The Chief Secretary has seen the attached article in today's Daily Mail. He has noted that the figures do not appear to square with the Inland Revenue figures that he used in the debate on Wednesday. He would be grateful if you, in consultation with Mr Mace, could clarify.

No, I thought D Mail prob wrong.

JILL RUTTER

Private Secretary

The Mail calls in the experts

How Kinnock will tax you...

fill
The down's
spec and IR
analysis. (add
you get it looked
at.

By STEPHEN BATES, Home Affairs Reporter

FOR the past ten months, the nation has been waiting for the details of the income tax bill if a Labour Government comes to power.

After talk of hammering those on £20,000 and above, Neil Kinnock, the Labour leader, finally confirmed on Monday evening his strategy.

He told Sir Robin Day on BBC TV that he would hit at the 750,000 people who pay income tax at the higher rates — that is, above the basic 29 per cent.

From Daily Mail inquiries it seems that Labour wishes to claw back a further £1.9 billion from those high earners which, the party claims, has been given away to them by Tory fiscal policy since 1979.

Two tax experts approached by the Mail drew up possible new tax rates for those with taxable incomes over £23,200 and paying tax at 45 per cent. and above.

Ceiling

Currently, tax is paid at the 40 per cent. rate by the 110,000 people who have taxable incomes of between £17,200 and £20,200, at 45 per cent. by 280,000 people with incomes between £20,201 and £26,400, at 50 per cent. by 160,000 with incomes between £26,401 and £33,300, at 55 per cent. by 80,000 with incomes up to £41,200 and at the top rate of 60 per cent. for the 100,000 top earners above that.

The experts, to pull in the extra £1.9bn, increased the tax bands by five per cent., with a top ceiling of 70 per cent. for those with incomes over £43,201.

That would mean a band of 50 per cent. for those with incomes between £23,201 and £27,200, 55 per cent. for those between £27,201 and £32,200, 60 per cent. between £32,201 and £37,200, 65 per cent up to £43,200 and the top rate above that.

THE £20,000 QUESTION: WHO PAYS FOR LABOUR PLANS

Salary	Married man with tax relief on £30,000 mortgage		Single person with £30,000 mortgage			
	Tax paid now	Proposed Tax under Labour	Tax increase	Tax paid now	Proposed Tax under Labour	Tax increase
1,000,000	587,750	685,345	97,595	588,542	686,269	97,727
100,000	47,750	55,345	7,595	48,542	56,269	7,727
75,000	32,750	37,845	5,095	33,540	38,769	5,229
50,000	17,750	20,345	2,595	18,542	21,269	2,727
40,000	12,200	13,731	1,531	12,899	14,546	1,647
30,000	7,333	8,066	733	7,927	8,750	823
25,000	5,206	5,659	453	5,734	6,253	519

On Her Majesty's Service

Figures on projected Labour tax changes, modifying current tax bands as follows: 29 per cent.: £17,201-£20,200. 45 per cent.: £17,201-£23,200. 50 per cent.: £23,201-£27,200. 55 per cent.: £27,201-£32,200. 60 per cent.: £32,201-£37,200. 65 per cent.: £37,201-£43,200. 70 per cent.: over £43,201. Figures assume mortgage interest rate of 12 per cent., limited to standard rate, maximum £1,044 and personal allowances same as at present.

The accountants' calculations assumed a mortgage interest rate of around the current 12 per cent. with tax relief reduced to the standard 29 per cent. rate on mortgages up to £30,000, the current ceiling for mortgage interest rate relief.

Their calculations, shown in the tables, were drawn up for married men who are the sole breadwinners in a family and for single people.

The figures show that married wage earners with taxable incomes of

£25,000 would have to find at least an extra £400 a year and those on £40,000 would be paying £1,500 a year more.

An average increase for Britain's top 750,000 earners to restore £1.9bn to the Government would

be about £2,500 a year.

The figures take no account of Labour plans to remove the ceiling on employees' National Insurance contributions — which would affect everyone earning more than £14,800 a year.

Prof

FROM: A G TYRIE
DATE: 23 FEBRUARY 1987

CHANCELLOR

*Ch
NOT Jew
extra way!*

*What
I remember was
said, not before, in 1983
for I must have
seen what...*

AA

GS.

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

KAUFMAN AND THE RATES

You asked whether Kaufman has every committed Labour to abolishing the rates.

2. Kaufmann is on record as saying: "Not only shall we seek to introduce a more sensible, logical, more comprehensible system of RSG. We shall reappraise the whole method of levying local taxation and we shall look favourably on the principle of the local income tax, at least as an available option." (Labour Local Government Conference, February 1983).

2. However there was no pledge in the 1983 Manifesto. Labour implicitly promised to retain rates by suggesting reforms to RSG.

AG

A G TYRIE

CHANCELLOR

FROM: A G TYRIE
DATE: 23 FEBRUARY 1987

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

*I agree: this is marginal
work given to a junior
I wd suggest to a junior
H4 of the
agrees.*

THE WHARTON PAPER: BRITISH ECONOMIC PROSPECTS UNDER A LABOUR GOVERNMENT
1987-1981

Wharton have run Labour's plans through their model. The outcome does not paint a rosy picture for Labour:

- (i) Balance of Payments. "The worsening of the current account is probably the most serious consequence of the policy changes." (page 22) see attached bar chart.

"By the end of the period the current account deficit stands at over £7 billion." (page 13).

- (ii) Inflation. "Rising import prices consequent upon the fall in the value of sterling, and the increased pressure on the demand on wage settlements combine to put inflation up towards double digit levels." (page 13).

"This raises the possibility that the exchange rate could fall so far that the policies become unworkable." (page 29).

- (iii) Employment. The paper is pretty sceptical about Labour's plans. "The aim of the policy is to make a significant dent in unemployment. What is meant by significant is not exactly clear, but over time the possible reductions in unemployment claimed for the policies have become less ambitious." (page 3).

*Good, tho' NB
base case isn't
all that good.*

(iv) Dependence on capital controls. "Even if an industrial policy could succeed in improving productivity...it is difficult to see how the results could come through in the short or even the medium term. This leaves capital controls as the main weapon to combat the current account constraint." (page 3).

2. I don't know whether these Wharton papers have a good reputation. I think it is worth trying to get a journalist to run an article on the conclusions of this one.

AGT.

A G TYRIE

C.

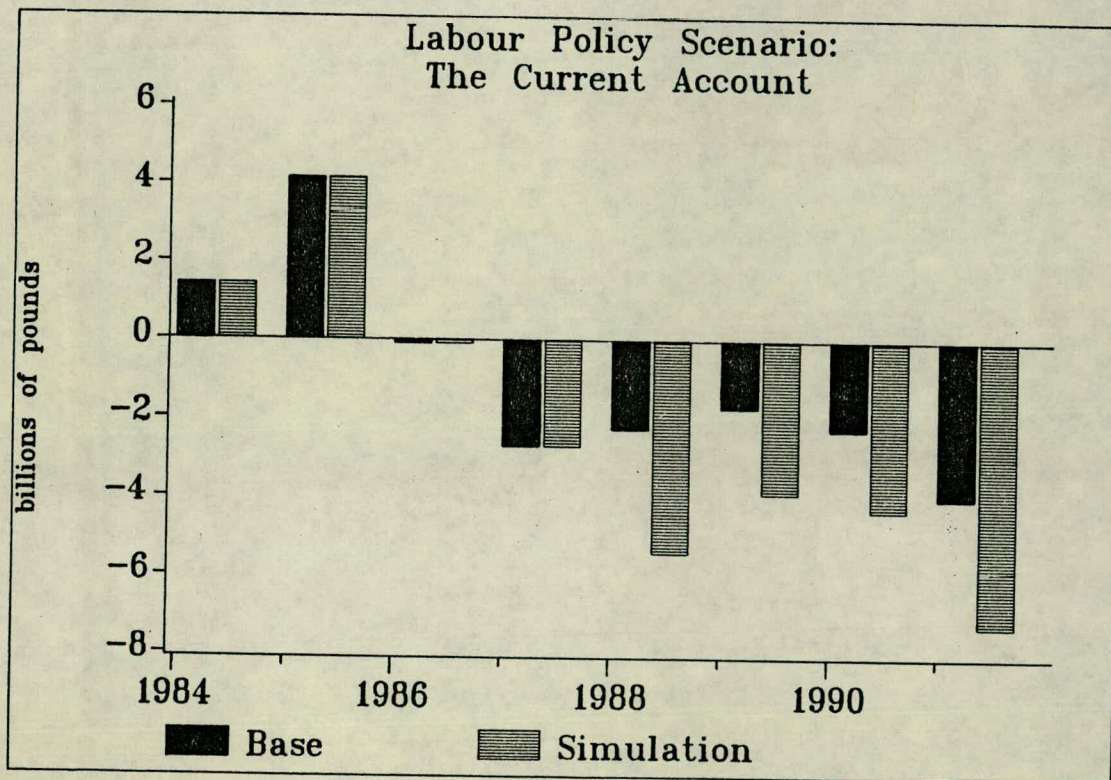
Question is, how best to use this. I don't think it's a big enough name to ~~go down~~ make much impact in the House. AGT's ~~probably~~ suggestion of alerting a journalist looks best. Discuss at Prayers?

ATH

The consequence of all this is clear from the summary table at the beginning of this section (Table 3:1) and the Figure 3:3 below. The deficit reaches a record level of £5.5 bn. in 1988 and deteriorates further to reach £7.3 bn. in 1991. Expressed in real terms, or as a percentage of nominal GDP, the £7.3 billion deficit predicted for 1991 would be the highest since 1975.

Note that the relative expenditure shifts away from the private sector towards public spending which are inherent in the policy changes actually help mitigate the current account's deterioration. This is because of the lower import content of government spending on goods and services, and of public capital expenditure directed at the construction sector.

Figure 3:3



CONFIDENTIAL

FROM: A G TYRIE
DATE: 24 FEBRUARY 1987

CHANCELLOR

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

OPPOSITION ALTERNATIVE BUDGETS

1. The Research Department tell me that Labour are intending to launch a "jobs campaign document" on 11 March. This is probably what is meant by Labour's "Budget spoiling package" reported in Monday's press, article attached.
2. Central Office are intending to attack this as soon as it is published. Several Cabinet Ministers will be mobilized, including, possibly Sir Geoffrey Howe, who may do a release on general economic aspects. I assume you are happy for this to go ahead. In view of proximity to the Budget I presume you would like to see a draft.
3. I understand that the Alliance are putting the finishing touches to their alternative Budget today. I expect this will be launched by the end of the week.

Yes

drafted

AGT.

A G TYRIE

Labour plan Budget 'spoiling' package

By Quentin Cowdry, Political Staff

LABOUR is to launch a major "spoiling" operation next month by unveiling a bold three-pronged reflationary economic package to coincide with a Budget expected to combine tax cuts with lower interest rates.

The disclosure of the plan, further heightening the tempo of the pre-election hostility between the Government and the Opposition, came as the Tories received a double fillip from weekend opinion polls.

With the Tories likely to finish third in Thursday's Greenwich by-election, Ministers were heartened by a national poll confirming their overall lead over Labour and the Alliance and a second poll indicating that they are in front in 100 Conservative-held marginals.

Party strategists were taking particular comfort from a Harris poll conducted for London

Weekend Television, which showed that in 50 "marginals" targeted by the Alliance the Tories have a 19-points lead, with the Alliance in every case coming third.

A second Harris poll published over the weekend puts the Conservatives, nationally, at 39 per cent, with Labour at 37 per cent and the Alliance at 23 per cent.

The polls mean that an early General Election—either in May or June—is still a possibility as the Government is expected to achieve a major electoral boost from the Budget, which seems certain to slash the basic rate of income tax by 2p.

Labour's counter-attack will begin with the unveiling, a week before the Budget on March 17, of its £6 billion emer-

gency plan to create one million jobs within two years.

Then, almost immediately after the Budget, it will announce the other two planks in its "programme for renewal"—a commitment to give Britain, within 10 years, the best trained workforce in Europe and a totally reinvigorated manufacturing sector.

Labour officials yesterday refused to divulge the cost of these pledges or whether they would involve the contentious compulsory employers' training levy proposed by Mr John Prescott, the party's Employment Spokesman.

"These other items obviously require financing, but the cost will be offset by the fact we are staggering the programme realistically. This will allow us to benefit from increased revenues as unemployment falls and output grows," said a spokesman.

Mr Roy Hattersley, Shadow Chancellor, said: "These economic objectives will not be a one-year wonder. They are an agenda for a generation to ensure that Britain competes, pays its way and prospers in the post-North Sea era".

THE GUARDIAN

Labour's job plan

LABOUR'S programme to tackle unemployment, which will form the centrepiece of its general election manifesto, is expected to be agreed by Mr Neil Kinnock's shadow cabinet on Wednesday for publication in the week before the budget on March 17, writes John Carvel.

It is understood that Mr Bryan Gould, shadow chief secretary to the Treasury, has completed bilateral negotiations with other leading members

His paper will seek to demonstrate how unemployment can be reduced by one million within two years on the basis of Labour's plan to engineer a net increase in public spending of £6 billion.

Mr Gould's approach has been to identify the potential for job creation in each area of the economy, including house-building, infrastructure development, expansion of community services, and training.

Labour plans - spending plans

DAILY STAR

LABOUR PLEDGE TO DOLE MILLION

By PETER HOOLEY
Political Correspondent

LABOUR pinned their General Election hopes on jobs and investment yesterday.

Shadow Chancellor Roy Hattersley announced detailed plans to slash unemployment by one million in two years and revitalise British manufacturing over the course of the next two Parliaments.

But in a bid to dampen fears about "loony Left" councils, the three-point programme promises "an important but not a dominating role" for local government.

Labour chiefs believe their "programme for renewal" will prove a major vote-winner.

Created

New jobs would be created by spending public money on Britain's roads and sewers, a new house building programme and an expansion of community services.

Massive investment in job training is included in the package which promises to turn round the "slide towards industrial surrender" with investment cash for new technologies, computerisation, and research and development.

Mr. Hattersley said yesterday: "These economic objectives will not be a one-year wonder."

"They are an agenda for a generation."

Greenwich mean time—
Page 8



DL

NOTE FOR PRAYERS 27/2

The CST wishes to discuss M. Tynie's minute of 24 Feb on Opposition Alternative Budgets.

DL
25/2

RC2.16

CONFIDENTIAL



OPPOSITION
ALTERNATIVE
BUDGETS

~~PAID~~
BIF 5/B

FROM: CATHY RYDING
DATE: 25 February 1987

MR TYRIE

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

OPPOSITION ALTERNATIVE BUDGETS

The Chancellor was grateful for your minute of 24 February concerning Labour's "jobs campaign document". As you thought, the Chancellor would be grateful to see a draft.

C.R

CATHY RYDING

Thanks

WHARTON PAPER

Pl. copy ^{Mr Tyne's} ~~my latest~~ minute
of (?) 23 Feb

~~to A Tyne~~ to Mr Pickford

and Mr Romanski.

AMH



Andrew

Please ring Michael Johns

IR 6768

PWP



FROM: A P HUDSON
DATE: 26 February 1987

MR TYRIE

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
PS/Sir P Middleton
Mr Culpin
Mr Pickering
Mr Romanski
Mr Cropper
Mr Ross Goobey

**THE WHARTON PAPER: BRITISH ECONOMIC PROSPECTS UNDER
A LABOUR GOVERNMENT 1987-91**

The Chancellor has seen your 23 February minute.

2. He agrees that this is marginally worth giving to a journalist, and would be grateful if you could contact Mr Derek Hill of the "Daily Express".

AAH

A P HUDSON

PWP



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
FRIARS HOUSE
157-168 BLACKFRIARS ROAD
LONDON SE1 8EU
Telex 883669
Telephone 01-703 6380 Ext 4030

Your reference
Our reference

N. Tyrie

cc Miss Pearson
A. Turnbull
A. Grieve
A. Kallen
A. Gibson

✓

Miss G Noble
HM Treasury
Parliament Street
LONDON
SW1P 3AG

I am afraid this means we 26 February 1987

will have to ask you to put these rather vague and open-ended commitments to D+SS through the

Dear Gill

public rel, but we will be happy to advise on the terms of any letter to ensure that you get answers to the right questions. And we will check the material D+SS provide, in the usual way

U286

LABOUR'S SPENDING PLANS

I am becomingly increasingly worried about our role in this exercise. Our basic ground rule is that official involvement should be limited to the factual costing of proposals which have first been clearly defined by Ministers or by political advisers. (I believe this formulation is due to Robin Butler). This leaves a grey area, however, as proposals which seem clear to Ministers may still be rather too vague to cost. An example is what is meant by "average earnings".

It seems to me quite proper for officials to draw attention to a technical issue of this sort on which clarification is needed. But, in the context of costing an opposition proposal, I do not think they should go beyond this to advising on how the issue should be resolved. It is obviously difficult to draw a precise line between listing alternative approaches and giving a steer towards a particular approach; to the extent that there is doubt, it would be wise to err on the side of caution.

Against this background, I have some worries about Wilf White's recent letter to Mark Fisher recommending that Mr Major be consulted on the interpretation of a particularly vague proposal, and that a firm ruling be obtained from him on whether the proposal should be included in a new list of Labour costings. We have put this to Ministers, but it proved very difficult indeed to present the questions in a totally neutral way. It is simply not possible to do a note of reasonable length which identifies the points needing clarification without leading Ministers towards particular conclusions - or, at least, it is not in the time we were given. And I am sure that a minute which did no more than pose the questions would simply have annoyed Ministers and provoked a request for a background note.

Having now had a chance to reflect, I do not feel that questions of this sort should be put to Ministers via FC. The proper channel would seem a letter direct to the political adviser or else on a personal basis to Ministers.

260

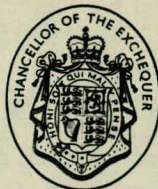
E.R.

Officials should not be involved until Ministers have decided that a specific proposal is to be costed. I hope any further queries can be handled in this way.

Yours
Mick

M WHIPPMAN

HF 2.3
AWP



FROM: A P HUDSON
DATE: 26 February 1987

MR TYRIE

cc Mr Cropper
Mr Ross Goobey

RIPOSTE TO LABOUR ATTACKS

The Chancellor notes, for example from a recent speech by Mr Hattersley, that Labour are starting to use the line that the money is now available to finance their programme.

2. He would be grateful if you could give some thought to how best to respond, in case this comes up in the Budget Debates.

A handwritten signature in dark ink, appearing to be 'A P HUDSON'.

A P HUDSON



R.P.

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000

Direct Dialling 01-270...4529

✓
MA G Tyrie
Special Adviser

27 February 1987

Howell James Esq
Department of Employment
Tothill Street
LONDON SW1H 9NF

Dear Howell,

This is just to confirm our 'phone conversation that Lord Young or/and Kenneth Clarke may make a pre-emptive strike on Labour's jobs package, due to be issued on 11 March. I think Patrick Rock at Central Office has already put quite a lot of thought into how to handle this, and the launch of the Alliance Budget, due on 10 March.

Please let me know if I can help put together any knocking-copy. Thank you very much for agreeing to let me have advance drafts of any releases, for the Chancellor to see.

Yours ever,

A G TYRIE

→ cc PS/Chancellor
PS/Chief Secretary
Mr Cropper
Mr Ross Goobey

LABOURS JOBS PACKAGE

6/3

cc. PS/1

CONSERVATIVE RESEARCH DEPARTMENT PS/CST 1 - informati

32 SMITH SQUARE · SW1

*Raymond
Fri*

MEMORANDUM

*It appears that Sir Geoffrey H
will be leading the attack on
the Alliance the
day before. We
will see his day
as well.*

From Peter Davis

To The Chairman
27th February 1987

LAUNCH OF LABOUR'S JOBS PACKAGE - 11TH MARCH

The above is to be launched by Messrs Kinnock and Gould and is expected to give details of the £6.8 billion jobs package. At this stage it is not clear whether this will be the occasion to launch their Budget proposals.

We intend to pre-empt Labour's launch with speeches made the previous weekend.

- We suggest that your Local Government Conference speech, which I am drafting, looks at examples of Labour's job creation plans in local Government.
- Mr Kenneth Clarke will attack the overall package.
- Also at the Local Government Conference, Mr Ridley's special adviser and I have agreed that he in his speech would concentrate on the economic implications of their plans for job creation in local government.
- Mr Channon has agreed to concentrate his fire on Labour's plans for manufacturing industry and the nationalised industries.

The Treasury have indicated that they wish to clear drafts of all statements/speeches in view of the imminence of the Budget. Mr Tyrie will therefore be provided with copies well in advance for this purpose.

- c.c Mr R. Harris
- Mrs K. Ramsay
- Mr J. Hill
- Mr J. Desbrough
- Mr A. Tyrie
- Mr J. Whittingdale
- Mr M. Fraser
- Mr P. Rock

PD/NB

FROM: A ROSS GOOBEY
DATE: 27 FEBRUARY 1987

MR HUDSON

cc PS/Chancellor
PS/Chief Secretary
Mr Cropper
Mr Tyrie

*A good book -
see [unclear] f &
[unclear]
(Mr. [unclear],
"unpublished")*

BRYAN GOULD'S BOOK

I note from the London Daily News today that Mr Gould's book will not be published until "after the election".

2. The reason given is that "it would be scrutinised in detail and might be seen as a statement of party policy".

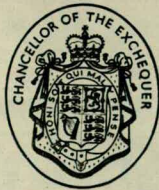
3. Clearly, Mr Gould does not believe that he will be part of a government after the election, else the publication would have to be party to the collective responsibility of a Cabinet, whilst a book by an Opposition spokesman is of little interest.

ARG

A ROSS GOOBEY

UNCLASSIFIED

Handwritten mark



FROM: A P HUDSON
DATE: 2 MARCH 1987

MR ROSS GOOBEY

cc PS/Chief Secretary
Mr Cropper
Mr Tyrie

BRYAN GOULD'S BOOK

The Chancellor has seen your 27 February minute.

2. He thinks you have a good point. He would be grateful if you could feed it to a suitable backbencher, or, indeed, "crossbencher".

Handwritten signature

A P HUDSON



Conservative Central Office

32 Smith Square Westminster SW1P 3HH
Tel. 01-222 9000 Telex 8814563

From:
MICHAEL DOBBS
Chief of Staff

STRICTLY PERSONAL AND CONFIDENTIAL

2nd March 1987

Jean Nigel,

During a recent lunch at The Economist, Mark Schreiber mentioned that Kinnock had told him the Labour Party was committed not only to removing any cut we made in tax rates but also to removing any increases we make in tax thresholds. I asked him to ensure that this commitment appeared in The Economist, and you may have seen that last week's edition does give a passing reference to it.

I am not aware that this has achieved much prominence yet, and thought you might be interested as it could be a very useful political point. I am copying this note also to Peter Cropper.

Yours ever,

Michael.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament St
London SW1

*Thanks for post this one
for me. However, I am not sure that
many have seen the prospect,
Kinnock has been under that
he is talking have been
made by such further
commitment.*

The pleasures of a Tory chancellor

Mr Nigel Lawson, the chancellor of the exchequer, is a happy man. His budget on March 17th looks like being the last big initiative open to the government before the election. In it, he should be able to please everybody—voters, industry and the City. He is likely to deliver tax cuts, lower borrowing and lower interest rates.

Mr Lawson starts with two advantages. The lower-than-expected level of public borrowing in the current financial year gives him more elbow room than he once thought possible for the new year starting in April. And the Labour opposition has delivered itself into his hands. Its shadow



Do voters want Hattersley's hairshirt . . .

chancellor, Mr Roy Hattersley, has pledged that an incoming Labour government would reverse any tax cuts which the Tories may make. He has increased the political purchasing power of such cuts for the Tories. If voters like what Mr Lawson gives them, they are on notice that they will not continue to enjoy it if Mr Hattersley gets Mr Lawson's job.

The current economic boom is helping to fill the Treasury's coffers with higher tax revenues. Latest figures suggest that the public-sector borrowing requirement (PSBR) may turn out at around £4 billion in 1986-87—well below the target of £7

billion fixed in March 1986. In 1987-88, the chancellor could have £3 billion-4 billion to play with, and still meet his original PSBR target of £7 billion. That would be almost enough to allow him to push the basic rate of income tax down to 25p in the pound. Most people in the City think he will go only half way, and cut the basic rate of income tax by perhaps 2p, to 27p. He could then use around £1 billion of his revenue windfall to reduce the PSBR, and still have a few hundred million for nice surprises.

Two things may restrain Mr Lawson from going for maximum tax cuts. One is financial prudence: with inflation rising, consumer spending surging, and the overseas current account moving deeper into deficit, the last thing that the economy needs is a further big boost from tax cuts. The other is a desire to cut interest rates, in the hope of reducing inflation.

Achieving that second goal could be every bit as important, politically, as cutting income tax. It will be no cinch. If Mr Lawson cut his PSBR target for 1987-88 by £1 billion, that would imply an increase in government borrowing from £4 billion in 1986-87 to £6 billion in 1987-88. Higher government borrowing, at a time when the economy already shows signs of overheating, is not likely to push interest rates down. To make that more likely, the PSBR would need to be held at its estimated 1986-87 level of £4 billion.

However, in each of the past six years, interest rates have fallen around budget time—though they have usually risen again later in the year. And this time, as grumbling industrialists point out, British interest rates are some five percentage points higher than the average in the other big four economies—America, France, Japan and West Germany.

The main electoral attraction of reducing interest rates is not to help industry, but to cut the cost of mortgage borrowing, and thus reduce inflation. Each one percentage point cut in the mortgage rate reduces prices by 0.4%. A cut in the retail price index this summer would shave the top off the peak which it will otherwise

touch around August. A smaller rise in inflation would help to hold down public spending next year: social-security benefits in 1988-89 will be updated in line with inflation in the year to September.

A lower mortgage rate has other and less complicated attractions. The average borrower with a mortgage of £26,000 and an income of £13,000 will save about £185 a year if the mortgage rate falls by one percentage point. The chancellor would need to cut the basic rate of income tax by as much as 3p to achieve the same effect.

Helping home-owners is one of the prime minister's pet preoccupations. Just before the 1983 election, the ceiling on mortgage-interest tax relief was increased from £25,000 to £30,000. Mrs Thatcher might now be tempted to go for £35,000. Some 35% of those taking out new mortgages are above the £30,000 ceiling, and most of those, like the safest Tory seats, are in south-east England. The average ad-



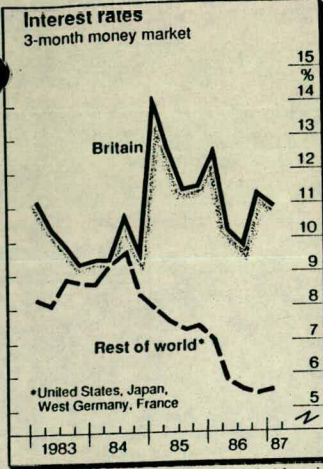
. . . or Lawson's lucre?

vance in London is now £40,000; in Yorkshire just £19,000 (see chart on next page).

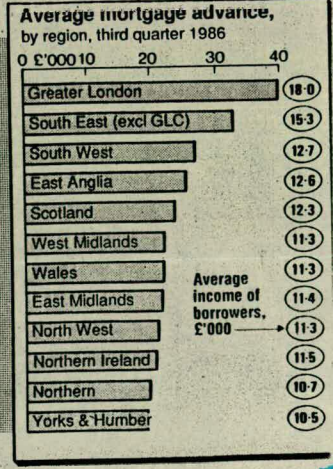
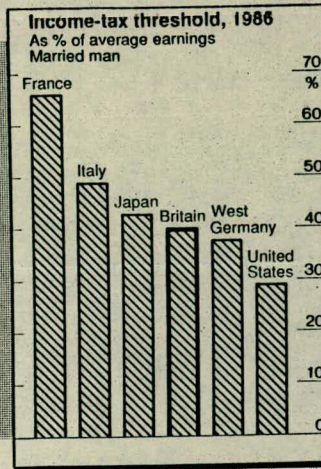
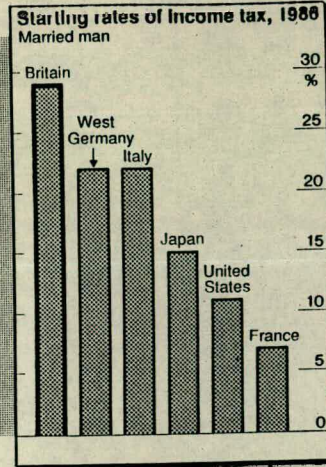
Increasing the tax-free limit would probably further widen the gap between north and south. As the extra tax relief spilled into house prices in the south, people in the north would find it harder still to come south for work. In 1986-87, it might have cost £100m to raise the ceiling to £35,000. Next year, the cost would be higher, because the number of new home loans over £30,000 has been rising. But this would be a cheap way to make new home-owners feel richer.

The Conservative party is no longer

BRITAIN



Sources: Inland Revenue; Building Societies' Association



divided between spenders and tax cutters, as it was two years ago. Even the Tory Reform Group has made only a half-hearted bid for higher public spending. But Conservative members of Parliament who want to help lower wage earners might prefer to use the spare cash to reduce allowances rather than cut tax rates. To trim 2p off the basic rate would cost about the same—£2 billion—as a 10% real increase in personal allowances.

2p or not 2p?

A raising of the allowances was the government's priority during 1982-85. Last year, Mr Lawson switched his attention back to the basic rate. Why has the government wavered between cutting tax allowances and rates? Some senior Tories argue that it may be politically dangerous to have too many non-taxpayers. When local citizens do not pay rates, high-spending local authorities get elected.

More to the point, a rise in the allowances used to be seen as the best way of tackling the poverty trap (the result of high marginal tax rates and means-tested benefits) by removing the low-paid from the tax net. It still benefits the low paid by more than cuts in the tax rate. But once the social-security rules are changed in 1988, entitlement to benefits will depend on post-tax rather than pre-tax income, so benefit recipients will be unaffected by changes to tax thresholds.

Compared with other industrial countries, the rate at which Britain taxes low earners is more unusual than the point at which tax starts to bite. The threshold at which a married man on average earnings starts to pay tax—40% of his earnings—is roughly in line with those in other countries. Where Britain is different is in the starting rate of income tax: 29% in Britain, compared with 7% in France, 11% in America and 22% in West Germany.

The clinching argument in favour of tax cuts may be provided by the hapless Labour party. Its leader, Mr Neil Kinnock, has said that the pledge to reverse tax cuts would also apply to raising tax thresholds. Some of his senior colleagues are more wary. They would prefer to fudge the issue. On a recent television programme, Mr Kinnock offered to explain publicly "in the most refined detail" exactly how Labour plans to increase income tax. Mr Lawson could not ask for more.

Greenwich by-election

The big squeeze

The windows are bedecked with gold in the south-east London constituency of Greenwich. If posters could win by-elections, the SDP-Liberal Alliance candidate Mrs Rosie Barnes, would romp home on February 26th. They don't, and she may not. But the more public her support is the more chance she has of persuading Conservative and right-wing Labour supporters to vote tactically for her in order to oust the left-leaning Labour candidate Mrs Deirdre Wood.

Because this by-election is all about squeezing votes, it gives a foretaste of the coming general election. Most voters: Labour or Conservative, see the Alliance as their second-choice party. Some are prepared to vote second-best to stop the least favourite from winning. The question is, how many will actually do so?

The signs in this by-election point to tactical squeeze on the Tory vote by the Alliance. In the 1983 general election Greenwich recorded one of the large swings to the Tories, and the traditional Labour seat came close to shifting to the Conservatives. The Alliance candidate came third, with 25.1% of the vote compared with 34.8% for the Tory and 38.2% for the Labour winner.

No laughing matter

We ought to be flattered. An academic at the university of Trier, in West Germany, has subjected *The Economist's* headlines and picture captions to detailed textual scrutiny and concluded that two out of three of them use "foregrounding devices" such as puns; metaphors and alliterative or assonant mechanisms. These, the study goes on to suggest, may have a hidden intent: "far from raising a smile or causing a humorous reflex, some of these foregroundings serve to undermine, or to suggest cynical or clearly contrary points of view on, the matter reputedly reported on."

Humorous reflexes shrivel in the face of this solemn analysis. One example is the headline on an article about pirate radio: "Not so jolly Roger". This, the study earnestly insists, "has an idiomatic/metaphorical compound phrase in the foreground—the name for the pirate's

flag of skull and crossbones. It is modified by the negative particle and an adverb which, united, succeed in superimposing a second possible reading, namely a comment on events which are held to be no longer satisfactory or 'happy'; this then is followed by the radio operator's acknowledgment of a message received and understood."

Readers should remember that "what we see at work in the headlines of *The Economist* cannot be grasped on the level of lexical or word semantics alone. What happens is that an absent text (or micro-text) is appealed to by means of a text. This proceeds either by a syntactic form chosen to echo the absent text or by the selection of key lexical items as an opener and completion of the quotation by means of a topical reference. An example of the latter is 'Carry on, Sir Keith'."

Honestly, it was just a joke.

6/3

b/f

CONFIDENTIAL

(Tel Don't bilateral)

EXTRACT FROM CHANCELLORS MORNING MTC No. 39

WR
Dismissed
(Don't Tel Don't bilateral)

5. OPPOSITION BUDGETS

The Alliance is to issue its document on 10 March, Labour on 11 March. The Treasury (Chancellor and Chief Secretary) must be consulted about the line Central Office will take although clearly other Ministers will have to take the lead in the pre-Budget period. Mr Tyrie will ensure this. The Chancellor will raise the question at Monday's Policy Group meeting at No.10. Government announcements should be timed to spoil the effects of the counter-budgets as much as possible. Mr Tyrie is to suggest to Mr Clarke's office that he might like to write to Mr Prescott on 10 March in pursuit of some pre-emptive hits.

3117/32

PWP

FROM: A G TYRIE
DATE: 3 MARCH 1987

1 Andrew
2 Chancellor

CHIEF SECRETARY

✓

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

LABOUR COSTINGS: EDUCATION

You asked for a note on Labour's proposal to give a £27 a week grant to people over the age of 16, reported in the Independent yesterday.

2. We already have this costed as item 6 in the existing list, at £730m. The Independent article suggests that Labour's forthcoming "package" will limit the cost to £150m a year by means testing for grants.

3. If Labour produce a policy document committing them to means testing in time for it to be added to the new table I shall have it costed. Otherwise I think we should stick with the original pledge, which comes from 'Charter for Young People' published less than 2 years ago.

M. May

pp

A G TYRIE

THE INDEPENDENT

Labour plans £27 a week grant for pupils over 16

GRANTS of about £27 a week for pupils to stay on at school will form part of a Labour package on education and training to be unveiled this month.

The grants will be means-tested, in line with existing student grants, to limit the cost to about £150m a year. This compromise was reached in private talks between Giles Radice, the Shadow Education Secretary, and Roy Hattersley, the Shadow Chancellor.

Mr Radice is convinced that the offer of the grants to pupils aged over 16 will prove a vote-winner as part of Labour's expenditure plans for expanding education and training.

Mr Hattersley's Shadow Treasury team was worried that the cost of providing grants to all pupils wishing to remain at school after 16 would be prohibitive, but

By Colln Brown
Political Correspondent

applying the means test substantially reduced the cost.

Eligibility would therefore depend on the income of a pupil's parents. Although there has been resistance to means-testing within the Labour Party, Mr Radice is confident that the policy will win wide acceptance.

Mr Radice will today urge the Chancellor to spend more money on education grants for pupils rather than on tax cuts. In a text of a speech he is making to his Chester-le-Street constituency, released at the weekend, Mr Radice says: "Why not use some of that extra money to encourage more young people to stay in full-time education after 16? In Japan, 95 per cent of their young people are

now staying in education until 18, almost three times the number that do in Britain."

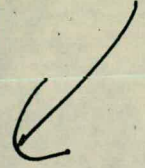
Leaders of four million parents in England and Wales will meet Kenneth Baker, the Secretary of State for Education, today in a last-minute effort to persuade him not to impose a pay deal on teachers.

If Mr Baker goes ahead and imposes the deal, industrial action by teachers would be almost inevitable, James Hammond, general secretary of the National Confederation of Parent Teacher Associations, said yesterday.

The three largest teachers' unions are balloting their members on strike action over Mr Baker's plans to use his powers under the Teachers' Pay and Conditions Bill, which will become law within the next few days.

City college snags, page 2

Andrew Z...
to corner.



Andrew
could sign let me
take a note
to show to the
COT please
Mr Feldman
3.3.87

THE INDEPENDENT

Labour would change aid rules

THE LABOUR Party, if elected to government, would abolish the Aid Trade Provision, whereby exporters to developing countries receive financial assistance from the aid budget, and replace it with a Trade and Development Fund, the primary purpose of which would be to encourage development rather than subsidise British exports.

Stuart Holland, Labour's overseas development spokesman, told a meeting held by the Overseas Development Institute last week that companies wanting assistance from the new TDF would first have to submit a study showing how their exports would promote the development of the

By Michael Prest
Resources Correspondent

country to which they wished to sell.

The new fund would be separate from the ordinary aid budget, which Labour is pledged to double in real terms. At present it stands at a little more than £1bn.

The TDF would be administered by a Department of Development Cooperation, with a minister in the cabinet, which Labour plans to substitute for the Overseas Development Administration under the Foreign and Commonwealth Office.

Aid Trade Provision has been

the only part of the overseas aid budget under the two Thatcher administrations to grow significantly in real terms, chiefly in response to pressure from British exporters claiming that other countries offer their companies more generous export subsidies. Mr Holland recognised that Labour's proposal might not be popular with companies. "This is a major issue and is by no means easy to achieve," he said.

He added: "We will make plain to British exporters that they will have no rights to TDF unless from the beginning of their project they have submitted to the department their appraisal of the development impact."

14/24

42



Inland Revenue

Policy Division
Somerset House
FROM: B A MACE

DATE: 3 MARCH 1987

AMP

PS/CHIEF SECRETARY

LABOUR TAX POLICIES

1. I agreed with Miss Evans that I would reply to your minute of 20 February about the article in the Daily Mail that day on Labour's tax policies.
2. The Daily Mail article purports to specify a revised higher rate structure aimed at raising £1.9 billion from higher rate taxpayers. The calculations also assume that mortgage interest relief would be given at the basic rate only (as the Labour Party have proposed). The figure of £1.9 billion is the residual amount Labour would need to raise from top taxpayers to achieve their overall £3.6 billion target after reinstating CTT (£185 million), CGT (£650 million) and Investment Income Surcharge (£825 million) on a indexed 1978-79 basis. (This is consistent with the figures the Chief Secretary used during the debate on the Public Expenditure White Paper).
3. In fact the changes specified in the Daily Mail article would bring in less than half the additional £1.9 billion required. Giving mortgage interest relief at the basic rate yields some £270 million in 1986-87 and the total yield from the proposed changes

cc PS/Chancellor
PS/Financial Secretary
Mr Tyrie
Miss Evans.

Mr Mace
Mr Payne
Dr Keenay
PS/IR

would be only about £800 million. (It is fairly clear, on a quick inspection, that the relatively modest changes in the higher rate structure proposed in the Daily Mail article are inadequate, bearing in mind that the whole of the yield of the higher rates in excess of the basic rate is less than £2¹/₂ billion in 1986-87).

4. The example which the Chief Secretary gave during the course of the debate on the Public Expenditure White Paper is not, of course, the only way of raising £3.6 billion from higher rate taxpayers. But Ministers agreed last year to keep to this one example, to avoid a confusing proliferation of different possibilities.

B A Mace

B A MACE



Andrews?
ppp
PWP

FROM: JILL RUTTER

DATE: 5 March 1987

MR TYRIE

cc:

PS/Chancellor

PS/Financial Secretary

Mr Cropper

Mr Ross Goobey

Miss Evans

Mr Culpin

LABOUR TAX POLICIES

The Chief Secretary has seen Mr Mace's minute of 3 March. He has commented that we must stand ready to use this if necessary, and he fully endorses Mr Mace's point about needing to stick to one example on the points of consistency.

2 The Chief Secretary thinks there might be use in you briefing the Daily Mail to avoid a repetition of their error. You might like to have a word with Mr Culpin about this.

JILL RUTTER

Private Secretary



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 March 1987

*1 hour
spoken to
J.N.*

Dear Cathy,

pup

LETTER FROM ROY HATTERSLEY MP

The Prime Minister has received the letter below from Roy Hattersley.

*2 to be
from*

The Chancellor may wish to cast an eye over the possible draft replies for the Prime Minister to send, a short version and a longer version which draws on the Chancellor's "crystal balls" speech.

I also enclose the relevant extract from the Prime Minister's interview with John Cole.

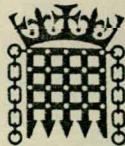
The Prime Minister wishes to reply before Questions this afternoon so I should be grateful for comments by 2.30 pm and earlier if possible.

Please give them to the Duty Clerk.

*John,
David.*

(DAVID NORGROVE)

Mrs Cathy Ryding
HM Treasury



HOUSE OF COMMONS
LONDON SW1A 0AA

5 March 1987

Jean Proulx

During an interview with John Cole yesterday evening on the Radio 4 PM Programme you were specifically asked by Mr Cole if you would increase VAT after the next election were you to be re-elected. Indeed, Mr Cole asked you this question on two occasions. On the first occasion you replied by saying

"You wait for the Election campaign. I will give you the policies then."

As this was clearly not an answer to Mr Cole's question, he put it to you a second time. Your second reply was

"I will give you the manifesto at the time of an Election."

This is now the second occasion on which you have been asked specifically to deny that, were your Government to be re-elected, you would make massive increases in VAT. For the second time you have refused to answer the question and therefore refused to make a denial. I am therefore writing to you to put the simple question to you for a third time.

If the Tory Party were to be returned to power after the next General Election would you increase VAT? Unless you are willing categorically to deny plans for such an increase the nation can only assume that, should the Tory Party be re-elected, massive increases in VAT would follow.

I am releasing copies of this letter to the press.

*Long sincerely
to the by*

Rt Hon Margaret Thatcher MP



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

Thank you for your letter of today.

You quote - of course - selectively from my interview with John Cole yesterday. Earlier in the interview I was asked what I had to say to your statement that if the Conservative Party wins the Election there will be a massive post-Election increase in VAT. I replied:

"He has absolutely no grounds whatsoever for saying it. He is doing what the Labour Party have done in the 1979 and 1983 Elections; they hadn't anything to say for themselves so they tried to set up fears and smears and they will go on doing it and I hope people will judge them."

No denial of your absurd story could be any clearer than that.

You have no policies that the country needs or wants. You know that our policies are needed and wanted. Your only hope is to try to pretend that those policies are other than what they are. You deceive no one.

The Right Honourable Roy Hattersley, M.P.



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

Thank you for your letter of today.

You quote - of course - selectively from my interview with John Cole yesterday. Earlier in the interview I was asked what I had to say to your statement that if the Conservative Party wins the Election there will be a massive post-Election increase in VAT. I replied:

"He has absolutely no grounds whatsoever for saying it. He is doing what the Labour Party have done in the 1979 and 1983 Elections; they hadn't anything to say for themselves so they tried to set up fears and smears and they will go on doing it and I hope people will judge them."

No denial of your absurd story could be any clearer than that.

No-one should trust your predictions, or those of your colleagues. Let me remind you of just three examples.

- In May 1983 you said "inflation is ready to rocket again. By this time next year, it will be back in double figures". In fact, inflation in May 1984 was 5.1 per cent, and has since fallen further still.

- Later that year, Mr. Kinnock said that the economy was heading for "super slump" and that the Government's promise of recovery was "a mirage". In fact, we are now in our sixth successive year of steady growth.

- In 1985, you predicted lower living standards. In fact, living standards have risen to record levels, and are still rising.

It is the Labour party's policie which would lead to a return to high inflation. Conservative policies have brought inflation down and will keep it down.

Labour policies would massively increase taxation - £28 billion of extra expenditure would make sure of that. Now only the Conservatives aim to reduce taxation.

You have no policies that the country needs or wants. You know that our policies are needed and wanted. Your only hope is to try to pretend that those policies are other than what they are. You deceive no one.

The Rt. Hon. Roy Hattersley, M.P.

PM:

I cannot talk about the budget as you know. The vital thing is that we keep inflation down, you were talking about some earlier days, the terrible decade was the decade of the '70s when people's savings were losing their value every year at an appalling rate, people who had relied upon having that money in their retirement. We must keep inflation down. If we let it rise through our financial policies we should soon find ourselves unable to compete with countries like Germany. The moment unemployment is coming down the number of jobs being created is rising. The standard of living is higher than ever before and for those who have to be on supplementary benefit or benefit of one kind or another, that too is higher than it was when we took over, so we are looking after those who are unfortunate but not in a passive way; we have got the biggest training programme for them and we are interviewing each and every one. As I said this morning, training is not a palliative for unemployment - it is the key to the future.

INT:

Roy Hattersley has said today that whatever you do about taxes and the budget that if you win the election there will be a massive post election increase in VAT. What do you say to that?

PM:

He has said that many, many times before.

INT:

Do you deny it?

PM:

He has absolutely no grounds whatsoever for saying it. he is doing what the the Labour party have done in the 1979 and 1983 election; they hadn't anything to say for themselves so they tried to set up fears and smears and they will go on doing it and I hope people will judge them without any policies that the country wants, totally unable to trust the people, so what the Labour party is saying to people "We are going to take more of your earnings because we, the Labour party do not trust you to spend them. We are going to spend them for you." That is their policy. You wait for the budget. You know full well I can say nothing about it. I hope it will be a very, very good one.

INT:

I am talking about after the election Prime Minister.

PM:

You wait for the election campaign. I will give you the policies and I will set them out very fully and you will cross examine me.

INT:

But you did say in 1979 that there would be no increase in VAT or your colleagues did.

PM:

No, Mr Cole, we said in 1979 that we would transfer some of the taxes onto indirect tax because we believed in getting income tax down. We have got income tax down. We did pursue what was in

the manifesto and transferred some of the tax to the indirect tax and so VAT did go up. There were three rates before then. One was zero, one was 8%, one was 12½%, we kept the zero rate for things like food, housing which are absolutely vital and transport and we put the other two rates up to 15% where they have stayed ever since. There is some VAT on some foods, chocolate biscuits for example, that was put on actually by the Labour party, yes we kept it on.

INT:

Can you give me an undertaking that there will not be an increase in VAT?

PM:

You are trying to go ahead of what the manifesto will be. I will give you the manifesto at the time of an election. But we are not up to an election. We are not even to the next budget. I cannot talk about that. We will have a very good manifesto, a very forward looking manifesto, and I am afraid, Mr Cole, you must wait for it.

INT:

When will we get that, Prime Minister?

PM:

After we have announced an election.

INT:

And when will that be, Prime Minister?

PM:

I do not know.

INT:

When will you know?

PM:

When I have decided.

INT:

Thank you.

(END OF TRANSCRIPT)

NNNN

CHANCELLOR

FROM A TYRIE
DATE 5 MARCH 1987

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

OPPOSITION PARTY "BUDGETS"

You asked for a note on Research Department preparations for dealing with the Alliance's and Labour's alternative budgets, due to be launched on the 10th and 11th March respectively.

Preemptive

Labour

The initial plan was for a concerted attack by Messrs Ridley, Clarke, Channon and Tebbit, aimed at the week-end press. Messrs Ridley and Channon have not yet made up their minds and Mr Clarke is giving a speech on the North/South divide instead. I attach a copy in case you are interested.

Mr Tebbit is still going ahead and I attach that relevant extract of his speech. As I mentioned to you this evening I don't think it is budget orientated enough and have drafted an extra passage which, after a bit of polishing, Mr Tebbit could be asked to add.

Alliance

Sir Geoffrey Howe has agreed to do a speech and David Willetts has prepared a draft press release which I attach. This looks

Howesque and useful.

It may be worth adding a couple of sentences to Sir Geoffrey's release to take account of today's Guardian article. Something along the lines: "Nothing testifies better to the discord in the 'Alliance' than their confusion over tax benefit proposals. According to the Guardian endless compromise has borne fruit: a 'more expensive package' with fewer benefits! And it is a package, we are told, that the Liberals still don't understand".

Peter Cropper had the idea of issuing a list of Alliance weazel words from 'The Time Has Come'. I attach a sheet of these.

Reactive

As we discussed it will be important to get a response onto the tapes as quickly as possible. Copies of opposition material will get to CCO before they get here so I would like, if possible, to clear a couple of paragraphs with you over the 'phone from there. Mr Tebbit will be available as the 'mouthpiece'.

The Research Department are also preparing a fairly comprehensive brief on Labour's plans for job creation.

AS.

A TYRIE

DRAFT PRESS RELEASE TO PRECEED LAUNCH OF LABOUR'S
BUDGET

Mr Hattersley will shortly issue an "alternative budget". It will be a three pronged attack on the health of the British economy.

The first prong will be an increase in spending. Somehow Mr Hattersley will have to satisfy the spending appetites of his colleagues. Last November that stood at £28 billion. Since then we have had a Labour Party Conference, always an expensive occasion. Pledges made there amounted to a further £9 million. And over the past few weeks we have had a string of further pledges in Labour policy documents adding billions more.

You won't hear about Labour's record on spending. Last time Labour were in office they increased spending by the equivalent of £18 billion in today's money ^{in their first year.} Why look into the crystal ball when you can read the book?

The second prong will be a massive increase in taxation. Like all Labour spokesmen he will claim the rich would pay. We should not forget Labour's

record, a record of a basic rate of income tax of 35p. in the pound. You won't hear much of that from Mr Hattersley either.

The third prong will be an increase in Government borrowing. Last time, within two years of taking office the Labour Party had taken the Government borrowing to over 9% of GDP, the equivalent today of £35 billion. Something else Mr Hattersley will hope you've forgotten.

Higher taxation, higher spending, higher borrowing: that is the devastating combination which bankrupted the country in two short years of Labour government. These are the policies which once again would unleash inflation and destroy eight years reconstruction.

Jobs 'strategy'

Mr Hattersley tells us he thinks these policies would reduce unemployment. But he must surely know that rampant inflation is the price of reckless spending and borrowing. And he knows that inflation costs jobs. As he himself has said:

"High and rising inflation necessitates the slowdown of growth and is therefore damaging to our jobs programme". (Times, 12 September 1986).

Another plank of Labour's job strategy will be to cut employers national insurance contributions. But Mr Hattersley doesn't believe that would work. Not so long ago he 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 1986, Col. 36).

No doubt we will shortly hear more of Labour's crazy scheme to create jobs by imposing compulsory overmanning on the nationalised industries.

No doubt we will hear more of Local Authorities as "the engines of growth". Perhaps we will be told how many jobs Camden, Haringay and Southwark can give us.

Mr Hattersley will be right to point to the Labour local authorities; they are the Labour Party of the future.

But Mr Hattersley has a chance to restore a shred of credibility to Labour's economic policy. He can tell us which of his colleagues' massive spending

pledges the Labour Party will drop. He can tell us which of Labour's recent pledge-laden policy documents they are going to withdraw.

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THE TIME MAY COME

"The Alliance parties' ambition is to double the proportion of the relevant age group going into higher education."

"Ultimately we would wish to eliminate these for part-time higher education courses."

"We would try to provide further incentives to employees share ownership and profit sharing".

"New and improved services could include regular "well women clinics" for prevented check-ups..."

"Services might include supervised activities for children outside school hours by volunteers..."

"As a long-term goal, restoration of the earnings link is desirable."

"Over a five period, we would aim to increase Britain's aid to 0.7 % of GNP."

Clarke

A little while back, the flavour of the month was the so-called North/South divide.

Scottish politicians said, and southern journalists believed, that the North of England was an industrial wasteland populated by brass bands and out of work men in cloth caps. They told the people of Hackney that the South was an Eldorado, where BMWs were nose-to-tail all the way to the bank.

In a constituency like Ribble Valley, a lot of the press coverage must have seemed very odd indeed. It's not just that unemployment here is less than half the national average. It's that for those with jobs, their standard of living is by and large higher than that of most people with similar jobs working in the South East.

When you consider not only the cost of housing, but also the quality of life in parts of the country like this, I would strongly advise you against rushing South on the first train out!

I am as fully aware as anyone else that there are areas of unacceptably high unemployment both in the north and in the south. I am very concerned indeed about the problems they face. But the Government has certainly accepted its duty to give assistance to tackle those problems.

But contrasting Clitheroe (where unemployment is just over 5%) with Liverpool (where unemployment is over 20%) - or Winchester (with unemployment of 5%) with Thanet (unemployment is over 20%) - or Clitheroe with Thanet - tells us more about Britain today than the 'shock, horror' headlines of some of our newspapers.

What it shows is a contrast within regions as much as between them.

It shows that areas both of prosperity and of above average unemployment are to be found in all parts of the country, often very close to each other.

It shows a contrast between those areas that have been able to adapt quickly to new economic forces, and those which have fallen behind.

Other figures point up the fatuousness of the talk of a simplistic North/South divide.

Over the last 12 months, unemployment has fallen fastest in the North, North West, West Midlands and Wales.

Employment has increased in every region of England, quarter in, quarter out, since March 1983.

Self-employment, for example, has grown faster in Yorks and Humberside since 1979 than it has in the South East.

The kind of broad brush descriptions I have been criticizing are irrelevant to people's real needs. They conceal more than they reveal. They take us not one step nearer to a solution.

In that respect, they are like the broad brush regional policies of the past. These were discredited at the time, and rightly so. And although the Opposition parties still hanker after them, there can be no going back.

We must not try to resurrect dead or dying industries.

We must not try to bring back outdated practices or machinery.

We must not fall into the error of chucking money at a problem and keeping our fingers crossed in the hope that it will somehow go away.

What we need - and what we have - are policies designed to target cost-effective help on those areas - and on the people - that need it most.

Four new Urban Development Corporations have been set up - in Trafford Park, Teeside, the Black Country and in Tyne and Wear - to help tackle some of the worst concentrations of industrial dereliction. These will bring land back into productive use, encourage commerce and industry, and create an environment to attract the most important ingredients of all - people and investment.

On a smaller scale, we are trying out new ideas in our new Inner Cities Initiative. It is already showing how a partnership of effort between the public and private sector can help overcome inner city deprivation in eight districts scattered across the country. We have put little groups of Civil Servants on the ground in each district to help Government Departments, and we have set up programmes to aim straight at the needs of the people. We are improving the ways in which we provide work opportunities, training and new business for inner city residents from Peckham to Middlesborough.

Success in clearing up dereliction and re-motivating our workforce will require great changes from the past. Towns that have been over dependent on one traditional industry - coal, steel, shipbuilding or metal-bashing - have to attract newer industries and smaller-scale enterprises. We cannot expect to make our way in the industrial world by living on our memories.

The same goes for another subject that has caused a great deal of controversy over recent weeks - pay. For there can be absolutely no doubt that outdated forms of wage bargaining will hold back economic progress.

But let me first of all make one thing absolutely plain.

Conservatives want a high wage/high productivity economy. We have always wanted a high wage/high productivity economy. But we want those high wages to be earned by improved performance.

One of the most certain ways I can think of to destroy jobs is to pay ourselves more than we earn. You cannot share out wealth before you have created it. If a Company agrees to a pay increase that it cannot afford out of its profits, it gets rid of employees to cut the cost.

No one expects that the situation can be transformed overnight.

Years of weak management and strong unions meant that pay became increasingly divorced from performance. The experience of inflation served to accelerate the process and to institutionalize bad practice. All for a quiet life, too many managers sacrificed the long term interests of their company - and their workforce.

Of course it takes time to change attitudes, but that is all the more reason why we should address ourselves to them now, when the country is more ready to change attitudes than ever before.

A few weeks ago, I spoke about the historic weakness of British pay negotiation. I suggested some ways in which we could improve it in the future. I was not surprised that some employers and some trade unionists were outraged. Some people in British industry still believe that everything in

traditional British wage bargaining is for the best in the best of all possible worlds.

The key message in every part of the country is that unearned wage increases destroy jobs. This is most definitely not the same as saying that people in the North or anywhere else should accept cuts in salary. It is, however, saying that negotiators should stop to think. Any money that is being spent on pay increases regardless of performance is money that is causing redundancy or preventing - or delaying - the recruitment of new staff. It is interesting to think that if every employer with a vacancy left it unfilled for an extra week, the effect would be to increase the number of unemployed people by 100,000.

Perhaps it should not be surprising that those who have made most noise in defence of national pay bargaining have been national union leaders based in London. They are worried about losing their own power base to their regional and local colleagues.

The figures just don't bear out their claim that there is already a lot of regional variation in pay. The 1986 New Earnings Survey shows that male manual workers in the North and North West are paid about one per cent more than those living in the South East (excluding London). Men working in education, welfare and health are actually paid slightly more in Yorks and Humberside and the North West than they are in the South East. And the pay of female manual workers in the North West is slightly higher than those working in the South East. This produces much higher living standards for northern workers than for those in high cost areas. That in turn is a good thing if it is earned by higher productivity and better performance. When it is not however, it helps to cause regional unemployment.

My motive in spelling out and repeating my message is that I am desparately concerned about unemployment in parts of the North. Now that the economy is expanding and unemployment is falling in the northern regions, we have the chance to speed the process up. Northerners know the value of money and they know how to earn it. As we move away from national bargaining, they will pay themselves more than southerners when their industries are more successful than southern industries. Local bargaining leaves more room for the creation of local jobs.

I believe that linking pay to performance helps competitiveness in other ways.

It keeps our costs of production competitive - crucial if we are to survive in international markets. Most importantly of all, it encourages people to improve productivity and relate better to the performance of their own company.

People without a stake in an enterprise may believe that they have little to lose from its failure, and nothing to gain from its success. But if they can identify with their company, this can mean more flexible working practises, higher productivity and less resistance to change and innovation.

Encouraging better performance is, therefore, a priority for the Government. The Chancellor's proposals for profit-related pay are certainly a step in the right direction.

They will build on the other measures we have introduced since 1979 to promote greater employee share ownership. As a result, over one million more people now own shares in the company for which they work.

The results of this kind of approach can be striking. Take the National Freight Corporation for example. Its performance has been revolutionized since it was transferred from the public sector.

Each £1 originally invested by employees in NFC when their company was privatised is now worth £35. Profits have increased four-fold, which has in turn led to more money for profit sharing. And pay in that Company is now negotiated at the level of individual subsidiaries to reflect differing circumstances.

The recent provisional agreement between the Government and the IPCS also has greater flexibility as its aim.

It is proposed, for example, that in future, pay increases would be related to performance.

Furthermore, the Treasury officials who negotiated it on the Government's behalf stated that the object of the change is to break away from the present negotiating system so that pay can be differentiated in relation to different skills, different merits and, indeed, according to local conditions in different parts of the country.

The IPCS has itself described these changes as the most radical it has faced for half a century.

I understand the negotiating process and I quite understand that I cannot expect to achieve every ideal objective in any one negotiation. But the new deal with IPCS is certainly a step in the right direction and a great improvement, for Civil Servants and employers, on the old set up. The provisional deal shows that the Government is moving in a realistic and practical way towards promoting greater flexibility among its own employees.

Our system of pay bargaining is crucial to our future economic success. It is crucial to the nation's competitiveness, and it is crucial to the job prospects of the unemployed.

In America, where trade unions have traditionally played a very different part from those in Britain, pay is often negotiated at plant level. People accept that their job is dependent on how their company does, and that their pay can vary accordingly.

As a consequence of this greater degree of flexibility, employment rose in the United States between 1970 and 1980 by 25 per cent. In the United Kingdom, it rose by 2 per cent.

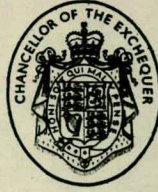
We all want to see more jobs in Britain, particularly in those parts of the country where economic growth has been slowest. Everyone, wherever they live, must have the chance to share in increased prosperity.

But the only sure basis for that prosperity is the competitiveness of British companies in world markets.

The process of developing a modern economy is going to require us to accept a lot of new ideas. But the cost of sticking with all our old ways of doing things would be very great indeed - particularly for the jobless.

Since 1979 this Government has led the country to face many uncomfortable truths about our overmanning and restrictive practices. Other truths remain to be faced. We will face them as we have faced the others.

The benefits are beginning to be experienced in rising numbers of people in work and in the rising living standards of those people. We will need courage and imagination to keep those benefits flowing.



PWD

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01-270 3000

6 March 1987

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32 Smith Square
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Alan Michael

Thanks for pointing this out for me. However, though Kinnock may have said this privately, I am not aware that he or Hattersley have ever made any such public commitment.

NIGEL LAWSON

Jan
X/7-1



COPY NO. _____ OF _____

PWP

FROM: A P HUDSON

DATE: 10 March 1987

CHANCELLOR

LABOUR COMMITMENTS TO REVERSE TAX CUTS

You asked me to look out commitments by Labour spokesmen to reverse any tax cuts in the Budget. I have found examples from Hattersley and Gould; Andrew Tyrie is looking for anything from Kinnock.

2. The clearest commitment came in Hattersley's speech on 15 January to the International Equity Dealers Association, at Flag A:

"When the Chancellor cuts the standard rate, as he undoubtedly will, the Labour Party will vote against it in the House of Commons. What is more, we will reverse that decision when we are elected and return to approximately the present level of taxation."

3. Hattersley said much the same in the Opposition Day Debate on 20 January (Flag B).

4. But, as you suggested, there is some evidence that they may try to wriggle out of this. In the Debate on the Public Expenditure White Paper on 18 February, Gould said:

"If those revenues melt away it is perfectly clear that if tax cuts are made in the Budget, they will have to be reversed after the Election." (My emphasis.)

5. Gould's formulation implies that Labour are worried that tax cuts could lead to higher borrowing, or perhaps that borrowing for



tax cuts would pre-empt their scope to borrow the £6 billion needed for their jobs package. But that is not part of Hattersley's argument in his 15 January speech. He says:

"Tax cuts ... are neither economically or socially the right choice for this country." (P1)

"In short we are facing a credit and consumption boom of unparalleled proportions with which the domestic economy is wholly unable to cope. Against that background there can be no possible justification for cutting taxation." (P.4)

"If there is money to spend there are other objectives which clearly transcend the need for a reduction in taxation. [List of objectives.] We believe that all these proposals have a higher priority than cuts in income tax." (P.6).

A handwritten signature in black ink, consisting of the letters 'A', 'P', and 'H' in a stylized, cursive font.

A P HUDSON

Chancellor

Just as when you put one year's

SPEECH BY THE RT HON ROY HATTERSLEY MP, DEPUTY LEADER OF THE LABOUR PARTY AND SHADOW CHANCELLOR OF THE EXCHEQUER, AT A MEETING OF THE INTERNATIONAL EQUITY DEALERS ASSOCIATION, BUTCHERS' HALL, BARTHOLOMEW CLOSE, EC1 ON THURSDAY 15 JANUARY 1987 AT 6.15 PM

Re
15/1

The Government's present economic policy is unsustainable and the Government knows it. The Government is promoting policies which will do the economy long-term harm in the hope that they can win short term popularity for the Conservative Party. The damage will be increased by the tax cuts which will certainly be part of the pre-election budget. Today I want to make clear the Opposition's view on those tax cuts and on the economic crisis which the Government is promoting.

Tax cuts are quite the wrong prescription for the British economy. Indeed they are neither economically nor socially the right choice for this country. The Government hopes that a cut in the standard rate will both win votes and obscure the underlying danger of an impending crisis. I believe that it will do neither. Indeed, it will bring the crisis nearer. What is more, a tax cut made this March would inevitably lead to compensating action immediately the election is over. That necessity would face whatever Government was in post. Even were the Tories to win, they would reimpose higher taxes and make public expenditure cuts so deep that even the Conservative Party would be reluctant to support them. The

social case against tax cuts I propose to make in the House of Commons next week. Today I concentrate on the economic consequences of the present policy.

Britain now faces a growing balance of payments deficit. We are no longer paying our way in the world. A currency crisis - which would normally and inevitably follow - is only held back by a combination of the highest real interest rates in our history (and in the developed world) and a number of fortuitous circumstances that cannot last. The vulnerability of the British economy is demonstrated by the pathetic pleasure the Government showed when the meeting of oil sheikhs - at which we were not represented - took a decision which was to our temporary advantage. Yet, despite the OPEC price increase, record interest rates, chaos inside the EMS and the weakness of the dollar, sterling has fallen to its lowest ever level against the Deutschmark.

The Government now admits that the balance of payments will be in deficit this year by £1.5 bn. None of the independent forecasters believe that estimate accurately to represent the extent of the deficit. Objective calculations estimate that it would be between £2.3 bn and £3.4 bn. The balance of manufactured trade will deteriorate from a surplus of £4.5 bn in 1981 to a deficit of £7.5 bn this year - even on the Government's estimate. That decline will come about at a time when manufacturing exports should begin to fill the gap

inevitably left by decreasing production of North Sea oil. Anyone who doubts either those predictions, or the seriousness of the problem they pose, should judge the Government's own record. Last year, at the time of the budget, we were promised a balance of payments surplus of £3.5 bn and the Chancellor boasted that we had adjusted to the reduction in oil revenues without appreciable damage. We are now told that at best the balance of payments will break even. And we are suffering the long term economic damage that comes from intolerably high real interest rates - and, in consequence, the highest interest on mortgage repayments in our history.

There is no honest dispute about the reason for the disappearance of our trade surplus. Because of the damage done to manufacturing industry by Government policy, it can no longer keep pace with the demand for manufactured goods. For example, motor imports increased by 15.25% between the third quarter of 1985 and the third quarter of 1986. Other consumer goods imports increased by 19.5%. The demand for imported goods has escalated as a direct result of the explosion in consumer debt and earnings which outstrip the rise in inflation - a situation which Nigel Lawson condemns in the House of Commons but about which Norman Tebbit boasted in a Party Political broadcast. According to the Governor of the Bank of England, the ratio of household debt to household income has risen to 70% - as compared with 45% during the disastrous and discredited Barber credit boom of 1973. We are

wholly unprepared for the reduction in oil revenues. The surplus in our balance of trade in oil will more than halve from £8 bn in 1985 to £3.5 bn this year. We have totally failed to use the revenues received, at the peak of oil production, to prepare the economy for that change. The idea that invisible earnings - the product of the expansion in our financial institutions - can fill the gap is clearly the product of either wishful thinking or vested interest.

In short we are facing a credit and consumption boom of unparalleled proportions with which the domestic economy is wholly unable to cope. Against that background there can be no possible justification for cutting taxation, increasing consumption, encouraging more consumer debt, sucking in more imports and both bringing nearer, and making more certain, a balance of trade and sterling crisis.

The Chancellor will attempt to justify a reduction by claiming that it provides added incentive for those at the top of the income scale. Indeed he has already argued that a reduction in tax rates actually increases the tax income from those on the highest income. That is palpable nonsense. Recent increases in the percentage of revenue collected from those in the highest tax brackets are not the results of lower marginal rates. They are the product of a widening divergence between the primary earnings of the rich and the primary earnings of the rest - a divergence which has little or nothing to do with

the incentive effect of lower tax rates. It was not lower tax rates that prompted the Chairmen of recently privatised industries to increase their salaries. Nor are they working any harder. The massive salaries now paid in the City are in no way related to tax cuts. To justify lower taxes as a way to ensure that the rich help the poor is transparent hypocrisy - greed dressed up to look like benevolence.

If the Chancellor disputes that judgement he has it within his power to prove me right or wrong. The Brown Report on tax rates and incentives is buried somewhere in the Treasury. The Chancellor has suppressed its publication. He has done so because he knows that its research and its conclusions remove the one justification for reducing the higher rates of tax.

So I ask the Chancellor today - and I give him notice that I shall repeat the questions in the House of Commons on Tuesday - what are the arguments for tax cuts? Lower taxes are certainly not the best way of reducing unemployment in this country - and that reduction should be the principle aim of economic policy. The Treasury's own model confirms that new jobs are far more effectively and efficiently created by public investment. The Government's own National Economic Development Committee has described the state of the infrastructure of this country as delapidation and decay. We need to rebuild the old hospitals, replace the old schools, repair and extend our housing stock and improve our roads and

railway systems. Those are necessary improvements - necessary to our economic progress as well as to social justice.

Investing in them can both give a stimulation to the economy and reduce unemployment. And it will do it in a way which has the minimum adverse impact on our balance of payments. If there is money to spend in March, public investment should be the first priority.

If there is money to spend there are other objectives which clearly transcend the need for a reduction in taxation. We need to spend more on training for unless we increase the skills of our working population the expansion which we seek will be held back. We need to encourage investment in manufacturing industry. Net manufacturing domestic fixed capital formation was negative in every year between 1981 and the last recorded date. Total manufacturing investment is now 17% below its 1979 level. Yet we lag behind other industrial countries in the incentives we provide, both through tax concessions and subsidised interest rates for high priority investment proposals. We need to use the tax system positively to encourage employment. That is why the Labour Party is now examining schemes through which the employers National Insurance Contribution can be used to encourage employment of extra workers in special industries and areas of particular need. We believe that all these proposals have a higher priority than cuts in income tax. So does the general public. All the evidence confirms that, when offered a choice

between tax cuts and improved public services, the vast majority of voters prefer to improve services. The Chancellor is insisting on the opposite - deeply to the detriment of the economy.

I therefore wish to make clear where the Labour Party stands on the Chancellor's tax proposals.

First, the 5% of highest individual earners in this country, who are the only beneficiaries from the Government's promises of generalised tax cuts, must make their proper contribution to the revenue. The £3.6 bn annual tax cut which they have enjoyed must be recouped and must be used directly to finance the essential increase in pensions, improvement in child benefit and further help to the long term unemployed.

Second, the overall level of taxes, with the exception I have just described, ought to remain at about its present level. Though I do not rule out changes of structure within the overall total. I do, for example, hope to introduce a reduced rate band which would give some benefit to the lowest earners.

Third, when the Chancellor cuts the standard rate, as he undoubtedly will, the Labour Party will vote against it in the House of Commons. What is more, we will reverse that decision when we are elected and return to approximately the present level of taxation.

I know very well that there are risks in telling the electorate that the proposed tax cuts are wrong and that we will reverse them. I know in particular that the forecast that the Tory Party, if returned to power, would be forced to compensate for those reductions by reversing them and by massive public expenditure cuts, will be denied by the Government. I know too that my insistence that the continuation and encouragement of the consumer boom will lead to certain crisis, will be rejected by the Chancellor and by those newspapers who see themselves as vehicles of Conservative policy and propaganda. I ask the sceptics to consider two facts from the record.

First, before the General Election of 1979, the Labour Party said that if the Conservative Party came to power it would make massive increases in VAT. The Conservative Party denied that they had any such intention. Indeed the Daily Mail published the accusation on its front page as one of 'Labour's Lies'. Immediately after its election the Conservative Government doubled VAT to 15%. On the evidence the Conservative Party does not tell the truth about taxation before general elections. I quote from the Chancellor who doubled VAT. "We have absolutely no intention of doubling VAT".

Second, some of you are, perhaps, thinking of the experience

of Walter Mondale when he stood as Presidential candidate in the United States. He predicted about the American economy what I predict today about Britain - and he lost. I do not know whether his defeat was the result of that predication or the result of other factors. I do however know that what he said was true. The fourth quarter of 1984, the current account deficit of the United States' balance of payments was \$30,117 bn. Two years later it was £34,713 bn. In 1984 the value of the dollar measured on an effective exchange rate basis with a base rate of 100 in 1980 was 152.2. Two years later it was 118.9. The budget deficit rose from \$185.3 bn in the fiscal year 1984 to \$220.7 bn in 1986. The result is a budget which includes massive cuts in public expenditure including welfare and medical services and an equally massive increase in business taxation.

What we face in the United Kingdom is the situation which Walter Mondale predicated for America before the last Presidential election. If, as was the case in America, the administration were to be re-elected, the result would be exactly what has happened in the United States. I do not believe that the British people will fall for the same confidence trick and therefore I paraphrase Walter Mondale's message to the Democratic Convention.

The Government's present economic policy is based on encouraging massive consumer debt and deepening our balance of

trade deficit in the pursuit of electoral advantage. It must result either in savage cuts or desperate crisis. If the dangers of a balance of trade crisis are deepened by tax cuts, whichever Government is elected next polling day will reverse these tax cuts. The difference is between the Labour Party, which is honest about it, and the Conservative Party, which is not. But then, on taxation, they never are.

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

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

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

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

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

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

Mr. Lawson: What is wrong with that?

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

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

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

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

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

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

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

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

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

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

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

Mr. Forman: *rose*—

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

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

If the House wants a more up-to-date example I shall gladly give it one. During the general election campaign in 1979 Labour Members warned that, once elected, the Conservative Government would double VAT. "Double VAT" was exactly the phrase that I used at a press conference at Transport house. The present Foreign Secretary could not have been more explicit in his denial. At Conservative Central Office on 21 April 1979 he said: "We have absolutely no intention of doubling VAT." The *Daily Mail*, which tomorrow will undoubtedly dismiss any chants of crisis, listed the allegation that the Tory party would double VAT as a Labour lie. Within three weeks of the election, VAT was increased from 8 per cent. to 15 per cent. [Interruption.]

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

5.42 pm

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

Mr. Gould: We shall do it as soon as the Chief Secretary and the Prime Minister give us a general election. After that we shall begin to remedy the deficiencies in the Government's record. They have allowed public spending to be cut and cut again so that there is now a lack of investment in the training of our people and, as was made clear in the debate, in the research and development needed for our industrial future. We have committed ourselves, and do so again today, to increase public spending in the interests of the infrastructure required by a modern industrial economy. *[Interruption.]* Despite the barrage from the Government Benches let me make it clear that we are not alone in saying that. The Labour party does not stand alone or make a unique claim on the virtues and benefits of public spending. Our claim is supported by a range of independent bodies, many of which are often close to the ear of the Government. Let me also make it clear that the level of public spending that we are talking about is in no sense excessive by international standards, and certainly not excessive by comparison with countries rather more successful than ours. It is certainly above the level thought to be appropriate in successful economies such as in West Germany and Canada.

Mr. Keith Raffan (Delyn): Will the hon. Gentleman give way?

Mr. Gould: My record on giving way is good.

Mr. Raffan: It is deplorable.

Mr. Gould: I shall not give way to the sort of rabble in the Conservative party who are making a noise.

We are talking about a level of public spending that would take us to the European average. At present we are below that European average. Our level of public spending is a little higher than that of Japan and the United States. However, I wonder whether the Conservative party would wish to align itself with either of those two examples. Japan is a rather special case, after all. The Japanese spend less than 1 per cent. of their national income on defence. Or does the Conservative party wish to align itself with the example of the United States? They certainly have a lower proportion of public spending than us, but is the long-term objective of the Conservative party to aim for American levels of public spending? Is it prepared to pay the cost, in terms of social divisiveness and bitterness, that comes from that level of public spending?

The Labour party would spend that public money on such things as the training that is now desperately needed, on the research and development that the House of Lords Select Committee made clear was desperately needed. We would spend it on the infrastructure which even the CBI now demands that we should make.

Mr. John Maples (Lewisham, West): Will the hon. Gentleman clarify something about which we are in some doubt? He said that Labour would spend more money on training. The hon. Member for Kingston upon Hull, East (Mr. Prescott) made a commitment of a £6 billion training levy on industry. Does the hon. Gentleman agree with that, and what does he think will be its effects on industrial policy?

Mr. Gould: I am sorry to say that the hon. Gentleman has taken a leaf out of the conjuror's book so often used by the Chief Secretary. I invite the Chief Secretary now to concede that he wrote to me on that point. *[Interruption.]* Let me answer one question at a time. The Chief Secretary

wrote to me on that point and he asked me that question. I refer him to a passage in *Hansard*, in which my right hon. Friend the Member for Birmingham, Sparkbrook (Mr. Hattersley) made it perfectly clear that we are committed to a substantial training programme, to financing it from a mixture of public money and a levy from industry and that we have yet to decide what the level of those contributions should be. That is a perfectly proper position for a party in Opposition to take.

It is not surprising that in this debate, allegedly about public spending, so much attention is being paid in the House and outside to the public sector borrowing requirement figures, because it is quite clear that that is thought to be the bull point that the Chancellor will make in his Budget preparations.

Let us be perfectly clear that that leeway of increased and additional revenues that the Chancellor now enjoys is not the reward of economic success. It is the fruits of profligacy. That is almost entirely a representation and reflection of increased VAT revenues on increased consumer spending, fueled by record family debt which produces a rapid deterioration in our balance of trade because it sucks in such huge quantities of imported manufactures.

Let us also be clear that, to the extent that these increased revenues are available on a sustainable basis—that remains a wide open question—they are also revenues available to the incoming Labour Government. We would make those revenues available for our investment programme. We would not make them available for the irresponsible and profligate spending boom which the Chancellor hopes will sweep him to a general election victory.

Mr. Nicholls: How does what the hon. Gentleman has just said square with the Fabian tract that he wrote in 1983 in which he called for more money to be left in the coffers of the people to ensure that they could buy the country back to full employment?

Mr. Gould: The hon. Gentleman is absolutely right and takes the answer out of my mouth. That was 1983. We are now four years on. Incidentally, I hope that fisticuffs are not about to break out among Conservative Members.

In 1983 we were still enjoying a surplus in our manufactured trade. We now have a deficit which the Treasury forecasts will rise to £7.5 billion this year. If that deficit were produced in British factories, it would account for three quarters of a million jobs. That is the extent of the deterioration. That is why we now need to invest. That is why we know that leaving things to the Tory private market simply will not work. That theory has been tested to destruction over the past four years. We now know that, if investment is to be made, it must be made by the public sector.

I return to the Chancellor's much touted surplus available revenue. That surplus cannot be sustained because the consumer boom and the balance of payments, in all its precarious position, simply cannot be sustained. If those revenues melt away it is perfectly clear that if tax cuts are made in the Budget, they will have to be reversed after the election.

Here is a rare opportunity for the Chief Secretary or the Chancellor to answer a question that matters to the people of this country. We know, from the experience of 1979, that a Tory Government who offer cuts in direct income

[Mr. Gould]

tax on the one hand are perfectly prepared, despite the most solemn assurances given before an election, to double the rate of VAT after that election. In the past week there have again been reports that that is part of the hidden agenda that the Tories would follow if they were to win the next election. Part of that hidden agenda is a pay-as-you-go economy where everyone pays or stays away. Part of that agenda is for switching the burden from income tax, by which the rich will benefit so much, to indirect tax, where those who pay little or no income tax will have to shoulder the major burden.

It was significant that the Prime Minister, when confronted with those reports and asked to deny them, said simply that she had no knowledge of such plans. That is a formula that she uses when, for her own purposes, she wants to suggest that the Government are nothing to do with her. I wish to hear from the lips of the Chief Secretary or of the Chancellor a categorical denial that any such plans are being worked on in the Treasury now. Here is an opportunity. Let us hear that.

Mr. MacGregor: I will give the hon. Gentleman a much clearer answer than was given in the letter that he mentioned earlier. On 12 February my right hon. Friend the Chancellor in his letter to the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) made the facts clear about what the hon. Gentleman described as stories going around. The Chancellor said:

"Needless to say, I can confirm that these are not the Government's tax proposals".

Mr. Gould: That was a very ingenious attempt. It was not however an answer to my question. My question is, will the Chief Secretary deny that there is no work going on in the Treasury on proposals to switch the burden from income tax to indirect tax after the next general election? I invite a rather better answer than was given. If he cannot give us that categorical denial—with all the sharp recollection of our experience in 1979—we shall know what to expect after the next general election. We know what the people would have to expect after the next general election, if the Tories were to win. We know that the tax cuts, whatever they may be in the Budget, will be taken away in the most damaging possible way, in a way that will be damaging to their family budgets, to the inflation rate, to employment and to the economy.

The debate gives us a clear opportunity to put before the British people the sort of choice which they will face at the general election. On the one hand the Government are committed to reining back the public sector on ideological grounds. The public sector alone, as we have demonstrated over recent years, can now make the investment that we need. At the same time the Government are committed to fuelling, for electoral reasons, a consumer boom that simply intensifies the damage that we have suffered from that lack of investment. On the other hand, we have a Labour party committed to using that public money not in irresponsible tax cuts but in investment in our economic future—an investment which, if it is not made, will leave us unable to compete and condemn us to a future as a Third world country. I have no doubt that the British people, who are often a little more clever than some Conservative Members assume, will make the right choice and that we shall have a Labour Government after the next general election.

5.40 pm

Mr. Terence Higgins (Worthing): The hon. Member for Dagenham (Mr. Gould) referred to conjuring tricks, the essential element of which is that the way in which they are done remains a mystery. After his speech, there should be no doubt that there is a considerable air of mystery as to how a Labour Government would ever finance the spending plans that we believe that they have in mind, although the hon. Gentleman did not give us any quantitative analysis of them. I thank my right hon. Friend the Chief Secretary for his remarks about the report of the Select Committee on the Treasury and Civil Service. General macro-economic analysis is concentrated much more in the debates on the autumn statement and the Budget. Therefore, it seemed appropriate to the Committee that our report on this occasion should deal in rather specific terms with the White Paper, although, as always, no doubt the debate will range wide.

I shall pick up one or two of the points made by my right hon. Friend. It is true that the White Paper has grown enormously from 81 pages in 1969 to 451 pages in the one that we are debating this evening. That reflects the significant change in the way in which the House deals with these matters. In turn, that reflects the change in our financial procedures, because Select Committees as a whole have an opportunity to look into public expenditure in some depth and debate them in the course of the Estimates days that are available. That being so, the White Paper provides a good framework within which the Estimates themselves can be considered.

In that context, I am sure that my right hon. Friend the Chief Secretary will agree that there is some similarity of interest between the Select Committees and the Treasury to the extent that the Select Committees and the House are allowed only to reduce public expenditure and not to increase it. At all events, it is important that we should look carefully at the way in which the White Paper has changed. In particular, on the question of the value of money and what we get in exchange for that expenditure, my right hon. Friend pointed out that we deal now not only with what is being planned to be spent but what we are to get for it. Individual Select Committees monitoring the particular Department with which they are concerned will be able to use this as a reasonable basis.

The way in which the performance indicators have been set out in the White Paper is a great improvement. However, I hope that my right hon. Friend will give careful consideration, when he replies formally to the report, to our suggestion about the changes in the debate on the White Paper. At the moment, there is not much time in the parliamentary timetable for the matters to be examined in detail. It seems a great deal more important that we should have an input from the House in June or July about the future pattern of public expenditure, rather than debating it at this stage, when effectively we are carrying out a post mortem. I hope that my right hon. Friends the Chief Secretary and the Chancellor will carefully consider that point.

The hon. Member for Dagenham spoke about monitoring public expenditure, on which there has been a significant change, because the principle now adopted is that it should be a declining share of gross domestic product—a rather ghastly ratio of general Government expenditure to gross domestic product; jargon expressed by "GDE/GDP". None the less, the table on page 37

Psethank

FROM: A G TYRIE
DATE: 11 MARCH 1987

CHANCELLOR

Philis

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

LABOUR'S PRE-BUDGET STATEMENT

I attach a copy of this.

2. On a quick read some points are:

(i) £6 billion is going to be spread pretty thinly. The document includes references to more money for:

- research and development;
- reversal of university cuts
- reductions in NICs
- 300,000 new training places and improvement of existing schemes
- educational maintenance allowance
- more for housing
- new coal fired power stations
- reductions in sulphur dioxide admissions
- renewal of the sewerage and water systems
- road repair
- 65,000 home helps
- education for the under 5's
- more teachers and ancillary staff in schools
- more Customs and Inland Revenue officials
- more for drug abuse
- more staff for British Rail
- job release for 165,000
- energy conservation
- industrial/regional support
- shorter working week (in the Joe Richardson press release.)

As in "The Time Has Come" references fall short of explicit pledges, but we can take these as clear indications that they are not resiling on the earlier pledges made by spending colleagues. We may be able to 'recost' their jobs package at a much higher figure.

(ii) Local authorities have been put back under wraps. Local authorities first appear under the heading "Encouraging Economic Enterprise" (pages 10-11). The idea that Labour local authorities should act as co-ordinators of local enterprise is risible. Manchester City Council is cited as a paragon (page 18).

(iii) The employment numbers don't add up. With 160,000 added in for the job release scheme even Labour claim this package would only take 1.1 million off the register. The document admits that 1.2 million jobs would be required to reduce the register by a million in two years (page 7). A month ago on 'Weekend World' Mr Prescott asserted that 1.5 million jobs would be required to reduce the register by 1 million. Mr Prescott was perhaps understandably absent from the launch of this document.

(iv) Their support for training sits uneasily with the attacks they have made on our training schemes, which they describe as "skivvy schemes".

(v) There's virtually no economic analysis. There's a vague reference to keeping interest rates down (page 10) which contradicts Labour's commitment to higher borrowing. The document says Labour are determined to "maintain a competitive exchange rate" (page 10). What does that mean? There is scarcely a mention of taxation in the whole document. Nor is there any mention of the money supply. In an interview in the World at One Mr Gould said that the package would have a negligible effect on inflation. He defined negligible as 'a matter of 1% or 2%'.

(vi) For an alternative budget statement there is scant analysis of the problems which the "Budget" is purporting to address. If it were not for a few ritual references to the problems of

the manufacturing sector it would be hard to find the much vaunted "crisis" which Labour spokesmen claim is round the corner.

AGT

A G TYRIE

CONQUEROR

III

FROM: A G TYRIE
DATE: 12 MARCH 1987

CHANCELLOR

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

Handwritten notes in red ink:
Maurice
Dunne
Dunne

'ALLIANCE' BUDGET

You asked for a note of points to make on the Alliance alternative budget. I have arranged for these, with any alterations you may have, to be included in a briefing note on the "Alliance", to be sent out from Central Office tomorrow.

1. Higher taxation. The Alliance would increase public spending by £4.9 billion and the PSBR by £2.1 billion in the first year. They would have to fill this gap with higher taxation. Their claim that they could implement their measures "without increasing the overall tax burden" is therefore untrue. The Liberals and the SDP, like the Labour Party, are parties of high taxation.
2. Contradictory forecasts. The document forecasts a weakening exchange rate and lower inflation, both higher borrowing and lower interest rates.

The forecasts are implausible and naive. They forecast a 4.2% surge in growth in the first year, they "believe that entry to EMS would enable interest rates to come down by at least 2%". Their hopelessly optimistic assumption on growth must rest on the hope that "the Alliance incomes policy" could work wonders. In the past wages policies have collapsed under inflationary pressure and in industrial strife. This one would be no different.

3. Crisis around the corner. The parties of the Alliance have tried to massage the results obtained from the Treasury model. The small print beneath the table admits that simulations were carried out; "structural adjustments to reflect Alliance policies".

4. Despite these attempts at manipulation their own forecasts show a balance of payments deficit running at £3 billion a year and growing, whereas they forecast a deficit of only £1 billion under Conservative policies. It is clear that under "Alliance" policies a balance of payments crisis would be just round the corner. This rests uneasily with the "Alliance's" claim to be "boosting exports".

5. Admission of Conservative success. The "Alliance" budget is framed in the hope that it would bring unemployment down but their own table shows unemployment falling steadily under existing policies in the coming three years.

6. The tax/benefit mess. With the publication of each policy document the "Alliance" proposals become less precise. Reforming zeal has disappeared altogether. The commitment that "basic benefit will be withdrawn as income rises" would mean 100% marginal rates of tax and exacerbate the poverty trap.

7. Factual inaccuracies. The Alliance document is littered with inaccuracies. For example:

- The "Alliance" claim the cost of abolishing stamp duty on residential property is £400 million. It would cost £700 million.
- The "Alliance" claim that M0 has frequently overshot its target. M0 has never overshot its target.
- The "Alliance" claim that output is stagnant in the North and the West Midlands. Given the 3.5% growth in manufacturing since the beginning of 1986, much of it concentrated in the regions, this is implausible. Nor is it borne out by the Association of the British Chamber of Commerce's survey published in February 1987.

Conclusion

8. Labour mark 2. In many cases the "Alliance" have taken Labour policies and hope that by watering them down they enhance their credibility. For example:

- Labour claim they would increase spending by £10 billion, the Alliance by £4.9 billion
- Labour claim that we increased the PSBR by £6 billion, the Alliance by £2.1 billion
- Labour claim they would reduce unemployment by 1 million in two years, the Alliance by 1 million in three years
- Labour would have a statutory minimum wage, the Alliance a basic benefit.

9. The regional employment measures, the proposals for industrial intervention and the dependence on a statutory incomes policy are the failed policies of the 1960s and of the Lib/Lab pact.

AGT.

A G TYRIE

UNCLASSIFIED



FROM: NIGEL FRAY
DATE: 13 March 1987

RF

MR TYRIE

LABOUR'S PRE-BUDGET STATEMENT

The Chancellor was grateful for your minute of 11 March the contents of which, he has noted.

Nigel Fray
NIGEL FRAY

FROM: A G TYRIE
DATE: 13 MARCH 1987

CHANCELLOR

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

PP

TONY BLAIR RELEASE

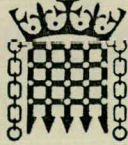
... The attached release gives us an idea of the kind of line we can expect from Labour: very predictable.

2. Definitely not worth getting anyone to react to.

M-Mery

PP

A G TYRIE



From CEO Press Office

HOUSE OF COMMONS
LONDON SW1A 0AA

PRESS RELEASE: EMBARGOED UNTIL 23.00 HRS SUNDAY 15th MARCH 1987

FROM : TONY BLAIR M.P. , LABOUR TREASURY SPOKESMAN

£ 5 BILLION ONE-OFF WINDFALL WILL FUND BUDGET BRIBE

A £5 billion one-off windfall in extra revenue to the Exchequer will largely fund Tuesday's giveaway budget, claimed Tony Blair M.P., Labour's Treasury spokesman.

The extra £5 billion comes from a mixture of "extra taxes, creative accounting and consumers spending on imports."

Mr Blair said almost all of the £ 5 billion was either unsustainable in the long-term or the product of factors actually damaging to the economy. That is why any available money should be used for long term investment not short term consumption.

He said the £ 5 billion bonanza came on top of over £8 billion of extra revenue from asset sales which the Government has already budgeted for. More than £ 3 billion of asset sales has come from the sale of land and buildings concealed in the Government accounts as a deduction from expenditure.

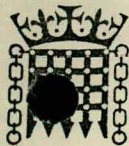
Mr Blair said today:

"On Tuesday we will be subject to a unique form of political corruption: we will be bribed with our own money."

"The Government knows perfectly well this is a one-off for the Election - beware the Bribes of March."

For further info: Tony Blair MP (0429) 882202 (Constituency)
(01) 359 1980

ends.



Background Note - from Tony Blair M.P.

CHANCELLOR'S EXTRA BILLIONS

EXTRA TAX REVENUES:

Income Tax	£ 1,000 m.
VAT & expenditure taxes	£ 1,500 m.
Corporation Tax	£ 1,500 m.
Miscellaneous	£ 1,000 m.
<u>TOTAL</u>	<u>£ 5,000 m.</u>

NOTES

(1) The above figures have been prepared from a range of independent city estimates.

(2) Income Tax: Most of the income tax is the result of higher than expected wage settlements which are expected to slow down next year.

(3) A large proportion of the extra C.T. is a result of the ending of capital allowances which results in a statistical quirk for 1986/87. This may be repeated in 1987/88 but not thereafter. It also reflects a fall in capital investment in manufacturing that fell in the last six months of 1986.

(4) VAT is the result of the consumer boom which will be hit next year by rising inflation and high consumer debt/income ratio; and in any event has highly adverse consequences for the balance of payments.

(5) The miscellaneous item consists mainly of stamp duty which is largely a reflection of Stock Exchange turnover after Big Bang together with house price inflation.

CONFIDENTIAL

FROM: A G TYRIE
DATE: 13 MARCH 1987

Proposed
CHIEF SECRETARY

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

*PS - of the job to be done
check the 155
cont of job, pros*

LABOUR RECASTING

I attach the recosting of Labour's policies, together with worksheets. Andrew Turnbull and his crew have done some sterling work. Nevertheless, we are still awaiting Energy Conservation and the "jobs" pledges which are being recosted in the light of Labour's latest jobs package. Errors may still be lurking and divisions will want to check the numbers and tables early next week.

2. You may want to be aware of the following points:

A List

Housing new build (7) has been reduced to take account of the reduced numbers proposed in the new jobs package.

Roads (9) has been kept in, but with an arbitrary assumption about increased expenditure.

Public service employment (10) increases to take account of the jobs package. It is net of items 16 and 17.

Education throughout Life (19) falls because Labour's pledge to make awards to part-time students mandatory is apparently already being fulfilled on a discretionary basis. It is unlikely that more would be spent.

Pensions (23). This is a massive increase based on a new pledge made at the last Party Conference and on assumptions suggested by Mr Major, agreed with officials at DHSS and at the Treasury.

Why no SB ASW?

CONFIDENTIAL

Maternity grant (31) drops by £50 million with a new pledge.

The new items are:

- energy (3)
 - new jobs schemes (11-13)
 - Christmas bonus (27))
 - winter premium (28))
 - NHS General (32))
 - alcohol abuse (34))
 - Scottish devolution (36)
 - crime prevention grants (38)
- Taken from the Meacher add-on and confirmed at the 1986 Conference

B List

3. This is the old Meacher table, less Christmas bonus and Winter Premium (moved to the A list), and the Drugs Bill, a minus item. DHSS doubt that there is much more to be saved on the Drugs Bill.

C List

4. We would like to see the back of these. The pledges are weak in all cases. The pledge on Arts was firmly made by Buchan, but he has been sacked, ostensibly for wanting broadcasting to be included as part of a new Ministry he would head up, but probably because he stuck to his "double funding" pledge. He is a casualty of the costings.

D List

5. Regional Employment Subsidy had a very weak pledge. We can place it in the "superseded" category by claiming that Labour's new recent pledge to use differential NICs as a form of regional policy replaces it.

6. Wage subsidy was part of Labour's jobs package last year and has been dropped. It would be open to us to make a noise about this but Labour would point to other parts of their revamped

jobs package and I see little mileage in it.

7. Health capital is subsumed in the 3% NHS pledge.

11 8. Two further possible candidates for the D List are Minimum Wage (39) and Roads (9). Could we discuss these? You may also want to look at the pledges originally identified in "Reconstruction of Britain" dating back to 1981, items 5, 6, 7, 8 and 14. In all cases they have been backed up by further recent statements, but we are still somewhat dependent on "Reconstruction of Britain" for the detail.

Presentation

9. Apart from the usual lines of attack provided by the costings exercise this recosting offers a few others. First, by setting it out in this way, we can show how Labour are grossly underestimating the cost even of their £6 billion jobs programme. Items 2-13 are all mentioned in Labour's new jobs document and will add up to well over £8 billion. Labour's £6 billion contains NICs which do not score against public spending so they would have only a little more than £5 billion to pay for 2-13.

10. Secondly, it can be shown that costing Meacher was not an idle exercise. In a matter of months two of the items were confirmed by a Party Conference of which one (winter premium) was also confirmed in a Commons Debate this year.

11. Thirdly, there is the general point that the cost of Labour's spending plans has increased 50% in only twelve months.

The main target of attack by Labour is bound to be the Pensions pledge (item 23). The source for this pledge is cast iron and the assumptions reasonable. Nevertheless, Labour will claim that their pensions pledge is no longer their Conference motion but the much more reasonable £1.65 billion pledge from their poverty package. The pensions pledge has been the convenient veil behind which we have quietly done away with some of the awkward items now in the C & D lists. This is the sort of point I expect the IFS to pick up, who incidentally, rang me today to say they were planning another paper on Labour spending.

Discuss the 12% (poverty package)

Timing

12. Assuming that we obtain the missing numbers you should be able to issue a new total in Wednesday's debate.

13. I have already warned that Labour are planning to produce new documents on the 24 and 26 March which could prove awkward. But we are firing at a moving target and even if we left it a month I do not think we would necessarily get a better snapshot of Labour's policies.

AGT

A G TYRIE

By the way, the A list ^{will} adds up to a little less than £36 billion!

LIST A FIRM COMMITMENTS

7 Drop 39

July 1986

£m
March 1987

Employment and investment

1.	Industrial support	590	620
2.	National Investment Bank	50	50
3.	Energy Conservation	170	
4.	Energy - power stations/acid rain	-	680
X	5. Sewerage	260	270
X	6. Railways	220	230
X	7. Housing new build	3130	2700
X	8. Housing rehabilitation	250	310
X	9. Roads	730	370
10.	Public service employment (net of 16, 17 & 32)	1000	2600
11.	Training for adult unemployed)		
)	990	
12.	Training for young people)		
13.	Job Release Scheme	-	

*of cost of future
projects: 2,800*

Education

X	14. Schools : buildings	160	170
	15. Schools : books and equipment	90	100
	16. Extra teachers	230	280
	17. Education for under 5s	470	490
	18. Close private schools	360	400
	19. Education throughout life	1940	1810
	20. Educational maintenance awards	730	730
	21. Student grants	470	500

÷5 = 2,800 (2770)

Social Security

?	22. Child Benefit	1450	1950
	23. Pensions	1650	13850
	24. Standing charges	-	550
	25. Pensioners' TV licenses	320	330
	26. Concessionary fares	50	50
	27. Christmas bonus	-	120
	28. Winter premium	-	180
	29. Unemployment benefit (long term rate)	530	570
	30. Death grant	100	110
	31. Maternity grant	120	70

Health

32. NHS general	-	400
33. NHS health charges and private practice	600	630
34. Alcohol abuse	-	30

Other

35. Overseas aid	1460	1570
36. Scottish devolution	-	10
37. Councillors' remuneration	40	40
38. Crime prevention grants	-	10
XX 39. Minimum wage	<u>1100</u>	<u>1500</u>
TOTAL	<u> </u>	<u> </u>

LIST B MEACHER'S EXTRA PLEDGES

40. Child Benefit	1800	2650
41. Supplementary benefit	5020	4400
42. Drug abuse	20	10

LIST C PLEDGES OF UNCERTAIN STATUS

43. Early retirement	3000	3000
44. 35 hour week	3250	3660
45. Urban programme	510	530
46. Arts	110	180

LIST D SUPERSEDED PLEDGES

47. Regional employment subsidy	500	(460)
48. Wage subsidy	1450	(1500)
49. Health capital	160	-

GRAND TOTAL

28240

'A' list donations: 14+9 1.67
~~'Extra' pledges~~ ~~12.20~~ (~~not used March 1967 plan~~)
 Other 'rewards of business' 3.64
 5.56

NHS Pension 1986 is 12.2 : how much 1967 plan? (over-allow)

13/3/87.

①

PROPOSAL

Increase industrial support by 50 per cent.

SOURCE AND DATE

"New Jobs for Britain" (March 1987)
"This will require direct investment in new plant and technology."
John Smith in Tribune, 8 November 1985:
"... the whole industrial support system and the various schemes
that used to support industry. Now quite clearly there has got to
be an enormous expansion of that ... [50 per cent.] at least and
more."

ASSUMPTIONS USED

Cost is calculated by adding 50 per cent to the 1985-86 estimated
out-turn in the PEWP and then deducting the White Paper provision
for 1987-88.

COST

£620 million.

PRICE AND PROVISION BASIS

1987-88 at White Paper prices.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Full annual cost assumed in first year.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS

None.

CONTACT POINT

J W Stevens IAE 2 45/G 4512

PROPOSAL

A National Investment Bank.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"We shall also...establish new institutions such as the British Investment Bank to help provide the investment we need."
"Investing in People"(February 1987)
"Labour wants to set up a British Investment Bank to provide industry with long term loans so it can invest in modern machinery."
Also:Speech by Roy Hattersley 17/5/85. Labour Party announcement 19/9/85
Interview with Roy Hattersley (Financial Times 19/9/86)
"Britain ... lacks an institution which offers substantial amounts of medium and long term credit - very often at preferential interest rates to special category customers."

ASSUMPTIONS USED

Assumed that £2 billion lent in year one with 4 percentage points subsidy on 60 per cent of loans.

COST

£2 billion x 4 per cent = £80m x 60 per cent = £48m in year one.
Rounded to £50 million.

PRICE AND PROVISION BASIS

No provision presently exists for a NIB.

FULL YEAR/OTHER

First Year

TIMESCALE

-

IMPLICATIONS FOR OTHER PROGRAMMES

Establishment of NIB may reduce take up under Loan Guarantee Scheme and Business Expansion Scheme or may even render either or both of these schemes redundant. No allowance for either of these possibilities is made in the costing.

OVERLAPS

-

COMMENTS

Cost of NIB would build up in future years as loans fail to be repaid. Likely rate of default is inevitably speculative. At best, NIB would duplicate work of existing financial markets; at worst - and more likely - would expropriate taxpayers' or pensioners' money to divert into doubtful projects which would not pass normal commercial validity test.

CONTACT POINT

R Molan IAE 3 99/G x4632

SOURCE AND DATE

"New Jobs for Britain" (March 1987)
"We also need a major programme for the construction of new coal-fired power stations and, from the viewpoint of both energy efficiency and pollution control, we must refurbish and desulphurise existing plants"

"Investing in Power" (February 1987)
 "Labour is committed to meeting the EEC standards, and calls for a reduction of acid rain by 30 per cent by 1993... In future we will develop coal and alternative energy sources, such as wind and wave power, instead of new nuclear power stations. And we will slowly phase out the existing nuclear power stations while preserving jobs and energy supply. Radioactive discharges into the sea must stop, as must the present search for sites for low and intermediate level waste. Sea-dumping will not be resumed. We need a major scientific inquiry into waste disposal."
 NEC statement to 1986 Labour party conference - ~~"There should be a full analysis of the cost of the alternative of dry storage and the feasibility of drying off magnox fuel held in cooling ponds."~~ "A much enhanced research and development budget for the novel sources of energy."

ASSUMPTIONS

See "cost" below.

COST

DEX EXPENDITURE			£ million
Policy	Full year effect	Remarks	
a. End fast reactor research	-70	Programme currently financed partly by CEGB.	
b. More research on nuclear waste disposal	+60	Double current level	
c. More research on renewables	+50		
ELECTRICITY INDUSTRY CAPITAL EXPENDITURE			
Policy	Full year effect	Remarks	
a. Control power station emissions to reduce by 30 per cent by 1993:		Estimates net off this Government's commitments. Timetable difficult to achieve.	
Sulphur dioxide	+110		
Nitrogen oxide	+50		
b. Build dry store for spent nuclear fuel	+40	Begins 1991	
b. Storage not disposal of all radioactive waste	+100	Net of cost of building disposal site now planned.	
c. Replace nuclear power stations with coal.	+380	Assumes nuclear stations are retired as quickly as consistent with construction of new coal capacity. All existing stations shut by 2000.	
TOTAL COST	£680 million £680		

Energy (cont)

(4)
(cont)

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year

TIMESCALE

Average capital spend (for electricity industry) over period to 1992-93.

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

Would have effect of increasing ESI running costs and would imply increase in electricity prices by about 5 per cent by 1991 and about 15 per cent by 2000.

CONTACT POINT

Mrs P Diggle PE 1 29A/1 4784

PROPOSAL

A partial replacement programme for the oldest parts of the sewerage system.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"Our programme sets out policy for...substantially improving the nation's ... water and sewage systems."
Also "Investing in People"(February 1987)
"Labour is committed to the investment needed to ensure good quality sewerage and water supply."
Also "The Reconstruction of Britain" - TUC 1981 updated in "Public Investment in the Economy" - TUC 1984 and endorsed in "A new Partnership, a New Britain" (TUC/Labour party (August 1985)
"Over 5 years a partial replacement programme could cost £1,000 million."

ASSUMPTIONS USED

On the EFL effect; that none of the extra investment is found by increased internal resources i.e. from higher profits or generally available grants.

COST

£1,326 million over five years or £265.3 million per annum on the EFL. Rounded to £270 million.

PRICE AND PROVISION BASIS

Original figure was £1,000 million over 5 years (1981/82 price level). Updated to 1987-88 prices.

FULL YEAR/OTHER

Full Year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Assumed that expenditure is equal in all 5 years. No indication to assume otherwise.

IMPLICATIONS FOR OTHER PROGRAMMES

TUC claims this programme would demand 5000 construction jobs. To the extent that these are filled by the currently unemployed, the social security programme should benefit.

OVERLAPS

None.

COMMENTS

The previous estimate of £250 million a year for the cost of this policy was based on the £1,000 million uplifted by 25 per cent (a Central Office assumption) to current price levels.

CONTACT POINT

C A Sharp PE 2 26/1 x4927

PROPOSAL

Major investment in the railways, including full main line electrification.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"Our programme sets out policy for...substantially improving the nation's rail networks."

"Investing in People"(February 1987)
"Labour is also determined to maintain and improve Britain's rail network, and will commit a major investment programme, including full main line electrification."

Also "Fresh Directions"(March 1987)
"British Rail's investment plans will be boosted by an updated replacement programme for rolling stock, locomotives, and track and signalling equipment."

'The Reconstruction of Britain' TUC 1981. Endorsed in "A New Partnership, A New Britain"(TUC/Labour August 1985).
"The railways badly need to renew worn out assets ... Adding up the average annual total gives a five-year total of £360 million on renewing assets, £180 million on main line electrification and £510 million on other service improvements."

ASSUMPTIONS USED

Additional cost would be added to EPL Programme for electrification assumed to cover all main lines not already in programme.

COST

£870 million over 5 years = £174 million a year, uprated from 1981-82 prices to 1987-88 prices. Cost £231 million, rounded to £230 million. Plus £50m for main line electrification. Total cost £280m.

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

a)TUC specify that after authorisation, it would take 2 years for most expenditure to take place and 6 years for investment to peak. Figures appear to be averages over 5 year period.
b)No time scale for main line electrification specified. DTP estimate programme would take 20-30 years.

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

Cost of main line electrification based on joint BRB-DTP estimate of capital costs of various possible programmes for main line electrification in 1981. Largest option resulting in 80 per cent of passenger and 70 per cent of freight traffic being hauled electrically - at a cost of up to £1,250m at 1987-88 prices over 20-30 years (implies £40-60m a year). Mid-point of estimate taken.

CONTACT POINT

S M A James PE 3 85A/1 x4906

PROPOSAL

125,000 new local authority house starts a year.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"Total housebuilding is down under the Tories by over 100,000 a year...The case for restoring the housing programme to a level which earlier experience shows is perfectly feasible... is overwhelming."

SOURCE AND DATE

Also "Investing in People" (February 1987)
"We need to improve existing homes and build new ones."
'The Reconstruction of Britain', TUC 1981. Endorsed in "A New Partnership, A New Britain" (TUC/Labour August 1985)
"This rebuilding programme would take place over the next 8 years. It will involve building a million new council houses."

ASSUMPTIONS USED

-

COST

£2700 million a year (100,000 new starts at £27,000 each).

PRICE AND PROVISION BASIS

Latest 1987-88 DOE estimate of average completion costs of local authority houses.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Full cost in first year.

IMPLICATIONS FOR OTHER PROGRAMMES

National programme. No additional territorial implications.

OVERLAPS

-

COMMENTS

-

CONTACT POINT

M C Retenson LG 2 18/1 x4746

PROPOSAL

Housing rehabilitation.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"The case...for giving local authorities greater freedom and resources to maintain their existing stock in proper condition is overwhelming."
Also: "Investing in People"(February 1987)
"There will be a new programme of housebuilding improvement and repair."

SOURCE AND DATE

'The Reconstruction of Britain', TUC 1981.(Endorsed in "A New Partnership, A New Britain" (TUC/Labour August 1985).
"This [renovation programme] would take place over the next 8 years. It will involve ... renovating 200,000 empty and hard-to-let council houses."

ASSUMPTIONS USED

Assumed that there would be 25,000 renovations a year at £12,500 each. Majority of renovations would be for hard-to-let housing.

COST

£310 million.

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full Year.

TIMESCALE

Full annual cost assumed in first year.

IMPLICATIONS FOR OTHER PROGRAMMES

National estimate: no territorial implications.

OVERLAPS

None.

COMMENTS

£12,500 a property is DOE's rough estimate of renovation cost.

CONTACT POINT

M C Betenson LG 2 18/1 4746

PROPOSAL

Increase roads spending.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"Our programme sets out policy for substantially improving the nation's roads."
"Investing in People"(February 1987)
"Roads, schools and hospital all need to be improved."
"Charter for Transport" (1985)
"Labour is determined to ensure a selective programme of road building."

ASSUMPTIONS USED

10 per cent increase over 1987-88 provision for roads (local and national, capital and current) of ~~£2,024~~ million.
£3,676

COST

370
~~£200~~ million

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year

TIMESCALE

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

-

CONTACT POINT

Kim Elliman HE 1 11A/1 x4718

PROPOSAL

Expand public services

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"...making necessary improvements in the quality of services, in health, the personal social services, education and other areas. This will provide an additional 300,000 jobs, principally in the public sector."(p4. See also ibid., pp 15-16)

ASSUMPTIONS USED

1. From the 300,000 jobs deduct the following from other items in the costing:

NHS employees (Item 32)	26,000
(assume 3/4 of extra NHS spending is pay costs, assume some unit pay cost as below)	
Nursery teachers (Item 17)	13,500
Nursery nurses (Item 17)	20,000
Teachers (Item 16)	14,000
	73,500

Leaving 226,500 jobs not covered by other costings.

2. Assume average public sector wage of £192 per week (see item 45), uplifted by 15 per cent to take account of pension and National Insurance contribution = £11480 per year.

COST

Cost therefore 226,500 x £11480 = £2600 million

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year

TIMESCALE

2 years

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

Overlaps with items 16,17,32 already netted off.

COMMENTS

-

CONTACT POINT

B S Kalen GEP1 98/3 x5645

PROPOSAL

Increase school building, repair and maintenance

SOURCE AND DATE

"New Jobs for Britain" (March 1987)

"It also makes sense to invest in the proper repair and maintenance of existing public buildings (particularly schools - where the Audit Commission estimates that there is a backlog of repairs costing £500m)"

"Investing in People" (February 1987)

"It makes good sense to employ some of the 400,000 construction workers unemployed today to tackle the backlog of £500 million in school repairs."

"The Reconstruction of Britain" (October 1981) endorsed in "A New Partnership, A New Britain" (August 1985)

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

ASSUMPTIONS USED

£625m over 5 years. £125m uprated from 1981-82 to 1987-88 prices. £165.8m rounded to £170m.

TERRITORIAL IMPLICATIONS

-

COST

£170m

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

-

TIMESCALE

Full year cost of five year plan

CONTACT POINT

S. Kelly HE2 11/1 x4714

PROPOSAL Increase provision for school books and equipment

SOURCE/DATE Giles Radice in "The Guardian" (17 April 1985)
 "Mr Radice said that Labour would provide...
 £90m for books and equipment."

ASSUMPTIONS £90m (at 1985-86 prices) uprated to £96m (at 1987-88 prices).

TERRITORIAL -

COST £100m

PRICE/PROVISION 1987-88

FULL YEAR/OTHER Full year

TIMESCALE Immediate

IMPLICATIONS -

OVERLAPS -

COMMENTS -

CONTACT POINT S. Kelly HE 2 11/1 x4714

PROPOSAL

14,000 more teachers. Increased in-service training.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"Labour's commitment to reducing class sizes would require the training and employment of more teachers and ancillary staff."
Giles Radice 'Guardian' (17 April 1985).
"Mr Radice said that Labour would provide £50 million for 14,000 more teachers."

ASSUMPTIONS USED

Average gross cost of £16,000 a teacher a year. No offset for UB savings. Gross cost £220m. Labour's own figure for of increased in-service training £60m. Annual cost, in 1987-88 prices, £280m.

COST

£280m

PRICE AND PROVISION BASIS

1987-88 1987 PEWP

FULL YEAR/OTHER

Full Year.

TIMESCALE

Immediate.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

Cost netted off item 14

COMMENTS

Includes effects of improved teachers' pay package with effect from 1 January 1987

CONTACT POINT

S Kelly HE 2 11/1 4714

PROPOSAL

Right to pre-school education for all 3 and 4 year olds.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
 "The Labour commitment to extend nursery education to all children between the ages of 3 and 5."
 "The Guardian"(6 February 1987)
 "Labour Party plans to increase spending on nursery places by £200m a year, providing an annual uplift of £1 billion in the nursery budget after 5 years have been drawn up by its social services spokeswoman, Ms Harriet Harman. It has yet however to go through the party's policy committee."
 'Charter for the Under 5s' (April 1985).
 "Children aged 3 and 4 must be given the chance of a place at a nursery school or nursery class in an infant school."

ASSUMPTIONS USED

Assume overall take up of 80 per cent (70 per cent of 3 and 90 per cent of 4 year olds). An additional 202,000 FTE places would be required. Current cost would be £270 million a year. Capital cost of £360 million spread over 4 years, assuming half additional places found by converting existing primary places (£87m) and half by new build (£270 m). Annual capital cost for those 4 years therefore £90 m. Assumed need for 13,500 teachers and 20,000 nursery nurses to maintain current PIRs at training cost of £190 m, spread over 4 years. Annual cost for those 4 years £48 m.

COST

Current cost of £270 m a year after 4 years. Total capital and training costs of £547m, spread over 4 years. First full year cost £410m in England. Territorial consequences £80m. Total cost £490 million.

PRICE AND PROVISION BASIS

1987-88 1987 PEWP

FULL YEAR/OTHER

Full Year.

TIMESCALE

Phased over 4 years.

IMPLICATIONS FOR OTHER PROGRAMMES

Includes territorial implications of £80m

OVERLAPS

Cost netted off item 10

COMMENTS

-

CONTACT POINT

S Kelly HE 2 11/1 4714

PROPOSAL

Phase out fee-paying schools.

SOURCE AND DATE

Giles Radice 'Guardian' 17 April 1985.
"Mr Radice affirmed the party's commitment to abolishing the fee-paying sector."

ASSUMPTIONS USED

In England, 200,000 additional primary and 315,200 additional secondary pupils in State sector. Unit costs (1984-85) of £760 a year for primary and £1,085 for secondary pupils. Total £495m. Reduction of £84m assumed to allow for existing spare capacity, ie net cost £411 (£466 at 1987-88 prices). Assume saving of around £150m on Assisted Places Scheme and other existing central government spending on private schools. Net current cost of around £310m. With an assumption of some limited capital costs this might be rounded up to about £320m for an England figure at 1987-88 prices in a full year. Territorial consequentials £65 million.

COST

£400 million.

PRICE AND PROVISION BASIS

1987-88 and 1987 PEWP

FULL YEAR/OTHER

Full Year.

TIMESCALE

Commitment is to phasing but with no indication of timescale.

IMPLICATIONS FOR OTHER PROGRAMMES

Includes £65 million for territorial consequentials.

OVERLAPS

-

COMMENTS

-

CONTACT POINT

S Kelly HE 2 11/1 4714

PROPOSAL

More overseas students.

(19A)

SOURCE AND DATE

"Education Throughout Life", 1986.
"A Labour government will actively encourage more overseas students into our universities and colleges ... A major expansion of the Overseas Development Administration programme for student sponsorship is required." (p 20)

ASSUMPTIONS USED

£8.5m L
£8.5m L

10 per cent increase in existing total government support for overseas students studying in UK of ~~£78m~~ (administered through ODA, FCO and British Council). UK cost ~~£78m~~.

COST

~~£78m~~ £8.5m

PRICE AND PROVISION BASIS

198⁷/₈ prices and PEWI provision.

FULL YEAR/OTHER

Full Year.

TIMESCALE

None given.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS

None.

CONTACT POINT

N M Kaufmann HE 2 14/1 x7200-4928

PROPOSAL

SOURCE AND DATE

Universal adult education entitlement.

19B

"Education Throughout Life", 1986.
"In our discussion document, 'Education after Eighteen: Expansion with change' we proposed the introduction, in the longer term, of a universal adult education entitlement, backed by statute. The essentials of an entitlement must include the following:

- ... tuition and maintenance to be provided ...
- ... its duration to be up to one year's full-time education (eg. 36 weeks in a year) or its equivalent on a part-time or sandwich basis; a longer period of entitlement might be introduced later ..." (p 27)

ASSUMPTIONS USED

£2,250 (reduced because of efficiency savings being made in NAFE & underlying PEWP from 2,500 in 1986-87)

There are about 40 million people in UB over age 18 without degree level qualifications. Assume 1 per cent full-time equivalent (FTE) take up, broken down into 160,000 additional full-time students and 600,000 part-time students, giving a total full-time equivalent of 400,000 students (since the standard DES weighting for part-time students is 0.4 of a full-time student - in terms of hours of teaching). Assume same unit cost as the Non-Advanced Further Education (NAFE) unit cost of £2,500. Assume full-timers get full 1978-79 value award (including allowances) of £1,000 but part-timers get only 75 per cent of basic 78-79 value award EXCLUDING allowances. This gives average maintenance awards of £1,707 making total unit cost of £4,047 per FTE student. Total GB cost £1,660.0m. N.Ireland consequence £46.4m so total UK cost £1,706.4m.

~~£1,740m.~~
£1,660m

per FTE student

44.5

1,663.4

1987-87 prices and PEWP provision.

COST

PRICE AND PROVISION BASIS

Full Year.

FULL YEAR/OTHER

Introduction "in the longer term".

TIMESCALE

See comments.

IMPLICATIONS FOR OTHER PROGRAMMES

See comments.

OVERLAPS

COMMENTS

The assumptions are highly speculative. The cost does not take account of the role of employers, their respective contribution towards maintenance, or the additional costs of replacements for people on courses. It also ignores savings on existing spending on NAFE, adult education, Open University etc and any necessary additional capital costs. No allowance is made for savings on unemployment benefit through a proportion of the labour force being in training. On the other hand a higher basic take up assumption could reasonably have been chosen and these other factors allowed for to give the same ball park net cost. Furthermore we have subsumed Labour's commitment to more part time courses within this commitment because the first could be regarded as part of the second.

CONTACT POINT

N M Kaufmann HE 2 14/1 x70004728

SOURCE AND DATE

"Education Throughout Life", 1986.
"More conversion courses need to be mounted to enable school leavers, particularly young women with arts based A levels, to equip themselves for entry into scientific and technological courses" (p 18)
"A shift [of balance to science and technology] must be achieved by extra funding and not at the expense of the quantity or quality of arts and social science places." (p 22)

ASSUMPTIONS USED

(latest author) R

Assume 5 per cent (12,000) increase in 240,000 students taking science degrees in maintained institutions in England and universities in GB in 1984-85. When fully running there would be 12,000 more degree students as well as 4,000 on conversion courses. Assume same unit cost for laboratory-based courses in maintained institutions and universities uprated to 1987-87 prices - ~~£4,175~~. Cost: ~~£20.0m~~ (excluding new buildings or conversion of existing accommodation but then marginal costs are less than unit costs). 16,000 extra maintenance awards at ~~£2296~~ each cost ~~£36.7~~ million.
2378 38.0

TERRITORIAL IMPLICATIONS

Half of the students fall in the GB universities' sector and half in the England colleges' sector. The formula consequences of the latter for Scotland and Wales are 15/85 of ~~£41.7m~~ (unit costs) and of ~~£10.3m~~ (awards) - ~~£10.3m~~ 0.8m, making a GB total of ~~£32.0m~~. N Ireland get 2.75 per cent - ~~£2.7m~~ 3.7 making ~~£34.7m~~ in the UK.
40 137
£300m.

COST

PRICE AND PROVISION BASIS

1987-87 prices and PEWP provision assuming same underlying student demand as 1984-85.

FULL YEAR/OTHER

Full Year.

TIMESCALE

None-giving AT least 4 years lead-in.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAP

None.

COMMENTS

None.

CONTACT POINT

N M Kaufmann HE 2 14/1 x2300-4728

PROPOSAL

SOURCE AND DATE

"Education Throughout Life", 1981.
"Distance learning must be expanded through building on the success of the Open University, developing the Open Tech, and encouraging open learning." (p 21)

ASSUMPTIONS USED

Restore Open University funding to 1980-81 peak level - cost £2m UK. ~~Maintain NUS's Open Tech at 1985-86 level - £6m~~
GE and so to N. Ireland getting £4.1m. Ineligible NI consequential to same for UK. Fund, ¹⁹⁸⁷ Open Tech, ^{Open Tech} same cost as

COST

£10m
£6m

PRICE AND PROVISION BASIS

1986-87 prices and PEWP provisions as modified by 1987-88 Estimates.

1986 12.1
1987 12
Estimates +6
US corr + PEWP

FULL YEAR/OTHER

Full Year.

TIMESCALE

None given.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS



None.
~~Awards for study costs for existing part-time OU students included in 30(b).~~

CONTACT POINT

N M Kaufmann HE 2 14/1 x7200 4728

PROPOSAL

Education Maintenance Allowance

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"Our proposals for an Education Maintenance Allowance will encourage an estimated 30,000 16 year olds to stay on at school."
"Charter for Young People,"(June 1985.)
"The right to £27 a week if in full time study."

ASSUMPTIONS USED

Allowance paid to 634,000 16-18 year olds in England. Deduct £7.25 a week child benefit (April 1987 rates). Less £40 million for existing discretionary grants to pupils and students. England full year cost £610 million. Territorial consequences add £120 million.

COST

£730 million

PRICE AND PROVISION BASIS

1987-88 and 1987 PEWP. April 1987 child benefit rates.

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Immediate.

IMPLICATIONS FOR OTHER PROGRAMMES

Includes £120 million territorial consequences.

OVERLAPS

-

COMMENTS

May be other offsetting savings, not taken into account in these estimates. First £7.50 of existing education maintenance awards are currently disregarded for SB purposes, and whole amount disregarded for HB and FIS. No indication of how new allowance would be offset against means tested benefits. The Labour Party has made it clear (in 'Education Throughout Life') that there are other pressing claims for higher spending which they believe should be given higher priority.

CONTACT POINT

S Kelly HE 2 11/1 x4714

PROPOSAL

Restore value of mandatory student awards to 1978-79 level and phase out parental contribution. (21)

SOURCE AND DATE

"Education Throughout Life", 1986.

"We propose that as first priorities: the level of the full mandatory award be restored by stages as rapidly as possible to at least its 1978-79 level ... If 16 and 17 year olds were to be given independent financial support, older students in further and higher education at present receiving grants should be treated in the same way while parental contributions are phased out."

The 1978-79 grant was £1183.5. The September 1981 RPI index was 200.2. The forecast RPI for September 1988 is 402.3, 100.95% higher.

ASSUMPTIONS USED

ENGLAND AND WALES: Latest estimate of award holders is 392,300. The average full value ie gross award would have to be £2,296 to be the same in real (RPI) terms as in 1978-79 (as against an actual £1,261). Gross spending would be £930 million. The parental contribution has then to be deducted to give net public spending. Since the net average grant under Labour would be £1,517 (£1,226 actual) but the gross award would be £2,378 (£2,052 actual) the parental contribution would have to be £861 on average (against £786 actual) requiring a deduction of £337 million (against £307 actual). Thus net public spending on awards would have to be £593.2 million at the 1978-79 level. This is £114 m more than the £479.2m provision (see comment) for maintenance included in the £741m provision for student awards in PEWP 1987 (which also includes £261.4 for fees). The additional cost of phasing out parental contributions would be £337m if the award was at the 1978-79 level, making a total of £451m in all.

NOTE FOR RECORD
2,378 not 3.75% higher than 1978-79 prices because last time award was based on the midpoint of academic yr 1978-79 (i.e. the 79) as their base for RPI index. Now think midpoint financial yr 78-79, i.e. Sept 78 better. So the constant series shifts slightly.
Avg grant value is also a financial year average.

(i.e. September 387.8 + 3.75%)

SCOTLAND AND NORTHERN IRELAND: Formula consequence for Scotland is 10/90 of £424.0 451 which is £13.8 million making £50.1 million for GB. Northern Ireland gets 2.75 per cent of that, which is £13.8 million, giving a UK total of £134.7 million.

HOUSING BENEFIT SAVINGS: Increased student grants mean that students will be eligible for less housing benefit - £16.1 million less in Great Britain. The net cost of the commitment is therefore £460.5 million.

COST

£470 million (see comment).

PRICE AND PROVISION BASIS

1986-87 prices and PEWP provision (see comment).

FULL YEAR/OTHER

First Full Year.

TIMESCALE

"Education Throughout Life" proposes that "the level of the full mandatory award be restored by stages as rapidly as possible to at least its 1978-79 level". It suggests that the parental contribution might need to be phased out "in the longer term, as resources allow". First full year would be 1987-88 at earliest.

IMPLICATIONS FOR OTHER PROGRAMMES

The cost includes formula increases for Scotland of £47.1m and Northern Ireland of £13.8m. It also takes account of £16.1m savings on housing benefit in Great Britain.

OVERLAPS

Housing benefit - see above.

COMMENTS

None.

1. The £460.5m cost given above is by comparison with plan but the assumptions used (which are the most recent) mean that spending on current policies will be £2.3m less than provision Labour's proposals would therefore cost that much more than the Government's present policies ie £105.8m more on awards, £470.8m more in all. This still rounds to £470m in total.
2. These costings differ from the earlier figures for two reasons:
 - (i) mainly because of the recent addition of £36 a year to the value of student awards in compensation for social security benefit changes (announced 18 June 1986);
 - (ii) partially because the old figures were the 1987-88 cost as that would be the first full year in which they could be operative. The cost would be a little less if operative in 1986-87.

CONTACT POINT

N M Kaufmann HE 2 14/1 x7200 4728

PROPOSAL

Increase child benefit by £3 a week.

SOURCE AND DATE

Roy Hattersley (OR 19.3.86 col. 331)
"Child benefit should be increased by £3"

~~Child benefit~~
~~increase~~
~~£3~~

ASSUMPTIONS USED

- a) Rate from April 1987
- b) New rate £10.25 a week
- c) No increase in supplementary benefit scale rates for children or housing benefits needs allowances.

COST

~~£250 million for GB~~
£1950 million for UK

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

~~Item 35~~ Item 40

COMMENTS

~~Finance to be met by savings on means tested benefits~~

CONTACT POINT

A E White ST 1 24/2 x5052

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.
"the Party manifesto ... shall make an immediate commitment to:
(a) 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."

ASSUMPTIONS USED

- a) average earnings £197.50
- b) rate from April 1987
- c) linked benefits and means tested benefits for pensioners raised in line

COST

- a) £13,500 million for GB
- b) £13,850 for UK

PRICE AND PROVISION BASIS

1987-88 prices.

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

Item 41 - net of overlap with this pledge. Assumed to subsume Labour's previous pledge to increase pensions by £5 a week for a single person and £8 a week for a married couple (cost £2,800 million for UK).

COMMENTS

Main components(GB): RP £11,250m
 1UP £1,500m
 Widows' Ben £500m
 Supp Ben £250m

NB Labour have stated that in first 2 years of Government they would only be committed to raising pensions by £5/£8.

Show this to Jan?

CONTACT POINT

A E W White ST1 x5052

PROPOSAL

To abolish standing charges from gas, electricity and telephone tariff structures for pensioners.

SOURCE AND DATE

Composite 14(Welfare Policies) 1986 Labour Party Conference
"The Party manifesto for the next General Election shall make an immediate commitment to make provision for pensioners to be exempt from standing charges for gas, electricity, telephone and also television licences."

Add or quote →

~~and also television licences~~
~~and also television licences costed in item 22-1~~

ASSUMPTIONS USED

- 1. That the loss of revenue from abolition of standing charges is not counterbalanced by an increase in variable unit charges.
- 2. That any legislation necessary is passed to enforce the abolition of telephone and gas standing charges.
- 3. That BT are not asked to drop equipment rental charges.
- 4. That all pensioners rent their phones and choose basic phones.

COST

Gas and Electricity =	£300 million
Telephone =	£250 million
TOTAL	£550 million

PRICE AND PROVISION BASIS

1986-87 price level

FULL YEAR/OTHER

Full Year.

TIMESCALE

Assume a policy decision will lead to an immediate rather than phased implementation.

IMPLICATIONS FOR OTHER PROGRAMMES

OVERLAPS

COMMENTS

CONTACT POINT

C A Sharp PE 2 96/1 x4927

SOURCE AND DATE

Composite 14 (Welfare Policies) 1986 Labour Party Conference.
 "The Party manifesto for the next General Election shall make an immediate commitment to make provision for pensioners to be exempt from standing charges for [gas, electricity, telephone and also] television licences."

~~[NB Gas, electricity, telephones covered in Item 39.]~~

Earlier commitment by G Kaufmann, Hansard 27 March 1985 (col. 482)

"A Labour Government will also phase out the licence so that no retirement pensioners will have to pay for a television licence."

ASSUMPTIONS USED

Take proportion of households with at least one pensioner from the General Household Survey. Gross up for whole country - 7.5 million pensioner households. Similarly, estimate number with TVs - 6.3 million colour, 1.0 million monochrome and 0.2 million no TV. Licence fee - £58 colour, £18 monochrome. This gives total licence fees of £330 million but 0.4 million households covered by existing concessionary licence scheme and allowance should be made for evasion, making deduction of £50 million.

X X

X

COST

330
~~£325 million (rounded to £320 million).~~

X

PRICE AND PROVISION BASIS

^{7 8}
 1986-87 prices and provision (see comment).

X

FULL YEAR/OTHER

Full Year.

TIMESCALE

Licences to be phased out over a period of years (1st Dec, Pensioners immediately 16 January 1987, col. 532).

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS

The licence fee revenue and corresponding grant to the BBC are classified as non-public expenditure, but as a concessionary scheme for pensioners would require the Government to make up the deficit to the BBC, it would probably score as public expenditure.

CONTACT POINT

N M Kaufmann HE 2 14/1

4728
~~x7200~~

PROPOSAL

Concessionary fares.

SOURCE AND DATE

"Fresh Directions" (February 1987)
"Proper concessionary fare schemes for local travel for pensioners and the disabled. We shall encourage the provision of free schemes by local authorities, and ensure that there is an off-peak half fare scheme for all areas where more favourable concessions do not already exist."
Charter for Transport (April 1985).
"Maintaining concessionary travel schemes for pensioners ... these must be backed up by an off-peak, half fare scheme for all areas where more favourable concessions do not already exist."

ASSUMPTIONS USED

Commitment assumed to 'buy' half-fare off peak travel for pensioners on buses in the shires; covers extra cost of providing railcards in the shires and provides for issue of railcards to cover national travel (some now cover only local travel).

COST

£50 million.

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Immediate.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS

Mets already have a more generous policy towards pensioners than implied by this scheme

CONTACT POINT

Kim Elliman HE 1 11A/1 4718

PROPOSAL

Double Christmas bonus / raise to £40.

(27)

SOURCE AND DATE

Composite Motion 14(e)(Welfare Policies) 1986 Labour Party Conference.
"The Party manifesto for the next General Election shall make an immediate commitment to establish a regular Tax-Free Christmas Bonus of £20 ... to be linked to the rate of inflation."
Daily Mirror 2.4.86: Follows Mr Meacher's earlier commitment;
"Labour's package for pensioners will also include doubling the Christmas bonus to £40."

ASSUMPTIONS USED

a) New rate from Christmas 1987
b) £40 refers to a couple's bonus (ie 2 x £20)

COST

£115 million for GB
£120 million for UK

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full Year.

TIMESCALE

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

Double PEWP provision for 1987-88

CONTACT POINT

A E W White ST 1 24/2 x5052

PROPOSAL

£5 weekly winter premium.

SOURCE AND DATE

Add OR reference.

Composite Motion 14 (Welfare Policies) 1986 Labour Party Conference.
"The Party manifesto for the next General Election shall make an immediate commitment to ensure Pensioners' ability to maintain warm and well lit homes with adequate heating allowances covering all fuels without a means test."
and Michael Meacher (OR 6.3.86)
"Labour's package for pensioners will also include: winter premiums of £5 a week for needy pensioners and widows."

ASSUMPTIONS USED

- a) Rate payable from Winter 1987
- b) Given to all sup. pen. claimants, widows on supp all, a further 1 million on low incomes
- c) benefit payable for 13 weeks
- d) payment not netted off other means tested benefits

COST

- (a) £180 million for GB
- (b) £180 million for UK (rounded)

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

-

CONTACT POINT

A E W White ST 1 24/2 x5052

PROPOSAL

Pay long-term scale rate to unemployed people after
a year on benefit.

SOURCE AND DATE

Roy Hattersley (OR 1.3.86 col 331)
"Supplementary benefit at the full rate should be made
available to the long-term unemployed."

ASSUMPTIONS USED

a) Rate from April 1987
b) 1986 Autumn Statement unemployment assumptions

COST

a) £550 million for GB
b) £570 million for UK

PRICE AND PROVISION BASIS

1987 - 88

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

Meacher (b)

COMMENTS

CONTACT POINT

A E W White ST 1 24/2 x5052

PROPOSAL

Increase death grant from £30 to £200.

SOURCE AND DATE

1984 Labour Party Conference motion (composite 63)
"This conference calls for the death grant to be raised from the present £30 to £200."

ASSUMPTIONS USED

- a) Rate from April 1987
- b) 630,000 deaths in 1987-88
- c) All death grants at same rate
- d) Replaces social fund provision of £19 million.

COST

- a) £110 million for GB
- b) £110 million for UK

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

-

CONTACT POINT

A E W White ST 1 24/2 x5052

SOCIAL SECURITY

PROPOSAL

Increase maternity grant from £25 to £125 .

SOURCE AND DATE

Composite 15(c)(Welfare Policies) 1986 Labour Party Conference.
"Conference demands that the next Labour Government ensures that the maternity grant is restored to at least a payment of £125 which would return it to its 1969 level."

ASSUMPTIONS USED

- (a) Rate from April 1987
- (b) 700,000 births in 1987-88
- (c) Replaces Social Fund Provision of £15 million

COST

- a) £70 million for GB
- b) £70 million for UK (rounded)

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

NB. To restore the grant to its real (1969) value, it would have to be increased to more than £125

CONTACT POINT

A E W White ST 1 24/2 x5052

PROPOSAL

NHS to grow by 3% per annum in real terms.

SOURCE AND DATE

"New Jobs for Britain"(March 1987)
"Our programme sets out policy for making necessary improvements in health."
"Investing in people", (February 1987)
"Labour will ensure that the NHS grows by 3 per cent allowing for inflation."

ASSUMPTIONS USED

Comparison made over whole of 1987 PEWP planning period, at an annual rate, in cash terms. Calculated as one third of cumulative difference between PEWP plans for 1987-88 to 1988-89 inclusive (adjusted for announced policy changes since publication of PEWP) and a Labour party series calculated as the cash equivalent of constant 3 per cent real growth over the 1986-87 outturn figure, using the PEWP projection of the GDP deflator to reach cash terms.

COST

£405 million, rounded to £400m

PRICE AND PROVISION BASIS

1987-88 - 1989-90 White Paper figures.

FULL YEAR/OTHER

Full year

TIMESCALE

Three year comparison (cost is annual rate).

IMPLICATIONS FOR OTHER PROGRAMMES

Includes £75 million for territorial consequences.

OVERLAPS

Cost netted off item 10.

COMMENTS

Compares 3% a year growth in real terms with 1987-88 - 1989-90 plans.
NB This pledge assumed to subsume previous Labour pledges to increase hospital building and repair (£90 million) and end competitive tendering within the NHS (£95 million)

CONTACT POINT

M G Sturges ST2 101/2 x5216

HEALTH AND PERSONAL SOCIAL SERVICES
PROPOSAL

Phase out all health charges, and end private practice in NHS.

33

SOURCE AND DATE

"Investing in People" (February 1987)
"A Labour government will reduce prescription charges immediately and phase them out eventually."
Also Reuters 12 February 1987
Mr Dobson: "A Labour Government will immediately reduce and eventually get rid of dental charges."
"NHS in Danger" - NEC statement 10.83 approved by Conference 83.
"Our campaign will aim to ... win support for Labour's opposition to privatisation and commercial medicine ... Phase out all health charges."

ASSUMPTIONS USED

1987-88 estimate of income from charges; plus compensation to consultants for end of private practice.

COST

£625 million (of which £60 million are from private patient charges and £20 million from consultants' contracts, £100 million for territorial consequences) Rounded to £630 million.

PRICE AND PROVISION BASIS

1987-88 White Paper figures, current prices.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Not known. Above figures are full-year.

IMPLICATIONS FOR OTHER PROGRAMMES

Estimated cost includes £100 million for territorial consequences.

OVERLAPS

--

COMMENTS

--

CONTACT POINT

M B Sturges ST 2 101/2 x5216

PROPOSAL

To run a public education campaign on alcohol misuse and to increase support for NHS and voluntary sector services on alcohol misuse.

SOURCE AND DATE

NEC document "Protecting our People", September 1986 says Labour will - "provide much more support for NHS facilities and to voluntary organisations working to prevent alcohol abuse and to help those people with alcohol problems and their families. Run an effective campaign to tell people of the dangers of alcohol misuse".

ASSUMPTIONS USED/ COST

£28 million (assumes in England £9 million for HCIS, £4 million for a central initiative from which the voluntary sector would benefit, £5 million for personal social services, £5 million for public education campaign plus £5 million for territorials). Rounded to £30 million.

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full Year.

TIMESCALE

IMPLICATIONS FOR OTHER PROGRAMMES

Estimated UK cost includes £5 million for territorial consequences.

COMMENTS

Estimates are based on grossing up drug misuse expenditure in recent years (because there are more alcohol misusers than drug misusers) WHILE offsetting because there is more service provision now for alcohol misusers now than for drug misusers.

CONTACT POINT

M G Sturges ST2 101/2 x5216

PROPOSAL

To bring overseas aid spending to UN target of 0.7 per cent of national income over 5 years.

SOURCE AND DATE

"For the Good of All", Labour policy document on aid and development, published February 1987
"Within our aid programme, we will more than double the aid budget, increasing aid spending to meet the UN target of 0.7 per cent of national income within five years."

ASSUMPTIONS USED

Full cost at end of 5 years calculated at 1987-88 levels. Increased provision consistent with 0.7 per cent of 1986 Autumn Statement forecast of 1987-88 GDP (at market prices); no recently published forecasts available for 1987-88 GNP, but GDP likely to be close. Existing provision based on 1987-88 PES for overseas aid programme and aid administration.

COST

Increased provision: 0.7 per cent of £404,634 million:	£ Million 2832
Minus current provision: 1987-88 PES	1263
Additional cost	1569
Rounded to nearest £10 million:	1570

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Five years before full annual cost reached. If spending was increased in equal proportional steps, additional cost of first tranche in first year would be £310 million.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS

"For the Good of All" also outlines intention to press for international action to limit debt repayments from developing countries. Proposals are not precise and have not been costed.

CONTACT POINT

Miss M E Cund AEF 1 83/1 4902

Pay LA councillors.

SOURCE AND DATE

John Cunningham in speech at LAMSAC conference (23 April 1986).
"... it is now necessary to pay salaries to at least some
councillors ... We will support such a recommendation, if
it emerges from Widdicombe."

ASSUMPTIONS USED

Widdicombe Inquiry recommended uprating councillors' remuneration,
paying enhanced special responsibility allowances to leaders
of party groups and chairmen of main committees and
increasing attendance allowance for all councillors.

COST

£40 million.

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Immediate.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS

Conservative estimate (agreed with DOE).

CONTACT POINT

N I Holgate LG 1 102/1 x4946

PROPOSAL

Crime Prevention Grants

SOURCE AND DATE

Campaign pack for local authority elections "Investing in People" (February 1987)
"We will invest in security by offering crime prevention grants for home owners and tenants to make homes safer"

ASSUMPTIONS USED

£200 per household in medium and high risk areas would cost £30 million over a 3 year period (AMA booklet "Making Homes Secure: a proposal for grant aided security improvements" June 1986). Would cover 3,000 applicants in each of 50 areas

COST

£10 million

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year

TIMESCALE

Would need primary legislation to give local authorities specific powers

IMPLICATIONS FOR OTHER PROGRAMMES

Negligible

OVERLAPS

Negligible

COMMENTS

Ministerial Group on Crime Prevention chaired by Home Office has been considering this proposal

CONTACT POINT

R G Westwater HE1 8/1 4705

PROPOSAL

Statutory minimum wage of not less than two-thirds of average earnings.

SOURCE AND DATE

"The Guardian"(5 February 1987)
"pending the establishment of a national minimum wage for the economy, a Labour Government will establish a strategy with the Civil Service for the elimination of low pay as a matter of priority."
(NB proposals put forward in confidential document.)
Conference Motion, 1983 (composite 32).
"Conference welcomes the commitment set out in the manifesto to ... the introduction of a statutory national minimum wage, with a minimum wage target set at not less than two thirds of national average earnings."

ASSUMPTIONS USED

- (a) Minimum wage of £131.50 per week (two-thirds assumed average earnings April 1987. Calculated by increasing April 1986 NES figure of £184.70 by 7.0 per cent : the assumed increase to April 1986 in underlying average earnings).
- (b) Minimum wage for full-time adult employees. No allowance made for effect if the minimum weekly wage for full-timers was accompanied by a minimum hourly rate for part-timers. (Data too sketchy).
- (c) Effects of establishing a minimum on the average (the "moving target" effect) is ignored.
- (d) Higher paid workers accept the compression of differentials and do not seek compensating increases.
- (e) Effect on PUBLIC SERVICE PAY-BILL. Extra costs to nationalised industries recovered by price rises/internal economies with no effect on EFLS.
- (f) Wage cost marked up by 15 per cent to take account of higher employer NIC/pension contributions.
- (g) Gross public expenditure cost : no flow back effects.

COST

£1500 million.

PRICE AND PROVISION BASIS

1987-1988.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Mr Hattersley said in his letter of 10 March 1986 to the Chief Secretary that there was no plan to put the minimum wage into effect in one year but did not suggest an alternative timescale.

IMPLICATIONS FOR OTHER PROGRAMMES

The increased costs to the private sector may be passed on in higher prices for goods and services sought by Government Departments. Cash limits may stop this coming through in higher expenditure (volume cuts instead) but there may be upward pressure on some programmes.

OVERLAPS

-

COMMENTS

-

CONTACT POINT

J M Halligan PAY 1 126/3 x5605

PROPOSAL

Raise child benefit to £14 a week.

SOURCE AND DATE

(a) Michael Meacher in Tribune. February 1986.
"The structure should aim to get rid of family poverty by a big increase in child benefit. It is now £7 per week for each child. You could double it to £14 a child."

ASSUMPTIONS USED

- a) Rate from April 1987
- b) Rate set at £14.50 per week
- c) No increase in SB scale rates for children or in HB needs allowances

COST

£2650 million for UK

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full Year.

TIMESCALE

Immediate

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

Cost is net of cost of item 22. Gross cost would be £3600m (UK).

COMMENTS

-

CONTACT POINT

A E W White ST 1 24/2 x5052

List B

(41)

PROPOSAL

Unemployed couple on supplementary benefit to receive 70 per cent of average net wage (including housing benefit), and unemployment, retirement, sickness and widows' benefits to be raised in line.

SOURCE AND DATE

Michael Meacher in Tribune, February 1986.
"I believe [a couple on supplementary benefit] ought to receive about 70 per cent [of the net wage of an average paid worker] ... All benefits - unemployment, retirement, sickness, widowhood - have to be paid at a level as least as high as that family would get from supplementary benefit."

ASSUMPTIONS USED

- a) Rates from April 1987
- b) Costed on basis of average net weekly earnings for a married man of £143.60

COST

- a) £5,300 million for GB
- b) £5,450 million for UK

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Immediate.

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

Net of overlap with items 23 and 29. Gross cost would be £12,850m (UK)

COMMENTS

Main Components (GB):

RP	£5500m	War Pension	£400m
Supp All	£4000m	IDB	£250m
UB	£1000m	Widows' Ben	£200m *
IUB	£ 750m	Others	£200m
		Supp Pen	£200m *

CONTACT POINT

A E W White ST 1 24/2 x5052

PROPOSAL

More funds to combat drug abuse.

SOURCE AND DATE

Michael Meacher in 'Cold Comfort' (December 1984)
"Increased finance [to combat drug abuse] would be implemented.
The Standing Conference of Drug Abuse estimates a minimum
requirement of £20 million (on present day costs).

ASSUMPTIONS USED

Cost quoted in document.

COST

£10 million.

PRICE AND PROVISION BASIS

Not known.

FULL YEAR/OTHER

Probably.

TIMESCALE

Not known.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

None.

COMMENTS

Sums specifically allocated by DHSS for the drugs misuse
initiative will be £7.3 million in 1987-88. There will also
be spending by health authorities on drug misuse which cannot
be quantified. It seems likely that current spending is not
far below Mr Meacher's £23 million (at 1987-88 prices) - no
doubt Mr Meacher would now raise this figure. Therefore costed
at £10 million.

CONTACT POINT

M G Sturges ST 2 101/2 5216

L86C

43

PROPOSAL

Provide means for voluntary, phased and increasing reduction in retirement age to 60 for men.

SOURCE AND DATE

Neil Kinnock 24.6.85 at IGWV Bournemouth Conference
"We should ... plan for and provide the means for voluntary and increasing reduction in the retiring age."

ASSUMPTIONS USED

1985 benefit rates.

COST

£3000 million.

PRICE AND PROVISION BASIS

1987-88

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Cost is full year after phasing. Timescale not known.

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

Costing given in DHSS PQ. (1 May 86 col 467) Essentially a rough estimate; although DHSS working party now conducting full update of assumptions results ~~will~~ not be available ^{likely to} ~~until~~ Autumn 1987. ^{before}

CONTACT POINT

A E W White ST 1 24/2 x5052

PROPOSAL

Increase spending on inner cities.

SOURCE AND DATE

"New Jobs for Britain" (March 1987)
"Our inner cities desperately need new investment if the quality of the of the local environment is to be improved."
Also "Investing in People"(February 1987)
"We recognize the need for swift action to regenerate our towns and cities."
'The Reconstruction of Britain' (TUC, October 1981).
"The minimum estimate for the extra resources required over the next five years would be around £2,000 million on renovation, leisure and community facilities and building new industrial premises in the inner cities."

ASSUMPTIONS USED

£2,000 million over five years, divided by five and uprated from 1981-82 prices.

COST

£530 million.

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

Five year programme.

IMPLICATIONS FOR OTHER PROGRAMMES

None.

OVERLAPS

Possibly some overlap with item B (housing renovation).

COMMENTS

Would presumably be allocated to Urban Programme which comprises grants to selected local authorities, Urban Development Grants and Urban Regeneration Grants.

CONTACT POINT

M C Betenson LG 2 18/1 4746

PROPOSAL

35 hour working week.

List C

45

SOURCE AND DATE

Jo Richardson (press release 11 March 1987)
"Our package of maternity leave, paternity leave and parental leave, and shorter and more flexible working hours for all is crucial to our plans for jobs."
"Working Together". April 1985.
"The working week could be reduced - at least to our target of 35 hours."

ASSUMPTIONS USED

- (a) Increase in public service pay bill. Extra costs to nationalised industries recovered by price rises/internal economies with no effect on EFLS.
- (b) Reduced average working week of 2 1/2 hours made up 50 per cent by extra overtime (at 1 1/4 basic rates) and 50 per cent by extra employment (at average public service wage). So no allowance for any efficiency gains or lower employment.
- (c) Gross public expenditure cost : no flow-back effects.

COST

£3660m a year.

PRICE AND PROVISION BASIS

1987-88 provision. Average public service wage of £192 a week calculated by increasing April 1986 figure of £179 per week by 7.0 per cent (increase to April 1987 in underlying average earnings in public services). Wage cost marked up 15 per cent to take account of employer NICS/pension contribution.

FULL YEAR/OTHER

Full year.

TIMESCALE

Mr Hattersley has said that the 35 hour week would not be introduced in one year but is a long term aspiration (letter of 10 March 1986). However, he has not suggested an alternative assumption.

IMPLICATIONS FOR OTHER PROGRAMMES

A 35 hour week would increase costs for the private sector and possibly the price of goods and services sought by Government Departments. Cash limits may stop this coming through in higher expenditure (ie volume cuts instead) but there could be upward pressure on some programmes.

OVERLAPS

-

COMMENTS

-

CONTACT POINT

J M Halligan PAY 1 126/3 5605

List D

46

PROPOSAL

Regional employment subsidy.

SOURCE AND DATE

"A New Partnership-A New Britain" TUC/Labour document 1985
"We will need to consider the introduction of a new regional employment subsidy."

ASSUMPTIONS USED

-

COST

£460 million.

PRICE AND PROVISION BASIS

1987-88 full year cost at 1986 White Paper prices

FULL YEAR/OTHER

Full Year.

TIMESCALE

-

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

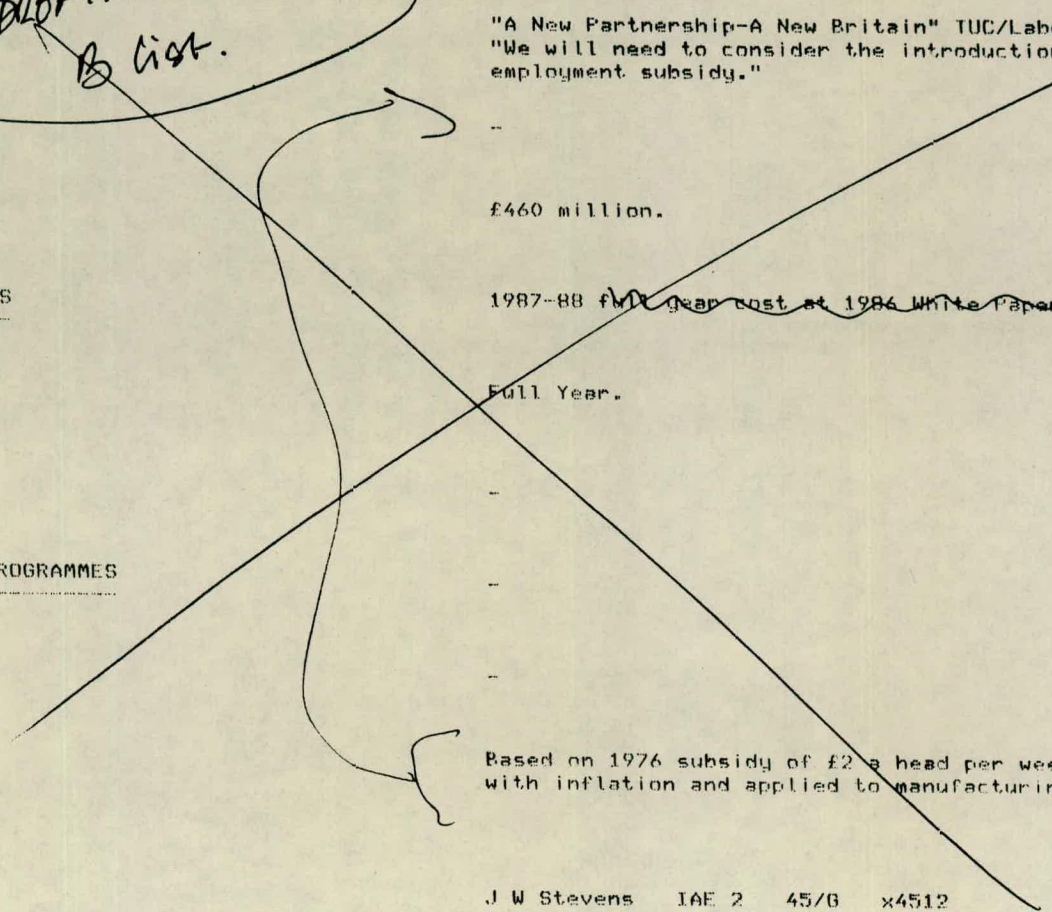
COMMENTS

Based on 1976 subsidy of £2 a head per week updated in line with inflation and applied to manufacturing industry only.

CONTACT POINT

J W Stevens IAE 2 45/6 x4512

Drop: move to B list.



PROPOSAL

Wage subsidy.

SOURCE AND DATE

Employment Committee First Report 1985-86 (29 January 1986), endorsed by Roy Hattersley (OR 19 March 1986 col. 310). "We recommend a wage subsidy to employers in the private sector (other than in construction) who take on long term unemployed ... for a cost of £1.4 billion about 350,000 new jobs could be created."

Possible to be dropped?

ASSUMPTIONS USED

Committee's own estimate of net EXCHEQUER cost used, uprated from 1985-86 to 1987-88 prices (see comment (i) below). Committee's other recommendations assumed to be subsumed within other costings.

COST

£1,500 million.

PRICE AND PROVISION BASIS

1987-88.

FULL YEAR/OTHER

Full Year.

TIMESCALE

2-3 years.

IMPLICATIONS FOR OTHER PROGRAMMES

Implications for social security programme stated to be taken into account in Committee's costings. But Committee does not quote figures for benefit saving; and impossible to provide a Government estimate since Government think proposal incoherent.

OVERLAPS

None.

COMMENTS

- i. Govt response to Committee estimated that £1.4 billion (at 1985-86 prices) implied a gross PE cost of £1.8 billion. NB Not possible to estimate net public expenditure cost. Not clear whether Committee considered costing GB or UK. Figure sufficiently broadbrush that the difference is not significant.
- ii. Govt reply to Report reprinted in 3rd Report 1985-86 - said that aim of creating 350,000 new jobs not feasible; even if it were, gross and net cost would be higher than Committee suggested.
- iii. Committee has now proposed a smaller scheme covering only those unemployed for over 3 years. IAE 3 not aware that Labour Party have specifically endorsed smaller scheme.

PROPOSAL

Double funding of performing and creative arts. £40m for museums.

List D

48

SOURCE AND DATE

Norman Buchan, OR 12 March 1987 col 528
"I gave a pledge to double expenditure on the Arts...The Labour party will honour that pledge to double the funding for the Arts. At the last meeting - the meeting at which I was sacked - the battle for the £140 million was won; and an additional £40m for museums."
Norman Buchan, Financial Times 6 August 1985
"The level of central government funding for the performing and creative arts, at present about £105m, should be doubled."

ASSUMPTIONS USED

Labour's own costing used. (Arts Council's 1987-88 grant in aid £138.4m.)

COST

£180 million.

PRICE AND PROVISION BASIS

1987-88 and 1987 PEWP.

FULL YEAR/OTHER

Full year.

TIMESCALE OVER WHICH EXPENDITURE ASSUMED TO BUILD UP

Immediate.

IMPLICATIONS FOR OTHER PROGRAMMES

-

OVERLAPS

-

COMMENTS

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POLICY DIRECTORATE

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The Tory Legacy

THE KEY STATISTICS FOR LABOUR'S CAMPAIGNERS

An essential element of all successful campaigns is repetition. Repetition of our campaign themes. Repetition of our flagship policies. And repetition of the key statistics - the same statistics - by all of us.

In this Special Briefing Note, we set out the key statistics we must all use in every aspect of our campaign work - in speeches, leaflets, newsletters, press releases or whatever. They have been agreed by the key economic spokespeople and by the Leader's office. We will update them regularly, partly through our monthly 'Campaign Briefing' and through a complete update of this Briefing Note.

So please, keep to the agreed figures. And, please, if you think there are some we have missed, or some better ones we could use, don't hesitate to write and tell us.

The main part of the note shows the key economic statistics. More detailed figures by industry are shown in appendix 1. Appendix 2 gives figures on other areas like education, housing and crime. The figures have been rounded off so they are easy to quote.

Unemployment

1. Unemployment has risen by 2 million since 1979 on official figures.

Amended Unemployment rose from 1.1 million in 1979 to 3.1 million in January 1987.

2. The Tories' 19 fiddles to the figures have reduced the official unemployment count by around 400,000.

Can't recalculate on old basis TWB

On the old way of calculating the figures unemployment stood at 3.5 million in January 1987.

3. Unemployment costs the nation £20 billion a year.

Based on average wage multiplied by no. of unemployed TWB

This is the cost to the government in lost taxes and benefits paid out. It amounts to nearly £1,000 for every household in the country. Each person included in the unemployment count costs £6,300.

4. The UK's unemployment rate is the highest of the 7 main industrial countries, and has risen the most since 1979. ✓

check

The UK's unemployment rate was 11.3 per cent in November 1986 on OECD standardised figures. The latest unemployment rate in Italy was 10.7 per cent, France 10.6 per cent, Canada 9.4 per cent, Germany 8.0 per cent, US 6.9 per cent and Japan 2.8 per cent.

TWB

Unemployment has risen by 6.3 percentage points since 1979 in UK. This compares with a rise of 3.1 percentage points in Italy, 4.7 percentage points in France, 2.0 percentage points in Canada, 4.8 percentage points in Germany, 1.1 percentage points in USA and 0.7 percentage points in Japan.

check

Jobs

5. The number of jobs has fallen by 1½ million since the Tories took office. ✓

TWB

The number of employees fell from 22.6 million in June 1979 to 21.1 million in September 1986 - a fall of 7 per cent. The Tories quote a figure which includes estimates of the self employed.

*24.8 June 79 } employed labor force
24.0 Sept 86 }*

6. Manufacturing employment has fallen by 2.0 million since the Tories took office. ✓

It fell from 7.1 million in June 1979 to 5.1 million in December 1986 - a fall of 28 per cent.

7. 94 per cent of the jobs lost under the Tories have been in the 'North'.

The 'North' refers to all areas outside the Southern triangle of the South East, the South West and East Anglia.

8. The UK's employment record under the Tories has been the worst of the 7 major industrial countries.

Employment fell by 7 per cent in the UK between 1979 and 1986Q2 compared with falls of 3 per cent in France, 3½ per cent in West Germany and ½ per cent in Italy, and increases of 7 per cent in Japan and 7½ per cent in both Canada and USA between 1979 and 1986 Q2.

Previously supplied by Mr. [unclear]

Output

9. Despite North Sea oil GDP has grown more slowly under the Tories than under any postwar government.

GDP grew by an average of only 1.3 per cent a year between 1979 and 1985, compared with 2.0 per cent a year between 1974 and 1979.

wh. [unclear] more to 1974-79 than to 1979-85

10. Economic growth in the UK has been the slowest of the 7 major industrial countries under the Tories.

Between 1979 and 1985 GDP grew by 3.4 per cent in UK compared with 5.3 per cent in West Germany, 5.7 per cent in France, 6.2 per cent in Italy, 9.0 per cent in Canada, 9.8 per cent in USA and 20.9 per cent in Japan.

79-86 5th out of major 7 See Mr. [unclear] of 114

11. Manufacturing output is 6 per cent lower than when the Tories took office.

In the 3 months to December 1986 manufacturing output was 6.0 per cent lower than in 1979 Q2.

4 per cent 1979H1 to latest 3 months

Investment

12. Manufacturing investment is around one quarter lower than when the Tories took office.

In 1986 Q4 the rate of manufacturing investment was 24.2 per cent lower than in 1979.

1979 H1 to av. 1986 (to avoid distortion from corporate tax reform) - 20 per cent

13. Investment in the UK is the lowest of the 7 major industrial countries.

In 1985, investment was 17.2 per cent of GDP in UK, compared with 18.2 per cent in Italy, 18.6 per cent in USA and Canada 18.9 per cent in France, 19.5 per cent in Germany and 27.5 per cent in Japan.

✓
2 in 1979?

The balance of payments

14. The UK had a manufacturing trade deficit of £5.4 billion in 1986.

This compares with a £5.5 billion surplus in 1980. Manufacturing imports exceeded exports for the first time ever in 1983. The Chancellor is forecasting a deficit of £7½ billion for 1987.

8!

15. The UK's share of world manufacturing trade has fallen by more than one fifth under the Tories.

19.1 (9.7 in 1980)

Our share in world manufacturing exports fell from 9.7 per cent in 1979 to 7.6 per cent in 1986 - a fall of 22 per cent.

7.9 per cent in 1985

16. Imports of manufactures have increased their share of the British market by nearly one third under the Tories.

Imports' share of the British manufacturing market rose from 27 per cent in 1979 to 35 per cent in 1985 - a rise of 30 per cent.

17. Despite the contribution of North Sea oil, the UK's balance of payments is now in deficit.

The UK's balance of payments went into deficit in 1986 by £1.1 billion.

18. North Sea oil contributed around £9 billion to the balance of payments in 1986.

Royal Bank of Scotland give £9 billion, looks broadly right. No published figures

Outflow of capital

19. Over £100 billion has gone overseas since the Tories abolished exchange controls in October 1979.

£111 billion went abroad between 1980 and 1986. This is twice as much as the total amount invested in Britain's manufacturing industry over that period.

gross outflow of direct & portfolio investment

North Sea oil

20. The government have received over £50 billion tax revenues from the North Sea.

Between 1978/9 and 1985/6 they received £52.8 billion from the North Sea. This amount of money could have doubled manufacturing investment or built 1½ million new houses.

53.1

(£57.9 billion if taken to 1986-87)

Inflation

21. The UK's inflation rate is higher than that of our main competitors.

In December 1986 inflation was 3.7 per cent in the UK compared with 2.1 per cent in France, 1.1 per cent in USA, minus 0.2 per cent in Japan and minus 1.1 per cent in West Germany. The average inflation rate of the 24 industrialised nations was only 2.1 per cent.

Company Liquidations

22. The rate of company liquidations has more than trebled under the Tories.

Company liquidations rose from 4,378 in 1979 to 14,427 in 1986.

4,537

14,405 (final)

based on projection for Dec 86 now actual

Household debt

23. The ratio of household debt to household income has risen to nearly 70% under the Tories.

It has risen from 46% in 1979 to 68% in 1986 Q2.

Personal Sector Liabilities 44% to 75%
to personal sector income

Tax Burden

Household debt priv indus 50%
to household income 35

priv indus 75%

24. Taxes have risen by £29 billion in real terms under the Tories. (1978-79 - 1987-88) (£35 billion 1978-88)

25. Britain's tax burden rose from 39 per cent of GDP in 1979 to 44 per cent in 1985. (33.8% 1978-79, 35.1% 1979-80, 38.6% 1985-86)

Even if the contribution from North Sea oil is excluded, taxation still rose over this period - from 38 per cent in 1979 to 41 per cent in 1985.

(33.5% 1978-79
34.0% 1979-80
35.4% 1985-86)

26. A family on average earnings now pay more of their income in tax than when the Tories took office.

For a family with 2 adults and 2 children on average earnings the share of their income taken in tax rose from 35.0 per cent in 1978/79 to 38.3 per cent in 1986/87. Even if income tax is cut to 27 pence, the share will still have risen - to 37.6 per cent in 1987/88.

includes domestic rates

27. The annual tax burden of the top 5 per cent of income earners has been cut by over £3.6 billion under the Tories.

Poverty

28. The number of people receiving supplementary benefit has more than doubled under the Tories.

It rose from 2,256,000 in 1978/9 to 4,430,000 in 1986/7 - a rise of 119 per cent.
3,020,000 4,900,000

Womens' pay

29. Women's average earnings are only 2/3 those of men.

Average earnings were £135/week in 1986 for women compared with £203/week for men. £137.20

£207.50

Appendix 1

Trade and Industry

Output

1979 H1 - 3 months to Jan Metals -11.7

- 1. Many industries now produce less than they did in 1979. Output of metals fell by 24 per cent, building materials by 13 per cent, engineering by 6 per cent, textiles and clothing by 15 per cent and construction by 4 per cent between 1979 and 1986 Q2.

textiles & clothing -15.6
 engineering -4.6
 Construction broadly unchanged

- 2. Car production has fallen by one seventh and vehicle production by nearly one third under the Tories.

The number of cars produced fell from 1,223,000 in 1978-9 to 1,048,000 in 1985 - a fall of 14.3 per cent. The number of buses produced fell from 22,600 in 1978 to 15,700 in 1984 - a fall of 30.5 per cent.

Unaffected

- 3. Freight has fallen by 5 per cent under the Tories.

The number of freight tonne miles fell from 1,825 million in 1979 to 1,740 million in 1985 - a fall of 4.7 per cent.

freight tonnes 1,808 million 1979 170.5 billion 1979
 1,707 million 1985 170.3 billion 1985

- 4. Britain's merchant fleet has fallen by more than half under the Tories.

The number of ships over ⁵⁰⁰50 tonnes gross fell from 1,305 in 1979 to 606 in 1986 - a fall of 54%.

Imports

545 ed Aug end Dec

- 5. In many sectors there has been a sharp increase in the share of the market supplied by imports under the Tories.

Between 1979 and 1985 metal imports increased: their share from 29 per cent to 39 per cent, chemicals from 30 per cent to 40 per cent, mechanical engineering from 29 per cent to 37 per cent, electrical engineering from 31 per cent to 47 per cent, motors from 35 per cent to 50 per cent, other transport from 41 per cent to 46 per cent, textiles from 31 per cent to 44 per cent and clothing from 29 per cent to 36 per cent.

imports to home demand

domestic demand specified

32 45 (that may be weighted with metals not domestic specified)
 38 (79) 41 (79) 33 (79) 31 (78)

Appendix 2

Social Statistics

Housebuilding

1. Under the Tories the number of houses built has been 30 per cent lower than under the last Labour government, and the number of council houses 50 per cent lower.

The number of housing completions fell from an annual average of 300,000 from 1974-9 to 210,000 from 1979-86. Council house completions fell from an annual average of 100,000 from 1974-9 to 50,000 from 1979-86.

*not checked
David
(column 7)*

Hospitals

2. The number of hospital beds available in England has fallen by more than 10 per cent under the Tories.

It has fallen from 361,798 in 1979 to 325,487 in 1985 - a fall of 10.0 per cent.

572

Prescription charges

3. Prescription charges are 12 times higher than they were in 1979.

They have risen from 20p in 1979 to £2.40 in 1987.

(up to 45p in July 1979)

572

Crime

4. Crime has risen by more than 40 per cent under the Tories.

The number of notifiable offences rose from 2,537,000 in 1979 to 3,612,000 in 1985 - a rise of 42 per cent.

(includes criminal damage valued under £20)

111

Education

5. School meal prices have soared, and the number of children taking school meals has fallen by over one fifth.

The price of school meals has risen from the standard 25p in 1979 to an average 63p in non Labour controlled local education authorities. The number of children taking school meals has fallen from 64 per cent in 1979 to only 50% in 1986.

111

78-79 and 86-87
Government spending
+ 6%
79-80
to 86-87

6. University funding has been cut by over a tenth.
Funding has been cut by 11 per cent since 1979. The number
of first degree university places has been cut by 9,000 since
1981. There has been a loss of 4,400 academic, and 2,800
non academic, posts

Academic staff 81-82 to 84-85
(latest data)
-300
Total staff +200

12,000
81-82 to 84-85 up 11,000
No figures for places

Still trying to find non academic
79-80 +200 ac.

26 university funding defined as Government spending on universities
(excludes of student grants)

1978-79 to 1986-87 up 10 per cent real
1979-80 to 1986-87 up 6 per cent real

No figures readily available for first degree places but first degrees
awarded (projecting 1986-87)

1980-81 to 1986-87 up 12,000
1981-82 to 1986-87 up 11,000

Academic staff

1979-80 to 1984-85 (latest data) +200
1981-82 to 1984-85 -300

(No figures readily available for 1978-79)

Total staff

1981-82 to 1984-85 +200

(No figures readily available for earlier years.)

DES still searching for non-academic staff!